

**ALLETE**

**Moderator: Alan Hodnik  
November 1, 2013  
10:00 a.m. ET**

Operator: Good day, and welcome to the ALLETE third-quarter 2013 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.

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For opening remarks and introductions, I'd now like to turn the conference over to ALLETE President and Chief Executive Officer, Alan R. Hodnik. Please go ahead, sir.

Alan Hodnik: Good morning, and thank you for joining us today. Mark Schober, ALLETE's Chief Financial Officer, is with me on the call.

Today, we reported third-quarter earnings of \$0.63 per share, compared to \$0.78 per share a year ago. Year-to-date, we have earned \$1.81 per share, and we expect our year-end earnings will be within the lower half of our previously stated earnings guidance range of \$2.58 to \$2.78 per share. Mark will give you his analysis of the financials and outlook for the remainder of the year in a few moments.

The third quarter of 2013 was a very successful one in terms of achieving a number of important milestones with regards to ALLETE's multi-year, multi-faceted growth strategy. For instance, on September 25th, the minutes of the Public Utilities Commission approved Minnesota Power's integrated resource plan, or our energy-forward strategic plan. We are very pleased about the commission's endorsement of this plan, which is a balanced approach to energy transformation, and one designed to assure reliability, protect affordability while further improving environmental performance. In a separate action, the commission also approved Minnesota Power's proposal to invest approximately \$350 million in additional environmental control technology at our Boswell Unit 4 generating station. Work has begun on this project and we expect to complete the retrofit at Boswell 4 by early 2016.

Also on September 25th, the North Dakota Public Service Commission approved the site permit for construction of the Bison 4, 205-megawatt wind project. As a result, construction has commenced, and is expected to be completed by the end of 2014. Total project investment is estimated at \$345 million. On September 27th, Minnesota Power filed a petition with the Minnesota Public Utilities Commission seeking current cost recovery for the investments and expenditures related to Bison 4.

Turning to the energy transmission infrastructure investments portion of our growth strategy, last week, we announced that Minnesota Power has filed a certificate of need application with the Minnesota Public Utilities Commission for the approximately 240-mile, 500 KV great northern transmission line. This line will be used to carry renewable hydroelectric power from Manitoba Hydro to Minnesota's Iron range. Minnesota Power will own 51%, while a subsidiary of Manitoba Hydro will own 49%. We expect the total cost of this

project to be \$400 million to \$600 million, putting Minnesota Power's investment in the \$200 million to \$300 million range. Construction is anticipated to begin in June of 2016, and we expect the line to be in service in June of 2020.

With the Boswell 4 and Bison 4 projects now underway, and the certificate of need application filed for the Great Northern Transmission line, we have continued to make significant progress in moving forward with our multi-year, multi-faceted growth strategy, and I firmly believe ALLETE's growth opportunities compare very favorably and set us apart in many ways from other companies within our industry.

I will return in a few moments to make some additional comments, but at this time I will turn the call over to Mark Schober. Mark?

Mark Schober: Thank you, Al, and good morning, everyone. I would like to remind you that we filed our 10-Q this morning and I encourage you to refer to it for the details on the quarter.

Over the third quarter, ALLETE earned \$0.63 per share on net income of \$25.2 million, and operating revenue of \$251 million, compared to \$0.78 per share on net income of \$29.4 million, and operating revenue of \$248.8 million in 2012. Income from ALLETE's regulated operations segment, which includes Minnesota Power, Superior Water, Light & Power, and our investment in the American Transmission Company, was \$24.6 million in 2013, compared to \$29.3 million in 2012.

Operating revenue for this segment was similar to 2012, with higher transmission revenue and cost recovery rider revenue offset by lower fuel adjustment cost recoveries and lower sales to residential, commercial, and municipal customers.

Transmission revenue increased \$1.1 million dollars from 2012, primarily due to a recovery of our transmission system upgrade to support Essar's project, and higher MICO revenue related to our investment in CapEx 2020. Cost recovery rider revenue increased \$600,000 from 2012, as the Bison 2 and 3 wind generating facilities were completed in various phases through

December 2012, and in service for the full third quarter of 2013. Fuel adjustment class recoveries decreased \$1.2 million from last year, primarily due to lower sales to our retail and municipal customers.

Total kilowatt-hour sales were down slightly from the same quarter last year, resulting in a \$1.5 million decrease in revenue. Sales to our residential, commercial and municipal customers were down 5%, largely due to milder temperatures during the third quarter of 2013, compared to the same period in 2012. The decrease was offset by a 14% increase in kilowatt-hour sales to other power suppliers over 2012.

Sales to other power suppliers are sold at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations. While total kilowatt-hour sales were similar to last year, market prices for sales to other power suppliers were lower than residential and commercial rates, and resulted in lower margins. Kilowatt hour sales to industrial customers decreased about 1% from 2012, primarily due to a 66 million-kilowatt-hours sold in the third quarter of 2012, through a short-term, fixed-price contract.

Now, a few details on the expense side of the business. Regulated operations operating expense increased \$7.6 million, or 4%, over the same quarter of 2012. Operating and maintenance expense was up \$2.2 million, or 3% from 2012, primarily due to higher property tax expenses as a result of higher taxable plant and rates, and higher operate and maintenance expenses related to our Bison wind energy center, which has been in service all of 2013. Fuel and purchase power expense increased \$1 million from 2012, primarily due to higher prices. Depreciation expense rose by \$4.4 million for the quarter, attributable to the significant capital investment program at our regulated operations. Earnings from our investment in ATC were similar to 2012. Income tax expense decreased \$3.4 million from 2012, mainly due to lower pre-tax income and higher federal production tax credits in 2013, related to the Bison 2 and 3 wind generating facilities.

ALLETE's investment and other segments, which includes results from BNI Coal, ALLETE properties, ALLETE Clean Energy and other corporate

income and expenditures reported \$600,000 of net income, compared to \$100,000 for the same quarter in 2012. Gains from the sales of securities during the quarter were partially offset by higher state income taxes. In 2012, we recognized more North Dakota income tax credits than in 2013. Our effective tax rate in the third quarter of 2013 was 25.7%, similar to the same period last year. We anticipate the effective tax rate for 2013 will be approximately 22%.

Year-to-date, we have generated \$189 million in cash from operating activities, and at the end of the quarter, we carried cash and cash equivalents of \$165 million and a 46% debt-to-capital ratio. Net income for the 9 months ended September 30th, 2013, was \$71.7 million, compared to \$68.2 million for the same period in 2012. ALLETE has earned \$1.81 per share through September. For the most part, our financial performance has been as we have anticipated, but there have been a few exceptions. For one, at the beginning of this year, we had expected the Essar Steel Minnesota project to be close to its start-up phase during the second half of this year. Last quarter we announced we now expect Essar to begin start-up in 2014. We originally expected a small financial impact on earnings from Essar in our original guidance and we now expect none for 2013.

Additionally, we have seen an increase in property tax rates from original expectations. The timing of our capital investments has also had an effect on earnings, and as the year has unfolded, we now estimate that approximately half of our 2013 capital expenditures will be incurred in the fourth quarter. None of these exceptions individually are material to our financial results, but these, and other relatively minor items, have had a collective impact. In light of all these factors, we now anticipate our year-end earnings will be in the lower half of our previously stated guidance range of \$2.58, to \$2.78 per share.

AI?

Alan Hodnik: Thank you, Mark. ALLETE is an energy company that has, in my opinion, above-average earnings growth opportunities that stretch through the end of this decade. Earlier I had talked about several significant capital investments

that will provide for rate-based growth through 2020. ALLETE is unique, in that it also has organic growth opportunities within mineral-rich northeastern Minnesota. I would like to give you an update on two of these, PolyMet mining and Essar Steel Minnesota.

PolyMet is the first potential new non-ferrous mining company that could begin operations in Northeastern Minnesota, which contains one of the largest untapped reserves of copper, nickel and precious metals in the world. PolyMet's long-awaited supplemental draft environmental impact statement is expected to be out and available by year end. This will be a significant milestone for PolyMet, and will hopefully result in PolyMet receiving their final permits sometime in 2014. PolyMet has previously signed a 45-megawatt to 70-megawatt contract with Minnesota Power, and upon receipt of the final permits, could finalize their construction on facilities in 2015.

Another new entity, and one we have been discussing for some time now, is Essar Steel, Minnesota's new taconite facility that is under construction on the Western Wasabi Range. Essar is served by the city of Nashwauk, which is one of Minnesota Power's municipal customers. Essar has also signed a contract in place and they represent up to 110 megawatt's of new load for Minnesota Power. Essar has invested, to date, over \$860 million in their project that is expected to cost about \$1.6 billion at completion. Essar anticipates the beginning of blasting, mining and commissioning of equipment in 2014. They expect to begin increasing their electric power requirements as they ramp up production in late 2014. Essar expects to achieve a 4 million ton production level by the first half of 2015, increasing toward the full level of 7 million tons by the end of 2015.

In addition to capital investment and organic growth opportunities, ALLETE remains focused and disciplined as we actively analyze potential new energy-centric investment prospects within the energy infrastructure or energy infrastructure services areas. We anticipate issuing our 2014 earnings guidance sometime during mid-December. At this point, we expect continued strong sales from our mineral and paper customers, who, by the way, will be making their nominations for the January through April 2014 period on December 1st.

The outlook for taconite production appears to be favorable. I would like to point out to you that while their North Shore facility is not an industrial customer of ours, Cliffs Natural Resources plans to reopen two idle lines at its North Shore mining facility in anticipation of additional taconite sales in 2014. Our guidance will also include earnings from the Bison 4 and Boswell 4 projects. Additionally, we expect expense increases due to asset additions and share issuances as we fund the largest year of capital expenditures ever at our company. I fully expect ALLETE to remain on track to meet our long-term 5% average annual earnings growth objective, using 2010 as the base year. We look forward to continuing to execute our multi-year, multi-faceted growth strategy.

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

Operator: Ladies and gentlemen, if you would like to ask a question at this time, press star one. We will pause for just a moment to compile the Q&A roster.

First question from Paul Ridzon from KeyBanc.

Alan Hodnik: Morning, Paul.

Paul Ridzon: You touched on it in your comments, but do you think you'll get fully subscribed in the December 1st nominations?

Alan Hodnik: We are not seeing any signals or sign posts to the contrary, Paul. Certainly, again, we don't serve the North Shore mining facility at Silver Bay directly, but certainly, all what I see with regards to domestic steel production and consumption of ore would suggest that the mineral customers and paper customers are going to nominate at full-out.

Paul Ridzon: How many lines in North Shore that are open?

Alan Hodnik: The North Shore facility up at Silver Bay has four processing lines. They have had two idled for roughly the last year and a half. They are restarting two lines of their multi-line operation up there.

Paul Ridzon: And Mark, just any update on interest in Florida?

Mark Schober: Yes, we've continued to see more activity there, Paul. The good news is, we finally did close a transaction this week down in Florida, so you'll see that in Q4 results that will provide a couple of cents of earnings here. So we continue to see activity and things are finally starting to close down there, so continue to improve.

Paul Ridzon: You said a couple of cents?

Mark Schober: Yes.

Paul Ridzon: Okay, thank you very much.

Mark Schober: You bet.

Alan Hodnik: Thanks, Paul.

Operator: Our next question comes from Brian Russo from Ladenburg Thalmann.

Brian Russo: Good morning.

Alan Hodnik: Good morning, Brian.

Brian Russo: Just to follow-up on the property sale, can you be a little bit more specific? Which property? How many acres, et cetera?

Alan Hodnik: It is not acres, so it is a smaller sale in the town center area, Brian. So we'll get out the details to you as we close the quarter. It is not a huge sale, but again it is an indicator of things that are starting to improve there.

Brian Russo: Could you quantify the price?

Alan Hodnik: Not today, no, I can't.

Brian Russo: Okay. Is it in your third quarter Q, or will it have to wait for the fourth quarter?

Alan Hodnik: It will be in the fourth quarter Q.



Brian Russo: Okay. Just on the guidance and guiding towards the lower half of the previous range, there seems to be several moving parts, some of which are just timing, and others which might be ongoing. I was wondering if we could just go through them like on weather, property taxes, the Essar timing, and then the shift in the CapEx?

Alan Hodnik: Sure.

Brian Russo: On a per-share basis.

Alan Hodnik: Yes, as I looked at where we are going toward the end of the year, several things going on. As I mentioned, none of them individually is a large item, but they are all coming together and going against us.

Capital spending, as I mentioned, the bulk of our capital spending for the year here is going to happen in the fourth quarter. That is primarily driven by what's going on at Bison 4 and Boswell 4 at significant CapEx will slide into Q4 here. That is in the range probably impacting us \$0.03 to \$0.04.

Property taxes have gone up, like in many other jurisdictions, gone up for a couple of reasons, one, we fully expected increases of property taxes as our base, our capital base has grown, but mill rates have gone up, too. That is costing us several cents.

Weather on a year-to-date basis, Brian, is not significant. But as you look on a quarter-to-quarter basis, we were a little bit ahead of the game when we came out of Q2 and we lost ground here in Q3 as weather was milder than we expected. But on a full-year basis it is not going to be a significant driver.

And then the last one that's going against us is the Essar delay, and that is a few cents a share too. All of them are just a couple of cents each, Brian. But as you add them up, they are having an impact on our guidance.

Brian Russo: Okay.

Alan Hodnik: And we traditionally narrow our guidance at this time of year, so that is what we are doing here. We are still within our guidance range that we originally issued, but certainly moving toward the lower half of that.

Brian Russo: Okay. And I know pension expense was a headwind in 2012 and again in 2013. I was just wondering what your thoughts were, when you look to 2014, looks like you could be you know a tailwind for you.

Alan Hodnik: That will be -- where you are going obviously that is going to be driven by where discount rates sit at the end of the year. Rates are up, over where they were in 2012 and 2013. So you are right, we do expect that to be a tailwind in 2014. But we'll have more information for you for that as we issue guidance here in mid-December.

Brian Russo: Can you remind us what the headwind was in terms of EPS in 2013 over 2012?

Alan Hodnik: In EPS it's probably \$0.05 or so.

Brian Russo: Okay, great. And just to clarify, your goal is to grow at least 5% on average each year, right? Not 5%, but at least 5%.

Alan Hodnik: That's correct. At least 5%.

Brian Russo: Okay. And then just lastly on the Essar ramp up, it seems like you have got a lot more visibility now, in terms of the timing of the ramp up of the mine, and assuming it's at full production, I think you said by the end of 2015, is that right? Or the end of 2014?

Alan Hodnik: We expect it to be ramping up to the 7 million ton production level based on their public statements about it, Brian, sometime by the end of 2015. But we do expect them in the 4 million production range some time next year.

Brian Russo: Right. So just from a modeling perspective, if say at 7 million tons there at 110 megawatts, do we assume 4 million is four-sevenths of 110 megawatts? Is that the way to kind of model it out from a demand charge perspective?

Alan Hodnik: When we look at Essar, when we look at the 70 megawatts to 110 megawatts, that 70 megawatts is pretty much what they'll need to run at the 4 million ton rate, and as they as they ramp up to full production, that will put them closer to the 110 megawatts.

Brian Russo: Okay. And then lastly, just on the Clean Energy subsidiary, there have been no announcements to date, yet there is an awful lot of activity up there in the Bakken. Maybe you can just talk about your strategic footprint and your ability to leverage that in getting involved in some of this infrastructure investments.

Alan Hodnik: As you know Brian, we're very bullish on North Dakota. It's a very energy-rich state and policy-friendly state. Our positioning there, of course, initially is BNI Coal, which we have operated there since 1988. You know, we've will, by the end of next year, a down stroke of nearly a \$1 billion in wind out in North Dakota, so we have a very strong business relationship with the state of North Dakota.

Of course we have talked extensively in the last six weeks about a dialogue we are having with the state of North Dakota, regarding our DC line corridor. We call it the energy corridor. It effectively is a straight lined corridor possibility, if you will, from the southern part of the Bakken all the way to the Lake Superior basin here in Duluth.

We have spent a fair amount of time with governor Dalrymple and other leadership in the state of North Dakota on the energy front, talking about those prospects. North Dakota, of course, is trying to do more with their fur gas issues, wasted gas issues, and so on and so forth. We are looking at possible solutions with partners if you will on the, what I would call, midstream side of energy-centric. Which, again, we are focusing on energy infrastructure and energy infrastructure services.

So we are very excited about those prospects. It is kind of early at this point in time in terms of anything to announce on it. Certainly getting the governor's support in North Dakota was enormous, and in Power North Dakota, which is a government agency the state has created to, in a sense, work on these energy

issues in North Dakota for the beneficial use of not only North Dakota, but the nation is also supportive.

We are fairly excited about our positioning out there. More detail, more to come, but at this point in time we like our positioning.

Brian Russo: One last question if you don't mind, then I'll let others ask questions. But the property sale that is in the fourth quarter, is there going to be a write-off associated with it or no?

Alan Hodnik: No.

Brian Russo: Okay, great. Thank you very much.

Alan Hodnik: Thanks Brian.

Operator: Once again, that is star one to ask a question.

I'm not showing any further questions at this time. I would now like to turn the call back to Mr. Hodnik for any further remarks.

Alan Hodnik: Well, thank you again for joining us, and thank you for your interest, and investment, in ALLETE, and know that we look forward to seeing many of you at the upcoming EEI Financial Conference in Orlando, or at other stops that we make with you along the way. Thank you, and good morning.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone have a great day.

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