

Edgar Filing: ALLETE INC - Form 10-Q

ALLETE INC
Form 10-Q
May 04, 2007

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 MARCH 31, 2007

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Common Stock, no par value,

Edgar Filing: ALLETE INC - Form 10-Q

30,526,839 shares outstanding
as of April 30, 2007

INDEX

	Page
Definitions	2
Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995	3
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheet - March 31, 2007 and December 31, 2006	4
Consolidated Statement of Income - Quarter Ended March 31, 2007 and 2006	5
Consolidated Statement of Cash Flows - Quarter Ended March 31, 2007 and 2006	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures about Market Risk	24
Item 4. Controls and Procedures	25
Part II. Other Information	
Item 1. Legal Proceedings	26
Item 1A. Risk Factors	26
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	26
Item 3. Defaults Upon Senior Securities	26
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 5. Other Information	26
Item 6. Exhibits	28
Signatures	29
1	ALLETE First Quarter 2007 Form 10-Q

DEFINITIONS

The following abbreviations or acronyms are used in the text. References in this

Edgar Filing: ALLETE INC - Form 10-Q

report to "we," "us" and "our" are to ALLETE, Inc. and its subsidiaries, collectively.

ABBREVIATION OR ACRONYM	TERM

2006 Form 10-K	ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 2006
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, LLC
AREA	Arrowhead Regional Emission Abatement Plan
ATC	American Transmission Company LLC
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
Company	ALLETE, Inc. and its subsidiaries
DOC	Minnesota Department of Commerce
EITF	Emerging Issues Task Force Issue No.
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretations
FPL	FPL Energy, LLC
GAAP	Accounting Principles Generally Accepted in the United States of America
Heating Degree Days	Measure of the extent to which the average daily temperature is below 65 degrees Fahrenheit, increasing demand for heating
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.
Moody's	Moody's Investors Service, Inc.
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
Note ____	Note ____ to the consolidated financial statements in this Form 10-Q
NOX	Nitrogen Oxide
Palm Coast Park	Palm Coast Park development project in northeast Florida
Palm Coast Park District	Palm Coast Park Community Development District
PSCW	Public Service Commission of Wisconsin
Rainy River Energy	Rainy River Energy Corporation - Wisconsin
Resource Plan	Integrated Resource Plan
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards No.
SO2	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative
Standard & Poor's	Standard & Poor's Ratings Group, a division of McGraw-Hill Companies
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
Town Center	Town Center at Palm Coast development project in northeast Florida
Town Center District	Town Center at Palm Coast Community Development District
WDNR	Wisconsin Department of Natural Resources

Edgar Filing: ALLETE INC - 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," "could," "may," "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 and capitl investments, present or prospective wholesale and retail competition (including but not limited to transmission costs), zoning and permitting of land held for resale and environmental regulation;
- 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 of construction materials and skilled construction labor for capital projects;
- unanticipated changes in operating expenses and capital 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;
- 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

Edgar Filing: ALLETE INC - Form 10-Q

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 2006 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.

3

ALLETE First Quarter 2007 Form 10-Q

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
MILLIONS - UNAUDITED

MARCH 31
2007

ASSETS

Current Assets

Cash and Cash Equivalents	\$	46.4
Short-Term Investments		82.1
Accounts Receivable (Less Allowance of \$1.1 at March 31, 2007 and December 31, 2006)		73.4
Inventories		44.3
Prepayments and Other		35.6
Deferred Income Taxes		-

Total Current Assets		281.8
----------------------	--	-------

Property, Plant and Equipment - Net		933.0
-------------------------------------	--	-------

Investments		206.7
-------------	--	-------

Other Assets		138.6
--------------	--	-------

TOTAL ASSETS		\$1,560.1
--------------	--	-----------

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

Edgar Filing: ALLETE INC - Form 10-Q

Current Liabilities	
Accounts Payable	\$ 39.4
Accrued Taxes	39.2
Accrued Interest	6.4
Long-Term Debt Due Within One Year	32.3
Deferred Profit on Sales of Real Estate	3.2
Other	24.9

Total Current Liabilities	145.4
Long-Term Debt	359.3
Deferred Income Taxes	131.0
Other Liabilities	229.2
Minority Interest	7.5

Total Liabilities	872.4

COMMITMENTS AND CONTINGENCIES	

SHAREHOLDERS' EQUITY	
Common Stock Without Par Value, 43.3 Shares Authorized, 30.5 and 30.4 Shares Outstanding	442.9
Unearned ESOP Shares	(69.7)
Accumulated Other Comprehensive Loss	(8.6)
Retained Earnings	323.1

Total Shareholders' Equity	687.7

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,560.1

The accompanying notes are an integral part of these statements.

ALLETE First Quarter 2007 Form 10-Q

4

ALLETE
CONSOLIDATED STATEMENT OF INCOME
MILLIONS EXCEPT PER SHARE AMOUNTS - UNAUDITED

	Q
	2007

OPERATING REVENUE	\$205.3

Edgar Filing: ALLETE INC - Form 10-Q

OPERATING EXPENSES	
Fuel and Purchased Power	77.7
Operating and Maintenance	74.6
Depreciation	11.7

Total Operating Expenses	164.0

OPERATING INCOME FROM CONTINUING OPERATIONS	41.3

OTHER INCOME (EXPENSE)	
Interest Expense	(6.3)
Other	7.5

Total Other Income (Expense)	1.2

INCOME FROM CONTINUING OPERATIONS	
BEFORE MINORITY INTEREST AND INCOME TAXES	42.5
MINORITY INTEREST	0.1

INCOME FROM CONTINUING OPERATIONS	
BEFORE INCOME TAXES	42.4
INCOME TAX EXPENSE	16.1

INCOME FROM CONTINUING OPERATIONS	26.3
LOSS FROM DISCONTINUED OPERATIONS	-

NET INCOME	\$ 26.3

AVERAGE SHARES OF COMMON STOCK	
Basic	28.1
Diluted	28.1

BASIC AND DILUTED EARNINGS PER SHARE OF COMMON STOCK	
Continuing Operations	\$0.93
Discontinued Operations	-

	\$0.93

DIVIDENDS PER SHARE OF COMMON STOCK	\$0.4100

The accompanying notes are an integral part of these statements.

Edgar Filing: ALLETE INC - Form 10-Q

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
MILLIONS - UNAUDITED

	Q
	2007
<hr/>	
OPERATING ACTIVITIES	
Net Income	\$26.3
Income from Equity Investments	(0.8)
Gain on Sale of Assets	(1.9)
Depreciation	11.7
Deferred Income Taxes	0.3
Minority Interest	0.1
Stock Compensation Expense	0.5
Bad Debt Expense	0.1
Changes in Operating Assets and Liabilities	
Accounts Receivable	0.4
Inventories	(0.9)
Prepayments and Other	(11.8)
Accounts Payable	(10.5)
Other Current Liabilities	10.7
Other Assets	(0.1)
Other Liabilities	2.1
Net Operating Activities for Discontinued Operations	-
<hr/>	
Cash from Operating Activities	26.2
<hr/>	
INVESTING ACTIVITIES	
Proceeds from Sale of Available-For-Sale Securities	32.9
Payments for Purchase of Available-For-Sale Securities	(10.5)
Changes to Investments	(15.9)
Additions to Property, Plant and Equipment	(25.5)
Proceeds from Sale of Assets	1.3
Other	(2.5)
Net Investing Activities from Discontinued Operations	-
<hr/>	
Cash for Investing Activities	(20.2)
<hr/>	
FINANCING ACTIVITIES	
Issuance of Common Stock	3.8
Issuance of Long-Term Debt	62.7
Payments of Debt	(60.6)
Dividends on Common Stock and Distributions to Minority Shareholders	(10.3)
Net Decrease in Book Overdrafts	-
Net Financing Activities for Discontinued Operations	-
<hr/>	
Cash for Financing Activities	(4.4)
<hr/>	
CHANGE IN CASH AND CASH EQUIVALENTS	1.6
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	44.8

Edgar Filing: ALLETE INC - Form 10-Q

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$46.4

The accompanying notes are an integral part of these statements.

ALLETE First Quarter 2007 Form 10-Q

6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with our 2006 Form 10-K. In our opinion, all adjustments necessary for a fair statement of the results for the interim periods have been made and have occurred in the normal course of business. The results of operations for an interim period are not necessarily indicative of the results to be expected for the full year.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

INVENTORIES. Inventories are stated at the lower of cost or market. Cost is determined by the average cost method.

	MARCH 31, 2007	DECEMBER 31, 2006
INVENTORIES		
<hr/>		
MILLIONS		
Fuel	\$20.2	\$18.9
Materials and Supplies	24.1	24.5
<hr/>		
Total Inventories	\$44.3	\$43.4

SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION. Amounts presented for 2006 have been revised to eliminate intercompany interest payments from cash paid during the period for Interest - Net of Amounts Capitalized.

CONSOLIDATED STATEMENT OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE

FOR THE QUARTER ENDED MARCH 31	2007	2006
--------------------------------	------	------

MILLIONS

Cash Paid During the Period for		
Interest - Net of Amounts Capitalized	\$9.2	\$8.8
Income Taxes	\$1.9	\$3.7
Noncash Investing Activities		
Accounts Payable for Capital Additions to Property Plant and Equipment	\$3.6	-

Edgar Filing: ALLETE INC - Form 10-Q

NEW ACCOUNTING STANDARDS. SFAS 157. In September 2006, the FASB issued SFAS 157, "Fair Value Measurements," to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It clarifies the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements, and the effect of certain measurements on earnings for the period. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and is applied on a prospective basis. We are currently evaluating the impact that the adoption of SFAS 157 would have on our consolidated financial position, results of operations and cash flows.

SFAS 159. In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which is an elective, irrevocable election to measure eligible financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The election may only be applied at specified election dates and to instruments in their entirety rather than to portions of instruments. Upon initial election, the entity reports the difference between the instruments' carrying value and their fair value as a cumulative-effect adjustment to the opening balance of retained earnings. At each subsequent reporting date, an entity shall report in earnings, unrealized gains and losses on items for which the fair value option has been elected. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and is applied on a prospective basis. Early adoption of SFAS 159 is permitted provided the entity also elects to adopt the provisions of SFAS 157 as of the early adoption date selected for SFAS 159. We are currently evaluating the impact that the adoption of SFAS 159 would have on our consolidated financial position, results of operations and cash flows.

7

ALLETE First Quarter 2007 Form 10-Q

NOTE 2. BUSINESS SEGMENTS

	ENERGY			
	CONSOLIDATED	REGULATED UTILITY	NONREGULATED ENERGY OPERATIONS	INVESTMENT IN ATC
MILLIONS				
FOR THE QUARTER ENDED MARCH 31, 2007				
Operating Revenue	\$205.3	\$180.2	\$16.8	-
Fuel and Purchased Power	77.7	77.7	-	-
Operating and Maintenance	74.6	56.9	14.4	-
Depreciation Expense	11.7	10.6	1.1	-
Operating Income (Loss) from				
Continuing Operations	41.3	35.0	1.3	-
Interest Expense	(6.3)	(5.2)	(0.6)	-
Other Income	7.5	0.5	2.3	\$2.9

Edgar Filing: ALLETE INC - Form 10-Q

Income from Continuing Operations				
Before Minority Interest				
and Income Taxes	42.5	30.3	3.0	2.9
Minority Interest	0.1	-	-	-

Income from Continuing Operations				
Before Income Taxes	42.4	30.3	3.0	2.9
Income Tax Expense	16.1	11.5	0.8	1.1

Income from Continuing Operations	26.3	\$ 18.8	\$ 2.2	\$1.8

Loss from				
Discontinued Operations - Net				
of Tax	-			

Net Income	\$ 26.3			

AT MARCH 31, 2007

Total Assets	\$1,560.1	\$1,182.8	\$79.5	\$63.7
Property, Plant and Equipment - Net	\$933.0	\$880.5	\$49.0	-
Accumulated Depreciation	\$817.5	\$775.7	\$40.1	-
Capital Expenditures	\$21.9	\$21.9	-	-

FOR THE QUARTER ENDED MARCH 31, 2006

Operating Revenue	\$192.5	\$162.4	\$ 16.3	-
Fuel and Purchased Power	69.4	69.4	-	-
Operating and Maintenance	74.5	55.8	14.1	-
Depreciation Expense	12.2	11.1	1.1	-

Operating Income (Loss) from				
Continuing Operations	36.4	26.1	1.1	-
Interest Expense	(6.4)	(5.1)	(0.5)	-
Other Income	1.7	-	0.3	-

Income (Loss) from Continuing				
Operations				
Before Minority Interest				
and Income Taxes	31.7	21.0	0.9	-
Minority Interest	1.3	-	-	-

Income (Loss) from Continuing				
Operations				
Before Income Taxes	30.4	21.0	0.9	-
Income Tax Expense (Benefit)	11.6	8.0	-	-

Income (Loss) from Continuing				
Operations	18.8	\$ 13.0	\$ 0.9	-

Loss from

Edgar Filing: ALLETE INC - Form 10-Q

Discontinued Operations - Net
of Tax -

Net Income \$ 18.8

AT MARCH 31, 2006

Total Assets	\$1,404.0	\$974.3	\$105.2	-
Property, Plant and Equipment - Net	\$862.3	\$803.2	\$54.3	-
Accumulated Depreciation	\$797.5	\$760.8	\$35.1	-
Capital Expenditures	\$13.6	\$13.3	\$0.3	-

ALLETE First Quarter 2007 Form 10-Q

8

NOTE 3. INVESTMENTS

SHORT-TERM INVESTMENTS. At March 31, 2007 and December 31, 2006, we held \$82.1 million and \$104.5 million, respectively, of Short-Term investments, consisting of auction rate bonds and variable rate demand notes classified as available-for-sale securities. Our investments in these securities are recorded at cost; however, their cost approximates fair value because the variable interest rates for these securities typically reset every 7 to 35 days. Despite the long-term nature of their stated contractual maturities, we have the ability to quickly liquidate these securities. As a result, we had no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from our short-term investments. All income generated from these short-term investments was recorded as interest income.

LONG-TERM INVESTMENTS. At March 31, 2007, Investments included the real estate assets of ALLETE Properties, our investment in ATC, debt and equity securities consisting primarily of securities held to fund employee benefits and our emerging technology investments.

We account for our investment in ATC under the equity method of accounting, pursuant to EITF 03-16, "Accounting for Investments in Limited Liability Companies," which requires the use of the equity method of accounting for investments in limited liability companies.

	MARCH 31, 2007
INVESTMENTS	
<hr style="border-top: 1px dashed black;"/>	
MILLIONS	
Real Estate Assets	\$ 90.6
Debt and Equity Securities	43.4
Investment in ATC	63.7
Emerging Technology Investments	9.0
<hr style="border-top: 1px dashed black;"/>	
Total Investments	\$206.7
<hr style="border-top: 1px dashed black;"/>	

