

ALLETE INC  
Form 10-Q  
August 02, 2012  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2012

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-3548

ALLETE, Inc.  
(Exact name of registrant as specified in its charter)

Minnesota 41-0418150  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

30 West Superior Street  
Duluth, Minnesota 55802-2093  
(Address of principal executive offices)  
(Zip Code)

(218) 279-5000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company

Edgar Filing: ALLETE INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Common Stock, no par value,  
38,288,789 shares outstanding  
as of June 30, 2012

---

INDEX	Page
<u>Definitions</u>	<u>3</u>
<u>Forward-Looking Statements</u>	<u>5</u>
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheet -</u> June 30, 2012 and December 31, 2011	<u>6</u>
<u>Consolidated Statement of Income -</u> Quarter and Six Months Ended June 30, 2012 and 2011	<u>7</u>
<u>Consolidated Statement of Comprehensive Income -</u> Quarter and Six Months Ended June 30, 2012 and 2011	<u>8</u>
<u>Consolidated Statement of Cash Flows -</u> Six Months Ended June 30, 2012 and 2011	<u>9</u>
<u>Notes to Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>43</u>
<u>Item 4. Controls and Procedures</u>	<u>44</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>45</u>
<u>Item 1A. Risk Factors</u>	<u>45</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>45</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>45</u>
<u>Item 5. Other Information</u>	<u>45</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>Signatures</u>	<u>47</u>

ALLETE Second Quarter 2012 Form 10-Q

2

---

Definitions

The following abbreviations or acronyms are used in the text. References in this report to “we,” “us” and “our” are to ALLETE, Inc., and its subsidiaries, collectively.

Abbreviation or Acronym	Term
AC	Alternating Current
AFUDC	Allowance for Funds Used During Construction – consisting of the cost of both the debt and equity funds used to finance utility plant additions during construction periods
ALLETE	ALLETE, Inc.
ALLETE Clean Energy	ALLETE Clean Energy, Inc.
ALLETE Properties	ALLETE Properties, LLC, and its subsidiaries
ARS	Auction Rate Securities
ATC	American Transmission Company, LLC
Bison 1	Bison 1 Wind Facility
Bison 2	Bison 2 Wind Project
Bison 3	Bison 3 Wind Project
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
CAIR	Clean Air Interstate Rule
CO <sub>2</sub>	Carbon Dioxide
Company	ALLETE, Inc., and its subsidiaries
CSAPR	Cross-State Air Pollution Rule
DC	Direct Current
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Form 10-K	ALLETE Annual Report on Form 10-K
Form 10-Q	ALLETE Quarterly Report on Form 10-Q
GAAP	United States Generally Accepted Accounting Principles
GHG	Greenhouse Gases
Hibbard	Hibbard Renewable Energy Center
Invest Direct	ALLETE’s Direct Stock Purchase and Dividend Reinvestment Plan
Item ____	Item ____ of this Form 10-Q
kV	Kilovolt(s)
Laskin	Laskin Energy Center
LIBOR	London Interbank Offered Rate
MACT	Maximum Achievable Control Technology
Magnetation	Magnetation, Inc.
Manitoba Hydro	Manitoba Hydro-Electric Board
MATS	Mercury and Air Toxics Standards
Medicare Part D	Medicare Part D provision of The Patient Protection and Affordable Care Act of 2010
Mesabi Nugget	Mesabi Nugget Delaware, LLC
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midwest Independent Transmission System Operator, Inc.
MPCA	Minnesota Pollution Control Agency



## Definitions (Continued)

Abbreviation or Acronym	Term
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
NAAQS	National Ambient Air Quality Standards
NDPSC	North Dakota Public Service Commission
Non-residential	Retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional
NO <sub>2</sub>	Nitrogen Dioxide
NO <sub>x</sub>	Nitrogen Oxide
Note ____	Note ____ to the consolidated financial statements in this Form 10-Q
NPDES	National Pollutant Discharge Elimination System
Oliver Wind I	Oliver Wind I Energy Center
Oliver Wind II	Oliver Wind II Energy Center
Palm Coast Park	Palm Coast Park development project in Florida
Palm Coast Park District	Palm Coast Park Community Development District
PPA	Power Purchase Agreement
PPACA	The Patient Protection and Affordable Care Act of 2010
PSCW	Public Service Commission of Wisconsin
Rainy River Energy	Rainy River Energy Corporation - Wisconsin
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO <sub>2</sub>	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
Taconite Ridge	Taconite Ridge Energy Center
Town Center	Town Center at Palm Coast development project in Florida
Town Center District	Town Center at Palm Coast Community Development District
U.S.	United States of America
USS Corporation	United States Steel Corporation
WDNR	Wisconsin Department of Natural Resources

ALLETE Second Quarter 2012 Form 10-Q

4

## Forward-Looking Statements

Statements in this report that are not statements of historical facts are considered “forward-looking” and, accordingly, involve risks and uncertainties that could cause actual results to differ materially from those discussed. Although such forward-looking statements have been made in good faith and are based on reasonable assumptions, there is no assurance that the expected results will be achieved. Any statements that express, or involve discussions as to, future expectations, risks, beliefs, plans, objectives, assumptions, events, uncertainties, financial performance, or growth strategies (often, but not always, through the use of words or phrases such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “projects,” “likely,” “will continue,” “could,” “may,” “potential,” “target,” “outlook” or words of similar meaning) are not statements of historical facts and may be forward-looking.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are providing this cautionary statement to identify important factors that could cause our actual results to differ materially from those indicated in forward-looking statements made by or on behalf of ALLETE in this Form 10-Q, in presentations, on our website, in response to questions or otherwise. These statements are qualified in their entirety by reference to, and are accompanied by, the following important factors, in addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements that could cause our actual results to differ materially from those indicated in the forward-looking statements:

- our ability to successfully implement our strategic objectives;
- regulatory or legislative actions, including changes in governmental policies of the United States Congress, state legislatures, the FERC, the MPUC, the PSCW, the NDPSC, the EPA and various state, local and county regulators, and city administrators, about allowed rates of return, capital structure, financings, industry and rate structure, acquisition and disposal of assets and facilities, real estate development, operation and construction of plant facilities, recovery of purchased power, capital investments and other expenses, present or prospective wholesale and retail competition (including but not limited to transmission costs), zoning and permitting of land held for resale and environmental matters;
- our ability to manage expansion and integrate acquisitions;
- the potential impacts of climate change and future regulation to restrict the emissions of GHG on our Regulated Operations;
- effects of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with laws and regulations;
- weather conditions, natural disasters and pandemic diseases;
- war, acts of terrorism and cyber attacks;
- wholesale power market conditions;
- population growth rates and demographic patterns;
- effects of competition, including competition for retail and wholesale customers;
- changes in the real estate market;
  - pricing and transportation of commodities;
- changes in tax rates or policies or in rates of inflation;
- project delays or changes in project costs;
- availability and management of construction materials and skilled construction labor for capital projects;
- changes in operating expenses and capital expenditures;
- global and domestic economic conditions affecting us or our customers;
- our ability to access capital markets and bank financing;
- changes in interest rates and the performance of the financial markets;
- our ability to replace a mature workforce and retain qualified, skilled and experienced personnel; and



- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements.

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this report are discussed in Item 1A under the heading “Risk Factors” beginning on page 26 of our 2011 Form 10-K. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by us in this Form 10-Q and in our other reports filed with the SEC that attempt to advise interested parties of the factors that may affect our business.

ALLETE Second Quarter 2012 Form 10-Q

5

---

PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
ALLETE  
CONSOLIDATED BALANCE SHEET  
Millions – Unaudited

	June 30, 2012	December 31, 2011
Assets		
Current Assets		
Cash and Cash Equivalents	\$8.6	\$101.1
Accounts Receivable (Less Allowance of \$1.1 and \$0.9)	66.7	79.7
Inventories	69.3	69.1
Prepayments and Other	25.5	27.1
Total Current Assets	170.1	277.0
Property, Plant and Equipment - Net	2,177.5	1,982.7
Regulatory Assets	336.9	345.9
Investment in ATC	102.6	98.9
Other Investments	136.0	132.3
Other Non-Current Assets	39.1	39.2
Total Assets	\$2,962.2	\$2,876.0
Liabilities and Equity		
Liabilities		
Current Liabilities		
Accounts Payable	\$78.3	\$71.8
Accrued Taxes	22.6	26.4
Accrued Interest	12.8	12.8
Long-Term Debt Due Within One Year	67.4	5.4
Notes Payable	—	1.1
Other	51.3	45.6
Total Current Liabilities	232.4	163.1
Long-Term Debt	808.4	857.9
Deferred Income Taxes	388.0	373.6
Regulatory Liabilities	49.3	43.5
Defined Benefit Pension and Other Postretirement Benefit Plans	253.8	253.5
Other Non-Current Liabilities	110.6	105.1
Total Liabilities	1,842.5	1,796.7
Commitments, Guarantees and Contingencies (Note 13)		
Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 38.3 and 37.5 Shares Outstanding	737.3	705.6
Unearned ESOP Shares	(24.9	) (29.0
Accumulated Other Comprehensive Loss	(27.6	) (28.9
Retained Earnings	434.9	431.6
Total Equity	1,119.7	1,079.3
Total Liabilities and Equity	\$2,962.2	\$2,876.0

The accompanying notes are an integral part of these statements.

ALLETE Second Quarter 2012 Form 10-Q

6

---

ALLETE  
CONSOLIDATED STATEMENT OF INCOME  
Millions Except Per Share Amounts – Unaudited

	Quarter Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Operating Revenue	\$216.4	\$219.9	\$456.4	\$462.1
Operating Expenses				
Fuel and Purchased Power	72.1	76.0	149.2	155.0
Operating and Maintenance	96.2	95.7	196.1	185.8
Depreciation	24.8	22.1	49.4	44.4
Total Operating Expenses	193.1	193.8	394.7	385.2
Operating Income	23.3	26.1	61.7	76.9
Other Income (Expense)				
Interest Expense	(10.1	)(11.0	)(21.1	)(21.7
Equity Earnings in ATC	4.8	4.6	9.4	9.0
Other	1.2	1.0	1.9	1.8
Total Other Expense	(4.1	)(5.4	)(9.8	)(10.9
Income Before Non-Controlling Interest and Income Taxes	19.2	20.7	51.9	66.0
Income Tax Expense	4.8	3.8	13.1	12.0
Net Income	14.4	16.9	38.8	54.0
Less: Non-Controlling Interest in Subsidiaries	—	(0.1	—	(0.2
Net Income Attributable to ALLETE	\$14.4	\$17.0	\$38.8	\$54.2
Average Shares of Common Stock				
Basic	37.3	35.0	37.0	34.8
Diluted	37.4	35.1	37.1	34.9
Basic Earnings Per Share of Common Stock	\$0.39	\$0.49	\$1.05	\$1.56
Diluted Earnings Per Share of Common Stock	\$0.39	\$0.48	\$1.05	\$1.55
Dividends Per Share of Common Stock	\$0.46	\$0.445	\$0.92	\$0.89

The accompanying notes are an integral part of these statements.

ALLETE Second Quarter 2012 Form 10-Q

7

ALLETE  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
Millions – Unaudited

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Comprehensive Income (Loss)				
Millions				
Net Income				