Operator: Good day and welcome to the ALLETE Third Quarter 2011 Financial Results Call. Today's call is being recorded.

Certain statements contained in this conference call that are not description 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 could 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 statement or to make any other forward-looking statement, whether as the result of new information, future events or otherwise.

For opening remarks and introductions, I would now turn the conference over to your host for today, ALLETE President, Chairman and CEO, Mr. Al Hodnik. Sir, you may begin.
Good morning. We are glad you have joined us today. With me is ALLETE’s Chief Financial Officer, Mark Schober.

This morning we released our third quarter earnings results of 57 cents per share. I am pleased with our financial progress so far this year and we now expect that final year-end earnings will be at the higher end of our earnings guidance range.

Mark will provide you the quarterly financial results in a few moments. With regards to executing our strategy, I am well-pleased with the progress we have made towards achieving a number of key growth initiatives. Before turning the call over to Mark, let me highlight more specifically strategy and action.

In energy-rich and energy-friendly North Dakota, construction continues on the second phase of Minnesota Power’s 82-megawatt Bison I wind project. The full Bison I project will be completed and in service by the end of this year. Bison II and Bison III are both 105-megawatt projects, estimated to cost $160 million each. Both Bison II and Bison III have received certificates of site compatibility from the State of North Dakota, which authorized construction to commence.

On August 24 and October 20, the Minnesota Public Utility Commission approved current cost recovery petitions for Bison II and Bison III, respectively. As we speak to you today, site preparation is underway for Bison II and Bison III. We expect the majority of construction work to take place in 2012 with both projects in service by the fall of next year and well ahead of any potential policy shift with respect to the production tax credit, or PTC.

Moving to our transmission strategy and investments, Minnesota Power is currently participating in three CapX2020 projects. Construction is underway on all three projects. And we expect to invest between $100 million and $125 million in them to 2015. As of September 30, we have spent approximately $20 million on these projects.

I would like to remind you that Bison wind and CapX2020 projects all qualify for current cost recovery treatment.
Let me turn now to our industrial customers and organic growth within our region. First, on August 1 we received demand nominations for the September through December period. Our industrial customers nominated at near capacity levels for the remainder of 2011. We will receive nominations for the first four months of 2012 by December 1.

With regard to new industrial development, the pace of construction has increased on Essar Steel's new taconite facility. Earlier this month, the first of what will be many steel beams were raised at the site.

As you know, Essar Steel has signed a long-term electric service agreement with the City of Nashwauk calling for 70- to 110-megawatts of electricity. Nashwauk has a long-term wholesale contract with Minnesota Power for all of its electric service requirements. Essar Steel anticipates its taconite facility will begin operations during the latter part of 2012.

Minnesota Power has recently entered into an agreement to provide electric service to Magnetation, an innovative new company that produces iron concentrate from previously mined ore. Magnetation, which currently has a plant in operation outside of our service territory, is constructing a second plant within Minnesota Power's service territory. It expects to be operational sometime in the spring of 2012.

In July, Magnetation entered into a letter of intent with Steel Dynamics to construct a third plant also within our service territory to supply concentrate to Masabi Nugget.

It anticipates the third plant will be operational in 2013. Both the second and third plants are expected to use about 5- to 7-megawatts of electricity each.

Magnetation, which already has an existing relationship with Cargill, recently announced that it has also entered into a joint venture with AK Steel. Magnetation and AK Steel has stated that the joint venture plans to construct two additional 5- to 7-megawatt facilities by 2016. They also plan to construct by 2016, and potentially in Minnesota Power's service territory, a new 15- to 25-megawatt taconite pelletizing plant.
We will keep you posted on these developments and the impact this organic growth will have on Minnesota Power as we go forward.

We have been executing upon various strategies and you can understand why our company is excited about the potential for organic growth within our region and the capital investment prospects that come with it for our company. We look forward to giving you further updates in the coming quarters.

At this time I will turn the call over to Mark Schober. Mark?

Mark Schober: Thank you, Al, and good morning, everyone. Before I begin I'd 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 third quarter ALLETE reported earnings of $0.57 per share on net income of $20.5 million and revenue of $226.9 million. In the same period a year ago, ALLETE earned $0.56 per share on net income of $19.6 million and revenue of $224.1 million.

I will now provide details on our regulated operations segment, which includes Minnesota Power, Superior Water, Light and Power, and our investment in the American Transmission Company.

Earnings from ALLETE's regulated operations segment improved approximately 8 percent from $22.1 million in 2010 to $23.8 million in 2011, due primarily to an increase in industrial electric sales and higher current cost recovery revenue at Minnesota Power. The revenue increase was partially offset by increased expenses related to depreciation, interest and property taxes with our ongoing capital investments.

Total regulated operations revenue increased $2.6 million over 2010. Revenue and kilowatt hour sales to retail and municipal customers increased $4.1 million and 2 percent respectively from 2010, due to increased sales to our industrial customers. Increased revenue from those industrial sales was offset by a $6.2 million and a 14.6 percent decrease in revenue and kilowatt hour sales respectively to other power suppliers.
Current cost recovery rider revenue increased by $3.2 million due to higher capital expenditures primarily related to our Bison I project and investment in CapX2020 projects. Fuel adjustment cost recoveries increased $1.6 million or 9 percent from 2010, due to an increase in megawatt hour sales and higher fuel and purchase power costs attributable to our retail and municipal customers.

On the expense side, fuel and purchase power decreased $4.2 million or 5 percent from 2010, primarily due to a decrease in purchased megawatt hours, which was partially offset by increased company generation and higher coal prices. Regulated operating and maintenance expense for the quarter were similar to the same period last year.

Due to increases in property taxes, field maintenance and vegetation control expenses and incentive accruals, we expect a total year increase in O&M expense compared to 2010.

Depreciation expense increased $2.5 million and interest expense was up $1.2 million for the quarter, both directly attributable to the capital investment program at our regulated operations.

Earnings from our investment in ATC for the quarter were in-line with 2010 results.

Income tax expense increased $700,000 this quarter from 2010, primarily due to higher pre-tax income, partially offset by additional renewable tax credits in 2011. The investments and other segment reported a net loss of $3.3 million, compared to a net loss of $2.5 million in the same quarter of 2010. The primary contributors were increased operating and maintenance expenses from business development activities and higher state income tax expenses.

Earnings at BNI Coal were similar to 2010 results.

ALLELTE Properties recorded no sales during the quarter, but decreased its quarterly loss compared to last year due to lower expenses.
Our consolidated effective tax rate for the third quarter of 2011 was 38.2 percent compared to 36.5 percent for the same quarter 2010. We continue to expect that the effective tax rate for the full year will be approximately 25 percent.

Finally, our larger share balance over last year related to funding our capital expenditures had a dilutive impact of 2 cents per share for the quarter.

In summary, we're pleased with our results from the third quarter and year to date. We continue to carry a strong balance sheet and we have ample liquidity to support our ongoing and significant energy investments.

We expect to finish 2011 with earnings at the higher end of our guidance range, which is $2.40 to $2.60 per share, excluding a one-time 8 cents per share income tax benefit recorded in the second quarter.

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Alan Hodnik: Thanks, Mark. ALLETE is an energy company focused on growth within a transforming energy sector. We are committed to earning a financial return that rewards our shareholders, allows for reinvestment in our businesses and sustains our growth initiatives. A key goal of ours is to achieve minimum average annual earnings per share growth of 5 percent per year. This, while maintaining a competitive dividend.

ALLETE has a number of multifaceted and multi-year growth opportunities in progress that we believe will help us meet that goal. Minnesota Power has potential for significant top-line revenue growth from sales to new and existing wholesale and retail industrial customers. The new Essar Steel and Magnetation facilities are prime examples of that.

On the regional permitting front, more good news from the State of Minnesota – United States Steel's final Environmental Impact Statement, or EIS, has been judged to be adequate by the Minnesota Department of Natural Resources, this relative to their proposed $300 million Keewatin taconite expansion.
This week and by unanimous vote, the Minnesota Pollution Control Agency's Citizens Board approved the Keetac water quality permit. Both of these events were significant milestones, which helped pave the way for a final decision on United States Steel's expansion plans.

PolyMet continues to work closely with federal and state regulators on their required Supplemental Draft Environmental Impact Statement, or SDEIS, and other environmental permitting for its proposed copper nickel mining operation. Minnesota Power, as you know, already has a long-term power contract with PolyMet Mining.

Our current five-year capital plan calls for expenditures of more than $1 billion, which should result in total rate-based growth exceeding 20 percent. Much of these capital investments will fund our North Dakota wind initiative, as well as our CapX2020 projects, all of which are eligible for current cost recovery treatment.

Our recent launch of ALLETE Clean Energy positions us well for the clean energy, energy independent future America is calling for and the energy-centric growth we envision coming from it.

Finally, we continue our efforts to exit our nonstrategic Florida real estate business by selling its land assets at reasonable prices. Proceeds from those sales will be used to fund growth initiatives within our energy business.

Looking ahead to the remainder of this year, we will receive demand nominations from our industrial customers on December 1 and will announce them shortly thereafter. Also, we expect to be in a position to initiate our 2012 earnings guidance sometime in mid-December.

We, at ALLETE, are excited about our future as we continue to pursue the multifaceted and multi-year growth opportunities in front of us.

At this time, I will ask the operator to open the lines so Mark and I can take your questions.
Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star 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. Again, if you have a question, please press star then one.

Our first question comes from Larry Solow of CJS Securities. Your line is open.

Dan Moore: Good morning, gentlemen. This is actually Dan Moore filling in for Larry.

Alan Hodnik: Hi, Dan.

Dan Moore: Thanks for taking the question. Recognizing that you're not giving guidance on this call for 2012 in terms of your outlook, maybe you can just give us a little bit of color with the industrial related businesses now running at or near capacity, what are some of the levers that – remind us of some of the levers that you can pull, the opportunities that you might have that would make your 5 percent year-on-year EPS growth target achievable or perhaps a bit more challenging for the coming year?

Alan Hodnik: Well, again, I think I've enunciated our multifaceted opportunities, both on the industrial side, our top-line revenue growth side.

Magnetation continues to move its expansion plans forward. We expect one or more of those plants to come in service in the next year, year and a half, so there's sort of construction issues associated with those projects that we can't control but we're very optimistic about their prospects.

Essar Steel, of course, continues to move forward with construction of its plant. We have transmission opportunities, of course, with CapX2020 projects and the pace and timing of some of those kinds of initiatives kind of ebb and flow with construction as well.

But overall we're very excited about our growth prospects, not only for '12, but going forward. And we believe that most or all of them will materialize at some point during the plan that we have devised here over the next several years.
Mark Schober: Dan, this is Mark. As we look forward into 2012, Al already mentioned that we'll be getting nominations from our current customers here December 1.

Today, they're running at full capacity. We've had no indications of a significant change or drop off as we look into 2012, but as soon as we get those nominations we plan on releasing them.

If they come in softer than what we expect, it'd be very similar to the process we went through back in 2009 then. We'd have advanced notice of when they'd be – loads would start to drop off and we'd take that power into the wholesale market to the extent we can, very similar to what we've done in prior years and hopefully replicate a big chunk of those margins.

Dan Moore: Very helpful, appreciate it. One quick follow-up, regarding Essar, maybe just any more color you'd be willing to provide in terms of their planning and the timing of when you might start to see the benefits from those operations.

Alan Hodnik: Well, again, Dan, you know, construction's well underway, as I said. They're raising beams in the air as I speak. They would expect to have some 400 people on the job here presently from the construction trades. They've made advance orders of materials and so on and so forth. And they're in discussions, at least their public statements about it all, they still expect to have the taconite processing facility up and running in late 2012.

And then off into 2013, of course, they would begin their continuing operation of that phase. They've talked about expansion plans down the road with respect to direct reduced iron and perhaps even steel slabs at some point down the road, depending on domestic steel conditions and their needs in India.

But the bottom line, I think the way to think about it is that we have a long-term contract with the City of Nashwauk. The City of Nashwauk supplies Essar Steel and so at least for the initial taconite phase, but also subsequent phases there's a bright outlook for not only the City of Nashwauk, Essar, Minnesota Power and ALLETE.

Dan Moore: Very helpful, thanks for taking the questions.
Alan Hodnik: Thank you.

Operator: Thank you. Again, if you have a question at this time, please press star one on your touchtone telephone.

Our next question comes from James Bellessa of D.A. Davidson. Your line is open.

James Bellessa: Good morning.

Alan Hodnik: Good morning, Jim.

James Bellessa: It appears that you had a strong utility quarter. Was there any weather impacts during the period?

Mark Schober: Minimal, Jim. It was really driven by our strong industrial sales and, as you're aware, they're not impacted by weather.

James Bellessa: And, on your CapEx budget, if you're going to attain it for the year, it appears that you'll have over $120 million of CapEx in the fourth quarter. Is that just the Bison projects or is there something else going on?

Mark Schober: There's other maintenance CapEx that's in there, Jim, but the primary driver is the Bison projects. And that's as we expected. We know we're going to be having heavy CapEx in the fourth quarter. And you kind of see the run up in cash too when you look at our balance sheet.

Our cash balance at the end of the quarter is up about $135 million and that will be coming down substantially as we move towards year end as we make those capital expenditures.

James Bellessa: Next year's $439 million, how much of it is Bison I and II – or II and III rather?

Mark Schober: The majority of that we have the detail in our 10-Q. The majority of it is related to the Bison projects. If I look real quick probably about $300 million of it, Jim, is related to renewable and the majority of that is Bison.
James Bellessa: OK. Thank you very much.

Operator: Thank you, Jim. I'm showing no further questions in the queue at this time.

Alan Hodnik: All right. Well, thank you again for taking the time and for your questions this morning. We look forward, Mark and I do, to seeing many of you at EEI's financial conference next week and we'll be talking to you soon about our financial plans for the future. Thank you very much.

Operator: Thank you. Ladies and gentlemen, this concludes the conference for today. You may all disconnect and have a wonderful day.

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