

ALLETE INC
Form 10-Q
August 01, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2008

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

(State or other jurisdiction of incorporation or
organization)

41-0418150

(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. 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):

Edgar Filing: ALLETE INC - Form 10-Q

Large Accelerated Filer T
Non-Accelerated Filer F

Accelerated Filer F
Smaller Reporting Company F

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). F
Yes T No

Common Stock, no par value,
30,976,329 shares outstanding
as of June 30, 2008

INDEX

	Page
<u>Definitions</u>	3
<u>Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995</u>	5
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheet -</u>	
<u>June 30, 2008 and December 31, 2007</u>	6
<u>Consolidated Statement of Income -</u>	
<u>Quarter and Six Months Ended June 30, 2008 and</u>	
<u>2007</u>	7
<u>Consolidated Statement of Cash Flows -</u>	
<u>Six Months Ended June 30, 2008 and 2007</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial</u>	
<u>Condition</u>	
<u>and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures about Market</u>	
<u>Risk</u>	36
<u>Item 4. Controls and Procedures</u>	37
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	38
<u>Item 1A. Risk Factors</u>	38
<u>Item 2. Unregistered Sales of Equity Securities and Use of</u>	
<u>Proceeds</u>	38
<u>Item 3. Defaults Upon Senior Securities</u>	38
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	38
<u>Item 5. Other Information</u>	39
<u>Item 6. Exhibits</u>	41

Signatures

42

ALLETE Second Quarter 2008 Form 10-Q

2

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
AFUDC	Allowance for Funds Used During Construction – consisting of the cost of both the debt and equity funds used to finance utility plant additions during construction periods
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, LLC and its subsidiaries
AREA	Arrowhead Regional Emission Abatement
ATC	American Transmission Company LLC
BNI Coal	BNI Coal, Ltd.
BNSF	BNSF Railway Company
Boswell	Boswell Energy Center
Company	ALLETE, Inc. and its subsidiaries
DC	Direct Current
DOC	Minnesota Department of Commerce
EITF	Emerging Issues Task Force
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
FPL Energy	FPL Energy, LLC
GAAP	United States Generally Accepted Accounting Principles
GHG	Greenhouse Gases
Invest Direct	ALLETE’s Direct Stock Purchase and Dividend Reinvestment Plan
kV	Kilovolt(s)
Laskin	Laskin Energy Center
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midwest Independent Transmission System Operator, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
Non-residential	Retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional
NOX	Nitrogen Oxide
Note ____	Note ____ to the consolidated financial statements in this Form 10-Q
OAG	Office of the Attorney General
OES	Minnesota Office of Energy Security
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

Definitions (Continued)	
Abbreviation or Acronym	Term
Palm Coast Park District	Palm Coast Park Community Development District
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards No.
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
WDNR	Wisconsin Department of Natural Resources

ALLETE Second Quarter 2008 Form 10-Q

Safe Harbor Statement
Under the Private Securities Litigation Reform Act of 1995

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are hereby filing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) made by or on behalf of ALLETE in this Quarterly Report on Form 10-Q, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions, or future events or performance (often, but not always, through the use of words or phrases such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “projects,” “will likely result,” “will continue,” “potential,” “target,” “outlook” or similar expressions) are not statements of historical facts and may be forward-looking.

Forward-looking statements involve estimates, assumptions, risks and uncertainties, which are beyond our control and may cause actual results or outcomes to differ materially from those that may be projected. 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:

- our ability to successfully implement our strategic objectives;
- our ability to manage expansion and integrate acquisitions;
- prevailing governmental policies, regulatory actions, and legislation including those of the United States Congress, state legislatures, the FERC, the MPUC, the PSCW, and various local and county regulators, and city administrators, about allowed rates of return, financings, industry and rate structure, acquisition and disposal of assets and facilities, real estate development, operation and construction of plant facilities, recovery of purchased power, capital investments and other expenses, present or prospective wholesale and retail competition (including but not limited to transmission costs), zoning and permitting of land held for resale and environmental matters;
- the potential impacts of climate change and future regulation to restrict the emissions of GHG on our Regulated Utility operations;
- effects of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with laws and policies;
- weather conditions;
- natural disasters and pandemic diseases;
- war and acts of terrorism;
- wholesale power market conditions;
- population growth rates and demographic patterns;
- effects of competition, including competition for retail and wholesale customers;
- changes in the real estate market;
- pricing and transportation of commodities;
- changes in tax rates or policies or in rates of inflation;
- unanticipated project delays or changes in project costs;
- availability and management of construction materials and skilled construction labor for capital projects;
- unanticipated changes in operating expenses, capital and land development expenditures;
- global and domestic economic conditions;
- our ability to access capital markets and bank financing;
- changes in interest rates and the performance of the financial markets;

Edgar Filing: ALLETE INC - Form 10-Q

- our ability to replace a mature workforce and retain qualified, skilled and experienced personnel; and
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this report are discussed in Item 1A under the heading “Risk Factors” in Part I of our 2007 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 it assess the impact of each of these factors on the businesses of ALLETE 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 advise interested parties of the factors that may affect our business.

ALLETE Second Quarter 2008 Form 10-Q

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions – Unaudited

	June 30, 2008	December 31, 2007
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 99.1	\$ 23.3
Short-Term Investments	–	23.1
Accounts Receivable (Less Allowance of \$1.0 at June 30, 2008 and \$1.0 at December 31, 2007)	59.2	79.5
Inventories	53.7	49.5
Prepayments and Other	27.2	39.1
Total Current Assets	239.2	214.5
Property, Plant and Equipment - Net	1,224.3	1,104.5
Investments	208.3	213.8
Other Assets	117.0	111.4
Total Assets	\$ 1,788.8	\$ 1,644.2
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 69.2	\$ 72.7
Accrued Taxes	15.7	14.8
Accrued Interest	9.6	7.8
Notes Payable	6.0	–
Long-Term Debt Due Within One Year	14.8	11.8
Deferred Profit on Sales of Real Estate	2.7	2.7
Other	24.0	27.3
Total Current Liabilities	142.0	137.1
Long-Term Debt	538.5	410.9
Deferred Income Taxes	152.6	144.2
Other Liabilities	187.2	200.1
Minority Interest	9.3	9.3
Total Liabilities	1,029.6	901.6
Commitments and Contingencies		
Shareholders' Equity		
Common Stock Without Par Value, 43.3 Shares Authorized, 31.0 and 30.8		
Shares Outstanding	469.8	461.2
Unearned ESOP Shares	(60.4)	(64.5)
Accumulated Other Comprehensive Loss	(7.7)	(4.5)
Retained Earnings	357.5	350.4
Total Shareholders' Equity	759.2	742.6

Edgar Filing: ALLETE INC - Form 10-Q

Total Liabilities and Shareholders' Equity	\$ 1,788.8	\$ 1,644.2
--	------------	------------

The accompanying notes are an integral part of these statements.

ALLETE Second Quarter 2008 Form 10-Q

6

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

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Operating Revenue	\$ 189.8	\$ 223.3	\$ 403.2	\$ 428.6
Operating Expenses				
Fuel and Purchased Power	75.0	92.9	161.3	170.6
Operating and Maintenance	83.8	84.6	166.2	159.2
Depreciation	12.9	11.9	25.6	23.6
Total Operating Expenses	171.7	189.4	353.1	353.4
Operating Income	18.1	33.9	50.1	75.2
Other Income (Expense)				
Interest Expense	(7.2)	(6.1)	(13.9)	(12.4)
Equity Earnings in ATC	3.6	3.2	7.0	6.1
Other	2.5	4.1	11.1	8.7
Total Other Income (Expense)	(1.1)	1.2	4.2	2.4
Income Before Minority Interest and Income Taxes	17.0	35.1	54.3	77.6
Income Tax Expense	6.2	11.2	19.9	27.3
Minority Interest	0.1	1.3	0.1	1.4
Net Income	\$ 10.7	\$ 22.6	\$ 34.3	\$ 48.9
Average Shares of Common Stock				
Basic	28.8	28.2	28.7	28.1
Diluted	28.9	28.3	28.8	28.2
Earnings Per Share of Common Stock				
Basic	\$ 0.37	\$ 0.80	\$ 1.19	\$ 1.74
Diluted	\$ 0.37	\$ 0.80	\$ 1.19	\$ 1.73
Dividends Per Share of Common Stock	\$ 0.43	\$ 0.41	\$ 0.86	\$ 0.82

The accompanying notes are an integral part of these statements.

ALLETE Second Quarter 2008 Form 10-Q

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	Six Months Ended	
	June 30,	
	2008	2007
Operating Activities		