

Edgar Filing: ALLETE INC - Form 10-Q

ALLETE INC
Form 10-Q
August 01, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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, 2014

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 41-0418150
(State or other jurisdiction of incorporation or organization) (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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):

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller Reporting Company

Edgar Filing: ALLETE INC - Form 10-Q

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, without par value,
42,625,440 shares outstanding
as of June 30, 2014

Index	Page
<u>Definitions</u>	<u>3</u>
<u>Forward-Looking Statements</u>	<u>5</u>
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheet -</u> June 30, 2014 and December 31, 2013	<u>6</u>
<u>Consolidated Statement of Income -</u> For the Quarter and Six Months Ended June 30, 2014 and 2013	<u>7</u>
<u>Consolidated Statement of Comprehensive Income -</u> For the Quarter and Six Months Ended June 30, 2014 and 2013	<u>8</u>
<u>Consolidated Statement of Cash Flows -</u> For the Six Months Ended June 30, 2014 and 2013	<u>9</u>
<u>Notes to Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>51</u>
<u>Item 4. Controls and Procedures</u>	<u>52</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>52</u>
<u>Item 1A. Risk Factors</u>	<u>53</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>53</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>53</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>53</u>
<u>Item 5. Other Information</u>	<u>53</u>
<u>Item 6. Exhibits</u>	<u>53</u>
<u>Signatures</u>	<u>54</u>

ALLETE, Inc. Second Quarter 2014 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
AC	Alternating Current
AFUDC	Allowance for Funds Used During Construction – the cost of both debt and equity funds used to finance utility plant additions during construction periods
ALLETE	ALLETE, Inc.
ALLETE Clean Energy	ALLETE Clean Energy, Inc.
ALLETE Properties	ALLETE Properties, LLC, and its subsidiaries
ATC	American Transmission Company LLC
Bison Wind Energy Center	Bison 1, 2 & 3 Wind Facilities
Bison 4	Bison 4 Wind Project
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
CAIR	Clean Air Interstate Rule
CO ₂	Carbon Dioxide
Company	ALLETE, Inc., and its subsidiaries
CSAPR	Cross-State Air Pollution Rule
DC	Direct Current
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
GAAP	United States Generally Accepted Accounting Principles
GHG	Greenhouse Gases
GNTL	Great Northern Transmission Line
IBEW	International Brotherhood of Electrical Workers
Invest Direct	ALLETE’s Direct Stock Purchase and Dividend Reinvestment Plan
Item ____	Item ____ of this Form 10-Q
kV	Kilovolt(s)
kWh	Kilowatt-hour
Laskin	Laskin Energy Center
LIBOR	London Interbank Offered Rate
MACT	Maximum Achievable Control Technology
Manitoba Hydro	Manitoba Hydro-Electric Board
MATS	Mercury and Air Toxics Standards
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midcontinent Independent System Operator, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
NAAQS	National Ambient Air Quality Standards

ALLETE, Inc. Second Quarter 2014 Form 10-Q

Edgar Filing: ALLETE INC - Form 10-Q

Abbreviation or Acronym	Term
NOL	Net Operating Loss
Non-residential	Retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional
NO ₂	Nitrogen Dioxide
NO _x	Nitrogen Oxides
Note ____	Note ____ to the consolidated financial statements in this Form 10-Q
NPDES	National Pollutant Discharge Elimination System
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
Palm Coast Park District	Palm Coast Park Community Development District
PolyMet	PolyMet Mining Corporation
PPA	Power Purchase Agreement
PPACA	Patient Protection and Affordable Care Act of 2010
PSCW	Public Service Commission of Wisconsin
Rainy River Energy	Rainy River Energy Corporation - Wisconsin
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO ₂	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
Thomson	Thomson Energy Center
Town Center	Town Center at Palm Coast development project in Florida
Town Center District	Town Center at Palm Coast Community Development District
U.S.	United States of America
USS Corporation	United States Steel Corporation

ALLETE, Inc. Second Quarter 2014 Form 10-Q

4

Forward-Looking Statements

Statements in this report that are not statements of historical facts are considered “forward-looking” and, accordingly, involve risks and uncertainties that could cause actual results to differ materially from those discussed. Although such forward-looking statements have been made in good faith and are based on reasonable assumptions, there can be no assurance that the expected results will be achieved. Any statements that express, or involve discussions as to, future expectations, risks, beliefs, plans, objectives, assumptions, events, uncertainties, financial performance, or growth strategies (often, but not always, through the use of words or phrases such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “projects,” “likely,” “will continue,” “could,” “may,” “potential,” “target,” “outlook” or words of similar meaning) are not statements of historical facts and may be forward-looking.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are providing this cautionary statement to identify important factors that could cause our actual results to differ materially from those indicated in forward-looking statements made by or on behalf of ALLETE in this Form 10-Q, in presentations, on our website, in response to questions or otherwise. 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 in connection with such forward-looking statements that could cause our actual results to differ materially from those indicated in the forward-looking statements:

- our ability to successfully implement our strategic objectives;
- global and domestic economic conditions affecting us or our customers;
- wholesale power market conditions;
- federal and state regulatory and legislative actions that impact regulated utility economics, including our allowed rates of return, capital structure, ability to secure financing, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities and utility infrastructure, recovery of purchased power, capital investments and other expenses, including present or prospective environmental matters;
- changes in and compliance with laws and regulations;
- effects of competition, including competition for retail and wholesale customers;
- effects of restructuring initiatives in the electric industry;
- changes in tax rates or policies or in rates of inflation;
- the impacts on our Regulated Operations segment of climate change and future regulation to restrict the emissions of greenhouse gases;
- the impacts of laws and regulations related to renewable and distributed generation;
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements;
- weather conditions, natural disasters and pandemic diseases;
- our ability to access capital markets and bank financing;
- changes in interest rates and the performance of the financial markets;
- project delays or changes in project costs;
- availability and management of construction materials and skilled construction labor for capital projects;
- changes in operating expenses and capital expenditures and our ability to recover these costs;
- pricing, availability and transportation of fuel and other commodities and the ability to recover the costs of such commodities;
- our ability to replace a mature workforce and retain qualified, skilled and experienced personnel;
- effects of emerging technology;
- war, acts of terrorism and cyber attacks;
- our ability to manage expansion and integrate acquisitions;
- our current and potential industrial and municipal customers’ ability to execute announced expansion plans;
- population growth rates and demographic patterns; and
- zoning and permitting of land held for resale, real estate development or changes in the real estate market.

Edgar Filing: ALLETE INC - Form 10-Q

Additional disclosures regarding factors that could cause our results or performance to differ from those anticipated by this report are discussed in Item 1A under the heading “Risk Factors” beginning on page 28 of ALLETE’s Annual Report on Form 10-K for the year ended December 31, 2013. 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 we assess the impact of each of these factors on our businesses 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 identify the risks and uncertainties that may affect our business.

ALLETE, Inc. Second Quarter 2014 Form 10-Q

5

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLETE

CONSOLIDATED BALANCE SHEET

Millions – Unaudited

	June 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash and Cash Equivalents	\$83.6	\$97.3
Accounts Receivable (Less Allowance of \$1.1 and \$1.1)	78.9	96.3
Inventories	75.3	59.3
Prepayments and Other	32.2	35.1
Deferred Income Taxes	23.5	19.0
Total Current Assets	293.5	307.0
Property, Plant and Equipment - Net	3,020.4	2,576.5
Regulatory Assets	270.8	263.8
Investment in ATC	118.8	114.6
Other Investments	116.7	146.3
Other Non-Current Assets	75.4	68.6
Total Assets	\$3,895.6	\$3,476.8
Liabilities and Equity		
Liabilities		
Current Liabilities		
Accounts Payable	\$93.2	\$99.9
Accrued Taxes	30.9	34.8
Accrued Interest	17.4	15.7
Long-Term Debt Due Within One Year	10.8	27.2
Other	61.1	52.6
Total Current Liabilities	213.4	230.2
Long-Term Debt	1,316.8	1,083.0
Deferred Income Taxes	496.3	479.1
Regulatory Liabilities	100.1	81.0
Defined Benefit Pension and Other Postretirement Benefit Plans	117.0	133.4
Other Non-Current Liabilities	234.5	127.2
Total Liabilities	2,478.1	2,133.9
Commitments, Guarantees and Contingencies (Note 15)		
Equity		
ALLETE's Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 42.6 and 41.4 Shares Outstanding	945.1	885.2
Unearned ESOP Shares	(10.5	) (14.3
Accumulated Other Comprehensive Loss	(16.3	) (17.1
Retained Earnings	497.7	489.1
Total ALLETE Equity	1,416.0	1,342.9
Non-Controlling Interest in Subsidiaries	1.5	—
Total Equity	1,417.5	1,342.9
Total Liabilities and Equity	\$3,895.6	\$3,476.8

The accompanying notes are an integral part of these statements.

ALLETE, Inc. Second Quarter 2014 Form 10-Q

6

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

	Quarter Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Operating Revenue	\$260.7	\$235.6	\$557.2	\$499.4
Operating Expenses				
Fuel and Purchased Power	83.6	78.7	179.8	165.2
Operating and Maintenance	115.1	103.8	234.9	208.5
Depreciation	33.8	28.7	66.0	56.9
Total Operating Expenses	232.5	211.2	480.7	430.6
Operating Income	28.2	24.4	76.5	68.8
Other Income (Expense)				
Interest Expense	(13.5)	(12.8)	(26.3)	(25.1)
Equity Earnings in ATC	5.2	5.0	10.3	10.2
Other	1.9	1.5	3.9	4.2
Total Other Expense	(6.4)	(6.3)	(12.1)	(10.7)
Income Before Non-Controlling Interest and Income Taxes	21.8	18.1	64.4	58.1
Income Tax Expense	4.9	4.1	13.7	11.6
Net Income	16.9	14.0	50.7	46.5
Less: Non-Controlling Interest in Subsidiaries	0.1	—	0.4	—
Net Income Attributable to ALLETE	\$16.8	\$14.0	\$50.3	\$46.5
Average Shares of Common Stock				
Basic	42.1	39.4	41.7	39.2
Diluted	42.3	39.6	41.9	39.3
Basic Earnings Per Share of Common Stock	\$0.40	\$0.36	\$1.21	\$1.19
Diluted Earnings Per Share of Common Stock	\$0.40	\$0.35	\$1.20	\$1.18
Dividends Per Share of Common Stock	\$0.49	\$0.475	\$0.98	\$0.95

The accompanying notes are an integral part of these statements.

ALLETE, Inc. Second Quarter 2014 Form 10-Q

ALLETE
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Millions – Unaudited

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Comprehensive Income				
Millions				
Net Income	\$16.9	\$14.0	\$50.7	\$46.5
Other Comprehensive Income				
Unrealized Gain on Securities				
Net of Income Taxes of \$0.1, \$0.1, \$0.1, and \$0.1	0.2	0.1	0.2	0.1
Unrealized Gain on Derivatives				
Net of Income Taxes of \$-, \$0.1, \$0.1, and \$0.1	—	—	—	0.1
Defined Benefit Pension and Other Postretirement Benefit Plans				
Net of Income Taxes of \$0.2, \$0.3, \$0.4, and \$0.5	0.3	0.5	0.6	0.8
Total Other Comprehensive Income	0.5	0.6	0.8	1.0
Total Comprehensive Income	17.4	14.6	51.5	47.5
Less: Non-Controlling Interest in Subsidiaries	0.1	—	0.4	—
Comprehensive Income Attributable to ALLETE	\$17.3	\$14.6	\$51.1	\$47.5

The accompanying notes are an integral part of these statements.

ALLETE, Inc. Second Quarter 2014 Form 10-Q

8

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions – Unaudited

	Six Months Ended	
	June 30,	
	2014	2013
Operating Activities		
Net Income	\$50.7	\$46.5
Allowance for Funds Used During Construction – Equity	(3.8	) (2.1
Income from Equity Investments, Net of Dividends	(1.9	) (2.3
Gains on Sale of Assets / Investments	(0.2	) (0.9
Depreciation Expense	66.0	56.9
Amortization of Debt Issuance Costs	0.5	0.5
Deferred Income Tax Expense	13.6	11.6
Share-Based Compensation Expense	1.4	1.3
ESOP Compensation Expense	4.5	4.0
Defined Benefit Pension and Postretirement Benefit Expense	6.4	11.2
Bad Debt Expense	0.6	0.4
Changes in Operating Assets and Liabilities		
Accounts Receivable	21.0	9.9
Inventories	(12.9	) (1.2
Prepayments and Other	7.0	7.4
Accounts Payable	(11.0	) (10.1
Other Current Liabilities	(9.7	) (5.8
Cash Contributions to Defined Benefit Pension and Other Postretirement Benefit Plans	—	(10.8
Changes in Regulatory and Other Non-Current Assets	(11.5	) (8.0
Changes in Regulatory and Other Non-Current Liabilities	5.4	2.6
Cash from Operating Activities	126.1	111.1
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	2.7	8.1
Payments for Purchase of Available-for-sale Securities	(3.4	) (1.4
Investment in ATC	(2.3	) (1.6
Changes to Other Investments	30.6	(2.6
Additions to Property, Plant and Equipment	(333.9	) (128.6
Acquisition – Net of Cash Acquired	(23.1) —
Changes in Restricted Cash	6.0	—
Proceeds from Sale of Assets	—	0.9
Cash for Investing Activities	(323.4	) (125.2
Financing Activities		
Proceeds from Issuance of Common Stock	38.9	33.3
Proceeds from Issuance of Long-Term Debt	215.0	150.0
Reductions of Long-Term Debt	(20.8	) (65.5
Debt Issuance Costs	(1.8	) (1.3
Acquisition of Non-Controlling Interest	(6.0) —
Dividends on Common Stock	(41.7	) (38.2
Cash from Financing Activities	183.6	78.3
Change in Cash and Cash Equivalents	(13.7	) 64.2
Cash and Cash Equivalents at Beginning of Period	97.3	80.8

Edgar Filing: ALLETE INC - Form 10-Q

Cash and Cash Equivalents at End of Period	\$83.6	\$145.0
--	--------	---------

The accompanying notes are an integral part of these statements.

ALLETE, Inc. Second Quarter 2014 Form 10-Q

9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all of the information and notes required by GAAP for complete financial statements. Similarly, the December 31, 2013, Consolidated Balance Sheet was derived from audited financial statements but does not include all disclosures required by GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Operating results for the period ended June 30, 2014, are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and notes included in our 2013 Form 10-K.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Inventories. Inventories are stated at the lower of cost or market. Amounts removed from inventory are recorded on an average cost basis.

Inventories	June 30, 2014	December 31, 2013
Millions		
Fuel	\$22.9	\$13.1
Materials and Supplies	52.4	46.2
Total Inventories	\$75.3	\$59.3

Prepayments and Other Current Assets	June 30, 2014	December 31, 2013
Millions		
Deferred Fuel Adjustment Clause	\$20.3	\$23.0
Restricted Cash (a)	3.3	—
Other	8.6	12.1
Total Prepayments and Other Current Assets	\$32.2	\$35.1

(a) Restricted Cash related to ALLETE Clean Energy's wind energy facilities operating expense and capital distribution reserve requirements.

Other Non-Current Assets. As of June 30, 2014, included in Other Non-Current Assets on the Consolidated Balance Sheet was restricted cash of \$4.9 million related to ALLETE Clean Energy's wind energy facilities debt service and other requirements. As of December 31, 2013, the Company had restricted cash of \$5.4 million related to cash held in escrow pending the closing of the wind energy facilities acquisition, which was completed on January 30, 2014 (see Note 4. Acquisition).

Other Current Liabilities	June 30, 2014	December 31, 2013
Millions		
Customer Deposits	\$22.8	\$26.0
Power Purchase Agreements (a)	12.7	—
Other	25.6	26.6
Total Other Current Liabilities	\$61.1	\$52.6

(a) Power Purchase Agreements were acquired in conjunction with the ALLETE Clean Energy wind energy facilities acquisition on January 30, 2014 (see Note 4. Acquisition).

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Non-Current Liabilities	June 30, 2014	December 31, 2013
Millions		
Asset Retirement Obligation	\$93.0	\$81.8
Power Purchase Agreements (a)	93.4	—
Other	48.1	45.4
Total Other Non-Current Liabilities	\$234.5	\$127.2

(a) Power Purchase Agreements were acquired in conjunction with the ALLETE Clean Energy wind energy facilities acquisition on January 30, 2014 (see Note 4. Acquisition).

Supplemental Statement of Cash Flows Information.

For the Six Months Ended June 30, Millions	2014	2013
Cash Paid During the Period for Interest – Net of Amounts Capitalized	\$23.7	\$22.8
Cash Paid During the Period for Income Taxes	\$0.2	\$0.6
Noncash Investing and Financing Activities		
Increase (Decrease) in Accounts Payable for Capital Additions to Property, Plant and Equipment	\$3.6	\$(28.2)
Capitalized Asset Retirement Costs	\$0.6	\$1.9
AFUDC – Equity	\$3.8	\$2.1
ALLETE Common Stock Contributed to the Pension Plan	\$19.5	—

Subsequent Events. The Company performed an evaluation of subsequent events for potential recognition and disclosure through the time of the financial statements issuance.

New Accounting Standards.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. In July 2013, the FASB issued an accounting standard update on the financial statement presentation of unrecognized tax benefits when an NOL carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for an NOL carryforward, a similar tax loss, or a tax credit carryforward. To the extent an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance was adopted in the first quarter of 2014, and did not have a material impact on our consolidated financial position, results of operations, or cash flows.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. In April 2014, the FASB issued an accounting standard update modifying the criteria for determining which disposals should be presented as discontinued operations and modifying the related disclosure requirements. Additionally, the new guidance requires that a business which qualifies as held for sale upon acquisition should be reported as discontinued operations. The new guidance will be effective beginning in the first quarter of 2015, and applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. This guidance is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from Contracts with Customers. In May 2014, the FASB issued amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This accounting guidance is effective for the Company beginning in the first quarter of 2017 using one of two prescribed retrospective methods. Early adoption is not permitted for public companies. The Company is evaluating the impact of the amended revenue recognition guidance on the Company's consolidated financial statements.

NOTE 2. BUSINESS SEGMENTS

Regulated Operations includes our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC, a Wisconsin-based regulated utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. Investments and Other is comprised primarily of BNI Coal, our coal mining operations in North Dakota, ALLETE Properties, our Florida real estate investment, and ALLETE Clean Energy, our business which acquired three wind energy facilities in January 2014, and is aimed at developing or acquiring capital projects that create energy solutions via wind, solar, biomass, midstream gas and oil infrastructure, among other energy-related projects. This segment also includes other business development and corporate expenditures, unallocated interest expense, a small amount of non-rate base generation, approximately 5,000 acres of land in Minnesota, and earnings on cash and investments.

NOTE 2. BUSINESS SEGMENTS (Continued)

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Quarter Ended June 30, 2014			
Operating Revenue	\$260.7	\$229.6	\$31.1
Fuel and Purchased Power Expense	83.6	83.6	—
Operating and Maintenance Expense	115.1	89.0	26.1
Depreciation Expense	33.8	29.6	4.2
Operating Income	28.2	27.4	0.8
Interest Expense	(13.5)	(11.4)	(2.1)
Equity Earnings in ATC	5.2	5.2	—
Other Income (Expense)	1.9	2.0	(0.1)
Income (Loss) Before Non-Controlling Interest and Income Taxes	21.8	23.2	(1.4)
Income Tax Expense (Benefit)	4.9	5.7	(0.8)
Net Income (Loss)	16.9	17.5	(0.6)
Less: Non-Controlling Interest in Subsidiaries	0.1	—	0.1
Net Income (Loss) Attributable to ALLETE	\$16.8	\$17.5	\$(0.7)
	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Quarter Ended June 30, 2013			
Operating Revenue	\$235.6	\$215.8	\$19.8
Fuel and Purchased Power Expense	78.7	78.7	—
Operating and Maintenance Expense	103.8	82.8	21.0
Depreciation Expense	28.7	27.1	1.6
Operating Income (Loss)	24.4	27.2	(2.8)
Interest Expense	(12.8)	(10.4)	(2.4)
Equity Earnings in ATC	5.0	5.0	—
Other Income	1.5	1.1	0.4
Income (Loss) Before Non-Controlling Interest and Income Taxes	18.1	22.9	(4.8)
Income Tax Expense (Benefit)	4.1	6.6	(2.5)
Net Income (Loss)	14.0	16.3	(2.3)
Less: Non-Controlling Interest in Subsidiaries	—	—	—
Net Income (Loss) Attributable to ALLETE	\$14.0	\$16.3	\$(2.3)

ALLETE, Inc. Second Quarter 2014 Form 10-Q

NOTE 2. BUSINESS SEGMENTS (Continued)

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Six Months Ended June 30, 2014			
Operating Revenue	\$557.2	\$493.8	\$63.4
Fuel and Purchased Power Expense	179.8	179.8	—
Operating and Maintenance Expense	234.9	179.2	55.7
Depreciation Expense	66.0	58.4	7.6
Operating Income	76.5	76.4	0.1
Interest Expense	(26.3	)(22.9	)(3.4)
Equity Earnings in ATC	10.3	10.3	—
Other Income	3.9	3.8	0.1
Income (Loss) Before Non-Controlling Interest and Income Taxes	64.4	67.6	(3.2)
Income Tax Expense (Benefit)	13.7	16.2	(2.5)
Net Income (Loss)	50.7	51.4	(0.7)
Less: Non-Controlling Interest in Subsidiaries	0.4	—	0.4
Net Income (Loss) Attributable to ALLETE	\$50.3	\$51.4	\$(1.1)
As of June 30, 2014			
Total Assets	\$3,895.6	\$3,424.3	\$471.3
Property, Plant and Equipment – Net	\$3,020.4	\$2,791.7	\$228.7
Accumulated Depreciation	\$1,288.9	\$1,221.1	\$67.8
Capital Additions	\$341.7	\$335.6	\$6.1
	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Six Months Ended June 30, 2013			
Operating Revenue	\$499.4	\$457.2	\$42.2
Fuel and Purchased Power Expense	165.2	165.2	—
Operating and Maintenance Expense	208.5	165.0	43.5
Depreciation Expense	56.9	53.9	3.0
Operating Income (Loss)	68.8	73.1	(4.3)
Interest Expense	(25.1	)(21.1	)(4.0)
Equity Earnings in ATC	10.2	10.2	—
Other Income	4.2	2.2	2.0
Income (Loss) Before Non-Controlling Interest and Income Taxes	58.1	64.4	(6.3)
Income Tax Expense (Benefit)	11.6	16.0	