ALLETE INC
Form 10-Q
November 01, 2013
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x 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. x 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). x 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 x	Accelerated Filer ¨
Non-Accelerated Filer ¨	Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x 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.

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

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 m 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
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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.

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	69.8
Prepayments and Other	29.2	33.6
Deferred Income Taxes	30.7	—
Total Current Assets	369.0	273.2
Property, Plant and Equipment - Net	2,456.1	2,347.6
Regulatory Assets	340.3	340.3
Investment in ATC	112.7	107.3
Other Investments	142.9	143.5
Other Non-Current Assets	42.9	41.5
Total Assets	$3,463.9	$3,253.4
Liabilities and Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$84.3	$90.5
Accrued Taxes	26.1	30.2
Accrued Interest	14.9	15.6
Long-Term Debt Due Within One Year	37.7	84.5
Notes Payable	1.2	—
Other	59.3	62.6
Total Current Liabilities	223.5	283.4
Long-Term Debt	1,064.2	933.6
Deferred Income Taxes	474.9	423.8
Regulatory Liabilities	68.7	60.1
Defined Benefit Pension and Other Postretirement Benefit Plans	216.0	228.2
Other Non-Current Liabilities	129.1	123.3
Total Liabilities	2,176.4	2,052.4
Commitments, Guarantees and Contingencies (Note 14)		
Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 40.7 and 39.4 Shares Outstanding	849.8	784.7
Unearned ESOP Shares	(15.1)	(21.3)
Accumulated Other Comprehensive Loss	(21.3)	(22.0)
Retained Earnings	474.1	459.6
Total Equity	1,287.5	1,201.0
Total Liabilities and Equity	$3,463.9	$3,253.4

The accompanying notes are an integral part of these statements.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating Revenue	$251.0	$248.8	$750.4	$705.2
Operating Expenses				
Fuel and Purchased Power	80.5	79.5	245.7	228.7
Operating and Maintenance	102.7	98.7	311.2	294.8
Depreciation	29.4	25.0	86.3	74.4
Total Operating Expenses	212.6	203.2	643.2	597.9
Operating Income	38.4	45.6	107.2	107.3
Other Income (Expense)				
Interest Expense	(12.7)	(12.3)	(37.8)	(33.4)
Equity Earnings in ATC	4.9	4.9	15.1	14.3
Other	3.3	1.5	7.5	3.4
Total Other Expense	(4.5)	(5.9)	(15.2)	(15.7)
Income Before Income Taxes	33.9	39.7	92.0	91.6
Income Tax Expense	8.7	10.3	20.3	23.4
Net Income	$25.2	$29.4	$71.7	$68.2
Average Shares of Common Stock				
Basic	39.8	37.7	39.4	37.3
Diluted	39.9	37.8	39.5	37.3
Basic Earnings Per Share of Common Stock	$0.63	$0.78	$1.82	$1.83
Diluted Earnings Per Share of Common Stock	$0.63	$0.78	$1.81	$1.83
Dividends Per Share of Common Stock	$0.475	$0.46	$1.425	$1.38

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Millions – Unaudited

	Quarter Ended September 30,		Nine Months Ended September 30,	
Comprehensive Income (Loss)	2013	2012	2013	2012
Millions				
Net Income	$25.2	$29.4	$71.7	$68.2
Other Comprehensive Income (Loss)				
Unrealized Gain (Loss) on Securities				
Net of Income Taxes of $(0.3), $0.5, $(0.2) and $0.7	(0.5)	0.5	(0.4)	1.0
Unrealized Gain (Loss) on Derivatives				
Net of Income Taxes of $(0.1), $(0.1), $– and $(0.2)	(0.1)	—	—	(0.2)
Defined Benefit Pension and Other Postretirement Benefit Plans				
Net of Income Taxes of $0.3, $0.2, $0.8 and $0.9	0.3	0.4	1.1	1.4
Total Other Comprehensive Income (Loss)	(0.3)	0.9	0.7	2.2
Comprehensive Income	$24.9	$30.3	$72.4	$70.4

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions – Unaudited

	Nine Months Ended September 30,	
	2013	2012
Operating Activities		
Net Income	$71.7	$68.2
Allowance for Funds Used During Construction – Equity	(3.4)	(3.4)
Income from Equity Investments, Net of Dividends	(3.1)	(2.7)
Gain on Sale of Assets	(0.2)	—
Gain on Sale of Investments	(2.2)	—
Depreciation Expense	86.3	74.4
Amortization of Debt Issuance Costs	0.8	0.7
Deferred Income Tax Expense	20.4	23.4
Share-Based Compensation Expense	1.8	1.7
ESOP Compensation Expense	6.0	5.5
Defined Benefit Pension and Postretirement Benefit Expense	16.8	20.6
Bad Debt Expense	0.9	0.9
Changes in Operating Assets and Liabilities		
Accounts Receivable	8.2	5.6
Inventories	5.1	(7.6)
Prepayments and Other	4.4	3.3
Accounts Payable	3.9	(1.3)
Other Current Liabilities	(8.8)	7.4
Cash Contributions to Defined Benefit Pension and Other Postretirement Benefit Plans	(10.8)	—
Changes in Regulatory and Other Non-Current Assets	(13.5)	(5.0)
Changes in Regulatory and Other Non-Current Liabilities	4.6	3.8
Cash from Operating Activities	188.9	195.5
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	15.0	1.2
Payments for Purchase of Available-for-sale Securities	(2.8)	(1.5)
Investment in ATC	(2.3)	(3.9)
Changes to Other Investments	(10.5)	(5.5)
Additions to Property, Plant and Equipment	(195.3)	(331.9)
Proceeds from Sale of Assets	0.9	—
Cash for Investing Activities	(195.0)	(341.6)
Financing Activities		
Proceeds from Issuance of Common Stock	63.3	52.1
Proceeds from Issuance of Long-Term Debt	150.0	175.6
Changes in Notes Payable	1.2	(0.8)
Payments for Long-Term Debt	(66.2)	(24.1)
Debt Issuance Costs	(1.3)	(1.3)
Dividends on Common Stock	(57.2)	(52.2)
Cash from Financing Activities	89.8	149.3
Change in Cash and Cash Equivalents	83.7	3.2
Cash and Cash Equivalents at Beginning of Period	80.8	101.1
Cash and Cash Equivalents at End of Period	$164.5	$104.3

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all of the information and notes required by GAAP for complete financial statements. Similarly, the December 31, 2012, Consolidated Balance Sheet was derived from audited financial statements but does not include all disclosures required by GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Operating results for the period ended September 30, 2013, are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2013. For further information, refer to the consolidated financial statements and notes included in our 2012 Form 10-K.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Inventories. Inventories are stated at the lower of cost or market. Amounts removed from inventory are recorded on an average cost basis.

Inventories	September 30, 2013	December 31, 2012
Millions		
Fuel	$18.3	$28.0
Materials and Supplies	46.4	41.8
Total Inventories	$64.7	$69.8

Prepayments and Other Current Assets	September 30, 2013	December 31, 2012
Millions		
Deferred Fuel Adjustment Clause	$22.8	$22.5
Other	6.4	11.1
Total Prepayments and Other Current Assets	$29.2	$33.6

Other Current Liabilities	September 30, 2013	December 31, 2012
Millions		
Customer Deposits	$27.5	$28.8
Other	31.8	33.8
Total Other Current Liabilities	$59.3	$62.6

Other Non-Current Liabilities	September 30, 2013	December 31, 2012
Millions		
Asset Retirement Obligation	$82.6	$77.9
Other	46.5	45.4
Total Other Non-Current Liabilities	$129.1	$123.3

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Supplemental Statement of Cash Flows Information.

For the Nine Months Ended September 30,	2013	2012
Millions		
Cash Paid During the Period for Interest – Net of Amounts Capitalized	$36.0	$32.3
Cash Paid During the Period for Income Taxes	$0.6	$0.2
Noncash Investing and Financing Activities		
Decrease in Accounts Payable for Capital Additions to Property, Plant and Equipment	$(10.0)	$(13.1)
Capitalized Asset Retirement Costs	$1.9	$2.4
AFUDC – Equity	$3.4	$3.4

Subsequent Events. The Company performed an evaluation of subsequent events for potential recognition and disclosure through the time of the financial statements issuance.

New Accounting Standards.

Amounts Reclassified Out of Accumulated Other Comprehensive Income. In February 2013, the FASB issued an accounting standard update on disclosure of amounts reclassified out of accumulated other comprehensive income. This update requires entities to provide information about amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under GAAP that provide additional detail on these amounts. This guidance, which was adopted beginning with the quarter ended March 31, 2013, and required additional disclosures, did not have an impact on our consolidated financial position, results of operations, or cash flows. (See Note 11. Reclassifications Out of Accumulated Other Comprehensive Income (Loss).)

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. In July 2013, the FASB issued an accounting standard update on the financial statement presentation of unrecognized tax benefits when an NOL carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance will be effective beginning with the quarter ending March 31, 2014 (early adoption is permitted), and is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

NOTE 2. BUSINESS SEGMENTS

Regulated Operations includes our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC, a Wisconsin-based regulated utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. Investments and Other is comprised primarily of BNI Coal, our coal mining operations in North Dakota, ALLETE Properties, our Florida real estate investment, and ALLETE Clean Energy, our business aimed at developing or acquiring capital projects that create energy solutions via wind, solar, biomass, midstream gas and oil infrastructure, among other energy-related projects. This segment also includes other business development and corporate expenditures, a small amount of non-rate base generation, approximately 6,000 acres of land in Minnesota, and earnings on cash and investments.

Millions	Consolidated	Regulated Operations	Investments and Other
For the Quarter Ended September 30, 2013			
Operating Revenue	$251.0	$226.4	$24.6
Fuel and Purchased Power Expense	80.5	80.5	—
Operating and Maintenance Expense	102.7	78.6	24.1
Depreciation Expense	29.4	27.9	1.5
Operating Income (Loss)	38.4	39.4	(1.0)
Interest Expense	(12.7)	(10.4)	(2.3)
Equity Earnings in ATC	4.9	4.9	—
Other Income	3.3	1.2	2.1
Income (Loss) Before Income Taxes	33.9	35.1	(1.2)
Income Tax Expense (Benefit)	8.7	10.5	(1.8)
Net Income	$25.2	$24.6	$0.6

Millions	Consolidated	Regulated Operations	Investments and Other
For the Quarter Ended September 30, 2012			
Operating Revenue	$248.8	$226.4	$22.4
Fuel and Purchased Power Expense	79.5	79.5	—
Operating and Maintenance Expense	98.7	76.4	22.3
Depreciation Expense	25.0	23.5	1.5
Operating Income (Loss)	45.6	47.0	(1.4)
Interest Expense	(12.3)	(10.2)	(2.1)
Equity Earnings in ATC	4.9	4.9	—
Other Income	1.5	1.5	—
Income (Loss) Before Income Taxes	39.7	43.2	(3.5)
Income Tax Expense (Benefit)	10.3	13.9	(3.6)
Net Income	$29.4	$29.3	$0.1

NOTE 2. BUSINESS SEGMENTS (Continued)

Millions	Consolidated	Regulated Operations	Investments and Other
For the Nine Months Ended September 30, 2013			
Operating Revenue	$750.4	$683.6	$66.8
Fuel and Purchased Power Expense	245.7	245.7	—
Operating and Maintenance Expense	311.2	243.6	67.6
Depreciation Expense	86.3	81.8	4.5
Operating Income (Loss)	107.2	112.5	(5.3)
Interest Expense	(37.8)	(31.5)	(6.3)
Equity Earnings in ATC	15.1	15.1	—
Other Income	7.5	3.4	4.1
Income (Loss) Before Income Taxes	92.0	99.5	(7.5)
Income Tax Expense (Benefit)	20.3	26.5	(6.2)
Net Income (Loss)	$71.7	$73.0	$(1.3)
As of September 30, 2013			
Total Assets	$3,463.9	$3,086.3	$377.6
Property, Plant and Equipment – Net	$2,456.1	$2,384.1	$72.0
Accumulated Depreciation	$1,225.3	$1,165.8	$59.5
Capital Additions	$186.4	$177.6	$8.8

Millions	Consolidated	Regulated Operations	Investments and Other
For the Nine Months Ended September 30, 2012			
Operating Revenue	$705.2	$642.0	$63.2
Fuel and Purchased Power Expense	228.7	228.7	—
Operating and Maintenance Expense	294.8	230.6	64.2
Depreciation Expense	74.4	70.1	4.3
Operating Income (Loss)	107.3	112.6	(5.3)
Interest Expense	(33.4)	(29.7)	(3.7)
Equity Earnings in ATC	14.3	14.3	—
Other Income (Expense)	3.4	3.5	(0.1)
Income (Loss) Before Income Taxes	91.6	100.7	(9.1)
Income Tax Expense (Benefit)	23.4	32.6	(9.2)
Net Income	$68.2	$68.1	$0.1
As of September 30, 2012			
Total Assets	$3,138.1	$2,830.9	$307.2
Property, Plant and Equipment – Net	$2,239.9	$2,180.8	$59.1
Accumulated Depreciation	$1,146.7	$1,091.5	$55.2
Capital Additions	$318.3	$312.6	$5.7

NOTE 3. INVESTMENTS

Investments. Our long-term investment portfolio includes the real estate assets of ALLETE Properties, debt and equity securities consisting primarily of securities held in other postretirement plans to fund employee benefits, the cash equivalents within these plans, and other assets consisting primarily of land in Minnesota.

Other Investments	September 30, 2013	December 31, 2012
Millions		
ALLETE Properties	$91.2	$91.1
Available-for-sale Securities (a)	16.1	26.8
Cash Equivalents	31.2	20.7
Other	4.4	4.9
Total Other Investments	$142.9	$143.5

(a) As of September 30, 2013, the aggregate amount of available-for-sale corporate debt securities maturing in one year or less was $0.8 million, in one year to less than three years was $4.8 million, in three years to less than five years was $2.0 million, and in five or more years was $1.3 million.

ALLETE Properties	September 30, 2013	December 31, 2012
Millions		
Land Inventory Beginning Balance	$86.5	$86.0
Cost of Sales	—	(0.2)
Other	0.2	0.7
Land Inventory Ending Balance	86.7	86.5
Long-Term Finance Receivables (net of allowances of $0.6 and $0.6)	1.4	1.4
Other	3.1	3.2
Total Real Estate Assets	$91.2	$91.1

Land Inventory. Land inventory is accounted for as held for use and is recorded at cost, unless the carrying value is determined not to be recoverable in accordance with the accounting standards for property, plant and equipment, in which case the land inventory is written down to fair value. Land values are reviewed for impairment on a quarterly basis and no impairments were recorded for the nine months ended September 30, 2013 (none for the year ended December 31, 2012).

Long-Term Finance Receivables. As of September 30, 2013, long-term finance receivables were $1.4 million net of allowance ($1.4 million net of allowance as of December 31, 2012). Long-term finance receivables are collateralized by property sold, accrue interest at market-based rates and are net of an allowance for doubtful accounts. As of September 30, 2013, we had an allowance for doubtful accounts of $0.6 million ($0.6 million as of December 31, 2012).

NOTE 4. DERIVATIVES

We have two variable-to-fixed interest rate swaps (Swaps), designated as cash flow hedges, in order to manage the interest rate risk associated with a $75.0 million Term Loan which represents approximately 7 percent of the Company's outstanding long-term debt as of September 30, 2013. (See Note 8. Short-Term and Long-Term Debt.) The Swaps have effective dates of August 25, 2011, and August 26, 2014, and mature on August 25, 2014 and 2015, respectively. The Swaps involve the receipt of the one-month LIBOR in exchange for fixed interest payments over the life of the agreements at 0.825 percent and 0.75 percent without an exchange of the underlying notional amount. Cash flows from the Swaps are expected to be highly effective. If it is determined the Swaps cease to be effective, we will prospectively discontinue hedge accounting. When applicable, we use the shortcut method to assess hedge effectiveness. If the shortcut method is not applicable, we assess effectiveness using the "change-in-variable-cash-flows" method. Our assessments of hedge effectiveness resulted in no ineffectiveness recorded for the quarter and nine months ended September 30, 2013. As of September 30, 2013, the fair value of the Swaps was a $0.6 million liability ($0.7 million liability as of December 31, 2012) of which $0.2 million ($0.7 million as of December 31, 2012) was included in other non-current liabilities and $0.4 million (zero as of December 31, 2012) was included in other current liabilities on the Consolidated Balance Sheet. Changes in the fair value of the Swaps were recorded in accumulated other comprehensive income on the Consolidated Balance Sheet. Cash flows from the Swaps are presented in the same category as the hedged item on the Consolidated Statement of Cash Flows. Amounts recorded in other comprehensive income related to the Swaps will be recorded in earnings when the hedged transactions occur or when it is probable they will not occur. Gains or losses on the interest rate hedging transactions are reflected as a component of interest expense on the Consolidated Statement of Income.

NOTE 5. FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs, which are used to measure fair value, are prioritized through the fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Descriptions of the three levels of the fair value hierarchy are discussed in Note 9. Fair Value to the consolidated financial statements in our 2012 Form 10-K.

The following tables set forth by level within the fair value hierarchy our assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2013, and December 31, 2012. Each asset and liability is classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of these assets and liabilities and their placement within the fair value hierarchy levels. The estimated fair value of cash and cash equivalents listed on the Consolidated Balance Sheet approximates the carrying amount and therefore is excluded from the recurring fair value measures in the tables below.

	Fair Value as of September 30, 2013			
Recurring Fair Value Measures	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Investments				
Available-for-sale – Equity Securities	$7.2	—	—	$7.2

Available-for-sale – Corporate Debt Securities	—	$8.9	—	8.9
Cash Equivalents	31.2	—	—	31.2
Total Fair Value of Assets	$38.4	$8.9	—	$47.3
Liabilities:				
Deferred Compensation	—	$15.8	—	$15.8
Derivatives – Interest Rate Swap	—	0.6	—	0.6
Total Fair Value of Liabilities	—	$16.4	—	$16.4
Total Net Fair Value of Assets (Liabilities)	$38.4	$(7.5)	—	$30.9

NOTE 5. FAIR VALUE (Continued)

Recurring Fair Value Measures	Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Investments				
Available-for-sale – Equity Securities	$18.0	—	—	$18.0
Available-for-sale – Corporate Debt Securities	—	$8.8	—	8.8
Cash Equivalents	20.7	—	—	20.7
Total Fair Value of Assets	$38.7	$8.8	—	$47.5
Liabilities:				
Deferred Compensation	—	$14.0	—	$14.0
Derivatives – Interest Rate Swap	—	0.7	—	0.7
Total Fair Value of Liabilities	—	$14.7	—	$14.7
Total Net Fair Value of Assets (Liabilities)	$38.7	$(5.9)	—	$32.8

There was no activity in Level 3 during the nine months ended September 30, 2013 and 2012.

The Company's policy is to recognize transfers in and transfers out of a given level as of the actual date of the event or of the change in circumstances that caused the transfer. For the nine months ended September 30, 2013 and 2012, there were no transfers in or out of Levels 1, 2 or 3.

Fair Value of Financial Instruments. With the exception of the item listed in the table below, the estimated fair value of all financial instruments approximates the carrying amount. The fair value for the item listed below was based on quoted market prices for the same or similar instruments (Level 2).

Financial Instruments	Carrying Amount	Fair Value
Millions		
Long-Term Debt, Including Current Portion		
September 30, 2013	$1,101.9	$1,153.6
December 31, 2012	$1,018.1	$1,143.7

NOTE 6. REGULATORY MATTERS

Electric Rates. Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, the FERC or the PSCW.

2010 Minnesota Rate Case. Minnesota Power's current retail rates are based on a 2011 MPUC retail rate order, effective June 1, 2011, that allows for a 10.38 percent return on common equity and a 54.29 percent equity ratio.

In February 2011, Minnesota Power appealed the MPUC's interim rate decision in the Company's 2010 rate case to the Minnesota Court of Appeals. The Company appealed the MPUC's finding of exigent circumstances in the interim rate decision with the primary arguments being that the MPUC exceeded its statutory authority, made its decision without the support of a body of record evidence and that the decision violated public policy. The Company desired to resolve whether the MPUC's finding of exigent circumstances was lawful for application in future rate cases. In December 2011, the Minnesota Court of Appeals concluded that the MPUC did not err in finding exigent circumstances and properly exercised its discretion in setting interim rates. In January 2012, the Company filed a petition for review at the Minnesota Supreme Court (Court). On September 18, 2013, the Court issued its opinion affirming the MPUC's interim rate decision. The decision has no impact on the Company's consolidated financial position, results of operations, or cash flows.

NOTE 6. REGULATORY MATTERS (Continued)

FERC-Approved Wholesale Rates. Minnesota Power's non-affiliated municipal customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. SWL&P, a wholly-owned subsidiary of ALLETE, is also a private utility in Wisconsin and a customer of Minnesota Power. Minnesota Power's formula-based contract with the City of Nashwauk is effective April 1, 2013, through June 30, 2024, and the restated formula-based contracts with the remaining 15 Minnesota municipal customers and SWL&P are effective through June 30, 2019. The rates included in these contracts are set each July 1 based on a cost-based formula methodology, using estimated costs and a rate of return that is equal to our authorized rate of return for Minnesota retail customers (currently 10.38 percent). The cost-based formula methodology also provides for a yearly true-up calculation for actual costs incurred. The contract terms include a termination clause requiring a three-year notice to terminate. Under the City of Nashwauk contract, no termination notice may be given prior to July 1, 2021. Under the restated contracts, no termination notices may be given prior to June 30, 2016. A two-year cancellation notice is required for the one private non-affiliated utility in Wisconsin, and on December 31, 2011, this wholesale customer submitted a cancellation notice with termination effective on December 31, 2013. The 17 MW of average monthly demand currently provided to this wholesale customer is expected to be used, upon termination, to supply power for prospective additional retail and municipal load.

2012 Wisconsin Rate Case. SWL&P's 2013 retail rates are based on a 2012 PSCW retail rate order, effective January 1, 2013, that allows for a 10.9 percent return on common equity. The new rates reflect an average overall increase of 2.4 percent for retail customers (a 13.8 percent increase in water rates, a 1.2 percent increase in electric rates, and a 0.2 percent decrease in natural gas rates). On an annualized basis, the rate increase will generate approximately $1.7 million in additional revenue.

Transmission Cost Recovery Rider. Minnesota Power has an approved cost recovery rider in place for certain transmission investments and expenditures. The continued use of the 2009 billing factor was approved by the MPUC in May 2011, which allows Minnesota Power to charge retail customers on a current basis for the costs of constructing certain transmission facilities plus a return on the capital invested. In June 2011, Minnesota Power filed an updated billing factor which was approved by the MPUC at a hearing on September 19, 2013.

Renewable Cost Recovery Rider. The Bison Wind Energy Center in North Dakota currently consists of 292 MW of nameplate capacity and was completed in various phases through 2012. Customer billing rates for our Bison Wind Energy Center were approved by the MPUC and are based on investments and expenditures through March 2012. Minnesota Power filed a cost recovery petition with the MPUC on May 31, 2013, to update customer billing rates for subsequent investments and expenditures since March 2012, which is expected to be approved in the fourth quarter of 2013. On September 25, 2013, the NDPSC approved the site permit for construction of Bison 4, a 205 MW wind project in North Dakota. As a result, construction has commenced and is expected to be completed by the end of 2014. The total project investment for Bison 4 is estimated to be approximately $345 million, of which $7.7 million was spent through September 30, 2013. On September 27, 2013, Minnesota Power filed its petition with the MPUC seeking current cost recovery for investments and expenditures related to Bison 4.

Rapids Energy Center. In December 2012, Minnesota Power filed with the MPUC for approval to transfer the assets of Rapids Energy Center from non-rate base generation to Minnesota Power's Regulated Operations. Rapids Energy Center is a generation facility that is located at the UPM, Blandin Paper Mill (Blandin). Minnesota Power and Blandin entered into a new electric service agreement in September 2012, which was also subject to MPUC approval. On October 9, 2013, the MPUC issued an order denying, without prejudice, the transfer of assets from non-rate base generation to Minnesota Power's Regulated Operations. In addition, on September 26, 2013, we filed a request to withdraw the electric service agreement, subject to MPUC acceptance. These decisions had no impact on the Company's consolidated financial position, results of operations, or cash flows.

ALLETE Clean Energy. In August 2011, the Company filed with the MPUC for approval of certain affiliated interest agreements between ALLETE and ALLETE Clean Energy. These agreements relate to various relationships with ALLETE, including the accounting for certain shared services, as well as the transfer of transmission and wind development rights in North Dakota to ALLETE Clean Energy. These transmission and wind development rights are separate and distinct from those needed by Minnesota Power to meet Minnesota's renewable energy standard requirements. In July 2012, the MPUC issued an order approving certain administrative items related to accounting for shared services and the transfer of meteorological towers, while deferring decisions related to transmission and wind development rights pending the MPUC's further review of Minnesota Power's future retail electric service needs.

Integrated Resource Plan. At a hearing on September 25, 2013, the MPUC approved Minnesota Power's 2013 Integrated Resource Plan which details our "EnergyForward" strategic plan and includes an analysis of a variety of existing and future energy resource alternatives and a projection of customer cost impact by class.

NOTE 6. REGULATORY MATTERS (Continued)

Boswell Mercury Emissions Reduction Plan. Minnesota Power is required to implement a mercury emissions reduction project for Boswell Unit 4 under the Minnesota Mercury Emissions Reduction Act and the Federal MATS rule. In August 2012, Minnesota Power filed its mercury emissions reduction plan for Boswell Unit 4 with the MPUC and the MPCA. The plan proposes that Minnesota Power install pollution controls by early 2016 to address both the Minnesota mercury emissions reduction requirements and the Federal MATS rule. Costs to implement the Boswell Unit 4 mercury emissions reduction plan are included in the estimated capital expenditures required for compliance with the MATS rule and are estimated to be approximately $350 million. At a hearing on September 25, 2013, the MPUC approved the Boswell Unit 4 mercury emissions reduction plan and cost recovery, establishing an environmental improvement rider. In the fourth quarter of 2013, we will file a petition with the MPUC to establish customer billing rates for the approved environmental improvement rider.

The Patient Protection and Affordable Care Act of 2010 (PPACA). In March 2010, the PPACA was signed into law. One of the provisions changed the tax treatment for retiree prescription drug expenses by eliminating the tax deduction for expenses that are reimbursed under Medicare Part D, beginning January 1, 2013. Based on this provision, we are subject to additional taxes in the future and were required to reverse previously recorded tax benefits which resulted in a non-recurring charge to net income of $4.0 million in 2010. In October 2010, we submitted a filing with the MPUC requesting deferral of the retail portion of the tax charge taken in 2010 resulting from the PPACA. In May 2011, the MPUC approved our request for deferral until the next rate case and as a result we recorded an income tax benefit of $2.9 million and a related regulatory asset of $5.0 million in the second quarter of 2011.

Regulatory Assets and Liabilities. Our regulated utility operations are subject to the accounting guidance for Regulated Operations. We capitalize incurred costs which are probable of recovery in future utility rates as regulatory assets. Regulatory liabilities represent amounts expected to be refunded or credited to customers in rates. No regulatory assets or liabilities are currently earning a return.

Regulatory Assets and Liabilities	September 30, 2013	December 31, 2012
Millions		
Current Regulatory Assets (a)		
Deferred Fuel	$22.8	