ALLETE
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Moderator: Al Hodnik
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Operator: Good day and welcome to ALLETE first quarter 2013 financial results call. Today's call is being recorded.

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

Alan Hodnik: Good morning, everyone. Thank you for joining us. With me on today's call is Mark Schober, ALLETE's Chief Financial Officer.

Earlier this morning, we reported ALLETE's first quarter earnings of $0.83 per share which were in line with our expectations. Based on our quarterly results, and expectations for the remainder of the year, we are reaffirming our earnings guidance of $2.58 to $2.78 per share for 2013. Mark will provide an analysis of our quarterly earnings performance in a few moments. In addition to a strong quarter financially, we also made progress on our multi-faceted, multi-year growth strategies.

In late January, Minnesota Power announced its energy forward plan and energy vision designed to assure reliability, protect affordability, while further improving an already strong record of environmental stewardship. Energy forward initiatives are subject to regulatory approval and were included in Minnesota Power's 2013 Integrated Resource Plan which was filed with the Minnesota Public Utility Commission on March 1. Our energy forward plan provides the foundation for the various capital investments we plan to make related to further environmental upgrades, renewable energy, and transmission reliability, initiatives that we have been sharing with you for some time. I will provide updates on these initiatives later on in this call.

Let me turn now to organic growth and new customer developments in mineral-rich Northeastern Minnesota. Two significant milestones were reached during the first quarter relating to the new Essar Steel Minnesota project, which is served by one of Minnesota Power's municipal customers, the City of Nashwauk. First, installation of all related transmission assets was completed and those assets were placed into service on April 1. This marked the beginning of the new electric service agreements with Nashwauk and Essar Steel and a new stage in our relationship with both parties. Billings to Essar to recover our transmission investments began in April.

Second, and an even greater consequence, Essar Steel signed a 10-year off-take agreement with ArcelorMittal, the largest steelmaker in the world. Under terms of the agreement, Essar will supply 3.5 million tons of pellets annually to Arcelor through 2024. Essar is expected to begin blasting, mining and commissioning of equipment during the second half of 2013 and the early portion of 2014 which require insignificant electric power. As a result, and as we've included in our earnings guidance, we expect minimal impact on our results of operations from electric sales to Essar in 2013. Essar Steel is expected to begin increasing its electric power requirements as production ramps up in 2014. The taconite portion of the Essar Steel project will ultimately result in approximately 110 megawatts of additional load for Minnesota Power.

Another new customer, Magnetation, which started two new facilities in Minnesota Power's service territory last year, is currently undergoing a $20 million expansion at its 5-megawatt mining resources facility. The expansion underway at Mining Resources, a shared facility between Magnetation and Steel Dynamics, is expected to go online this summer and will increase concentrate output and also electric load by an additional 3 to 5 megawatts.

On the non-ferrous mining front, PolyMet Mining has recently announced a new financing plan, under which it will receive $60 million in cash and a $20 million short term loan from Glencore. Glencore has an ownership stake in PolyMet and is its concentrates marketing and financing partner. PolyMet has indicated that the proceeds will be used in part to help complete the environmental review and permitting process and for detailed engineering costs in preparation for the start of project construction.

The PolyMet Supplemental Draft Environmental Impact Statement, or SD EIS, is now expected to be completed in the third quarter with the possibility of final permits being issued in early 2014. Given a 12- to 16-month construction timeline, PolyMet could be online by early 2015, a 40- to 70-megawatt load already under contract with Minnesota Power. We have had a good start to 2013 and I look forward to reporting continued progress during the year.

At this time, I will turn the call over to Mark for a review of our financials but later, I will have some additional comments 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 first quarter, ALLETE earned $0.83 per share on net income of $32.5 million and operating revenues of $263.8 million compared to $0.66 per share on net income of $24.4 million and operating revenue of $240 million in 2012. Earnings from ALLETE's Regulated Operations segment, which includes Minnesota Power, Superior Water, Light and Power, and our investment in the American Transmission Company, rose from $24.4 million in 2012 to $32.1 million in 2013, an increase of 32 percent.

Operating revenue increased $22.8 million, or 10 percent from 2012. Kilowatt-hour sales to Minnesota Power's customers rose by about 3 percent over the same quarter last year, resulting in a $5.3 million increase, due to a combination of unseasonably warm weather experienced in the first quarter of 2012, and a 14 percent increase in sales to other power suppliers. In 2013, heating degree days in Duluth, Minnesota, were approximately 27 percent higher than the same period in 2012. Fuel adjustment clause recoveries were up $7.2 million over the same quarter last year due to higher fuel and purchase power cost attributable to our retail and municipal customers because of the increased kilowatt-hours sales.

Cost recovery rider revenue grew by $4.9 million from 2012 as the Bison 2 and 3 wind-generating facilities were in service for the full quarter of 2013. We also had higher revenue due to increased investment in our CapEx 2020 projects. Gas sales at Superior Water, Light and Power rose by $1.9 million from 2012, also as a result of unseasonably warm weather during the first quarter last year.

Turning to the expense side, Regulated Operations operating expenses increased $17.1 million, or 10 percent over the same quarter in 2012. Most of this change was due to a $9.4 million increase in fuel and purchased power expense from 2012 due to higher kilowatt-hours sales sold and purchased power prices. Operating and maintenance expense increased $4.1 million, or 5 percent from 2012. Purchased gas expenses which are recovered through an adjustment clause, increased with the higher sales at Superior Water, Light and Power.

Higher taxable plant balances and rates resulted in higher property tax expense compared with last year. Depreciation expense increased $3.6 million and interest expense was up $1.1 million for the quarter, both directly attributable to the capital investment program at our Regulated Operations. Earnings from our investment in ATC were slightly higher than the same quarter of 2012. Income tax expense decreased $2.2 million 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 and Other segment, which includes results from BNI Coal, ALLETE Properties, ALLETE Clean Energy and other corporate income and expenditures, reported $400,000 in net income for the quarter compared to no net income for the same quarter in 2012.

Our effective tax rate in the first quarter of 2013 was 19 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 generated $58 million in cash from operating activities and carry a 45 percent debt-to-capital ratio at quarter-end 2013. In summary, we are pleased with our financial results in the first quarter and we are confident in our prospects for the full year. As Al mentioned, our first quarter results were consistent with our expectations and we reaffirm our full-year guidance range of $2.58 to $2.78 per share. Al?

Alan Hodnik: Thank you, Mark. ALLETE is an energy Company with multi-faceted, multi-year earnings growth opportunities. Organic growth within mineral-rich Northeastern Minnesota, such as the projects I mentioned earlier, will continue to drive topline revenue increases. We have identified significant capital investment opportunities that will provide for rate base growth throughout the decade. We also remain very disciplined and very focused; this as we analyze potential energy-centric investment prospects.

Before we take your questions, I would like to update you on the progress of some of our capital investment opportunities, beginning with our renewable energy development. As we disclosed in our 10-K filing last February, our current five-year capital expenditure plan includes $226 million for about 100 megawatts of additional wind development in North Dakota over the 2016 to 2017 timeframe. However, with the extension of the federal production tax credit, Minnesota Power is currently evaluating an acceleration of those expenditures to commence in 2013 as well as increasing the size of these projects. We have been very busy all winter and now have 130,000 acres of land under lease out in North Dakota.

We are currently in the final stage of evaluation on this process and expect to be able to announce through a filing with the Minnesota Public Utility Commission, the size, timing and estimated investment for this additional wind energy development presently. ALLETE Clean Energy is also awaiting the production tax credit extension impact as it evaluates various projects and partnership opportunities out in North Dakota.

Similarly, we hope to be in a position very soon to provide additional detail regarding our plans for the Great Northern Transmission Line. As you probably know, we, along with Manitoba Hydro, have proposed construction of a 500-kilovolt transmission line between Manitoba and Minnesota's Iron Range with a target in-service date of 2020. Additionally, Minnesota Power and ATC are evaluating the joint development of a 345-kilovolt transmission line from the Iron Range to Duluth as part of the Great Northern Transmission Line project. Total project costs, ownership shares and cost allocations are still to be determined.

We are expecting a decision from the Minnesota Public Utility Commission sometime during the latter part of 2013 regarding the estimated $350 million to $400 million Boswell Unit 4 mercury emission reduction project. On March 1, the Minnesota Pollution Control Agency issued a report in support of our plan and recommended that the Minnesota Public Utility Commission accept the Minnesota Pollution Control Agency findings. The project is designed to comply with new rules issued by the EPA, which requires all coal units to be in compliance by April of 2015. To achieve both EPA and State of Minnesota mercury requirements and deadlines, and to do so in a cost-effective manner for ratepayers, Minnesota Power must commence with this project during 2013, something we fully expect to do.

So with that, I will now ask the operator to open up the lines for your questions.

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star then one on your touchtone 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 have a question at this time, please press star one.

Our first question is from Chris Ellinghaus from Williams Capital. Your line is open.

Chris Ellinghaus: Were there any unusual items in the quarter?

Mark Schober: None at all. Pretty clean quarter for us, Chris.

Chris Ellinghaus: OK. What did the weather look like versus normal?

Mark Schober: The heating degree days were up, as I mentioned in the call, about 20 percent so we're closer to normal in the first quarter here of 2013 versus last year which was quite warm.

Chris Ellinghaus: Did you quantify what the weather benefit versus last year was?

Mark Schober: Yes, if you go to the 10-Q, we do include it in there. It's about a bump of about $5 million in revenue.

Chris Ellinghaus: OK. Just getting to the guidance, it's a huge quarter for you for the first quarter. Are there any notable drags or timing issues on expenses that play out throughout the rest of the year?

Mark Schober: Really, two things going on. We reaffirmed our guidance, so what you're seeing is a piece of that is the timing of O&M expenses so that is included in there. And you have to recall or remember that we always have a bit of seasonality, too, so our strong quarters are Q1 and Q4. We tail a little bit in the middle quarter so that's a piece of it, too, but for the full year, we're right where we need to be.

Chris Ellinghaus: One last thing. Bison 2 and 3, they came online pretty late in the fourth quarter last year, if I recall; is that true?

Mark Schober: Yes, they came in November, December of last year.

Operator: Our next question is from Paul Ridzon from KeyBanc. Your line is open.

Paul Ridzon: Congratulations on a solid quarter.

Alan Hodnik: Good morning Paul. Thank you.

Paul Ridzon: I just had a question your RFP. Trying to interpret what you said. Has Minnesota Power won the RFP or is there – have you – is it down to a shortlist?

Mark Schober: Yes, there is a process, a fairly lengthy process that Minnesota Power goes through so we put out an RFP for up to 200 megawatts of new wind. MP obviously bid into that so the evaluation of all of those bids is what's going on as we speak. We use an independent third party there to evaluate those responses to make sure that what we file with our Commission is in the best interest of our rate payers. So that's the process that's going on right now. Once that process is complete, as Al mentioned, we will then prepare our filing. And as we have with the prior Bison projects, that's when we – once we make that filing, that's when we'd announce to you the size and the scope of that project.

Paul Ridzon: Have people been in PPAs?

Mark Schober: Yes, yes.

Paul Ridzon: OK. And we should be a few weeks or what's the timeline you think we'll get that regulatory filing?

Mark Schober: What we anticipate is making that filing right around midyear so close to the end of the quarter.

Mark Schober: It's a very similar timeline to what we used with Bison 3 last year. So we need to make a filing by the middle of the quarter and get regulatory approval to meet the IRS REGs here where we can start construction by the end of 2013 if we win that RFP to take advantage of production tax credits.

Alan Hodnik: That's the other issue, Paul, is waiting for IRS guidance which they just issued here recently with respect to the PTC extension and in this case, unlike last year, where we were concerning ourselves more with the end date, this time around, we are more concerned with the definitions for what start means. And so we finally got those guidelines as well. So we're working through the process.

Paul Ridzon: You indicated that you now had 130,000 acres under lease in North Dakota; was that previously 80,000?

Alan Hodnik: It was something like 65,000 to 70,000. We've now boosted that to 130,000 acres, yes. So we've continued to be busy all winter acquiring land and working with landowners to obtain leases. Minnesota Power has a very good reputation. So does ALLETE Clean Energy out in North Dakota and of course, North Dakota Wind is Saudi Arabia of wind, a very superior wind compared to other locations, so yes, we've been very busy out there acquiring more land.

Paul Ridzon: How far along are your discussions at ACE with regards to maybe partnerships or projects?

Alan Hodnik: Well, again, there's ACE is continuing to work with developers that might have an interest for one cause or another of additional renewables and certainly with the PTC extension, it makes the (failing) economics around wind even more enhanced, if you will. So, I would just say they had a variety of conversation with people out in the western part of North Dakota and also in other parts of the upper Midwest. That's where I can leave it at this point in time.

Operator: Ladies and gentlemen, if you have a question at this time, please press star one.

Our next question is from Brian Russo from Ladenburg. Your line is open.

Brian Russo: I'm just curious, did ALLETE Clean Energy bid into the RFP?

Mark Schober: No. No.

Brian Russo: No? OK, and you may have mentioned this before and I missed it, but Bison 2 and 3 went through a similar RFP; correct?

Mark Schober: Yes, they did.

Brian Russo: OK. Assuming ALLETE wins or Minnesota Power wins the RFP, how should we profile the spending. You'll have to start in 2013, I would assume there's very little CapEx at the end of '13 but can we assume construction cycle of about a year or so, full year of operation in '15?

Mark Schober: That's exactly what we're looking at as part of this process, Brian. We need to start construction to meet the IRS REGs and I think that number is 5 percent needs to be in the ground of the project by the end of the year and then you need to have continuous construction. So that's what we're looking at and I won't know that until we make our filing closer to the middle of the year where I can give you some of the metrics and when we anticipate bringing it into service. I can envision scenarios where those all come into service at the end of 2014 but I could also envision scenarios where some of this will move into 2015, too. It's a lot of, I think, especially if we have to go with 200 megawatts, a lot of turbines that need to be put up and then you've got winter weather in North Dakota so it would be lot of work to get done in a short period of time.

Alan Hodnik: Brian, just as a point of clarification, we had originally done Bison 1 and we had conducted an RFP at that time for our regulators. And then with the production tax credit expiration date looming, our regulators themselves had asked about building additional wind, Bison 2 and Bison 3. And so in that particular instance, we work with our regulators and using the RFP outcomes for Bison 1, the regulators were satisfied with our Bison 2 and Bison 3 likely costs and so we move forward in that case based on that Bison 1 RFP.

But enough time has passed at this point in time that we know in working with our regulators that they would and we would, on behalf of our ratepayers, expect a RFP or fresh RFP. So I just wanted to put that subtlety in there just to make sure that we were clear about how these RFPs actually work. But we continue to have a very good working relationship with our regulators and we expect to bring similar products forward to them that would meet their standards.

Brian Russo: OK, great. The additional wind farm, you mentioned the new acreage that you secured, but aren't these wind projects being built on the Bison site?

Alan Hodnik: It's all sort of euphemistically, or sort of universally called Bison but just start thinking about all that territory west of central North Dakota. And so any proposed projects by Minnesota Power called Bison 4 or 5, however we describe it, or even something that ALLETE Clean Energy might do, is all sort of in that central to western part of North Dakota. And we all call it sort of euphemistically, the Bison territory.

Brian Russo: OK, is their transmission – or is there access to transmission already or would you need to construct something?

Alan Hodnik: Well, we continue to build 230 kV transmission out from our DC line. We call, first of all, the great advantage that ALLETE has in being able to move quickly with wind on behalf of our customers is that we already have the DC line in service. So far, we've built about 23 to 30 miles of 230 kV line further to the west. We would continue to add about another 20 to 25 miles of 230 kV line to go to the west to do all that. So that is implicit in any sort of continued wind expansion but all very doable, all very sort of rudimentary, if you will, in terms of all that we've been doing so far.

Brian Russo: OK. Just remind me of the mechanics of the cost recovery mechanism? Do you get cost recovery as you spend or do you get AFUDC and then cost recovery return of and on when the project actually goes into service?

Mark Schober: We will be recording AFUDC once we get that project approval from the MPUC and then the process we go through is to file, what we call, a factor filing and once we – which will take several more months. And once we get approval of that, then we can actually start running those costs through to our ratepayers and the cash flow will start.

Brian Russo: OK. Can you remind …

Mark Schober: That's an annual filing so we update those numbers on an annual basis typically.

Brian Russo: Can you remind us of your dividend policy?

Mark Schober: Our dividend policy continues to be as we spoke before, Brian. We want to be consistent with our peers. We know dividend is important to our investors and we look at payouts in the range of plus-or-minus 70 percent is what's typical for our peers.

Brian Russo: OK. And have the assumptions in your guidance remained the same in terms of $0.10 to $0.15 of EPS dilution for higher share count?

Mark Schober: Yes, nothing has changed from our – the original guidance that we issued in December of last year.

Brian Russo: OK. And has there been any movement on the potential for an Essar Steel mill which would require a new compression turbine of about 300 megawatts?

Alan Hodnik: No, not at this point, Brian. Essar is wholly focused right now on finishing up construction of their taconite facility. We expect relatively robust construction into the summer, fall and their focus right now is really getting the taconite portion up and running.

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star one.

We have a follow-up from Paul Ridzon from Keybanc. Your line is open.

Paul Ridzon: Assuming you win the RFP, what's going to drive whether the projects are done in '14 or '15? And is it to protect the balance sheet and avoid an equity issuance or how are you thinking about financing?

Mark Schober: Well, what's going to drive the timeline is certainly the IRS REG so we need to get a better understanding of what continuous construction means and then it's more of an operational standpoint than a financing standpoint. We're very comfortable that we can finance these through a mix of debt and equity as we have in the past, Paul.

Paul Ridzon: Just changing gears, any word out of Pittsburgh on the U.S. Steel conversion?

Alan Hodnik: Yes, John Surma was just on a quarterly call himself, of course, with regard to U.S. Steel's earnings. John indicated a couple of things in there that I thought were interesting. One is, that the Keetac, or Keetac expansion has been delayed a bit or postponed, if you will. But implicit in that is that U.S. Steel has worked out an agreement with the State of Minnesota to extend their permits, and so the permits facilitated with construction carry forth, and that was very good news.

He also further indicated in there that U.S. Steel continues to evaluate this whole emergent side of the business, direct reduced iron. I spoke about this in New York when I was out there with you all but direct reduced iron or these direct reduced iron nuggets, if you will, or products, enhanced pellet products, they're really becoming more in vogue because of lower natural gas pricing and all the rest. And so while I wasn't at the meeting and didn't sit in the call, Paul, it was clear that U.S. Steel has slowed down the, quote-unquote, taconite expansion, have maintained their permits going forward and are continuing to evaluate the role DRI might be able to play now in any sort of mining and processing operations for U.S. Steel on the Iron Range.

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star one.

We have no more questions at this time. I would like turn the conference back to our President and CEO, Al Hodnik, for closing remarks.

Alan Hodnik: Well, Thank you for your continued interest in ALLETE. We look forward to reporting our continued progress on our multi-faceted, multi-year growth plans as the year continues to unfold. Thank you and have a very good day.

Operator: Ladies and gentlemen, this does conclude today's conference. You may now disconnect.

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