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PRESENTATION

Operator

Good day, and welcome to ALLETE First Quarter 2020 Financial Results Call. Today's call is being recorded. Certain statements contained in this conference call that are not descriptions of historical facts are forward-looking statements, such as terms defined in the private securities Litigation Reform Act of 1995.

Because such statements can include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, discussed filings made by the company within the Securities and Exchange Commission. Many of the factors that will determine the company's future results are beyond the ability of management to control or predict. Listeners should not place undue reliance on forward-looking statements, which reflect management's views only as of the date hereof. The company undertakes no obligation to revise or update any forward-looking statements or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

For opening remarks and introductions, I would now like to turn the conference over to ALLETE President and Chief Executive Officer, Bethany Owen. Please go ahead.

Bethany M. Owen ***ALLETE, Inc. - CEO, President & Director***

Good morning, everyone, and thank you for joining us today. With me are ALLETE's Senior Vice President and Chief Financial Officer, Bob Adams; Vice President, Controller and Chief Accounting Officer, Steve Morris. Also with us this morning is Frank Frederickson, Minnesota Power's Vice President of Customer Experience.

Corresponding slides for this morning's call can be found on our website at allete.com in the Investors section. So that you can follow along, we will call out each slide number as we go through today's presentation.

This morning, ALLETE reported first quarter 2020 earnings of $1.28 per share on net income of $66.3 million. Last year's results were $1.37 per share on net income of $70.5 million. Recall that results in the first quarter of 2019 included a $0.19 per share gain from the sale of U.S. Water Services, offset by $0.02 per share of U.S. Water Services operating results prior to the sale.

In a few minutes, Steve and Bob will provide more details on these first quarter financial results and our positioning and outlook for 2020. But first, I want to share with you some of the actions that ALLETE has taken to position the company and address the challenges posed by the COVID-19 pandemic. Although the current situation is unprecedented and its duration and effects on our economy are uncertain, we at ALLETE have successfully navigated previous downturns and other significant challenges over more than a century of operations. We have a strong, experienced, talented team and as in the past, we are fully committed to weathering this global crisis successfully. Throughout today's call, we'll provide more details on our strategic positioning for the remainder of the year as it relates to our customers, financing and liquidity and capital projects.

We'll begin with Slide 2. Throughout our organization, we are closely monitoring, proactively planning and thoughtfully but rapidly responding to the various impacts of this global challenge. Our first priority in this difficult time is to protect the safety and health of our employees, our families, our customers and our communities across all of ALLETE's operations. Safety is a universally shared value at ALLETE, and this has been our priority from the very beginning. We took action early on as COVID-19 was just beginning to show up in the United States, including suspending all nonessential travel and group meetings, working remotely whenever possible, ensuring supplies of personal protective equipment for our employees, requiring social distancing and much more.

Like so many, the communities we operate in across the country have been affected by COVID-19. However, we are so fortunate that, to date, we've had no confirmed cases in our workforce. That being said, we are not complacent, and we will continue to take decisive action to ensure safety as this situation evolves. I'm grateful to our resilient talented and dedicated employees as we navigate this difficult time together.

Second, we are doing all we can to ensure ALLETE's businesses continue to provide safe and reliable essential energy and Water Services. All of ALLETE's businesses play important roles in providing these services to our customers, and we know that our customers and our communities are relying on us now more than ever.

We're closely engaged with our industry peers to ensure we are implementing best practices and benefiting from lessons learned during the pandemic.

As detailed in Slide 3, ALLETE's family of businesses operates in many states with different public safety orders. So we're also closely engaged at the local, state and federal levels to ensure we are in compliance with these orders and always with a focus on safety. With social distancing and other protective procedures in place, our employees are ensuring our services are safe and reliable, and our construction projects continue, all while keeping themselves, their coworkers, their families and communities safe.

Third, as we've done in many uncertain times throughout our long history, we have taken proactive steps to ensure ALLETE's continued financial health and to enable us to execute our differentiated growth strategy over the longer term. These steps have been critically important as our customers face continuing challenges due to the economic effects of COVID-19.

As you're likely aware, there have been recent public announcements regarding the temporary idling of production by several of Minnesota Power's largest customers. Cleveland-Cliffs, U.S. Steel and ArcelorMittal announced that they were temporarily idling some production due to COVID-19's disruption of steel demand in the automotive, construction, energy and heavy machinery industries.

In addition, our largest paper customers have slowed some of their operations. Because Minnesota Power received these large customers' full production demand nominations in March, we do not expect a material financial impact from these recent announcements through August. These customers will again provide demand nominations in early August, which will indicate their planned production levels for the last 4 months of 2020. Steve and Bob will provide additional information on all of this and the potential impacts on our 2020 outlook in a few minutes.

The financial health of our company is especially important to ensure that we continue to provide the safe and reliable essential energy services our customers are depending on, even as they face these significant challenges, and we have clearly and regularly communicated this importance to our regulators, our legislators and other interested parties. We are closely engaging with all of our diverse stakeholders to develop creative solutions, and we are grateful for their work with us.

A very recent example of these efforts is a proposal Minnesota Power filed with the Minnesota Public Utilities Commission to resolve the current rate case. Last week, the Commission unanimously approved the first part of that proposal, enabling us to reduce Minnesota Power's interim rates effective immediately. We appreciate the commission's willingness to consider and act on our request quickly. As a result, we are able to provide some much-needed rate relief to all of Minnesota Power's customers during these difficult times as we continue to focus on providing the services so important to our communities, homes, hospitals, first responders and businesses. If approved by the commission, the rest of our proposal, which is supported by many parties to the rate case, would also help support the financial health of Minnesota Power during this time. Steve will provide additional details on all of that in a few minutes.

This proactive engagement is just one example of our fourth priority, regular and transparent communication with our employees, our customers and all of our stakeholders regarding any challenges we're facing and the decisions we're making and actions we're taking to address them.

Finally, in this rapidly changing situation, we have reprioritized everything that we're doing to ensure we accomplish these important objectives. COVID-19 has changed so much about the ways that we do our work safely whether we work in the field or typically in the office, but it hasn't changed our values or the fact that we are proud and honored to serve our customers with excellence.

I'd like to recognize and thank all of our incredible employees throughout ALLETE for their resilience, courage, expertise and innovation and their steadfast dedication to our customers and our communities especially during these challenging times. Our entire ALLETE team is engaged and working hard to stay safe and focused on all of these most important priorities, and we will continue to do so as the COVID-19 situation evolves while we position our company for the future.

Now I'll turn it over to Steve and Bob for further details on financial results, positioning and additional views on our outlook. Steve?

Steven Wayne Morris ***ALLETE, Inc. - VP, Controller & CAO***

Thanks, Bethany, and good morning, everyone. I would like to remind you that we filed our 10-Q this morning and encourage you to refer to it for more details. For the first quarter of 2020, ALLETE reported earnings of $1.28 per share on net income of $66.3 million. Earnings for the same quarter in 2019 were $1.37 per share on net income of $70.5 million. Results for the first quarter in 2019 included a $0.19 per share gain from the sale of U.S. Water Services, offset by $0.02 per share of U.S. Water Services operating results prior to the sale.

The first quarter results were in line with our expectations, and we did not see material impact from the COVID-19 pandemic on our financial results. However, the first quarter results may not be indicative of results that can be expected for the remainder of the year. The ultimate extent and duration of the COVID-19 pandemic and related impacts on our financial and operational results are largely dependent on the broader economy and government actions, which are beyond our control and cannot be fully quantified at this time.

Based on preliminary April sales data, we saw an increase in residential megawatt-hour sales of approximately 10% and a decrease in commercial, other small industrial, and municipal customer sales of approximately 10% from our expectations. Overall, we would expect a negative earnings per share impact of $0.01 to $0.02 for the month of April.

Our regulated businesses in Minnesota and Wisconsin have suspended customer disconnections, among other protections for certain customers experiencing economic hardship associated with COVID-19. As a result, we may see an increase in past-due receivables, which could result in additional bad debt expense. In addition, our regulated businesses may incur incremental cost due to COVID-19-related compliance with state or other jurisdictional requirements and other operational expenses in response to the pandemic.

In a March 2020 order, the Public Service Commission of Wisconsin authorized public utilities, which includes Superior Water, Light and Power to defer COVID-19-related incremental expenditures resulting from compliance with state government or regulatory orders. In April, Minnesota Power, along with other regulated electric and natural gas service providers in Minnesota, filed a joint petition to request the Minnesota Public Utilities Commission authorization for deferral of incremental costs and expenses incurred as a result of COVID-19 and record such costs as a regulatory asset subject to recovery in a future proceeding.

A few details from our business segments' results for the quarter. ALLETE's regulated operations segment recorded net income of $57.5 million for the first quarter of 2020, compared to $51.5 million in the first quarter of 2019. Earnings reflected higher net income at Minnesota Power primarily due to the implementation of interim rates on January 1, increased cost recovery rider revenue and year-over-year timing impacts as a result of adopting a new fuel adjustment clause methodology in 2020. These increases were partially offset by higher expenses and lower kilowatt-hour sales to residential, commercial and municipal customers due to warmer weather conditions and the expiration of a contract with a municipal customer in June 2019. Net income at Superior Water, Light and Power decreased from last year due to lower sales as a result of warmer weather conditions in 2020.

A few comments on the Minnesota Power rate case proposal. Please refer to Slide 4. On November 1, 2019, Minnesota Power filed a rate case request with the Minnesota Public Utilities Commission, seeking approximately $66 million in total additional annual revenue. The major driver of this rate increase request was due to an expiring power market sales contract.

Since then, we have worked with key interveners and proposed creative solutions to address challenges associated with COVID-19 pandemic. Our goal was to resolve the rate case in a way that addressed logistical limitations of stakeholder participation, provided immediate rate relief for our customers and supported the financial health of Minnesota Power during this crisis. And on April 23, Minnesota Power filed a request with the commission that proposed a resolution to settle the rate case. One of our requests was to reduce interim rate percentage of 5.8% to 4.1% effective May 1. And on April 30, the commission approved this proposal.

Other components of Minnesota Power's proposed resolution include removing the current power marketing margin credit in base rates; and reflecting actual power marketing margins in the fuel adjustment clause, effective May 1; refunding to customers interim rates collected through April 30 of approximately $12 million; and delaying any future rate case until at least March 1, 2021.

The commission is expected to decide in early June the remaining provisions of our proposal. At this time, we are unable to predict whether the commission will ultimately approve these remaining items. And as of March 31, 2020, we have not recorded reserves for interim rates.

Returning to the financial results from the rest of our business segments. ALLETE Clean Energy recorded first quarter 2020 net income of $11.7 million compared to $5.8 million in 2019. Net income in 2020 included $2.3 million of additional production tax credit generated in 2020 as compared to 2019, higher revenue resulting from higher wind resources and availability and earnings from the Glen Ullin wind energy facility, which commenced operations in December 2019.

Net income in 2020 also included additional income tax benefits, which varies quarter-to-quarter based on an estimated annual effective tax rate. Our corporate and other businesses, which includes BNI Energy and ALLETE Properties, recorded a net loss of $2.9 million in 2020 compared to net income of $14.3 million in 2019. Net income in 2019 included a gain on the sale of U.S. Water Services of $9.9 million after-tax.

Net income in 2020 reflected lower earnings from marketable equity securities held to certain benefit trusts and additional income tax expense, which varies quarter-to-quarter based on an estimated annual effective tax rate. ALLETE's financial position is supported by a significant balance of cash and a conservative balance sheet. Our cash balance was approximately $70 million, and our debt-to-capital ratio was 42% at the end of the first quarter.

I'll now turn it over to Bob to discuss more about our liquidity position and our 2020 guidance and outlook for the rest of the year. Bob?

Robert J. Adams *ALLETE, Inc. - Senior VP & CFO*

Thanks, Steve, and good morning, everyone. Let me begin by saying how proud I am of the ALLETE team, taking decisive action to ensure the safety of our workforce, customers and communities we serve in. We were well ahead of the surge in COVID-19 and have proactively implemented our contingency management plans, leveraging significant experience and tools from past downturns. All of this to ensure we are not only continue to reliably provide critical services to our customers, but also preserve our value proposition for investors. Overall, despite the challenges that the COVID-19 pandemic are creating, we believe our businesses will provide the resilient blend of revenues and cash flows necessary to weather this crisis.

At the same time, the core drivers of our future growth and broader investment thesis, including demand for cleaner energy forms, remains solid and will continue to differentiate ALLETE's performance over the long run. Our businesses performed as expected in the first quarter, are fundamentally sound, and we have ample liquidity to meet our needs, including, but not limited to, significant growth-related investments during the year.

I will share more thoughts on 2020 guidance and our longer-term outlook in a moment. But first, I would like to make a few comments on the state of our finances and liquidity position. Please refer to Slide 5. As you can see, our finances are well positioned with a strong balance sheet and sufficient liquidity, bolstered by decisive financing actions taken already this year. As of May 4, we had over $600 million in cash, credit facilities and other outstanding lending available.

Regarding the tax equity financing for our renewable projects, we recently received approximately $68 million in cash from a third-party investor as part of our tax equity financing for ALLETE Clean Energy's South Peak wind energy facility. We also have approximately $400 million in proposals from tax equity partners for our investments in Nobles 2 and ALLETE Clean Energy's Diamond Spring wind project. We are pleased to secure this critical piece of financing and believe it demonstrates the quality of our renewable projects is being recognized in the marketplace.

A few comments on our 2020 growth investments. A number of our large renewable energy projects are currently under construction with over $600 million in total spend expected this year. The Nobles 2 project, an EnergyForward initiative, is currently under construction and on plan for completion this year. As you know, an ALLETE subsidiary is partnering with Tenaska and will have an investment in this 250-megawatt wind facility located in Southwestern Minnesota. This facility will provide carbon-free wind generation to Minnesota Power under a long-term PSA.

The construction of ALLETE Clean Energy's Diamond Spring project located in Oklahoma started in fourth quarter of 2019 and is also advancing right on plan. At this time, the substation is complete and the majority of turbines have been installed. This 300-megawatt wind generation project, with a total cost of approximately $450 million, is expected to be operational in late 2020, allowing it to qualify for 100% PTCs.

ALLETE Clean Energy recently announced it acquired the rights to the Caddo wind project in Oklahoma from Apex Clean Energy for approximately $8 million, with additional payments required to make -- to be made at defined milestones. Like the Diamond Spring project, this project is targeted to serve large industrial commercial customers and provide a significant expansion into the SPP market, further diversifying the company's geographic and customer base. The full development of this approximately 300-megawatt wind project would involve the sale of energy to corporate customers under long-term power sales agreements.

Despite the challenges COVID-19 has created for the broader economy, corporate customers have continued to focus on their sustainability commitments, and we are continuing to pursue and receive ongoing interest in new projects. With its unique investment in PTC-qualified wind turbines, ALLETE Clean Energy has capacity to add another 350 to 400 megawatts in new PTC projects.

I would now refer you to Slide 6 regarding our 2020 guidance and considerations. Because of the broad economic uncertainties related to COVID-19 and the potential financial impact, especially on our regulated business segment, we are unable to provide a sufficiently reliable update to our 2020 earnings guidance at this time. As a result, we have decided to temporarily suspend 2020 guidance until we are better able to understand and quantify such effects later in the year, targeting an update in our second quarter conference call.

During the first quarter, there were no material COVID-19 financial impacts related to Minnesota Power's electric load, which is heavily influenced by large power customer production levels. Furthermore, in early March, we received large power load nominations from our taconite customers through August, which require them to pay minimum-megawatt demand payments under their contracts. As a result, we don't expect a significant financial impact on our second quarter results, even though some of these customers have announced idling of their facilities during this time frame.

Specifically, production is being temporarily idled at Cleveland-Cliffs Northshore Mining and ArcelorMittal Hibbing Taconite temporarily and partially idled at U.S. Steels Minntac. And U.S. Steel has indefinitely idled its Keetac plant, which are served by Minnesota Power.

In aggregate, these facilities represent approximately 13 million tons of production for the last 4 months of the year and were assumed to be fully operational in our original 2020 guidance. Once again, we will know more about our customers' planned fourth quarter production levels once they nominate in early August for the last 4 months of the year. To the extent that this production does not materialize in the fourth quarter, and we see added weakness in the commercial and municipal sector of our utilities, it is distinctly possible our results could fall outside our original guidance range.

To mitigate the negative impacts on our business, we have taken early action on a multitude of fronts, including power marketing sales, and O&M expense management, along with actions on financing and liquidity I've already discussed. From a CapEx standpoint, we have evaluated possible deferrals but expect any actions there to be immaterial at this juncture.

Slide 6 presents a number of considerations, including several key metrics that may help you with your modeling assumptions under different scenarios.

Now over some thoughts on our long-term outlook as highlighted in Slide 7. Despite the COVID-19 crisis, which may present challenges in 2021, we believe the long-term fundamentals of our business remain intact for a number of reasons. Our business models are regulated or highly recurring in nature, and the industries we serve are critical to the economy and to the country, including iron, steel and nonferrous mining. We continue to believe that ALLETE's primary growth engine in the renewables segment will be substantial. We'll see substantial demand as ESG trends continue beyond economic weakness. We remain committed to our long-term value proposition of 9% to 10%, which includes an assumption of dividends increasing in line with our broader annual earnings growth objective.

At this time, we expect to have the ability to sustain current dividend levels while maintaining healthy dividend payout ratios. Even though the timing of COVID-19 recovery may negatively impact some near-term growth, we continue to expect to achieve our long-term average annual growth objective of 5% to 7% over the 5-year period.

I will now hand it back to Bethany. Bethany?

Bethany M. Owen ***ALLETE, Inc. - CEO, President & Director***

Thank you, Steve and Bob. Although COVID-19 presents unique challenges, ALLETE has thrived through many decades of change. Our family of businesses is well positioned with a differentiated strategy to provide customers with cleaner energy solutions. Which we believe will continue to be in strong demand well into the future. I couldn't be more proud of our ALLETE team, and I'm confident about the opportunities ahead. Thank you for your interest and your investment in ALLETE.

At this time, I will ask the operator to open up the line for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Brian Russo with Sidoti.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Just on the alternate rate proposal. Can you just discuss some of the remaining provisions that the MPUC is expected to review by June 1 in terms of the next time you can file rate case in terms of sensitivity to large power customer demand, et cetera?

Steven Wayne Morris ***ALLETE, Inc. - VP, Controller & CAO***

Yes. I can take that. Brian, Steve Morris. So the rate case item, we said we would not file a rate case until November 1 of 2021, unless certain conditions present themselves as if, for example, large power load down 50 megawatts for at least 3 months, then we could move it up to March of 2021. So that's our proposal.

And the rest of the proposals, obviously, was just to take out the power marketing margin credit that's sitting in base rates, which would be an increase to base rates, but then you run the actual power marketing margins through the fuel adjustment clause. That's the major item of our proposal. And then obviously, we would refund interim rates collected through April, which is approximately $12 million back to the customers.

So those are the remaining items. There's not significantly more items than that, and we expect to hear in June on those.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Right. So -- and just to clarify, so the interim rate percentage, reduction from 5.8% to 4.1%, is that net of the recovery of the wholesale power contract that expired in April that originally was not included in interim rates?

Steven Wayne Morris ***ALLETE, Inc. - VP, Controller & CAO***

Yes. So that 4.1% really gets us to a run rate on May 1 as if our proposal is accepted, which is the power marketing margins moving from base rates into the actual -- into a fuel adjustment clause.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Okay. Got it. And then also on large power customers, Cleveland-Cliffs, obviously, they were the first to idle Northshore, and I believe their current plan is to resume operations in August. Have you heard, or has U.S. Steel publicly stated when they expect Minntac and/or Keetac to become operational again?

Frank Frederickson

Brian, Frank Frederickson here. I'll take that question. And before I get into that question, I might just back up a moment and get up to sort of quick overview of how we're looking at the industry. Just for yourself and for others on the call, just starting with -- from an iron ore perspective, there's few regions in the world, as we know, that have high-quality ore bodies as well as pelletizing capability, and Minnesota is one of them. I wanted to share that just in terms of the pellets because in order to make high-quality steel in environmentally sound manner, pellets are an important key ingredient in the matter of the end process.

And secondly, I'd like to share that we're aware that we have proven reserves in the ground in the area that can continue to supply for decades. And third, Minnesota is a region that typically produces 35 million to 40 million tons per year. And they have a competitive advantage in bringing these pellets to market in the Great Lakes region. And our customers are some of the largest steel manufacturers in the world, and they continue to make those substantial investments in technology to make high-grade steels and they're used to working through recessions like this.

And just last couple of points that are good to share is that we've seen some good actions by the administration to put appropriate trade protections in place. And lastly, this COVID-19-related pandemic, we've seen supply chain issues that have shown the importance of having domestic manufacturing intact from raw material to finished product.

So with that kind of overview in mind, in getting back to your key question, we have seen announcements now with Cliffs Northshore through August. ArcelorMittal has announced that Hibbing Taconite is down today, and then will be restarting in July. U.S. Steel has announced an indefinite time period for the Keetac facility. And they haven't come out with any specific announcements on Minntac, although they have announced some layoffs and that they are balancing production at Minntac relative to demand.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Okay. And just from your experience in various cycles, how long does it take for these taconite customers to go from idling the facilities to ramping up to maybe 3 quarters or even 100% of full production? And is that something that can happen quickly? Or is that something that takes months?

Frank Frederickson

Thank you for that follow-on. It is something that can happen quickly. And we've seen the customers have taken the time to put the maintenance into their facilities, so they're ready to restart. So when they recall workers, they can be restarted. Within a couple of weeks and back up.

And I'd also like to share too that as we've tracked this recession versus the past recessions, we've seen some pretty rapid response from our customers, which shows that they're taking action very swiftly. Just to compare and contrast to the 2008 and 2009 recession, we've seen steel capacity utilization drop within a month, the same amount that it took about 6 months to happen in 2008 and '09, and I share that because it's an important point to look at for context in terms of what can happen in the restart. And they're not putting a very -- a significant amount of inventory out there, so they are able to restart once demand restarts in automotive and appliance markets.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Okay. Great. And then just the 4 or 5 customers at facilities that you noted in the presentation and in your comments, that's about 80% of total taconite production in Minnesota and/or in your service territory?

Frank Frederickson

It's -- I'll back up a little bit in terms of the announcements that have happened -- with Cliffs has announced on their Northshore facility, and we have a slide in our investor deck out that characterizes this. They've also announced on Hibbing Taconite -- ArcelorMittal has announced Hibbing Taconite and U.S. Steel and Keewatin Taconite.

What we're aware of for U.S. Steel's Minntac is more partial. And ArcelorMittal's Minorca continues to operate as well as Cliffs' United Taconite continues to operate.

So net-net, we're looking at upwards of 40% of taconite production being idled in the near term and with the number of them being announced to be restarting later this summer.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Okay, great. And then just a few more quickly. On the Caddo update, are you still awaiting tax equity for that as well as PPAs from commercial industrial customers? Or are those 2 items in place?

Robert J. Adams ***ALLETE, Inc. - Senior VP & CFO***

Yes. Brian, this is Bob Adams. So on the tax equity front, we are still in the process of just beginning to look at players for the Caddo project. Again, that doesn't go into service until the end of 2021. And then with regard to the offtakes, we're working on the final contract for offtake in the C&I space for the project. So we have 2 of those offtakes done already, and we're working on the third, and that's proceeding well.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Okay. Great. And lastly, the tax benefit that was recorded in the first quarter, it looks like, at least on the income statement, it's a positive $13 million or $13.8 million benefit. You mentioned it was timing. Is it related to accounting in the PTCs? I was just wondering if that's kind of onetime in nature or that smooths out over -- throughout this year.

Steven Wayne Morris ***ALLETE, Inc. - VP, Controller & CAO***

Yes. So overall, net-net, on our financial statements, there's really little impact because of the effective tax rate, if you will, it will vary just quarter-to-quarter. But from what our expectations would be -- it's very minimal impact.

At times, you will get an effective tax rate difference by segments, Minnesota Power, Regulated Operations, ALLETE Clean Energy, which essentially washes out within the Corporate and Other. So it matters if you're looking at segment by segment, but overall, it isn't material.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Okay. So it's not material to the full year results, but it's certainly a year -- a quarter-over-quarter significant driver in the first quarter?

Steven Wayne Morris ***ALLETE, Inc. - VP, Controller & CAO***

Yes. I wouldn't say it's totally significant. I think it just washes out here. It's -- the way we talk about it here was within various segments. But from a year-over-year perspective, it's not that material.

Operator

(Operator Instructions) Our next question comes from Sarah Akers with Wells Fargo.

Sarah Elizabeth Akers ***Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst***

So in terms of the 2020 downside, is it as simple as taking that 13 million tons in the last 4 months, apply $0.04 rule of thumb, and we get around $0.50 of EPS risk in a worst-case scenario? Or are there other material uncertainties that complicate that picture?

Frank Frederickson

So Sarah, Frank Frederickson here. And I'll try and going to walk you through what we shared and what we're looking at. And as I mentioned in some of the previous questions there that we have about 40% of taconite production offline right now, and they have announced -- most of that is announced to come back yet, towards the end of the summer.

However, to give you that scenario of just round numbers if that 40% were to stay off for the past 4 months of the year, you're looking at about 5 million tons coming out in the past 4 months. And then if you apply that $0.04, you're looking at about $0.20 on an EPS basis.

Sarah Elizabeth Akers ***Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst***

Okay. And the other drivers in terms of the rest of your load and potential operating expenses, are those all relatively immaterial? It seems like the April impact was fairly small, but I want to make sure we're not missing any other risks.

Robert J. Adams ***ALLETE, Inc. - Senior VP & CFO***

Yes. So Sarah, this is Bob. One of the interesting things that we've seen, I guess, and it's not necessarily unique to our company as I've talk to some other CFOs is that, yes, we've seen some impact on our commercial operations -- or customers, I should say. But that was largely offset, for example, in April, by increased demand on the residential as a result of stay at home and some of that.

So net-net-net, at least in April, we're not seeing a big impact on that right now. More to come, but there will be some -- there is some spin-off effect, of course, to the extent that the taconites don't run in the broader economy if that were to continue to weaken. But at least so far on a net-net basis, it's not that material.

Sarah Elizabeth Akers ***Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst***

Got it. And based on your conversations with the customers, it sounds like a number of them are signaling that they're coming back online later in the summer. But as you're operating the business, how are you thinking about the risk that these could extend into 2021? And do you see any risk that your large customers could go out of business because of this?

Robert J. Adams ***ALLETE, Inc. - Senior VP & CFO***

Well, we're definitely -- again, given our track record, I guess, and experience addressing these kinds of things, we take a relatively conservative stance in our scenario planning around all of these things. So we're not -- there's a lot of discussion, I think, in fact, I was just looking at a Wall Street Journal's survey of top CEOs as well as economists. And 80%, 85% are of the belief that this is going to be a v-shaped recovery and things are going to come storming back even as early as fourth quarter.

I'm not necessarily of that view. I think this is going to have some legs towards into 2021. As a result of that, some of the actions we've taken, for example, power sales have sold some power into 2021, to reflect that. So we don't see -- I don't see permanent dislocation of the -- of our major customers in the taconite segment for the reasons that Frank mentioned in terms of just the quality of the ore, the unique -- the unique situation in the Great Lakes with regard to where this ore is ultimately used for steelmaking in the middle part of the country, which has its own unique sort of competitive dynamic that I think, in large part, protects that industry.

So we're not seeing a permanent -- we don't see a permanent dislocation, bankruptcy reduction in that load. It would be more temporary in nature, but could go into 2021.

Sarah Elizabeth Akers ***Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst***

Got it. And then just a follow-up question on the rate case. It seems like there's some good provisions in that rate settlement. But net-net, does the lower interim rate increase have a negative impact on 2020 results? And if so, can you quantify that piece?

Steven Wayne Morris ***ALLETE, Inc. - VP, Controller & CAO***

Yes. Sarah, Steve Morris. So I would say the 4.1% is from a May 1 date going forward is not material from our expectations. What will be, though, however, is the refund that we've proposed of the $12 million. After-tax, that's $0.16, that would be the impact on our earnings this year.

Sarah Elizabeth Akers ***Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst***

And is that more of a onetime impact in 2020? Or is that kind of set the baseline going forward?

Steven Wayne Morris ***ALLETE, Inc. - VP, Controller & CAO***

Well, the 4.1% would be the rate going forward. But the overall impact this year would be about a 2% -- I guess, 2.8% impact overall. So the way we look at it, the refund of $12 million is really a onetime refund. So we'd have less impact -- in '21, we would have less impact. So your rate would be 4.1% interim rate increase, which was roughly the $25 million.

Sarah Elizabeth Akers ***Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst***

And would you exclude that onetime refund from adjusted EPS? Just thinking about how you're going to report as the year goes on.

Steven Wayne Morris ***ALLETE, Inc. - VP, Controller & CAO***

Yes, we would because we did not provide reserves, any interim rate reserves in our guidance. And we certainly weren't contemplating the pandemic and the refund of this at that time. So we had $36 million of interim rates. And so we're basically giving back that $12 million. So that was not contemplated. We would talk about that as a more of a onetime event.

Operator

And our next question comes from Richard Sunderland with JPMorgan.

Richard Wallace Sunderland ***JP Morgan Chase & Co, Research Division - Associate***

Just curious about the potential O&M cuts, I guess, both in the context of the reductions you had out of the last rate case as well as what that may mean for '21? And I guess, what are your considerations there with what you're evaluating?

Robert J. Adams ***ALLETE, Inc. - Senior VP & CFO***

Yes. So Richard, this is Bob. So we -- again, for context, again, when we -- in the 2018-2019 period of time, following the rate case outcome at that time, we did a substantial reorganization and what I call sort of a historic rescale of our company that went along with that re-org. So it was about organizational design. It was changing the way we do our work practices. It was those kinds of things. And it was about a 20% or $40 million reduction, which obviously was very, very extensive.

So I mention that because as we look at O&M as a lever, we do have a lever, but it's more temporary in nature. These are cost reductions that are going to be sort of in the form of delayed hiring. Obviously, there's lower travel given stay at home and some of the things that we're all working through there, employee expenses are down, lower professional services and some of those things.

So they are not -- I would not consider them to be sustainable. They would be more temporary in nature. They are material to all of this, for sure. And as Bethany indicated, we started on this early. So a lot of these things are in place or in motion as we speak.

Richard Wallace Sunderland ***JP Morgan Chase & Co, Research Division - Associate***

So just to follow up on that point about the temporary nature of the cuts. It sounds like what you are considering would also not necessarily impact '21 in terms of a pushback or pull forward or kind of timing items there?

Robert J. Adams ***ALLETE, Inc. - Senior VP & CFO***

To the extent that COVID -- those levers would continue to be pulled, obviously, against the backdrop of continued COVID-19 challenges around the country and for us. So we would definitely be applying those same levers into 2021 as necessary.

Operator

And I'm showing no further questions in the queue at this time. I'd like to turn the call back to Bethany Owen for any closing remarks.

Bethany M. Owen ***ALLETE, Inc. - CEO, President & Director***

So thank you again for being with us this morning and for your investment and interest in ALLETE. We wish you safety, good health and all the very best.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude your program, and you may now disconnect.