

ALLETE

**Moderator: Al Hodnik
November 3, 2014
10:00 a.m. ET**

Operator: Good day and welcome to the ALLETE third-quarter 2014 financial results conference call. Today's call is being recorded.

Certain statements contained in the conference call that are not descriptions of historical facts are forward-looking statements and the terms defined in the Private Securities Litigation Reform Act of 1995. Because such statements can include risk and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements.

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Listeners should not place undue reliance on forward-looking statements, which reflect the management's views only as of the date of hereof.

The Company undertakes no obligation to revise or update any forward-looking statements or to make any other forward-looking statements, whether as a result of new information, future events, or otherwise.

For opening remarks and introductions, I would now like to turn the call over to ALLETE President and Chief Executive Officer, Al Hodnik. Please go ahead.

Al Hodnik: Good morning, everyone. Our Chief Financial Officer, Steve DeVinck, and I are here this morning to go through our third-quarter financial results with you and also give you an outlook for the remainder of 2014.

As you probably read in our press release and 10-Q, we earned \$0.97 per share for the quarter on net income of \$41.6 million, a 65 percent increase over the third quarter of 2013. Cost recovery rider revenue from our continuing capital investments and the recording of the financial incentive from the state of Minnesota's Conservation Improvement Program, or CIP, were the two primary drivers of the earnings increase for the period.

Based on our earnings through the first three quarters of the year and our expectations for the fourth quarter, we project that our full-year earnings per share will be in the upper half of our stated guidance range of \$2.75 to \$2.95 per share.

As we have previously indicated, our guidance excludes \$0.03 per share of ALLETE Clean Energy transaction costs that were recorded in the first quarter and also a second-quarter nonrecurring charge of \$0.06 per share associated with a settlement agreement with the Environmental Protection Agency.

Steve, of course, will walk you through the financials in just a moment. Before he does, I would like to update you on some recent developments with the new large industrial projects in our region.

The first regards Magnetation, who is a current customer of Minnesota Power's and has operated two other facilities in our service territory for a couple of years now. Magnetation expects its newest and largest plant, which is now in the final stages of construction, to be operational during the first quarter of 2015.

Minnesota Power has constructed a new electric substation and transmission lines to serve this new plant, which will require up to 20 megawatts of load. I'm pleased to report that this new system was energized just last week.

Secondly, in October, Essar Steel Minnesota announced that it completed project financing for its new Taconite facility, which is under construction. Essar is a customer of the Nashwauk Public Utilities Commission, as you know.

The city of Nashwauk is a wholesale municipal customer of Minnesota Power through June of 2026. When it reaches full production of 7 million tons, the Essar plant will result in approximately 110 megawatts of new load on our system.

In its own public announcements and also while hosting officials from the state of Minnesota, including Governor Dayton, Essar said it will now aggressively ramp up procurement and construction activities at the site and anticipates commencing the production of taconite pellets during the second half of 2015.

Thirdly is PolyMet, which has plans to start a new copper, nickel, and precious metal mining operation in northeastern Minnesota. In October, the Minnesota Department of Natural Resources estimated the Supplemental Draft Environmental Impact Statement, or SDEIS, process for the PolyMet project to be completed in early spring of 2015.

Minnesota Power could begin to supply between 45 and 50 megawatts of load through a 10-year power supply contract that would begin upon startup of mining operations.

And certainly last, but not least, considerable progress on our Great Northern Transmission Line, which reached a key milestone in July, when the Minnesota Public Utilities Commission determined our route permit application to be complete.

Equally noteworthy during the period was an outcome at MISO, where MISO's Planning Advisory Committee recently voted to recommend approval of the project by its Board of Directors. Upon receipt of all applicable permits and approvals, construction of the Great Northern is anticipated to begin in 2016 and be completed in 2020.

We continue to be enthusiastic about the organic growth prospects within our region. Indeed, we are enthusiastic about growth prospects across the Upper Midwest and Canada. I will make some additional comments regarding our future outlook before we take your questions.

But at this time, I will turn the call over to Steve.

Steve DeVinck: Thanks, Al, and good morning, everyone. I would like to remind you that we have filed our 10-Q this morning and I encourage you to refer to it for more details on the quarter.

Led by strong revenue growth, ALLETE reported third-quarter earnings of \$0.97 per share on net income of \$41.6 million and operating revenue of \$288.9 million compared to \$0.63 per share on net income of \$25.2 million and operating revenue of \$250 million in 2013.

Consolidated revenue increased \$37.9 million, or 15 percent, compared to the same period last year and reflected the ninth consecutive quarter of year-over-year revenue growth. Earnings per share grew by about 54 percent, which includes dilution of \$0.07 per share from common stock we've issued in support of our capital investments.

Earnings from ALLETE's regulated operations segment, which includes Minnesota Power, Superior Water, Light and Power, and our investment in the American Transmission Company, were \$41.2 million compared to \$24.6 million in 2013, an increase of \$16.6 million.

The majority of this increase came from Minnesota Power's higher cost recovery rider revenue related to the Bison 4 and Boswell 4 projects and an \$8.7 million Conservation Improvement Program financial incentive, which was approved by the MPUC and recognized in the third quarter. In 2013, a financial incentive of \$7.1 million was recognized upon MPUC approval in the fourth quarter.

Operating revenue from this segment rose \$29.4 million or 13 percent from 2013. In addition to the \$8.7 million conservation program financial incentive, current cost recovery rider revenue increased \$11.4 million.

Kilowatt hour sales increased 4.7 percent, resulting in higher revenue of \$7.1 million. Kilowatt hour sales increased due to the commencement of a power sales agreement with Minnkota Power on June 1, 2014.

Fuel and purchase power expense rose by \$8.4 million, or 10 percent, commensurate with the overall increase in kilowatt hour sales during the quarter. Operating and maintenance expense increased slightly, or 1 percent from 2013, due primarily to higher MISO-related transmission expense, a portion of which is recoverable in our transmission cost recovery rider.

Depreciation expense increased \$600,000, or 2 percent from 2013, directly attributable to the capital investment program. Interest expense rose by \$1.4 million, or 13 percent from 2013, primarily due to higher average long-term debt balances.

The investment and other segment, which includes results from BNI Coal, ALLETE Clean Energy, and ALLETE Properties, as well as other miscellaneous corporate income and expenses, reported \$400,000 of net income for the quarter compared to \$600,000 in 2013.

ALLETE Clean Energy profited from its newly acquired wind energy facilities in Minnesota, Iowa, and Oregon, and ALLETE Properties improved over last year. BNI Coal's results were similar to last year.

As you may recall, 2013 included gains on the sale of securities. Revenue from this segment grew by \$8.5 million or 35 percent compared to the same period last year, primarily due to a \$6.8 million increase in revenue generated by ALLETE Clean Energy's new wind energy facilities, which were acquired earlier this year. Also contributing was a \$2.2 million increase in revenue at ALLETE Properties.

Operating expenses rose \$5.7 million, or 22 percent from 2013, primarily due to higher operating and depreciation expenses of \$4.4 million at ALLETE Clean Energy. ALLETE Properties recorded \$1.1 million of higher sales-related expenses.

ALLETE's effective tax rate in the third quarter of 2014 was 24.4 percent compared to 25.7 percent for the same period last year. We anticipate the effective tax rate for 2014 will be approximately 23 percent.

ALLETE's cash flow continues to be strong. Year to date, we generated \$212.1 million of cash from operating activities and we carried a 47 percent debt to capital ratio at quarter end.

Given our year-to-date results and our outlook for the remainder of 2014, we expect our full-year earnings will be in the upper half of our guidance range of \$2.75 to \$2.95 per share, excluding the ALLETE Clean Energy transaction costs recorded in the first quarter and the nonrecurring charge from the EPA settlement in the second quarter.

Year-over-year comparisons for the fourth quarter will be impacted by the timing of the conservation program financial incentive, a planned maintenance project in this year's fourth quarter at our Boswell generating station, and additional shares outstanding.

Al?

Al Hodnik:

Thank you, Steve. I am well pleased with our financial and operational performance for the year to date. And looking ahead to the remainder of 2014, know that we will report results of our taconite customer nominations for the first four months of 2015 around December 1. Then, as has been our custom, we will initiate our 2015 earnings guidance in mid-December.

With its anticipated completion by the end of the year, our 2015 earnings guidance will include a full year's impact from the Bison 4 project as well as earnings from continued investment in the Boswell 4 project; Magnetation's new plan to schedule to be operational, as I've already expressed; and we foresee some increased load from Enbridge as well, as additional pumping and storage capacity comes online.

We also expect some associated expense increases from our asset additions. Additionally, we anticipate earnings growth at ALLETE Clean Energy and

earnings improvement at ALLETE Properties. There will also be some dilution as a result of our equity issuances during 2014.

ALLETE continues to execute its multifaceted and multiyear growth strategy. The large industrial projects in Minnesota Power's service territory are moving forward. Our capital investments are on track and a source of year-over-year revenue increases. And our recent energy-centric investments have resulted in a net income contribution from ALLETE Clean Energy.

We believe our growth opportunities differentiate our Company from others and we look forward to reporting our progress as we continue to meet various execution milestones.

Thanks for your investment in our Company and your time to date. I will now ask the operator to open up the lines for your questions.

Operator: Thanks. Ladies and gentlemen, if you have a question at this time please press the star then the number 1 key on your touch tone telephone. If your question has been answered or you wish to remove yourself from the queue please press the pound key. Once again, if you would like to ask a question at this time please press the star and then the number 1 key on your touch tone telephone.

Our first question comes from the line of Paul Ridzon from KeyBanc.

Paul Ridzon: Good morning. Congratulations on the solid quarter.

Al Hodnik: Thanks, Paul. Good morning to you, too.

Paul Ridzon: Can you – Al, just latest thoughts about incremental opportunities at ACE, if you're seeing anything?

Al Hodnik: Well, the ACE team has been out looking at opportunities, both those that have been driven by state policy around renewables and also prospects to acquire additional assets in all forms of renewables that we've talked about, not only on the wind side, but others as well.

Their pipeline is reasonably full in terms of opportunities. Whether they come to fruition or not, I'm not sure, Paul. But I'm pretty optimistic right now with respect to their pipeline and their ability to get things done. We'll have more report, of course, early next year, perhaps.

Paul Ridzon: OK. And Steve, what are you seeing as far as interest in Florida? You had some asset sales this quarter. Kind of what the outlook is there for the remainder of this year and 2015?

Steve DeVinck: Yes, we are seeing some renewed interest. We did have some smaller sales in the third quarter. We do expect some smaller sales in the fourth quarter. And we do expect some sales in 2015. So we are seeing a moderate amount of interest in our properties.

Paul Ridzon: And then lastly, how much stock is left under the forward to go out?

Steve DeVinck: We have 1.4 million shares to be issued there by next February.

Paul Ridzon: Thank you very much.

Operator: Our next question comes from the line of Chris Turnure with JP Morgan.

Chris Turnure: Could you give us a little more color on the back of the last question about the forward pulldown? It expires, I think, March 1 of next year, but can you give us more color on timing there?

Steve DeVinck: Yes, I can't give you a specific date. We will take it before then. Whether it's in the last couple months of this year or early next year, I don't know exactly for sure.

Chris Turnure: Got you. And then on the potential filing of a full general rate case? How does Essar's announcement from last month – or I guess in September impact your decision making there, especially considering last quarter, you guys did some forward power sales to firm up 2015 a little bit.

Does that push out your decision? Does that leave it unchanged? How do you think about that?

Steve DeVinck: You know I think the best way to answer our Minnesota Power's rate case timing issue probably is like this. Since our last rate case in 2010, we've benefited from the recovery tools available in Minnesota for renewable, environmental, and transmission investments.

We have approved current cost recovery riders in place for our Bison 4 wind project, our Boswell 4 environmental upgrade, and our CapEx 2020 transmission investments. In addition, we have two pending current cost recovery riders filed with the MPUC for our investment to restore and repair our hydroelectric system, which was damaged in a 2012 flood, as well as for our investment in transmission reliability.

If both of the pending rider requests are approved, we estimate Minnesota Power's return on equity could be approximately 9 percent in 2015. Assuming continued strong electric sales and no significant unexpected expenditures, this projection does not assume any sales to Essar in 2015.

Final MPUC decisions on the pending rider requests will be important factors in the timing of Minnesota Power's next rate case, as will new customer loads, as well as our 2015 Integrated Resource Plan, which is to be filed in mid-2015. I think that's the best answer to your question.

Chris Turnure: OK. So it seems like the decision is not imminent. You have a couple things that you're waiting on here and those are all going to feed into the decision. What's the timing on those two regulatory issues, the recovery, et cetera?

Steve DeVinck: Yes, there's nothing scheduled on the agenda yet. So that is something we can't control, but I wouldn't think either for one of them later this year and for the other sometime early next year.

Chris Turnure: Great, that's helpful. Thanks, guys.

Operator: As a reminder, if you would like to ask a question at this time please press star and then the number 1 on your touch tone telephone. Our next question comes from the line of Brian Russo of Ladenburg Thalmann.

Brian Russo: Would you happen to have what the year-to-date current cost recovery revenues were?

Steve DeVinck: Yes. Well, – I'm sorry. What I have in front of me is the difference from last year, which is \$11.4 million. I don't have it in total. We could get back to you on that.

Brian Russo: Yes, that would just be helpful. Secondly, can you maybe just elaborate on an earlier question on ACE? Are you seeing any opportunities in the Bakken and the infrastructure buildout there?

Al Hodnik: Well, we continue to dialogue with the state of North Dakota and also with producers of oil and natural gas out there on our corridor concept. We have had dialogue with the regulatory community in North Dakota as well about how it potentially could be a factor in terms of what is going on out there.

We don't have anything imminent to report today with regards to that, but I still remain personally bullish on North Dakota, as you know on all forms of energy out there. And that I believe at some point in time, the corridor could play a role in further energy development and solution finding in North Dakota.

Brian Russo: OK. And I think previously with the ramp-up in Essar and the issues that it faced and with the 2015 hedges you guys put in place. Should we still really be assuming very little electricity demand from Essar in 2015 and it more ramps up in 2016, 2017?

Steve DeVinck: That's our expectation. As you may recall, Essar has indicated they expect to begin making pellets at the end of 2015. Our current assumptions are minimal power demand in 2015, ramping up in 2016.

Brian Russo: OK, minimal in 2015, ramping up 2016, 2017. Got it. OK. And then do you have an average share count for 2014 included in your guidance?

Steve DeVinck: We do not. For the whole year, we do not.

Brian Russo: OK, thank you very much.

Operator: Our next question comes from the line of Mike Bates with Wunderlich Securities.

Mike Bates: Good morning, guys. Do you have a cost estimate for the Boswell outage in the fourth quarter?

Steve DeVinck: We expect it to be approximately \$2 million to \$3 million.

Mike Bates: All right. And is that already underway?

Steve DeVinck: Yes, it is and it's actually almost complete.

Mike Bates: All right, great. Can you help us shape our thinking about sales to other power suppliers as we head into 2015? I know there are going to be a few puts and takes, including the retirement of Taconite Harbor and the repowering of Laskin Energy. Will that have a substantial impact?

Al Hodnik: Well, both of those units are retail units, regulated units, for our retail customers here in northeastern Minnesota. The conversion from coal to gas at Laskin is going well. We expect that conversion to take place sometime during the summer months – June, July and August – in there.

So there will be a short outage, but otherwise that plant will then come back online and be tested and operated on natural gas and be available to rate paying customers here in northeastern Minnesota.

Taconite Harbor Unit 3, of course, we have elected to idle that unit under the Mercury Air Toxics rule, or MATS, and so Taconite Harbor Unit 3 will be idled. And so, again, that 75 megawatts in a sense will no longer be operating after the spring of 2015, as we have said right along. So it's really not a power sales issue at all. It's a retail customer load situation.

Mike Bates: OK. Any other puts and takes we ought to be thinking about as we consider those sales to other power suppliers?

Steve DeVinck: No, I don't think there's anything that we haven't reported or actually isn't already underway this quarter.

Mike Bates: All right. Great. And then apologize if you mentioned this in your prepared remarks, but what is the expected timing as you look at Armenia Mountain? When do you expect to make a decision there?

Steve DeVinck: Yes. As you know we have an option to acquire Armenia and we have to exercise that early next year for close in the middle of next year. So that would be kind of the timing. I would expect we'd have some announcement either way sometime earlier next year.

Mike Bates: Excellent. All right, thanks, guys. Congrats on the quarter.

Al Hodnik: Thank you, Mike.

Operator: Thank you. At this time, I'm not showing any further questions. I would now like to turn the call back over to Al Hodnik for any closing remarks.

Al Hodnik: Well, thanks, everyone, for your participation and of course, for your investment in our Company. We look forward to seeing many of you up at the EEI Financial Conference upcoming or out on the road, as Steve and I and others from our team travel to meet and talk with you about our Company.

Thanks for your time again this morning and have a good day.

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

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