Operator: Good day, and welcome to the ALLETE second quarter 2013 financial results call. Today's call is being recorded.

Certain statements contained in this conference 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. Factors that can cause results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, those discussed in filings made by the Company with the Securities and Exchange Commission.

Many of the factors that will determine the Company's future results are beyond the ability of management to control or predict. Listeners should not place undue reliance on forward-looking statements, which reflect management's view only as of the date hereof. The Company undertakes no obligation to revise or update any forward-looking statements or to make any other forward-looking statements, whether as the result of new information, future events, or otherwise.

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

Alan Hodnik: Good morning, everyone. As you have already seen, this morning has been a busy one for us in that we issued two press releases as well as an 8-K and our
Form 10-Q. The first press release and the 10-Q disclosed our financial results for the second quarter, and Mark Schober, ALLETE's Chief Financial Officer, will walk you through the details in a few moments.

Through the first half of 2013, we have earned $1.18 per share compared to $1.05 per share last year. Our year-to-date results are where we anticipated they would be, and we are on track to achieve our earnings guidance range of between $2.58 and $2.78 for the full year.

The 8-K announces just-received demand nominations from Minnesota Power's large industrial taconite and paper customers for the final four months of 2013. Based on the nominations, these customers are expected to operate at full demand levels for September to December, just as they have all year.

Our second press release issued this morning is the announcement of Minnesota Power's plans to build approximately 200 megawatts of new wind generation in North Dakota. Upon receiving North Dakota's site permit approval, we expect to begin construction of this new wind project, which we are calling Bison 4, in the fourth quarter of this year, and it to be online by the end of 2014. This $345 million expansion is part of our EnergyForward vision, a strategy designed to achieve a balanced energy mix, including one-third renewable, one-third coal, and one-third natural gas.

We anticipate Bison 4 qualifying for the extended Production Tax Credit, or PTC, and to be completed and placed into service by the end of 2014. Upon commissioning of Bison 4, we anticipate that our combined wind, biomass, and hydro energy will account for over 24 percent of Minnesota Power's electric generation.

The Bison 4 expansion will allow Minnesota Power to virtually close out the 25 by 2025 State of Minnesota renewable mandate. Beyond nearly closing out the 25 by 2025 renewable initiative early, Minnesota Power will have done so while at the same time reducing cost per kilowatt hour to its customers.

In the 10-Q, you will find our five-year capital expenditure table that includes the updated forecast of this project, which has been increased and accelerated
from our original plans. Bison 4 is rider eligible and is subject to the normal regulatory approvals in both North Dakota and with the Minnesota Public Utility Commission.

We are especially pleased to have announced the Bison 4 project this morning and likewise to be further advancing our EnergyForward vision, and doing so while ensuring reliability, protecting affordability, and living out core environmental stewardship values.

I'm very satisfied with ALLETE's financial performance and strategic execution through the first half of this year. At this time, I will turn the call over to Mark, and then I will have some additional remarks before we take your questions. Mark?

Mark Schober: Thanks, 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 more details.

For the second quarter, ALLETE earned $0.35 per share on net income of $14 million and operating revenue of $235.6 million compared to $0.39 per share on net income of $14.4 million and operating revenue of $216.4 million in 2012.

First, I will highlight a few points from ALLETE’s regulated operations segment, which includes Minnesota Power, Superior Water, Light & Power, and our investment in the American Transmission Company. Net income for this segment rose from $14.4 million in 2012 to $16.3 million in 2013, an increase of 13 percent. Operating revenue for this segment increased $18.8 million, or 10 percent from 2012.

Kilowatt-hour sales rose 2.2 percent over the same quarter last year, resulting in a $4.2 million revenue increase. Sales to other power suppliers were higher than in the same period a year ago. Sales to residential and commercial customers were also higher due to extremely mild temperatures in 2012. Kilowatt-hour sales to industrial customers decreased 4 percent from 2012, primarily due to a short-term fixed price contract last year.
Revenue from our municipal customers increased $3.1 million from 2012 due to higher rates under the cost base formula. The formula and methodology is set at July 1 each year using estimated costs and a true-up for actual costs occurring the following year.

Fuel adjustment cost recoveries were up $5.2 million over the same quarter last year due to higher fuel and purchased power costs attributable to our retail and municipal customers. Cost recovery rider revenue increased $1.1 million from 2012, as the Bison 2 and 3 wind generating facilities were in service for the full quarter of 2013. Transmission revenue increased $2.2 million from 2012, primarily due to commencement of recovery of our transmission system upgrade to support Essar's project and from our investment in CapEx 2020.

Revenue from gas sales at Superior Water, Light & Power were up $2.4 million over 2012 due to unseasonably warm weather in April of 2012 and higher purchased gas expenses.

Looking at the expense side, regulated operations' operating expenses increased $17 million, or 10 percent, over the same quarter in 2012. Fuel and purchased power expense increased $6.6 million from 2012 due to an increase in kilowatt-hours sold and higher purchased power prices.

Operating and maintenance expense increased $6.7 million, primarily due to a combination of increased purchased gas expense due to higher gas sales at Superior Water, Light & Power in 2013 and increased operating and maintenance expenses at the Bison 2 and 3 wind generating facilities, which were in service for all of 2013. Regulated operations also posted higher property tax expense compared to last year due to larger taxable plant balances and higher tax rates.

Depreciation expense increased $3.7 million, and interest expense was up $500,000 for the quarter, both attributable to the capital investment program at our regulated operations. Earnings from our investment in ATC were slightly higher than in the same quarter of 2012.
Income tax expense decreased $500,000 from 2012, primarily due to higher federal production tax credits in 2013 related to the Bison 2 and 3 wind generating facilities.

ALLETE's investments in other segments, which includes results from BNI Coal, ALLETE Properties, ALLETE Clean Energy, and other corporate income and expenditures, reported a $2.3 million net loss compared to a breakeven quarter in 2012. Higher state income tax and interest expense contributed to the change from last year.

Our effective tax rate in the second quarter of 2013 was 23 percent compared to 25 percent for the same period last year. We anticipate the effective tax rate for 2013 will be approximately 20 percent.

We experienced good cash flow again this quarter. Year to date, our operating activities generated $111 million in cash, and we carried a 47 percent debt-to-capital ratio.

Before I turn the call back to Al, I'd like to call your attention to the updated five-year capital requirements table in the 10-Q. In it you will see that our expected capital expenditures for 2013 have increased by $65 million, and for 2014, have increased by $280 million from our previous estimates. The updated table reflects the acceleration and the increased size of the Bison 4 project, the revised timing of expenditures for the Boswell 4 environmental upgrade project, and expenditures to rebuild a portion of our hydro system. If you recall, our Thomson hydro facility was damaged last year during a June flood.

We currently intend to continue to finance these capital expenditures as we have in the past, using a combination of internally generated funds while issuing equity and debt that keeps our capital structure and ratios near current levels. We believe our equity needs can be met using our dividend reinvestment and periodic issuance of equity plans.

Our financial results for the quarter and year to date are in line with our expectations and, as Al mentioned, support our full-year guidance range of $2.58 to $2.78 per share. Al?
Alan Hodnik: Thank you, Mark. I would like to make some additional comments before we open up the lines for your questions. ALLETE is an energy company with multifaceted and multiyear earnings growth opportunities. These opportunities include organic revenue growth from new industrial development in mineral-rich northeastern Minnesota, as well as capital investments in environmental upgrades, renewable generation, and new transmission projects. We also remain disciplined and focused as we analyze potential energy-centric prospects.

With regard to new industrial development, let me take a few moments to update you on the new Essar Steel Minnesota project, which is served by one of Minnesota Power's municipal customers, the City of Nashwauk. As Mark mentioned a few moments ago, in April we began billing Essar to recover our transmission investments related to that project. Construction of the new taconite facility is continuing, and Essar expects to begin blasting, mining, and commissioning equipment in 2014. Previously, we had expected this activity to occur during the second half of 2013.

In any event, this type of activity requires an insignificant amount of electric power, so the change will not impact ALLETE's earnings in 2013. Given the projected startup transition, we are anticipating minimal earnings impacts from Essar through 2014. We expect Essar to begin increasing its electric power requirements as it ramps up production in late 2014 into 2015 and beyond.

Essar has a 10-year iron ore pellet off-take agreement with ArcelorMittal for 3.5 million tons of pellets annually. The agreement runs through 2024. The Essar taconite facility will ultimately result in up to 110 megawatts of new load for Minnesota Power.

Another potential new industrial customer, PolyMet Mining, is expected to have its Supplemental Draft Environmental Impact Statement, or SDEIS, issued by the end of this quarter, with the possibility of final permits being issued early next year. If successful, PolyMet's new nonferrous mining operation could be online by early 2015. PolyMet has a contract in place with
Minnesota Power to serve their operation, which is expected to consume 45 to 70 megawatts of power.

Turning to capital investments, I already mentioned the Bison 4 wind generation project. On the environmental upgrade front, we expect a decision this quarter from the Minnesota Public Utilities Commission with respect to our Boswell Unit 4 mercury emissions reduction project. The Minnesota Pollution Control Agency has already issued a report in support of our Boswell 4 initiative. With the MPCA construction permits issued, Minnesota Power has begun work on this $350 million to $400 million project, a project that will ramp up more extensively in 2014. Our updated capital expenditure plan includes the Boswell 4 project.

We continue to move forward with our plans to build the Great Northern Transmission Line, a proposed 500-kilovolt line from the Province of Manitoba to Minnesota's Iron Range. We are currently finalizing MISO planning activities for the proposed line. In addition, we are working toward the filing of a Certificate of Need with the Minnesota Public Utilities Commission and the required Presidential Permit with the Department of Energy. We will keep you updated on the progress of the line as we meet key milestones.

As you may know, this line needs to be in service by 2020 in order to transmit 250 megawatts of renewable, carbon-free hydroelectric energy from Manitoba Hydro. Total project cost and cost allocations are still to be determined. However, at this time we expect our portion of the capital expenditures to range between $200 million and $400 million.

ALLETE continues to execute and move forward with its strategy for growth. I'm very pleased with our progress through the first half of 2013 and our broader positioning generally. As I already mentioned, we are on pace to meet our earnings guidance of between $2.58 and $2.78 per share.

At this time, I will ask the operator to open up the lines, and Mark and I will be happy to take your questions.
Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star followed by the number one key on your touchtone telephone. If your question has been answered or if you’d like to remove yourself from the queue, you may press the pound key. Again, if you do have a question, please press star and then one at this time.

And our first question comes from the line of Paul Ridzon from Keybanc Capital.

Paul Ridzon: Good morning, how are you? The $345 million allocated to Bison 4 – does that include transmission, or that would be incremental to that?

Mark Schober: No, that includes a run-out of the transmission to the new facility. So that's all-inclusive.

Paul Ridzon: And Mark, just any updates on tire-kicking in Florida, what you're seeing there?

Alan Hodnik: Yes, we continue to, obviously, push to monetize those assets as soon as we can. We continue to see increasing activity there and are optimistic we'll be able to close some small transactions by the end of the year, but nothing that would have a material impact on our earnings this year.

Alan Hodnik: Things continue to improve.

Paul Ridzon: And PolyMet – what was the timing on the SDEIS?

Alan Hodnik: PolyMet is expecting, and has said so in their public documents, that it is expecting the issuance of the SDEIS some time this quarter. And hopefully, if they were to have that happen, they have suggested they could complete final permitting and be in operation some time in 2015.

Paul Ridzon: And what's the political climate like around that issue? Is it still supportive?

Alan Hodnik: Obviously, these permitting processes are stakeholder-based, and so there's a variety of views on nonferrous mining in Minnesota. But I think the permitting process, at least what I see in the public documents and the
dialogue between the State and the company, has been positive and constructive.

Paul Ridzon: Great. Thank you very much.

Operator: Thank you. And our next question comes from the line of Brian Russo from Ladenburg Thalmann.

Brian Russo: Hi, good morning. Maybe if you could just help us a little bit on the ramp-up of the Essar taconite mine, just in terms from a modeling perspective and the demand charges. Should we assume any demand charge contribution in '14, or should we assume part contribution in '15 and full contribution in '16? Just trying to get a better handle on the timing and the demand charge contributions.

Mark Schober: Brian, this is Mark. We've talked a little bit about this before, that as you bring these large projects online, it's really difficult to estimate the timing of when they'll have a material impact on ALLETE's financials. Specifically, I would be very cautious of what I put in in 2013 and 2014 – probably no demand charges.

Our understanding and what Essar has disclosed is they anticipate ramping up late in 2014, starting that process. So again, it will have a minimal, as Al mentioned, a minimal impact on our earnings for 2014. And I would envision, the, a ramp-up, not a full turn-on of 110 megawatts, but a slow ramp-up starting in '15 through the end of 2015.

We continue to work with Essar. As they disclose information, we'll certainly share that with you as we have updates, but that's our best estimate today.

Alan Hodnik: Yes, I think that's fair, Brian. This is Al. These narrow projects, whether it's PolyMet on the nonferrous with the question earlier, or Essar, these are large capital projects. They are long-winded in nature, both long-winded in permitting, in the case of PolyMet, and long-winded in terms of construction. And so they ebb and flow through various cycles.
But I think Mark's characterized it properly at this point in time, based on Essar's public disclosures.

Brian Russo: OK. And is it possible to be a little bit more specific on the external capital needs to finance the updated CapEx forecast? How much is funded by operating cash flow and debt and then equity?

Mark Schober: We don't disclose the specifics, but it would be very similar as we've done it in the past, Brian. So I'd look at the ratios that we've used in the past, and you'll see us doing that going forward here. So we think that it's reasonable as we look at these capital spends starting now in '13 through the first quarter of 2015, that we'll continue to raise debt and equity in the proportions that we've done in the past to maintain the cap structure and to maintain our credit ratings.

Brian Russo: OK, great. Thank you.

Operator: And, again, if you do have a question, please press star followed by the number one key on your touchtone telephone. And we'll pause for a moment to see if we have any further questions.

And I see no further questions on the phones at this time. I would like to turn the conference back to Mr. Al Hodnik for any concluding remarks.

Alan Hodnik: Well, thank you again, everyone, for your time this morning and for your investment in ALLETE, and frankly, for your continued interest in our multifaceted, multiyear growth strategy. We look forward to reporting our continued progress as our initiatives continue to advance. Thank you and have a good day.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may now disconnect. Everyone have a good day.

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