ALLETE INC
Form 10-Q
August 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016

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. x 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). x 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 x Accelerated Filer ¨
Non-Accelerated Filer ¨ Smaller Reporting Company ¨

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

Common Stock, without par value,
49,379,945 shares outstanding
as of June 30, 2016

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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 – 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. and its subsidiaries
ALLETE Properties	ALLETE Properties, LLC and its subsidiaries
ALLETE Transmission Holdings	ALLETE Transmission Holdings, Inc.
ATC	American Transmission Company LLC
Basin	Basin Electric Power Cooperative
BNI Energy	BNI Coal, Ltd. d/b/a BNI Energy
Boswell	Boswell Energy Center
Cliffs	Cliffs Natural Resources Inc.
CO_2	Carbon Dioxide
Company	ALLETE, Inc. and its subsidiaries
CSAPR	Cross-State Air Pollution Rule
DC	Direct Current
EIS	Environmental Impact Statement
EPA	United States Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
Essar	Essar Steel Minnesota LLC
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	Generally Accepted Accounting Principles in the United States of America
GHG	Greenhouse Gases
GNTL	Great Northern Transmission Line
IBEW	International Brotherhood of Electrical Workers
IRP	Integrated Resource Plan
Invest Direct	ALLETE’s Direct Stock Purchase and Dividend Reinvestment Plan
Item ___	Item ___ of this Form 10-Q
kV	Kilovolt(s)
kW / kWh	Kilowatt(s) / Kilowatt-hour(s)
Laskin	Laskin Energy Center
MACT	Maximum Achievable Control Technology
Magnetation	Magnetation, LLC
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.
Montana-Dakota Utilities	Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc.
MPCA	Minnesota Pollution Control Agency

Abbreviation or Acronym	Term
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
NAAQS	National Ambient Air Quality Standards
NDPSC	North Dakota Public Service Commission
NOL	Net Operating Loss
NO_2	Nitrogen Dioxide
NO_X	Nitrogen Oxides
Northshore Mining	Northshore Mining Company, a wholly-owned subsidiary of Cliffs
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 District	Palm Coast Park Community Development District in Florida
PolyMet	PolyMet Mining Corp.
PPA	Power Purchase Agreement
PPACA	Patient Protection and Affordable Care Act of 2010
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
Shell Energy	Shell Energy North America (US), L.P.
Silver Bay Power	Silver Bay Power Company, a wholly-owned subsidiary of Cliffs
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 District	Town Center at Palm Coast Community Development District in Florida
United Taconite	United Taconite LLC, a wholly-owned subsidiary of Cliffs
U.S.	United States of America
U.S. Water Services	U.S. Water Services Holding Company and its subsidiaries
USS Corporation	United States Steel Corporation

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 m 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;
- changes in and compliance with laws and regulations;
- changes in tax rates or policies, or in rates of inflation;
- 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;
- changes in operating expenses and capital expenditures, and our ability to raise revenues from our customers in regulated rates or sales price increases at our Energy Infrastructure and Related Services businesses;
- the impacts of commodity prices on ALLETE and our customers;
- our ability to attract 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;
- population growth rates and demographic patterns;
- 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;
- effects of competition, including competition for retail and wholesale customers;
- effects of restructuring initiatives in the electric industry;
- the impacts on our Regulated Operations segment of climate change and future regulation to restrict the emissions of greenhouse gases;
- effects of increased deployment of distributed low-carbon electricity generation resources;
- the impacts of laws and regulations related to renewable and distributed generation;

- pricing, availability and transportation of fuel and other commodities, and the ability to recover the costs of such commodities;
- our current and potential industrial and municipal customers' ability to execute announced expansion plans;
- real estate market conditions where our legacy Florida real estate investment is located may not improve;
- the success of efforts to realize value from, invest in, and develop new opportunities in, our Energy Infrastructure and Related Services businesses; and
- factors affecting our Energy Infrastructure and Related Services businesses, including fluctuations in the volume of customer orders, unanticipated cost increases, changes in legislation and regulations impacting the industries in which the customers served operate, the effects of weather, creditworthiness of customers, ability to obtain materials required to perform services, and changing market conditions.

Forward-Looking Statements (Continued)

Additional disclosures regarding factors that could cause our results or performance to differ from those anticipated by this report are discussed in Part 1, Item 1A, under the heading “Risk Factors” beginning on page 25 of our 2015 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 ALLETE in this Form 10-Q and in other reports filed with the SEC that attempt to identify the risks and uncertainties that may affect ALLETE’s business.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ALLETE
CONSOLIDATED BALANCE SHEET
Millions – Unaudited

	June 30, 2016	December 31, 2015
Assets		
Current Assets		
Cash and Cash Equivalents	$91.9	$97.0
Accounts Receivable (Less Allowance of $1.5 and $1.0)	113.6	121.2
Inventories	110.4	117.1
Prepayments and Other	38.4	35.7
Total Current Assets	354.3	371.0
Property, Plant and Equipment – Net	3,631.3	3,669.1
Regulatory Assets	359.1	372.0
Investment in ATC	129.0	124.5
Other Investments	72.3	74.6
Goodwill and Intangible Assets – Net	212.7	215.2
Other Non-Current Assets	98.9	68.1
Total Assets	$4,857.6	$4,894.5
Liabilities and Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$64.8	$88.8
Accrued Taxes	37.7	44.0
Accrued Interest	17.8	18.6
Long-Term Debt Due Within One Year	64.5	35.7
Notes Payable	0.9	1.6
Other	85.9	86.1
Total Current Liabilities	271.6	274.8
Long-Term Debt	1,498.9	1,556.7
Deferred Income Taxes	595.1	579.8
Regulatory Liabilities	94.6	105.0
Defined Benefit Pension and Other Postretirement Benefit Plans	204.5	206.8
Other Non-Current Liabilities	340.8	349.0
Total Liabilities	3,005.5	3,072.1
Commitments, Guarantees and Contingencies (Note 13)		
Equity		
ALLETE's Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 49.4 and 49.1 Shares Outstanding	1,283.5	1,271.4
Accumulated Other Comprehensive Loss	(24.2)	(24.5)
Retained Earnings	592.8	573.3
Total ALLETE Equity	1,852.1	1,820.2
Non-Controlling Interest in Subsidiaries	—	2.2
Total Equity	1,852.1	1,822.4

Total Liabilities and Equity	$4,857.6	$4,894.5

The accompanying notes are an integral part of these statements.

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

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Operating Revenue	$314.8	$323.3	$648.6	$643.3
Operating Expenses				
Fuel and Purchased Power	78.1	80.1	155.0	166.1
Transmission Services	16.1	11.3	32.9	26.2
Cost of Sales	33.4	52.3	66.7	83.5
Operating and Maintenance	82.0	85.4	160.1	165.1
Depreciation and Amortization	48.7	41.3	96.8	80.3
Taxes Other than Income Taxes	14.3	13.4	28.1	26.2
Total Operating Expenses	272.6	283.8	539.6	547.4
Operating Income	42.2	39.5	109.0	95.9
Other Income (Expense)				
Interest Expense	(17.4)	(16.2)	(34.3)	(31.3)
Equity Earnings in ATC	4.1	4.7	8.9	8.6
Other	0.6	0.7	1.6	1.8
Total Other Expense	(12.7)	(10.8)	(23.8)	(20.9)
Income Before Non-Controlling Interest and Income Taxes	29.5	28.7	85.2	75.0
Income Tax Expense	4.7	6.4	14.0	12.6
Net Income	24.8	22.3	71.2	62.4
Less: Non-Controlling Interest in Subsidiaries	—	(0.2)	0.5	—
Net Income Attributable to ALLETE	$24.8	$22.5	$70.7	$62.4
Average Shares of Common Stock				
Basic	49.3	48.6	49.2	47.7
Diluted	49.5	48.7	49.3	47.8
Basic Earnings Per Share of Common Stock	$0.50	$0.46	$1.44	$1.31
Diluted Earnings Per Share of Common Stock	$0.50	$0.46	$1.43	$1.30
Dividends Per Share of Common Stock	$0.52	$0.505	$1.04	$1.01

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Millions – Unaudited

	Quarter Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income	$24.8	$22.3	$71.2	$62.4
Other Comprehensive Income				
Unrealized Gain on Securities				
Net of Income Taxes of $0.3, $–, $–, and $0.1	0.4	—	—	0.1
Unrealized Gain on Derivatives				
Net of Income Taxes of $–, $0.1, $–, and $0.1	—	—	—	0.1
Defined Benefit Pension and Other Postretirement Benefit Plans				
Net of Income Taxes of $0.1, $0.2, $0.2, and $0.4	0.1	0.4	0.3	0.7
Total Other Comprehensive Income	0.5	0.4	0.3	0.9
Total Comprehensive Income	25.3	22.7	71.5	63.3
Less: Non-Controlling Interest in Subsidiaries	—	(0.2)	0.5	—
Total Comprehensive Income Attributable to ALLETE	$25.3	$22.9	$71.0	$63.3

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions – Unaudited

	Six Months Ended June 30,	
	2016	2015
Operating Activities		
Net Income	$71.2	$62.4
Allowance for Funds Used During Construction – Equity	(1.2)	(1.6)
Income from Equity Investments – Net of Dividends	(2.9)	(2.3)
Gain on Sales of Investments	—	(0.1)
Depreciation Expense	94.2	78.7
Amortization of Power Purchase Agreements	(11.1)	(11.0)
Amortization of Other Intangible Assets and Other Assets	5.0	2.9
Deferred Income Tax Expense	13.8	12.3
Share-Based Compensation Expense	1.3	1.3
ESOP Compensation Expense	0.9	4.9
Defined Benefit Pension and Postretirement Benefit Expense	2.6	7.7
Bad Debt Expense	1.1	0.3
Changes in Operating Assets and Liabilities		
Accounts Receivable	6.5	17.3
Inventories	6.7	(13.4)
Prepayments and Other	(0.8)	4.2
Accounts Payable	1.3	(25.6)
Other Current Liabilities	(18.5)	47.4
Changes in Regulatory and Other Non-Current Assets	(21.0)	(9.6)
Changes in Regulatory and Other Non-Current Liabilities	(2.9)	6.5
Cash from Operating Activities	146.2	182.3
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	1.4	0.7
Payments for Purchase of Available-for-sale Securities	(1.2)	(0.8)
Acquisitions of Subsidiaries – Net of Cash Acquired	—	(214.4)
Investment in ATC	(1.6)	(0.8)
Changes to Other Investments	2.1	(0.4)
Additions to Property, Plant and Equipment	(74.8)	(140.5)
Cash in Escrow for Acquisition	—	(15.0)
Proceeds from Sale of Property, Plant and Equipment	0.2	—
Cash for Investing Activities	(73.9)	(371.2)
Financing Activities		
Proceeds from Issuance of Common Stock	15.2	148.2
Proceeds from Issuance of Long-Term Debt	2.2	15.0
Changes in Restricted Cash	(2.0)	(2.9)
Changes in Notes Payable	(0.7)	(3.7)
Repayments of Long-Term Debt	(32.1)	(3.4)
Acquisition of Non-Controlling Interest	(8.0)	—
Acquisition-Related Contingent Consideration Payments	(0.7)	—

Debt Issuance Costs	(0.1)	—
Dividends on Common Stock	(51.2)	(49.5)
Cash from (for) Financing Activities	(77.4)	103.7
Change in Cash and Cash Equivalents	(5.1)	(85.2)
Cash and Cash Equivalents at Beginning of Period	97.0	145.8
Cash and Cash Equivalents at End of Period	$91.9	$60.6

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF EQUITY
Millions – Unaudited

	Total Equity	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock	Non-Controlling Interest in Subsidiaries
Balance as of December 31, 2015	$1,822.4	$573.3	$(24.5)	$1,271.4	$2.2
Comprehensive Income					
Net Income	71.2	70.7			0.5
Other Comprehensive Income – Net of Tax					
Defined Benefit Pension and Other Postretirement Plans – Net of Tax	0.3		0.3		
Total Comprehensive Income	71.5				
Common Stock Issued	17.4			17.4	
Dividends Declared	(51.2)	(51.2)			
Acquisition of Non-Controlling Interest	(8.0)			(5.3)	(2.7)
Balance as of June 30, 2016	$1,852.1	$592.8	$(24.2)	$1,283.5	—

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

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, 2015, Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, these unaudited financial statements include all adjustments necessary for a fair statement of financial results. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Operating results for the six months ended June 30, 2016, are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2016. For further information, refer to the Consolidated Financial Statements and notes included in our 2015 Form 10-K.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Inventories. Inventories are stated at the lower of cost or market. Inventories in our Regulated Operations and ALLETE Clean Energy segments are carried at an average cost or first-in, first-out basis. Inventories in our U.S. Water Services and Corporate and Other segments are carried at an average cost, first-in, first-out or specific identification basis.

Inventories	June 30, 2016	December 31, 2015
Millions		
Fuel (a)	$49.2	$58.1
Materials and Supplies	49.8	49.1
Raw Materials	2.8	2.7
Work in Progress	0.6	—
Finished Goods	8.3	7.5
Reserve for Obsolescence	(0.3)	(0.3)
Total Inventories	$110.4	$117.1

(a) Fuel consists primarily of coal inventory at Minnesota Power.

Prepayments and Other Current Assets	June 30, 2016	December 31, 2015
Millions		
Deferred Fuel Adjustment Clause	$14.5	$10.6
Restricted Cash (a)	7.5	5.6
Other	16.4	19.5
Total Prepayments and Other Current Assets	$38.4	$35.7

(a) Restricted Cash includes collateral deposits required under ALLETE Clean Energy's loan agreements and cash pledged as collateral for U.S. Water Services' standby letters of credit.

Other Non-Current Assets. As of June 30, 2016, included in Other Non-Current Assets on the Consolidated Balance Sheet was restricted cash related to collateral deposits required under ALLETE Clean Energy's loan agreements and PPAs of $8.2 million ($8.1 million as of December 31, 2015). Also included in Other Non-Current Assets on the Consolidated Balance Sheet as of June 30, 2016, was a $31 million contract payment made to Cliffs as part of a long-term power sales agreement between Minnesota Power and Silver Bay Power. (See Note 13. Commitments, Guarantees and Contingencies.) The contract payment will be amortized over the term of the sales agreement.

Other Current Liabilities	June 30, 2016	December 31, 2015

Millions		
Customer Deposits	$13.4	$15.1
Power Purchase Agreements	23.9	23.3
Other	48.6	47.7
Total Other Current Liabilities	$85.9	$86.1

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Non-Current Liabilities	June 30, 2016	December 31, 2015
Millions		
Asset Retirement Obligation	$135.2	$131.4
Power Purchase Agreements	125.9	138.1
Contingent Consideration (a)	37.3	36.6
Other	42.4	42.9
Total Other Non-Current Liabilities	$340.8	$349.0

(a) Contingent Consideration relates to the estimated fair value of the earnings-based payment resulting from the U.S. Water Services acquisition. (See Note 3. Acquisitions and Note 5. Fair Value.)

Supplemental Statement of Cash Flows Information.

Six Months Ended June 30,	2016	2015
Millions		
Cash Paid During the Period for Interest – Net of Amounts Capitalized	$32.9	$30.0
Cash Paid During the Period for Income Taxes	$0.4	$1.0
Noncash Investing and Financing Activities		
Decrease in Accounts Payable for Capital Additions to Property, Plant and Equipment	$(24.4)	$(25.5)
Capitalized Asset Retirement Costs	$2.3	$7.8
AFUDC–Equity	$1.2	$1.6
Contingent Consideration	—	$35.7

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.

Amendments to the Consolidation Analysis. In February 2015, the FASB issued revised guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new standard affects (1) limited partnerships and similar legal entities, (2) evaluating fees paid to a decision maker or a service provider as a variable interest, (3) the effect of fee arrangements on the primary beneficiary determination, (4) the effect of related parties on the primary beneficiary determination, and (5) certain investment funds. This guidance was adopted in the first quarter of 2016 and did not have a material impact on our Consolidated Financial Statements.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). In May 2015, the FASB issued an accounting standard update which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share (or its equivalent) practical expedient. The guidance applies to investments for which there is not a readily determinable fair value (market quote) or the investment is in a mutual fund without a publicly available net asset value. This guidance was adopted in the first quarter of 2016 and did not have a material impact on our Consolidated Financial Statements.

Presentation of Debt Issuance Costs. In April 2015, the FASB issued revised guidance addressing the presentation requirements for debt issuance costs. Under the revised guidance, all costs incurred to issue debt are to be presented on the Consolidated Balance Sheet as a direct deduction from the carrying amount of that debt liability. This guidance was adopted in the first quarter of 2016 resulting in the reclassification of unamortized debt issuance costs from Other Non-Current Assets to Long-Term Debt on the Consolidated Balance Sheet. The effect of the adoption decreased

Total Assets and Total Liabilities on ALLETE's Consolidated Balance Sheet by $12.6 million as of December 31, 2015.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)
New Accounting Standards (Continued)

Leases. In February 2016, the FASB issued an accounting standard update which revises the existing guidance for leases. Under the revised guidance, lessees will be required to recognize a “right-of-use” asset and a lease liability for all leases with a term greater than 12 months. The new standard also requires additional quantitative and qualitative disclosures by lessees and lessors to enable users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The accounting for leases by lessors and the recognition, measurement and presentation of expenses and cash flows from leases are not expected to significantly change as a result of the updated guidance. The revised guidance is effective for the Company beginning in the first quarter of 2019 with early adoption permitted. The Company is evaluating the impact of the amended lease guidance on the Company’s Consolidated Financial Statements.

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. The guidance is effective for the Company beginning in the first quarter of 2018 with early adoption permitted. The Company is evaluating the impact of the amended revenue recognition guidance on the Company’s Consolidated Financial Statements.

NOTE 2. INVESTMENTS

Investments. As of June 30, 2016, the investment portfolio included the legacy real estate assets of ALLETE Properties, debt and equity securities consisting primarily of securities held in other postretirement plans to fund employee benefits, the cash equivalents within these plans, and other assets consisting primarily of land in Minnesota.

Other Investments	June 30, 2016	December 31, 2015
Millions		
ALLETE Properties	$47.8	$50.1
Available-for-sale Securities (a)	18.4	18.5
Cash Equivalents	2.3	2.0
Other	3.8	4.0
Total Other Investments	$72.3	$74.6

(a) As of June 30, 2016, the aggregate amount of available-for-sale corporate debt securities maturing in one year or less was $0.2 million, in one year to less than three years was $2.5 million, in three years to less than five years was $5.0 million, and in five or more years was $3.3 million.

Land Inventory. Land inventory is accounted for as held for use and is recorded at cost, unless the carrying value is determined not to be recoverable in accordance with the accounting standards for property, plant and equipment, in which case the land inventory is written down to estimated fair value. Land values are reviewed for indicators of impairment on a quarterly basis and no impairments were recorded for the quarter and six months ended June 30, 2016.

NOTE 3. ACQUISITIONS

The acquisitions below are consistent with ALLETE's stated strategy of investing in energy infrastructure and related services businesses to complement its core regulated utility, balance exposure to business cycles and changing demand, and provide potential long-term earnings growth. The pro forma impact of the following acquisitions was not significant, either individually or in the aggregate, to the results of the Company for the six months ended June 30, 2016 and 2015.

2016 Activity.

Acquisition of Non-Controlling Interest. On April 15, 2016, ALLETE Clean Energy acquired the non-controlling interest in the limited liability company that owns its Condon wind energy facility for $8.0 million. This transaction was accounted for as an equity transaction, and no gain or loss was recognized in net income or other comprehensive income. As a result of the acquisition, the Condon wind energy facility is now a wholly-owned subsidiary of ALLETE Clean Energy.

2015 Activity.

U.S. Water Services. In February 2015, ALLETE acquired U.S. Water Services. Total consideration for the transaction was $202.3 million, which included payment of $166.6 million in cash and an estimated fair value of earnings-based contingent consideration of $35.7 million, as estimated at the date of acquisition, to be paid through 2019. The contingent consideration is presented within Other Non-Current Liabilities on the Consolidated Balance Sheet. The Consolidated Statement of Income reflects 100 percent of the results of operations for U.S. Water Services since the acquisition date as the Company has acquired 100 percent of U.S. Water Services.

The acquisition was accounted for as a business combination and the purchase price was allocated based on the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition. The purchase price accounting, which was finalized in 2015, is reflected in the following table. Fair value measurements were valued primarily using the discounted cash flow method.

Millions	
Assets Acquired	
Cash and Cash Equivalents	$0.9
Accounts Receivable	16.8
Inventories (a)	13.4
Other Current Assets (b)	5.3
Property, Plant and Equipment	10.6
Intangible Assets (c)	83.0
Goodwill (d)	122.9
Other Non-Current Assets	0.2
Total Assets Acquired	$253.1
Liabilities Assumed	
Current Liabilities	$19.2
Non-Current Liabilities	31.6
Total Liabilities Assumed	$50.8
Net Identifiable Assets Acquired	$202.3

(a) Included in Inventories was $2.7 million of fair value adjustments relating to work in progress and finished goods inventories which were recognized as Cost of Sales within one year from the acquisition date.

(b)

Included in Other Current Assets was $1.6 million relating to the fair value of sales backlog. Sales backlog was recognized as Cost of Sales within one year from the acquisition date. Also included in Other Current Assets was restricted cash of $2.1 million relating to cash pledged as collateral for standby letters of credit.

(c) Intangible Assets include customer relationships, patents, non-compete agreements, and trademarks and trade names. (See Note 4. Goodwill and Intangible Assets.)

(d) For tax purposes, the purchase price allocation resulted in $2.9 million of deductible goodwill.

Acquisition-related costs of $3.0 million after-tax were expensed as incurred during the first quarter of 2015 and recorded in Operating and Maintenance on the Consolidated Statement of Income.

NOTE 3. ACQUISITIONS (Continued)
2015 Activity (Continued)

Chanarambie/Viking. In April 2015, ALLETE Clean Energy acquired 100 percent of wind energy facilities in southern Minnesota (Chanarambie/Viking) from EDF Renewable Energy, Inc. for $48.0 million.

The facilities have 97.5 MW of generating capability and are located near ALLETE Clean Energy's Lake Benton facility. The wind energy facilities began commercial operations in 2003 and have PPAs in place for their entire output, which expire in 2018 (12 MW) and 2023 (85.5 MW).

The acquisition was accounted for as a business combination and the purchase price was allocated based on the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition. The purchase price accounting, which was finalized in 2015, is reflected in the following table. Fair value measurements were valued primarily using the discounted cash flow method.

Millions	
Assets Acquired	
Current Assets	$4.8
Property, Plant and Equipment	103.0
Other Non-Current Assets (a)	1.0
Total Assets Acquired	$108.8
Liabilities Assumed	
Current Liabilities (b)	$6.7
Power Purchase Agreements	49.0
Non-Current Liabilities	5.1
Total Liabilities Assumed	$60.8
Net Identifiable Assets Acquired	$48.0

(a) Included in Other Non-Current Assets was $0.3 million of goodwill. For tax purposes, the purchase price allocation resulted in no allocation to goodwill.

(b) Current Liabilities included $5.9 million related to the current portion of PPAs.

Acquisition-related costs of $0.2 million after-tax were expensed as incurred during the second quarter of 2015 and recorded in Operating and Maintenance on the Consolidated Statement of Income.

Armenia Mountain. In July 2015, ALLETE Clean Energy acquired 100 percent of a wind energy facility located near Troy, Pennsylvania (Armenia Mountain) from The AES Corporation (AES) and a minority shareholder for $111.1 million, plus the assumption of existing debt.

The facility has 100.5 MW of generating capability, began commercial operations in 2009, and has PPAs in place for its entire output, which expire in 2024.

The acquisition was accounted for as a business combination and the purchase price was allocated based on the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition. The purchase price accounting, which was finalized in 2015, is reflected in the following table. Fair value measurements were valued primarily using the discounted cash flow method.

NOTE 3. ACQUISITIONS (Continued)
2015 Activity (Continued)