

ALLETE INC
Form 10-Q
November 01, 2013
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 September 30, 2013

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

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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,
40,736,213 shares outstanding
as of September 30, 2013

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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 – the cost of both 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
ArcelorMittal	ArcelorMittal USA, Inc.
ATC	American Transmission Company LLC
Bison Wind Energy Center	Bison 1, 2 & 3 Wind Facilities
Bison 4	Bison 4 Wind Project
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
CAIR	Clean Air Interstate Rule
CO ₂	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
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
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
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.

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Definitions (Continued)

Abbreviation or Acronym	Term
MISO	Midcontinent Independent System Operator, Inc.
MPCA	Minnesota Pollution Control Agency
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 ₂	Nitrogen Dioxide
NO _x	Nitrogen Oxides
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
PolyMet	PolyMet Mining Corporation
PPA	Power Purchase Agreement
PPACA	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 ₂	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor 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

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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 can be 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 those 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, that impact our allowed rates of return, capital structure, ability to secure financing, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power, capital investments and other expenses, including present or prospective wholesale and retail competition and environmental matters;
- our ability to manage expansion and integrate acquisitions;
- our current and potential industrial and municipal customers’ ability to execute announced expansion plans;
- the impacts on our Regulated Operations of climate change and future regulation to restrict the emissions of GHG;
- 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;
- zoning and permitting of land held for resale, real estate development or changes in the real estate market;
- pricing, availability and transportation of fuel and other commodities and the ability to recover the costs of such 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 or performance to differ from those anticipated by this report are discussed in Item 1A under the heading “Risk Factors” beginning on page 27 of our 2012 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 we assess the impact of each of these factors on our businesses 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 identify the risks and uncertainties that may affect our business.

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

	September 30, 2013	December 31, 2012			
Assets					
Current Assets					
Cash and Cash Equivalents	\$164.5	\$80.8			
Accounts Receivable (Less Allowance of \$1.1 and \$1.0)	79.9	89.0			
Inventories	64.7				
			Significant Unobservable Inputs (Level 3)		
Common Stock of Michael Baker Corporation	\$ 18,779,035	\$ 18,779,035		\$	\$
Mutual Funds:					
Domestic Stock Funds	20,757,188	20,757,188			
Fixed Income Funds	29,682,466	29,682,466			
<i>Total Mutual Funds</i>	50,439,654	50,439,654			
Common Collective Trust	4,762,168			4,762,168	
<i>Total Investments</i>	\$ 73,980,857	\$ 69,218,689		\$ 4,762,168	\$
Percent to total		100%		94%	6%

	Fair Value Measurements as of December 31, 2010			
	Total	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common Stock of Michael Baker Corporation	\$ 29,219,135	\$ 29,219,135	\$	\$
Money Market Funds	12,066,801	12,066,801		
Mutual Funds:				
Domestic Stock Funds	103,581,877	103,581,877		
Balanced Funds	15,735,892	15,735,892		
International Stock Funds	31,827,704	31,827,704		
Fixed Income Funds	24,191,715	24,191,715		
Target Date Retirement Funds	37,106,333	37,106,333		
<i>Total Mutual Funds</i>	212,443,521	212,443,521		
Common Collective Trust	1,829,063		1,829,063	
<i>Total Investments</i>	\$ 255,558,520	\$ 253,729,457	\$ 1,829,063	\$
Percent to total	100%	99%	1%	

Effective January 1, 2012 recordkeeping responsibilities for the Plan were transferred from Fidelity to T. Rowe Price; as a result, the majority of the funds held in the Plan were liquidated by Fidelity at the market close as of December 30, 2011. As a result of the liquidation and in preparation for the transfer of assets, the Plan assets held as of December 31, 2011 consisted primarily of cash.

7. Related Party Transactions

Certain investments of the Plan are in mutual funds managed by Fidelity. These transactions qualify as party-in-interest transactions.

One of the investment fund options available to employees contains the Company's stock. As a result, transactions related to this investment fund qualify as party-in-interest transactions.

8. Reconciliation of Financial Statements to Schedule H Form 5500

The financial statements have been prepared using the accrual method of accounting while the Plan's Form 5500 has been prepared on the modified cash-basis method of accounting. The following table reconciles the 2011 and 2010 financial statements to the Form 5500:

Reconciliation of Financial Statements to Schedule H Form 5500

	2011	2010
Net Assets:		
Total net assets per Form 5500, Schedule H	\$ 264,242,206	\$ 257,819,729
Plus: Contributions receivable	751,379	
(Less): Adjustment from fair value to contract value for fully benefit-responsible investment contracts	(117,453)	(14,872)
Total net assets per financial statements	\$ 264,876,132	\$ 257,804,857

	2011
Contributions:	
Total contributions per Form 5500, Schedule H	\$ 24,350,923
Plus: Contribution receivable	751,379
Total contributions per financial statements	\$ 25,102,302

BAKER 401(k) PLAN

Michael Baker Corporation

EIN# 25-0927646 Plan # 002

Schedule H, Part IV, Line 4(i)

Schedule of Assets (Held at the End of Year)

Identity of Issuer	Description of Investment	Cost of Asset***	Current Value
Fidelity Investments*	Cash Balance		\$ 187,466,930
PIMCO Funds Distributors LLC	PIMCO Total Return Fund		
	Institutional Class		\$ 26,008,257
Michael Baker Corporation*	Michael Baker Corporation Common Stock**	\$ 17,236,285	\$ 18,779,035
T. Rowe Price	T. Rowe Price Equity Income Fund		\$ 10,510,905
Loomis Sayles	Loomis Sayles Small Cap Value Fund		
	Institutional Class		\$ 10,246,283
Fidelity Investments*	Fidelity Managed Income Portfolio****		\$ 4,644,715
The Vanguard Group	Vanguard Total Bond Market Index Fund		
	Signal Shares		\$ 3,381,660
T. Rowe Price	T. Rowe Price High Yield Fund		\$ 292,549
Various Participants*	Participant Loans have interest rates		
	that range from 4.25%-10.50% with maturities extending to 2025.		\$ 2,794,419
			\$ 264,124,753

* Party-in-interest

** Includes non-participant directed investments

*** Disclosure of cost not required for participant directed investments

**** Stated at contract value

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Executive Vice President and Chief Financial Officer of Michael Baker Corporation, the Plan sponsor, has duly caused this annual report to be signed by the undersigned thereunto duly authorized.

MICHAEL BAKER CORPORATION

BAKER 401(K) PLAN

Date: June 1, 2012

By: /s/ Michael J. Zugay
Michael J. Zugay
Executive Vice President, Chief Financial Officer and Chief
Administrative Officer of Michael Baker Corporation, the Plan
Sponsor

Exhibits Index

The following exhibit is included herewith as a part of this Report:

Exhibit No.	Description
23.1	Consent of independent registered public accounting firm.