SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 SEPTEMBER 30, 2000

or

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

Commission File No. 1-3548

ALLETE
(LEGALLY INCORPORATED AS MINNESOTA POWER, INC.)

A Minnesota Corporation
IRS Employer Identification No. 41-0418150
30 West Superior Street
Duluth, Minnesota 55802-2093
Telephone - (218) 279-5000

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Common Stock, no par value,
74,478,061 shares outstanding
as of September 30, 2000

ALLETE

INDEX

DEFINITIONS

The following abbreviations or acronyms are used in the text.

Abbreviation or Acronym	Term
1999 Form 10-K	ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 1999
ACE	ACE Limited
ADESA	ADESA Corporation
ADESA Canada	ADESA Canada Inc.
ADT	ADT Automotive Holdings, Inc.
AFC	Automotive Finance Corporation
AFG	Auction Finance Group, Inc.
ALLETE	ALLETE and its subsidiaries
Capital Re	Capital Re Corporation
Common Stock	ALLETE Common Stock
Company	ALLETE and its subsidiaries
EPS	Earnings Per Share of Common Stock
ESOP	Employee Stock Ownership Plan
FERC	Federal Energy Regulatory Commission
Heater	Heater Utilities, Inc.
Impact Auto	Impact Auto Auctions Ltd. and Suburban Auto Parts Inc., collectively
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
Manheim	Manheim Auctions, Inc.
Mid South	Mid South Water Systems, Inc.
MPUC	Minnesota Public Utilities Commission
NCUC	North Carolina Utilities Commission
Note ___	Note ___ to the consolidated financial statements included in this Quarterly Report on Form 10-Q
PSCW	Public Service Commission of Wisconsin
SEC	United States Securities and Exchange Commission
Spruce Creek	Spruce Creek South Utilities Inc.
Square Butte	Square Butte Electric Cooperative

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 (Reform Act), the Company is hereby filing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Reform Act) made by or on behalf of the Company 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," "predicts," "projects," "will likely result," "will continue," or similar expressions) are not statements of historical facts and may be forward-looking.

Forward-looking statements involve estimates, assumptions, and uncertainties and are qualified in their entirety by reference to, and are accompanied by, the following important factors, which are difficult to predict, contain uncertainties, are beyond the control of the Company and may cause actual results to differ materially from those contained in forward-looking statements:

- prevailing governmental policies and regulatory actions, including those those of Congress, state legislatures, the FERC, the MPUC, the FPSC, the NCUC, the PSCW and various county regulators, with respect to allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power and capital investments, and present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs);
- economic and geographic factors including political and economic risks;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- population growth rates and demographic patterns;
- competition for retail and wholesale customers;
- pricing and transportation of commodities;
- market demand, including structural market changes;
- changes in tax rates or policies or in rates of inflation;
- changes in project costs;
- unanticipated changes in operating expenses and capital expenditures;
- capital market conditions;
- competition for new energy development opportunities; and
- legal and administrative proceedings (whether civil or criminal) and settlements that influence the business and profitability of the Company.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes 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 business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions

	SEPTEMBER 30, 2000 Unaudited	DECEMBER 31, 1999 Audited
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 182.7	$ 101.5
Trading Securities	104.2	179.6
Accounts Receivable (Less Allowance of $12.4 and $13.9)	283.8	176.4
Inventories	28.3	24.2
Prepayments and Other	117.7	82.8
Total Current Assets	716.7	564.5
Property, Plant and Equipment	1,327.3	1,258.8
Investments	115.3	197.2
Goodwill	326.4	181.0
Other Assets	110.7	111.1
TOTAL ASSETS	$ 2,596.4	$ 2,312.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 281.9	$ 124.7
Accrued Taxes, Interest and Dividends	71.9	79.4
Notes Payable	207.7	96.5
Long-Term Debt Due Within One Year	10.5	9.1
Other	71.9	88.6
Total Current Liabilities	643.9	398.3
Long-Term Debt	709.2	712.8
Accumulated Deferred Income Taxes	123.0	139.9
Other Liabilities	149.9	149.3
Total Liabilities	1,626.0	1,400.3
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary ALLETE Capital I Which Holds Solely Company Junior Subordinated Debentures	75.0	75.0
Redeemable Serial Preferred Stock	-	20.0
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock	-	11.5
Common Stock Without Par Value, 130.0 Shares Authorized 74.5 and 73.5 Shares Outstanding	571.8	552.0
Unearned ESOP Shares	(56.6)	(59.2)
Accumulated Other Comprehensive Income (Loss)	(3.7)	2.4
Retained Earnings	383.9	310.6
Total Stockholders' Equity	895.4	817.3
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,596.4	$ 2,312.6

The accompanying notes are an integral part of these statements.

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

	QUARTER ENDED SEPTEMBER 30, 2000	QUARTER ENDED SEPTEMBER 30, 1999	NINE MONTHS ENDED SEPTEMBER 30, 2000	NINE MONTHS ENDED SEPTEMBER 30, 1999
OPERATING REVENUE				
Energy Services	$ 146.1	$ 154.8	$ 426.6	$ 422.3
Automotive Services	137.4	105.5	386.6	306.3
Water Services	30.2	31.1	89.9	85.4
Investments	9.8	16.6	70.0	30.9
Total Operating Revenue	323.5	308.0	973.1	844.9
OPERATING EXPENSES				
Fuel and Purchased Power	61.7	54.9	171.6	154.8
Operations	196.7	180.4	595.8	515.3
Interest Expense	15.7	15.1	47.2	43.7
Total Operating Expenses	274.1	250.4	814.6	713.8
OPERATING INCOME BEFORE CAPITAL RE AND ACE	49.4	57.6	158.5	131.1
INCOME (LOSS) FROM INVESTMENT IN CAPITAL RE AND RELATED DISPOSITION OF ACE	-	0.3	48.0	(15.5)
OPERATING INCOME	49.4	57.9	206.5	115.6
DISTRIBUTIONS ON REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY	1.5	1.5	4.5	4.5
INCOME TAX EXPENSE	12.9	21.9	72.4	53.8
NET INCOME	$ 35.0	$ 34.5	$ 129.6	$ 57.3
AVERAGE SHARES OF COMMON STOCK				
Basic	70.0	68.6	69.6	68.2
Diluted	70.4	68.9	69.8	68.4
EARNINGS PER SHARE OF COMMON STOCK				
Basic	$0.50	$0.50	$1.85	$0.82
Diluted	$0.50	$0.50	$1.84	$0.82
DIVIDENDS PER SHARE OF COMMON STOCK	$0.2675	$0.2675	$0.8025	$0.8025

The accompanying notes are an integral part of this statement.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	NINE MONTHS ENDED SEPTEMBER 30, 2000	1999
OPERATING ACTIVITIES		
Net Income	$ 129.6	$ 57.3
(Gain) Loss From Investment in Capital Re and Related Disposition of ACE	(48.0)	15.5
Depreciation and Amortization	63.2	57.4
Deferred Income Taxes	(16.3)	5.2
Changes In Operating Assets and Liabilities		
Trading Securities	75.4	15.1
Accounts Receivable	(89.9)	(130.9)
Inventories	(4.2)	(1.7)
Accounts Payable	143.4	122.4
Other Current Assets and Liabilities	(58.5)	(13.5)
Other - Net	18.3	(5.3)
Cash From Operating Activities	213.0	121.5
INVESTING ACTIVITIES		
Proceeds From Sale of Investments	144.6	64.5
Additions to Investments	(37.4)	(29.5)
Additions to Property, Plant and Equipment	(94.0)	(68.6)
Acquisitions - Net of Cash Acquired	(189.4)	(93.6)
Other - Net	10.7	(8.3)
Cash For Investing Activities	(165.5)	(135.5)
FINANCING ACTIVITIES		
Issuance of Common Stock	18.4	20.8
Issuance of Long-Term Debt	51.6	50.8
Changes in Notes Payable - Net	111.2	70.9
Reductions of Long-Term Debt	(53.8)	(8.1)
Redemption of Preferred Stock	(31.5)	-
Dividends on Preferred and Common Stock	(56.2)	(55.1)
Cash From Financing Activities	39.7	79.3
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(6.0)	2.7
CHANGE IN CASH AND CASH EQUIVALENTS	81.2	68.0
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	101.5	89.4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 182.7	$ 157.4
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Period For		
Interest - Net of Capitalized	$ 44.7	$ 47.4
Income Taxes	$ 83.0	$ 38.5

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with the Company's 1999 Form 10-K. In the opinion of the Company, all adjustments necessary for a fair statement of the results for the interim periods have been included. The results of operations for an interim period may not give a true indication of results for the year.

NOTE 1. BUSINESS SEGMENTS

Millions

	Consolidated	Energy Services	Automotive Services	Water Services	Investments	Corporate Charges
For the Quarter Ended September 30, 2000						
Operating Revenue	$323.5	$146.1	$137.4	$30.2	$ 9.9	$(0.1)
Operation and Other Expense	236.6	110.3	100.3	17.8	4.1	4.1
Depreciation and Amortization Expense	21.8	11.3	6.8	3.5	0.1	0.1
Interest Expense	15.7	5.2	5.4	2.7	-	2.4
Operating Income (Loss)	49.4	19.3	24.9	6.2	5.7	(6.7)
Distribution on Redeemable Preferred Securities of Subsidiary	1.5	0.6	-	-	-	0.9
Income Tax Expense (Benefit)	12.9	7.3	9.5	2.4	0.7	(7.0)
Net Income (Loss)	$ 35.0	$ 11.4	$ 15.4	$ 3.8	$ 5.0	$(0.6)
For the Quarter Ended September 30, 1999						
Operating Revenue	$308.0	$154.8	$105.5	$31.1	$ 16.7	$(0.1)
Operation and Other Expense	215.7	105.7	80.6	18.4	7.3	3.7
Depreciation and Amortization Expense	19.6	11.4	4.4	3.7	-	0.1
Interest Expense	15.1	5.2	3.0	2.6	-	4.3
Operating Income (Loss) Before Capital Re	57.6	32.5	17.5	6.4	9.4	(8.2)
Income from Investment in Capital Re	0.3	-	-	-	0.3	-
Operating Income (Loss)	57.9	32.5	17.5	6.4	9.7	(8.2)
Distribution on Redeemable Preferred Securities of Subsidiary	1.5	0.4	-	-	-	1.1
Income Tax Expense (Benefit)	21.9	13.5	7.8	2.5	3.5	(5.4)
Net Income (Loss)	$ 34.5	$ 18.6	$ 9.7	$ 3.9	$ 6.2	$(3.9)

Included $33.9 million of Canadian operating revenue in 2000 ($16.9 million in 1999).
Included $0.1 million of minority interest in 2000 ($0.7 million in 1999).

NOTE 1. BUSINESS SEGMENTS (Continued)
Millions

	Consolidated	Energy Services	Automotive Services	Water Services	Investments	Corporate Charges
For the Nine Months Ended September 30, 2000						
Operating Revenue	$ 973.1	$ 426.6	$ 386.6	$ 89.9	$ 70.3	$ (0.3)
Operation and Other Expense	704.2	323.5	285.5	54.3	29.3	11.6
Depreciation and Amortization Expense	63.2	34.4	17.3	11.0	0.2	0.3
Interest Expense	47.2	15.7	13.1	7.8	-	10.6
Operating Income (Loss) Before ACE	158.5	53.0	70.7	16.8	40.8	(22.8)
Income from Disposition of ACE	48.0	-	-	-	48.0	-
Operating Income (Loss)	206.5	53.0	70.7	16.8	88.8	(22.8)
Distribution on Redeemable Preferred Securities of Subsidiary	4.5	1.5	-	-	-	3.0
Income Tax Expense (Benefit)	72.4	20.1	28.7	6.5	31.7	(14.6)
Net Income (Loss)	$ 129.6	$ 31.4	$ 42.0	$ 10.3	$ 57.1	$(11.2)
Total Assets	$2,596.4	$ 879.7	$1,101.5	$325.0	$289.8	$ 0.4
Property, Plant and Equipment	$1,327.3	$ 773.7	$ 291.3	$262.3	-	-
Accumulated Depreciation and Amortization	$ 948.9	$ 660.	$ 78.3	$208.3	$ 2.0	-
Capital Expenditures	$ 94.0	$ 34.9	$ 40.3	$ 18.8	-	-
For the Nine Months Ended September 30, 1999						
Operating Revenue	$ 844.9	$ 422.3	$ 306.3	$ 85.4	$ 31.1	$ (0.2)
Operation and Other Expense	612.7	307.6	229.4	51.9	14.9	8.9
Depreciation and Amortization Expense	57.4	33.7	13.0	10.3	0.1	0.3
Interest Expense	43.7	15.8	7.9	7.5	-	12.5
Operating Income (Loss) Before Capital Re	131.1	65.2	56.0	15.7	16.1	(21.9)
Loss from Investment in Capital Re	(15.5)	-	-	-	(15.5)	-
Operating Income (Loss)	115.6	65.2	56.0	15.7	0.6	(21.9)
Distribution on Redeemable Preferred Securities of Subsidiary	4.5	1.3	-	-	-	3.2
Income Tax Expense (Benefit)	53.8	25.7	24.7	6.1	9.2	(11.9)
Net Income (Loss)	$ 57.3	$ 38.2	$ 31.3	$ 9.6	$ (8.6)	$(13.2)
Total Assets	$2,444.7	$1,001.7	$ 788.2	$333.7	$320.7	$ 0.4
Property, Plant and Equipment	$1,246.2	$ 768.0	$ 222.4	$255.8	-	-
Accumulated Depreciation and Amortization	$ 873.8	$ 624.2	$ 53.2	$194.6	$ 1.8	-
Capital Expenditures	$ 68.6	$ 34.5	$ 20.0	$ 14.1	-	-

Included $77.2 million of Canadian operating revenue in 2000 ($41.7 million in 1999).
Included $229.8 million of Canadian assets in 2000 ($130.6 million in 1999).
Included $0.5 million of minority interest in 2000 ($0.9 million in 1999).

NOTE 2. REGULATORY MATTERS

FLORIDA WATER 1991 RATE CASE REFUNDS. In 1995 the Florida First District Court of Appeals (Court of Appeals) reversed a 1993 FPSC order establishing uniform rates for most of Florida Water's service areas. With "uniform rates" all customers in each uniform rate area pay the same rates for water and wastewater services. In response to the Court of Appeals' order, in August 1996 the FPSC ordered Florida Water to issue refunds to those customers who paid more since October 1993 under uniform rates than they would have paid under stand-alone rates. This order did not permit a balancing surcharge to customers who paid less under uniform rates. Florida Water appealed, and the Court of Appeals ruled in June 1997 that the FPSC could not order refunds without balancing surcharges. In response to the Court of Appeals' ruling, the FPSC issued an order in January 1998 that did not require refunds. Florida Water's potential refund liability at that time was about $12.5 million, which included interest, to customers who paid more under uniform rates.

In the same January 1998 order, the FPSC required Florida Water to refund, with interest, $2.5 million, the amount paid by customers in the Spring Hill service area from January 1996 through June 1997 under uniform rates which exceeded the amount these customers would have paid under a modified stand-alone rate structure. No balancing surcharge was permitted. The FPSC ordered this refund because Spring Hill customers continued to pay uniform rates after other customers began paying modified stand-alone rates effective January 1996 pursuant to the FPSC's interim rate order in Florida Water's 1995 Rate Case. The FPSC did not include Spring Hill in this interim rate order because Hernando County had assumed jurisdiction over Spring Hill's rates. In June 1997 Florida Water reached an agreement with Hernando County to revert prospectively to stand-alone rates for Spring Hill customers.

Customer groups which paid more under uniform rates have appealed the FPSC's January 1998 order, arguing that they are entitled to a refund because the FPSC had no authority to order uniform rates. The Company has appealed the $2.5 million refund order. Initial briefs were filed by all parties in May 1998. In June 1998 the Court of Appeals reversed its previous ruling that the FPSC was without authority to order uniform rates at which time customer groups supporting the FPSC's January 1998 order filed a motion with the Court of Appeals seeking dismissal of the appeal by customer groups seeking refunds. Customers seeking refunds filed amended briefs in September 1998. A provision for refund related to the $2.5 million refund order was recorded in the third quarter of 1999. A decision is not expected before 2001. The Company is unable to predict the timing or outcome of the appeals process.

NOTE 3. INCOME TAX EXPENSE

	Quarter Ended September 30, 2000	Quarter Ended September 30, 1999	Nine Months Ended September 30, 2000	Nine Months Ended September 30, 1999
Millions				
Current Tax				
Federal	$ 15.1	$ 19.9	$ 77.8	$ 42.4
Foreign	0.7	0.3	1.8	1.2
State	0.6	4.1	9.1	5.0
	16.4	24.3	88.7	48.6
Deferred Tax				
Federal	(2.2)	(1.4)	(12.8)	10.3
Foreign	(0.2)	0.1	(0.5)	0.1
State	(0.5)	(0.5)	(1.8)	(3.9)
	(2.9)	(1.8)	(15.1)	6.5
Deferred Tax Credits	(0.6)	(0.6)	(1.2)	(1.3)
Total Income Tax Expense	$ 12.9	$ 21.9	$ 72.4	$ 53.8

NOTE 4. EARNINGS PER SHARE

The difference between basic and diluted earnings per share arises from outstanding stock options and performance share awards granted under the Company's Executive and Director Long-Term Incentive Compensation Plans.

Reconciliation of Basic and Diluted Earnings Per Share	Basic EPS	Dilutive Securities	Diluted EPS
Millions Except Per Share Amounts			
Nine Months Ended September 30, 2000			
Net Income	$ 129.6	-	$ 129.6
Less: Dividends on Preferred Stock	0.9	-	0.9
Earnings Available for Common Stock	$ 128.7	-	$ 128.7
Common Shares	69.6	0.2	69.8
Per Share	$1.85	-	$1.84

Stock options granted in January 1999 (0.8 million) were antidilutive and not included in determining diluted earnings per share because the exercise price exceeded the average market price of the Company's stock. There was no difference between basic and diluted earnings per share for the nine months ended September 30, 1999 or the three months ended September 30, 1999 and 2000.

The Company paid dividends on preferred stock of $0.1 million for the three months ended September 30, 2000 ($0.5 million for the three months ended September 30, 1999) and $0.9 million for the nine months ended September 30, 2000 ($1.5 million for the nine months ended September 30, 1999).

NOTE 5. TOTAL COMPREHENSIVE INCOME

For the quarter ended September 30, 2000 total comprehensive income was $31.8 million ($3.7 million for the quarter ended September 30, 1999). For the nine months ended September 30, 2000 total comprehensive income was $123.5 million ($24.1 million for the nine months ended September 30, 1999). Total comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale, and foreign currency translation adjustments.

NOTE 6. ACQUISITIONS

ADESA AUCTION FACILITIES. On August 31, 2000 ADESA acquired 51 percent of Interstate Auto Auction located in Ocala, Florida. Interstate Auto Auction, which was renamed A & H, LLC and is doing business as ADESA Ocala, operates five auction lanes on 26.5 acres.

On August 11, 2000 ADESA purchased Beebe Auto Exchange, Inc. (Beebe). Beebe operated two Arkansas auto auctions: Mid-Ark Auto Auction (renamed ADESA Little Rock) in North Little Rock and Central Arkansas Auto Auction (renamed ADESA Central Arkansas) in Beebe, Arkansas. ADESA Little Rock operates ten auction lanes on approximately 81 acres and ADESA Central Arkansas operates six auction lanes on approximately 66 acres.

On June 20, 2000 ADESA acquired all of the outstanding common shares of Auction Finance Group, Inc. (AFG). AFG owns CAAG Auto Auction Holdings Ltd., which was doing business as Canadian Auction Group. This acquisition added 13 vehicle auction facilities and associated dealer financing business to ADESA's existing locations and established ADESA as the premier automotive services company in Canada.

NOTE 6. ACQUISITIONS (Continued)

On May 31, 2000 ADESA Canada purchased the remaining 27 percent of Impact Auto. ADESA Canada acquired 20 percent of Impact Auto on October 1, 1995, 27 percent in March 1999 and another 26 percent in January 2000. Impact Auto is Canada's largest national salvage auction chain with 11 sites in six provinces. Impact Auto provides remarketing services to insurance companies for their "total loss" vehicles.

On February 7, 2000 ADESA purchased the Mission City Auto Auction in San Diego, California. The Mission City auction, which has been renamed ADESA San Diego, operates six auction lanes on 30 acres with full reconditioning facilities.

The transactions described in the five preceding paragraphs had a combined purchase price of approximately $183.9 million and resulted in goodwill of $151.5 million, which the Company is amortizing over a 40-year useful life. These transactions were accounted for using the purchase method. Financial results have been included in the Company's consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality. The Company funded these transactions with proceeds from the sale of ACE shares and proceeds from the sale of a portion of the Company's securities portfolio.

SPRUCE CREEK SOUTH UTILITIES INC. On June 29, 2000 Florida Water purchased the assets of Spruce Creek for $5.5 million, plus a commitment to pay a fee for water connections through June 2005. The transaction was accounted for using the purchase method. Financial results have been included in the Company's consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality. Spruce Creek serves 5,600 water and wastewater customers in three communities in Marion County, Florida. The systems acquired are designed to accommodate a total of 10,000 water and wastewater customers. The Company funded this transaction with internally generated funds.

NOTE 7. INVESTMENTS IN CAPITAL RE AND ACE

In May 2000 ALLETE recorded a $30.4 million, or $0.44 per share, after-tax gain on the sale of the 4.7 million shares of ACE that ALLETE received in December 1999 when Capital Re merged with ACE. As a result of the merger, in 1999 ALLETE recorded a $36.2 million, or $0.52 per share, after-tax non-cash charge as follows: a $24.1 million, or $0.35 per share, charge in the second quarter following the merger agreement and discontinuance of ALLETE's equity accounting for Capital Re and a $12.1 million, or $0.17 per share, charge in the fourth quarter upon completion of the merger.

NOTE 8. LONG-TERM DEBT

On March 30, 2000 ADESA issued $35 million of 8.10% Senior Notes, Series B, due March 30, 2010. Proceeds were used to refinance short-term bank indebtedness incurred for the acquisition of vehicle auction facilities purchased in 1999 and for general corporate purposes.

On June 22, 2000 ALLETE refinanced $4.6 million of 6.875% Pollution Control Revenue Refunding Bonds, Series 1991-A with $4.6 million of Adjustable Rate Pollution Control Revenue Refunding Bonds Series 2000 due December 1, 2015. The new bonds had an initial interest rate of 4.75%.

On June 29, 2000 Heater issued an $8 million, 8.24%, note to CoBank, ACB, due June 20, 2025. Proceeds were used to refinance short-term indebtedness incurred for the 1999 acquisition of Mid South and capital improvements in 1999 and 2000.

NOTE 9. PREFERRED STOCK

In April 2000 the Company redeemed all 100,000 shares of Redeemable Serial Preferred Stock A, $7.125 Series for an aggregate of $10 million.

In July 2000 the Company redeemed all 100,000 shares of Redeemable Serial Preferred Stock A, $6.70 Series for an aggregate of $10 million.

In August 2000 the Company redeemed all 113,358 shares of 5% Preferred Stock at $102.50 per share plus accrued and unpaid dividends of $0.75 per share for an aggregate of $11.7 million.

Proceeds from the sale of a portion of the Company's securities portfolio and internally generated funds were used to fund these redemptions.

NOTE 10. SQUARE BUTTE PURCHASED POWER CONTRACT

The Company has a power purchase agreement with Square Butte that extends through 2026 (Agreement). It provides a long-term supply of low-cost energy to customers in the Company's electric service territory and enables the Company to meet power pool reserve requirements. Square Butte, a North Dakota cooperative corporation, owns a 455-megawatt coal-fired generating unit (Unit) near Center, North Dakota. The Unit is adjacent to a generating unit owned by Minnkota Power Cooperative, Inc. (Minnkota), a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota serves as the operator of the Unit and also purchases power from Square Butte.

The Company is entitled to approximately 71 percent of the Unit's output under the Agreement. After 2005 and upon compliance with a two-year advance notice requirement, Minnkota has the option to reduce the Company's entitlement by 5 percent annually, to a minimum of 50 percent. The Company is obligated to pay its pro rata share of Square Butte's costs based on the Company's entitlement to Unit output. The Company's payment obligation is suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At September 30, 2000 Square Butte had total debt outstanding of $329.4 million. Total annual debt service for Square Butte is expected to be approximately $36 million in each of the years 2000 through 2003 and $23 million in 2004. Variable operating costs include the price of coal purchased from BNI Coal, a subsidiary of the Company, under a long-term contract. The Company's payments to Square Butte are approved as purchased power expense for ratemaking purposes by both the MPUC and FERC.

NOTE 11. SUBSEQUENT EVENT

Effective October 7, 2000 ADESA acquired nine vehicle auction facilities from Manheim for $251 million, plus $3.5 million for land and construction costs associated with two of the auction facilities acquired. This transaction was funded with internally generated funds and the issuance of $250 million of Floating Rate First Mortgage Bonds, due October 20, 2003. The Company has the option to redeem these bonds on or after October 20, 2001, in whole or in part from tme to time, on any interest payment date prior to their maturity. The bonds had an initial interest rate of 7.61%. ADESA now owns or leases, and operates 57 vehicle auction facilities throughout the United States and Canada.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ALLETE is a multi-services company with operations in four business segments: (1) Energy Services, which include electric and gas services, coal mining and telecommunications; (2) Automotive Services, which include a network of vehicle auctions, a finance company, an auto transport company, a vehicle remarketing company and a company that provides field information services; (3) Water Services, which include water and wastewater services; and (4) Investments, which include real estate operations, investments in emerging technologies relating to the electric industry and a securities portfolio. Corporate charges represent general corporate expenses, including interest, not specifically related to any one business segment.

CONSOLIDATED OVERVIEW

Net income and earnings per share for the three months ended September 30, 2000 continued the strong performance of the same period in 1999, though a cooler summer resulted in lower income at Energy Services from wholesale power marketing.

For the nine months ended September 30, 2000 the Company reported continued strong performance across all business segments, though a cooler summer resulted in lower income at Energy Services from wholesale power marketing. Significant acquisitions and growth in Automotive Services and the performance of Investments contributed to higher operating results in 2000. Excluding the Capital Re and ACE transactions (see net income discussion for Capital Re and ACE Transactions below), net income and earnings per share for the nine months ended September 30, 2000 increased 22 percent and 20 percent, respectively, over the same period in 1999.

	Quarter Ended September 30, 2000	Quarter Ended September 30, 1999	Nine Months Ended September 30, 2000	Nine Months Ended September 30, 1999
Millions				
Operating Revenue				
Energy Services	$146.1	$154.8	$ 426.6	$422.3
Automotive Services	137.4	105.5	386.6	306.3
Water Services	30.2	31.1	89.9	85.4
Investments	9.9	16.7	70.3	31.1
Corporate Charges	(0.1)	(0.1)	(0.3)	(0.2)
	$323.5	$308.0	$ 973.1	$844.9
Operating Expenses				
Energy Services	$126.8	$122.3	$ 373.6	$357.1
Automotive Services	112.5	88.0	315.9	250.3
Water Services	24.0	24.7	73.1	69.7
Investments	4.2	7.3	29.5	15.0
Corporate Charges	6.6	8.1	22.5	21.7
	$274.1	$250.4	$ 814.6	$713.8
Net Income				
Energy Services	$ 11.4	$ 18.6	$ 31.4	$ 38.2
Automotive Services	15.4	9.7	42.0	31.3
Water Services	3.8	3.9	10.3	9.6
Investments	5.0	6.2	26.7	15.5
Corporate Charges	(0.6)	(3.9)	(11.2)	(13.2)
	35.0	34.5	99.2	81.4
Capital Re and ACE Transactions	-	-	30.4	(24.1)
	$ 35.0	$ 34.5	$ 129.6	$ 57.3
Diluted Earnings Per Share of Common Stock				
Before Capital Re and ACE Transactions	$ 0.50	$ 0.50	$ 1.40	$1.17
Capital Re and ACE Transactions	-	-	0.44	(0.35)
	$ 0.50	$ 0.50	$ 1.84	$0.82
Diluted Average Shares of Common Stock - Millions	70.4	68.9	69.8	68.4

Including the $30.4 million gain associated with the ACE transaction, net income from Investments was $57.1 million for the nine months ended September 30, 2000. (See Note 7.)

Including the $24.1 million non-cash charge associated with the Capital Re transaction, net income from Investments was an $8.6 million loss for the nine months ended September 30, 1999. (See Note 7.)

NET INCOME

The following net income discussion summarizes significant events for the nine months ended September 30, 2000.

ENERGY SERVICES reflected lower net income in 2000 primarily due to lower demand for electricity in the region's wholesale power market as a result of more moderate summer weather. Transmission constraints were also a factor in 2000. Total retail megawatthour sales exceeded record levels that were achieved in 1999.

AUTOMOTIVE SERVICES reported higher net income in 2000 due to increased sales activity at ADESA auction facilities and increased financing activity at AFC's loan production offices. During 2000 ADESA acquired or opened 19 new vehicle auction facilities and completed the acquisition of 11 salvage auction facilities. Same store growth at ADESA auction facilities increased 13 percent as measured by earnings before interest, taxes, depreciation, amortization and lease expense.

WATER SERVICES generated higher net income in 2000 due to increased water consumption as a result of drier weather conditions and customer growth, regulatory relief granted by Florida's Hillsborough Board of County Commissioners in 2000 and higher rates approved by the FPSC in 1999. Net income in 1999 also included the recognition of regulatory relief granted by the FPSC.

INVESTMENTS reported higher net income in 2000 because of significant sales by the Company's real estate operations, improved returns on the Company's securities portfolio and earnings on investments in emerging technologies.

CORPORATE CHARGES in 2000 reflected the reversal of previously recorded tax reserves related to various Federal and state tax issues.

CAPITAL RE AND ACE TRANSACTIONS. In May 2000 ALLETE recorded a $30.4 million, or $0.44 per share, after-tax gain on the sale of the 4.7 million shares of ACE that ALLETE received in December 1999 when Capital Re merged with ACE. As a result of the merger, in 1999 ALLETE recorded a $36.2 million, or $0.52 per share, after-tax non-cash charge as follows: a $24.1 million, or $0.35 per share, charge in the second quarter following the merger agreement and discontinuance of ALLETE's equity accounting for Capital Re; and a $12.1 million, or $0.17 per share, charge in the fourth quarter upon completion of the merger.

For the nine months ended September 30, 2000, income tax expense included $17.6 million related to the ACE transaction. For the nine months ended September 30, 1999, income tax expense included $7.9 million related to the Capital Re transaction.

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2000 AND 1999

OPERATING REVENUE

ENERGY SERVICES operating revenue was down $8.7 million, or 6 percent, in 2000 primarily because of a softer wholesale market. Wholesale prices and volumes were down from last year primarily due to lower demand for electricity in the region's wholesale power market as a result of more moderate summer weather. Transmission constraints were also a factor in 2000. The decrease in revenue was partially offset by a 13 percent increase in megawatthour sales to retail customers and higher gas revenue. Higher demand from large industrial customers led to the increase in retail megawatthour sales.

Revenue from electric sales to taconite customers accounted for 13 percent of consolidated operating revenue in 2000 (10 percent in 1999). Electric sales to paper and pulp mills accounted for 5 percent of consolidated operating revenue in both 2000 and 1999. Sales to other power suppliers accounted for 7 percent of consolidated operating revenue in 2000 (16 percent in 1999).

AUTOMOTIVE SERVICES operating revenue was up $31.9 million, or 30 percent, in 2000 primarily due to a 23 percent increase in vehicles sold through ADESA auction facilities and a 7 percent increase in the number of vehicles financed at AFC loan production offices. At ADESA auction facilities 337,000 vehicles were sold in 2000 (274,000 in 1999). The increase in vehicles sold was primarily attributable to new auctions acquired or opened in 1999 and 2000. Financial results for 2000 included three months of operations for one auction facility acquired in February 2000, two auction facilities opened in April 2000, 11 salvage auctions acquired in May 2000 and 13 auction facilities acquired in June 2000. Financial results for 2000 also reflected less than two months of operations for three auction facilities acquired in August 2000. AFC financed approximately 198,000 vehicles in 2000 (186,000 in 1999). AFC had 86 loan production offices at September 30, 2000 (84 at September 30, 1999).

WATER SERVICES operating revenue was down $0.9 million, or 3 percent, in 2000 primarily due to the recognition of $2.7 million of regulatory relief granted by the FPSC in 1999. Water consumption was up 5 percent in 2000 because of drier weather conditions in Florida. Customer growth and the inclusion of water systems acquired during 1999 and early 2000 also contributed to the increase in water consumption. In addition, revenue in 2000 was $1.0 million higher due to regulatory relief granted by Florida's Hillsborough Board of County Commissioners in 2000 and $0.3 million higher due to higher rates approved by the FPSC in 1999.

INVESTMENTS operating revenue was down $6.8 million, or 41 percent, in 2000 due to the timing of commercial real estate sales in Florida. The Company's real estate operations reported strong sales during the first half of 2000. In 1999 the Company's real estate operations recorded two significant sales totaling $6.9 million.

OPERATING EXPENSES

ENERGY SERVICES operating expenses were up $4.5 million in 2000 due to increased fuel and purchased power expenses. Fuel expense was up $1.3 million in 2000 because the Company paid higher prices for coal. In 2000 purchased power expense was up $1.6 million due to purchased gas and $3.9 million because the Company purchased 218,000, or 42 percent, more megawatthours. During 2000 generation at the Company's hydro plants was down 130,000 megawatthours due to lack of rain in the Midwest.

AUTOMOTIVE SERVICES operating expenses were up $24.5 million in 2000 primarily due to the inclusion of new vehicle auction facilities acquired or opened in late 1999 and 2000. Increased sales activity at existing auction facilities and financing activity at AFC also increased operating expenses in 2000.

WATER SERVICES operating expenses were down $0.7 million in 2000 due to cost control efforts.

INVESTMENTS operating expenses were down $3.1 million in 2000 due to fewer sales by the Company's real estate operations.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2000 AND 1999

OPERATING REVENUE

ENERGY SERVICES operating revenue was up $4.3 million, or 1 percent, in 2000 due to a 7 percent increase in retail megawatthour sales because of higher demand from large industrial customers and additional gas revenue. This increase was partially offset by fewer sales from wholesale power marketing activities. Wholesale prices and volumes were down from last year because of lower demand for electricity in the region's wholesale power market as a result of more moderate summer weather. Transmission constraints were also a factor in 2000.

Revenue from electric sales to taconite customers accounted for 13 percent of consolidated operating revenue in both 2000 and 1999. Electric sales to paper and pulp mills accounted for 5 percent of consolidated operating revenue in both 2000 and 1999. Sales to other power suppliers accounted for 6 percent of consolidated operating revenue in 2000 (10 percent in 1999).

AUTOMOTIVE SERVICES operating revenue was up $80.3 million, or 26 percent, in 2000 primarily due to a 17 percent increase in both vehicles sold through ADESA auction facilities and the number of vehicles financed at AFC loan production offices. At ADESA auction facilities 940,000 vehicles were sold in 2000 (804,000 in 1999). The increase in vehicles sold was primarily attributable to new auctions acquired or opened in 1999 and 2000. Financial results for 2000 included nine months of operations for two auction facilities acquired in 1999, eight months of operations for one auction facility acquired in February 2000, six months of operations for two auction facilities opened in April 2000, four months of operations for 11 salvage auctions acquired in May 2000 and three months of operations for 13 auction facilities acquired in June 2000. Financial results for 2000 also reflected less than two months of operations for three auction facilities acquired in August 2000. AFC financed approximately 595,000 vehicles in 2000 (509,000 in 1999). AFC had 86 loan production offices at September 30, 2000 (84 at September 30, 1999).

WATER SERVICES operating revenue was up $4.5 million, or 5 percent, in 2000 because of a 10 percent increase in water consumption. Drier weather conditions, customer growth and the inclusion of water systems acquired during 1999 and early 2000 led to the increase in water consumption. In addition, revenue in 2000 was $1.0 million higher due to regulatory relief granted by Florida's Hillsborough Board of County Commissioners in 2000 and $0.8 million higher due to higher rates approved by the FPSC in 1999. Revenue in 1999 reflected the recognition of $2.7 million of regulatory relief granted by the FPSC.

INVESTMENTS operating revenue was up $39.2 million in 2000. Significant sales by the Company's real estate operations were the primary reason for the increase. In 2000 seven large sales contributed $31.9 million to revenue. In 1999 two large sales contributed $6.9 million to revenue. Improved returns from the securities portfolio and $5.5 million more income from investments in emerging technologies also contributed to higher operating revenue from Investments in 2000. The Company's securities portfolio recorded an after-tax return of 7% in 2000 (3.58% in 1999).

OPERATING EXPENSES

ENERGY SERVICES operating expenses were up $16.5 million in 2000 primarily due to increased fuel and purchased power expenses. Fuel expense was $7.1 million higher in 2000 because the Company paid higher prices for coal and generated 415,000, or 9 percent, more megawatthours to meet the higher requirements of the Company's industrial customers. In 2000 purchased power expense was up $4.8 million due to purchased gas and $4.9 million because of higher prices paid for purchased power.

AUTOMOTIVE SERVICES operating expenses were up $65.6 million in 2000 primarily due to the inclusion of new vehicle auction facilities acquired or opened in 1999 and 2000. Increased sales activity at the auction facilities and increased financing activity at AFC also increased operating expenses in 2000.

WATER SERVICES operating expenses were up $3.4 million in 2000 due to the inclusion of water systems acquired in the second quarter of 1999 and early 2000.

INVESTMENTS operating expenses were up $14.5 million in 2000 due to the cost of property sold by the Company's real estate operations.

OUTLOOK

CORPORATE OUTLOOK. On September 1, 2000 the Company began doing business under the name ALLETE with a new ticker symbol (NYSE: ALE). This reflects the Company's success at its strategic objective of transitioning from a diversified electric company to a multi-services company. The significant investment in new vehicle auction facilities during 2000 will contribute to ALLETE's growth and profitability strategy and is expected to increase the Company's growth in operating earnings from 10 percent in 2000 to 12 percent in 2001.

ENERGY SERVICES. As the electric industry continues to restructure, the contribution from Energy Services is expected to remain stable. Approximately half of the electricity the Company sells is to large industrial customers, primarily taconite producers, which have long-term all-requirements contracts. Approximately 80 percent of the ore consumed by integrated steel facilities in the Great Lakes region originates from five taconite customers of the Company.

Overall, the domestic steel industry continues to face price deterioration and high levels of imported products. Through August 2000 the United States imported over 27 million net tons of steel. This level of imports is almost 17 percent higher than the same period in 1999 and remains almost 3 percent higher than in 1998, a crisis year for the industry. When annualized, this level of imports equates to an estimated 41 million-ton year, just slightly less than 1998's import record of 41.5 million net tons. The average value of all steel mill product imports has declined to about $70 per ton, or 15.4 percent, below the pre-crisis value in first quarter 1998.

Although imports remain high, shipments of steel from U.S. steel mills have stayed moderately strong. In the first eight months of 2000, U.S. steel mills shipped 75.6 million net tons, up 10.7 percent from the same period in 1999 when 68.3 million net tons were shipped.

AUTOMOTIVE SERVICES. ADESA is the second largest and the fastest growing vehicle auction business in North America. In May 2000 ADESA purchased the remaining 27 percent ownership in Impact Auto, which added 11 salvage auctions to the Automotive Services segment. The June 2000 acquisition of AFG added 13 Canadian vehicle auction facilities and associated dealer financing business to ADESA and established ADESA as the premier automotive services company in Canada. ADESA also acquired three other vehicle auction facilities in August 2000 and completed the acquisition of nine vehicle auction facilities from Manheim in October 2000. These acquisitions are expected to increase the number of vehicles sold by 60 percent in the near term with additional growth potential in the future. ADESA currently owns or leases, and operates 57 vehicle auction facilities throughout the United States and Canada. By the end of 2000 AFC will exit all the ADT auctions acquired by Manheim where AFC now has loan production offices. AFC plans to continue to serve these areas from newly established loan production offices or from other existing offices. AFC does not anticipate that the relocations will have a material financial impact.

WATER SERVICES includes the largest investor owned water utilities in both Florida and North Carolina. The Company continues to position itself by selectively acquiring targeted water systems and developing a non-regulated presence in the contract maintenance business. Both Florida and North Carolina are currently experiencing rapid population growth which should contribute to annual customer growth of 4 to 7 percent, respectively, over the next two years.

INVESTMENTS. Over the last 5 years, sales by real estate operations have been 3 to 4 times more than the acquisition cost of property sold, creating strong cash generation and profitability. The real estate strategy is to acquire large portfolios of property, add value and resell them at going market prices.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITIES. Cash flow from operations during the nine months ended September 30, 2000 reflected improved operating results and continued focus on working capital management. Cash from operating activities was also affected by a number of factors representative of normal operations.

WORKING CAPITAL. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. Securities investments can be liquidated to provide funds for reinvestment in existing businesses or acquisition of new businesses. Approximately 6 million original issue shares of Common Stock are available for issuance through Invest Direct, the Company's direct stock purchase and dividend reinvestment plan.

A substantial amount of ADESA's working capital is generated internally from payments for services provided. However, ADESA has arrangements to use the proceeds from the sale of commercial paper issued by the Company to meet short-term working capital requirements arising from the timing of payment obligations to vehicle sellers and the availability of funds from vehicle purchasers. During the sales process, ADESA does not typically take title to vehicles.

AFC also has arrangements to use proceeds from the sale of commercial paper issued by the Company to meet its operational requirements. AFC offers short-term on-site financing for dealers to purchase vehicles at auctions in exchange for a security interest in those vehicles. The financing is provided through the earlier of the date the dealer sells the vehicle or a general borrowing term of 30 to 45 days. AFC sells certain finance receivables on a revolving basis to a wholly owned, unconsolidated, qualified special purpose subsidiary. This subsidiary in turn sells, on a revolving basis, an undivided interest in eligible finance receivables, up to a maximum at any one time outstanding of $300 million, to third party purchasers under an agreement which expires at the end of 2002. At September 30, 2000 AFC had sold $363.6 million of finance receivables to the special purpose subsidiary ($296.8 million at December 31, 1999). Third party purchasers had purchased an undivided interest in finance receivables of $257 million from this subsidiary at September 30, 2000 ($225 million at December 31, 1999). Unsold finance receivables held by the special purpose subsidiary are recorded by AFC as residual interest at fair value. Fair value is based upon estimates of future cash flows, using assumptions that market participants would use to value such instruments, including estimates of anticipated credit losses over the life of the receivables sold; a discount rate was not used due to the short-term nature of the receivables sold. The fair value of AFC's residual interest was $92 million at September 30, 2000 ($57.6 million at December 31, 1999). Proceeds from the sale of the receivables were used to repay borrowings from the Company and fund vehicle inventory purchases for AFC's customers.

Significant changes in accounts receivable and accounts payable balances at September 30, 2000 compared to December 31, 1999 were due to increased sales and financing activity at Automotive Services. Typically auction volumes are down during the winter months and in December because of the holidays. As a result, both ADESA and AFC had lower receivables and fewer payables at year end.

SALE OF INVESTMENTS. In May 2000 ALLETE sold its 4.7 million shares of ACE. ALLETE received the ACE shares and $25 million in cash in December 1999 when Capital Re merged with ACE. Prior to the merger, ALLETE owned 7.3 million shares, or 20 percent, of Capital Re. The $127 million in proceeds from the sale of ACE shares and proceeds from the sale of a portion of the Company's securities portfolio were used to fund the acquisitions of AFG and Impact Auto.

ACQUISITIONS. In February 2000 ADESA purchased the Mission City Auto Auction in San Diego, California. The Mission City auction, which has been renamed ADESA San Diego, operates six auction lanes on 30 acres with full reconditioning facilities.

In May 2000 ADESA Canada purchased the remaining 27 percent of Impact Auto. ADESA Canada acquired 20 percent of Impact Auto on October 1, 1995, 27 percent in March 1999 and another 26 percent in January 2000. Impact is Canada's largest national salvage auction chain with 11 sites in six provinces. Impact Auto provides remarketing services to insurance companies for their "total loss" vehicles.

In June 2000 ADESA acquired all of the outstanding common shares of AFG. AFG owns CAAG Auto Auction Holdings Ltd. which was doing business as Canadian Auction Group. This acquisition added 13 vehicle auction facilities and associated dealer financing business to ADESA's existing locations and established ADESA as the premier automotive services company in Canada.

In August 2000 ADESA purchased Beebe Auto Exchange, Inc. (Beebe). Beebe operated two Arkansas auto auctions, Mid-Ark Auto Auction (renamed ADESA Little Rock) in North Little Rock and Central Arkansas Auto Auction (renamed ADESA Central Arkansas) in Beebe, Arkansas. ADESA Little Rock operates ten auction lanes on approximately 81 acres and ADESA Central Arkansas operates six auction lanes on approximately 66 acres. Together, these auctions sold more than 40,000 vehicles in 1999. This purchase strengthens ADESA's presence in the South and complements existing auctions in Shreveport, Memphis, Dallas, Houston, San Antonio and Austin.

In August 2000 ADESA acquired 51 percent of Interstate Auto Auction located in Ocala, Florida. Interstate Auto Auction, which was renamed A & H, LLC and is doing business as ADESA Ocala, operates five auction lanes on 26.5 acres.

The transactions described in the five preceding paragraphs had a combined purchase price of approximately $183.9 million. The Company funded these transactions with proceeds from the sale of ACE shares, proceeds from the sale of a portion of the Company's securities portfolio and internally generated funds.

In October 2000 ADESA completed the purchase of nine auction facilities from Manheim for $251 million, plus $3.5 million for land and construction costs associated with two of the auction facilities acquired. The nine auction facilities include eight auctions Manheim acquired from ADT. The Company funded this transaction with internally generated funds and the temporary issuance of short-term debt. The short-term debt was refinanced in October 2000 with long-term debt (see Long-Term Debt below). ADESA owns or leases, and operates 57 auctions across North America.

In June 2000 Florida Water purchased the assets of Spruce Creek for $5.5 million, plus a commitment to pay fees for water connections through June 2005. Spruce Creek serves 5,600 water and wastewater customers in three communities in Marion County, Florida. The systems acquired are designed to accommodate a total of 10,000 water and wastewater customers. The Company funded this transaction with internally generated funds.

LONG-TERM DEBT. In March 2000 ADESA issued $35 million of 8.10% Senior Notes, Series B, due March 30, 2010. Proceeds were used to refinance short-term bank indebtedness incurred for the acquisition of vehicle auction facilities purchased in 1999 and for general corporate purposes.

In June 2000 ALLETE refinanced $4.6 million of 6.875% Pollution Control Revenue Refunding Bonds, Series 1991-A with $4.6 million of Adjustable Rate Pollution Control Revenue Refunding Bonds Series 2000 due December 1, 2015. The new bonds had an initial interest rate of 4.75%.

In June 2000 Heater issued an $8 million, 8.24%, note to CoBank, ACB, due June 20, 2025. Proceeds were used to refinance short-term indebtedness incurred for the 1999 acquisition of Mid South and capital improvements in 1999 and 2000.

In July 2000 the Company filed a registration statement with the SEC pursuant to Rule 415 under the Securities Act of 1933 for an aggregate of $400 million of first mortgage bonds and debt securities. The SEC declared the registration statement effective on August 7, 2000. In October 2000 the Company issued $250 million of Floating Rate First Mortgage Bonds, due October 20, 2003. The Company has the option to redeem these bonds on or after October 20, 2001, in whole or in part from time to time, on any interest payment date prior to their maturity. Proceeds were used to refinance short-term debt incurred in connection with the recent acquisition of nine vehicle auction facilities from Manheim. The new bonds had an initial interest rate of 7.61%. The Company may sell the remaining securities registered in July 2000 if warranted by market conditions and the Company's capital requirements. Any offer and sale of the first mortgage bonds and debt securities will be made only by means of a prospectus.

PREFERRED STOCK. In April 2000 the Company redeemed all 100,000 shares of Redeemable Serial Preferred Stock A, $7.125 Series for an aggregate of $10 million. In July 2000 the Company redeemed all 100,000 shares of Redeemable Serial Preferred Stock A, $6.70 Series for an aggregate of $10 million. Proceeds from the sale of a portion of the Company's securities portfolio were used to fund these redemptions.

In August 2000 the Company redeemed all 113,358 shares of 5% Preferred Stock at $102.50 per share plus accrued and unpaid dividends of $0.75 per share for an aggregate of $11.7 million. Internally generated funds were used to fund this redemption.

LEASES. In April 2000 leases for three ADESA auction facilities (Boston, Charlotte and Knoxville) were refinanced in a $28.4 million leveraged lease transaction. The new lease expires on April 1, 2010, but may be terminated after 2005 under certain conditions. ALLETE has guaranteed ADESA's obligations under the lease.

CAPITAL REQUIREMENTS. Consolidated capital expenditures for the nine months ended September 30, 2000 totaled $94.0 million ($68.6 million in 1999). Expenditures for 2000 included $34.9 million for Energy Services, $40.3 million for Automotive Services and $18.8 million for Water Services. Internally generated funds and the issuance of long-term debt were the primary sources of funding for these expenditures.

NEW ACCOUNTING STANDARDS

In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137, effective for fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset the related results on the hedged item. The Company currently believes it has only a limited amount of derivative activity and adoption of SFAS 133 is not expected to have a material impact on the Company's financial position and results of operations.

Readers are cautioned that forward-looking statements including those contained above, should be read in conjunction with the Company's disclosures under the heading: "SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995" located in the preface of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's securities portfolio has exposure to both price and interest rate risk. Investments held principally for near-term sale are classified as trading securities and recorded at fair value. Trading securities consist primarily of the common stock of publicly traded companies. In strategies designed to hedge overall market risks, the Company also sells common stock short. Investments held for an indeterminate period of time are classified as available-for-sale securities and also recorded at fair value. Available-for-sale securities consisted of securities in a grantor trust established to fund certain employee benefits. In May 2000 ALLETE sold its entire investment in ACE. (See Note 7.)

September 30, 2000	Fair Value
Millions	
Trading Securities Portfolio	$104.2
Available-For-Sale Securities Portfolio	$13.3

PART II. OTHER INFORMATION
ITEM 5. OTHER INFORMATION

Reference is made to the Company's 1999 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to the Company's 1999 Form 10-K.

Ref. Page 4. - First and Second Paragraphs
Ref. 10-Q for the quarter ended March 31, 2000, Page 11. - Third and Fourth Paragraphs
Ref. 10-Q for the quarter ended June 30, 2000, Page 17. - Second and Third Paragraphs

Overall, the domestic steel industry continues to face price deterioration and high levels of imported products. Through August 2000 the United States imported over 27 million net tons of steel. This level of imports is almost 17 percent higher than the same period in 1999 and remains almost 3 percent higher than in 1998, a crisis year for the industry. When annualized, this level of imports equates to an estimated 41 million-ton year, just slightly less than 1998's import record of 41.5 million net tons. The average value of all steel mill product imports has declined to about $70 per ton, or 15.4 percent, below the pre-crisis value in first quarter 1998.

Although imports remain high, shipments of steel from U.S. steel mills have stayed moderately strong. In the first eight months of 2000, U.S. steel mills shipped 75.6 million net tons, up 10.7 percent from the same period in 1999 when 68.3 million net tons were shipped.

Ref. Page 5. - Table

USG Interiors (USG), a subsidiary of USG Corporation and a ceiling tile manufacturer in Cloquet, Minnesota, will become a Large Power Customer of the Company. USG has added new production capability and made modifications to their facilities that increase their electrical demand. Following MPUC approval the new contract is expected to be in effect January 1, 2001 and extend to December 31, 2005.

Ref. Page 7. - Ninth Paragraph

On October 13, 2000 the Company filed with the FERC, as required by Order 2000, its description of efforts the Company has made to participate in a regional transmission organization (RTO) and an explanation of the reasons why the Company has not filed an application with the FERC to transfer operational control of its transmission facilities to an approved RTO. The Company's explanation included concerns about financial uncertainties and participation by other regional transmission owners including those who are not regulated by FERC.

Ref. Page 7. - Tenth Paragraph

In April 2000 Mid-Continent Area Power Pool (MAPP) and Mid-America Interconnected Network (MAIN) approved a memorandum of understanding to merge the reliability functions of the two organizations into a Midwest Reliability Organization (MRO). The new MRO will be designed and structured to comply with North American Electric Reliability Council's requirements applicable to regional reliability organizations (RRO). A combined, larger RRO is expected to provide cost savings and improve the wholesale energy market by applying consistent rules across a broader region. Definitive agreements have been completed and provided to the membership of MAPP and MAIN. Both organizations were scheduled to vote in October 2000 to decide whether or not to establish the new organization. MAPP members voted 92 percent in favor of the combination. MAIN members have postponed their vote until January 25, 2001, and the Company is not able to predict the outcome of this vote.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10 Guarantee Agreement, dated August 16, 2000, made by and among ALLETE (legally incorporated as Minnesota Power, Inc.), CoBank, ACB and ABN AMRO Bank, N.V.

27 Financial Data Schedule for the Nine Months Ended September 30, 2000.

(b) Reports on Form 8-K.

Report on Form 8-K filed July 19, 2000 with respect to Item 7. Financial Statements and Exhibits.

Report on Form 8-K filed August 8, 2000 with respect to Item 5. Other Events.

Report on Form 8-K filed October 10, 2000 with respect to Item 5. Other Events and Item 7. Financial Statements and Exhibits.

Report on Form 8-K filed October 18, 2000 with respect to Item 7. Financial Statements and Exhibits.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALLETE
(legally incorporated as Minnesota Power, Inc.)

October 27, 2000

D. G. Gartzke

D. G. Gartzke
Senior Vice President - Finance
and Chief Financial Officer

October 27, 2000

Mark A. Schober

Mark A. Schober
Controller

EXHIBIT INDEX

Exhibit Number	
10	Guarantee Agreement, dated August 16, 2000, made by and among ALLETE (legally incorporated as Minnesota Power, Inc.), CoBank, ACB and ABN AMRO Bank, N.V.
27	Financial Data Schedule for the Nine Months Ended September 30, 2000.

Exhibit 10

GUARANTEE AGREEMENT

GUARANTEE AGREEMENT (this "Agreement"), dated as of August 16, 2000, made by and among Minnesota Power, Inc., a Minnesota corporation (the "Guarantor"), CoBank, ACB not in its individual capacity but solely in its capacity as Administrative Agent under the Credit Agreement (as hereinafter defined), and ABN AMRO Bank N.V., as the sole Minnesota Power Bank as of the date hereof.

RECITALS

Split Rock Energy LLC (the "Company") has entered into a Credit Agreement dated as of the date hereof with CoBank, ACB, as Administrative Agent, and the other financial institutions from time to time party thereto (the "Credit Agreement").

As of the date hereof, the Company is 50% owned by the Guarantor. The Guarantor acknowledges that it is in its best interests for the Company to enter into the Credit Agreement and obtain the credit provided thereunder. The Minnesota Power Banks (but not the GRE Banks) have required as a condition precedent to their entering into the Credit Agreement and extending credit from time to time in accordance with the terms thereof that the Guarantor enter into this Agreement unconditionally and irrevocably guarantying all Guaranteed Obligations (as hereinafter defined) owing to the Minnesota Power Banks.

The Minnesota Power Banks are willing to enter into the Credit Agreement and extend credit from time to time in accordance with the terms thereof, subject to and in reliance upon, among other things, the terms and conditions of this Agreement.

NOW. THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. RECITALS. The recitals are hereby incorporated by this reference.

Section 2. DEFINITIONS. All capitalized terms used in this Agreement without definition shall have the meanings ascribed to them in the Credit Agreement.

Section 3. INCORPORATION BY REFERENCE. Whenever any section or provision of the Minnesota Power Credit Facility is incorporated herein by reference, such section or provision shall for all purposes be deemed to be incorporated and set forth herein in its entirety, mutatis mutandis, and the related defined terms, cross-referenced sections, schedules and exhibits of the Minnesota Power Credit Facility referred to in any such incorporated section or provision shall also be deemed to be incorporated herein by reference in accordance with this Section 3, provided that any reference in any section or provision incorporated herein by reference to (i) "Agent", "Bank", or "Required Banks" shall be deemed to by a reference to the Minnesota Power Banks under the Credit Agreement,(ii) the "Company" shall be deemed to by a reference to the Guarantor, and (iii) "Loan Documents" shall also include this Agreement. The sections and provisions of the Minnesota Power Credit Facility incorporated herein by reference shall survive and be binding upon the Guarantor notwithstanding the termination or expiration of the Minnesota Power Credit Facility and no waiver, amendment, supplement or other modification to the Minnesota Power Credit Facility made after the date of this Agreement shall have any affect on the sections and provisions incorporated herein by reference unless consented to in writing by each of the Minnesota Power Banks. To the extent that the Guarantor is required to provide any notice, certificate or other information hereunder and such notice, certificate or other information is provided to each of the Minnesota Power Banks pursuant to the Minnesota Power Credit Facility within the time and in proper form, if any, specified herein for the providing of such information, than the Guarantor shall be deemed to have satisfied its obligation hereunder to provide such notice, certificate or other information.

Section 4. GUARANTY. The Guarantor hereby absolutely, unconditionally and irrevocably guarantees the full and prompt payment to the Minnesota Power Banks (but not the GRE Banks) of any and all Obligations owing to the Minnesota Power Banks (but not the GRE Banks) as and when due (whether by acceleration or otherwise), howsoever evidenced, arising under or relating to the Credit Documents, whether direct or indirect, absolute or contingent, joint or several, or joint and several and howsoever owned, held or acquired; and the Guarantor further agrees to pay all reasonable expenses, legal and/or otherwise (including court costs and reasonable attorneys' fees), paid or incurred by the Administrative Agent or the Minnesota Power Banks in endeavoring to collect such Obligations, or any part thereof, and in enforcing this guaranty in any litigation, bankruptcy or insolvency proceeding or otherwise (collectively, the "Guaranteed Obligations").

Guarantor's guaranty is a continuing, absolute and unconditional guaranty, and shall remain in full force and effect until written notice of its discontinuance shall be actually received by the Administrative Agent, and also until any and all of the Guaranteed Obligations created, existing or committed to before receipt of such notice shall be fully paid. The liability of the Guarantor hereunder shall in no way be affected or impaired by (and the Administrative Agent or and Minnesota Power Banks are hereby expressly authorized to make from time to time, without notice to anyone) any increase, sale, pledge, surrender, compromise, settlement, release, renewal, extension, indulgence, alteration, substitution, exchange, change in, modification or other disposition of any of the Guaranteed Obligations, either express or implied, or of any contract or contracts evidencing any thereof, or of any security or Collateral therefor. The liability of the Guarantor hereunder shall also in no way be affected or impaired by any acceptance by the Administrative Agent or any Bank of any security for or other guarantors upon any of the Guaranteed Obligations, or by any failure, neglect or omission on the part of the Administrative Agent or any Bank to realize upon or protect any of the Guaranteed Obligations, or any collateral or security or other guaranty therefor, or to exercise any lien upon or right of appropriation of any moneys, credits or property of the Company possessed by the Administrative Agent and/or the Banks toward the liquidation of the Guaranteed Obligations, or by any application of payments or credits thereon. The Administrative Agent and the Banks shall have the exclusive right to determine how, when and what application of payments and credits, if any, shall be made on the Guaranteed Obligations, or any part thereof. Notwithstanding anything in any Credit Documents to the contrary, in order to hold the Guarantor liable hereunder, there shall be no obligation on the part of the Administrative Agent or the Banks, at any time, to resort for payment to the Company or to any other guaranty (including the GRE Guaranty), or to any other person or corporation, their properties or estate, or resort to any collateral, security, property, Liens or other rights or remedies whatsoever and the Administrative Agent and the Minnesota Power Banks (but not the GRE Banks) shall have the right to enforce this guaranty irrespective of whether or not other proceedings or steps are pending seeking resort to or realization upon or from any of the foregoing.

All diligence in collection or protection, and all presentment, demand, protest and/or notice, as to any and everyone, whether or not the Company or the Guarantor or others, of dishonor and of default and of non-payment and of the creation and existence of any and all of the Guaranteed Obligations, and of any security and collateral therefor, and of the acceptance of this guaranty, and of any and all extensions of credit and indulgence, are expressly waived.

Until payment of all Guaranteed Obligations has irrevocably been made, the Guarantor hereby irrevocably waives any claim or other rights which it may now or hereafter acquire against the Company that arise from the existence, payment, performance or enforcement of the Guarantor's obligations hereunder, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution, indemnification, or any right to participate in any claim or remedy of the Administrative Agent and the Banks against the Company whether or not such claim, remedy or right arises in equity, or under contract, statute or common law, including, without limitation, the right to take or receive from the Company directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim or other rights.

In the case of the dissolution, liquidation, or insolvency (howsoever evidenced) of, or the institution of bankruptcy or receivership proceedings against the Company or the Guarantor or an Event of Default occurs, all of the Guaranteed Obligations then existing shall, at the option of the Administrative Agent or the Minnesota Power Banks (or automatically, in the event of a bankruptcy or receivership proceeding), immediately become due and accrued and payable from the Guarantor. All dividends or other payments received from the Company, or on account of the Company from whatsoever source, shall be taken and applied as payment in gross, and this guaranty shall apply to and secure any ultimate balance that shall remain owing to the Minnesota Power Banks.

The Minnesota Power Banks may sell, assign, or transfer all of the Guaranteed Obligations, or any part thereof, or grant participations therein, and in that event each and every immediate and successive assignee, transferee, or holder of or participant in all or any part of the Guaranteed Obligations, shall be a beneficiary of this guaranty, as fully as if such assignee, transferee, holder or participant were herein by name specifically given such rights, powers and benefits.

If any payment applied by the Administrative Agent or the Minnesota Power Banks to the Guaranteed Obligations is thereafter set aside, recovered, rescinded or required to be returned for any reason (including, without limitation, the bankruptcy, insolvency or reorganization of the

Company or any other obligor), the Guaranteed Obligations to which such payment was applied shall for the purposes of this guaranty be deemed to have continued in existence, notwithstanding such application, and this guaranty shall be enforceable as to such of the Guaranteed Obligations as fully as if such application had never been made.

All payments to be made by the Guarantor hereunder shall be made in the same currency and funds in which the Guaranteed Obligations of the Company are payable at the head office of the Administrative Agent at Denver, Colorado (or at such other place for the account of the Administrative Agent as it may from time to time specify to the Guarantor) in immediately available and freely transferable funds at the place of payment, all such payments to be paid without setoff, counterclaim or reduction and without deduction for, and free from, any and all present or future taxes, levies, imposts, duties, fees, charges, deductions, withholding or liabilities with respect thereto or any restrictions or conditions of any nature. If the Guarantor is required by law to make any deduction or withholding on account of any tax or other withholding or deduction from any sum payable by the Guarantor hereunder, the Guarantor shall pay any such tax or other withholding or deduction and shall pay such additional amount necessary to ensure that, after making any payment, deduction or withholding, the Administrative Agent and the Minnesota Power Banks shall receive and retain (free of any liability in respect of any payment, deduction or withholding) a net sum equal to what it would have received and so retained hereunder had no such deduction, withholding or payment been required to have been made.

The Guarantor waives any and all of its defenses, claims and discharges and those of the Company, or any other obligor, pertaining to the Guaranteed Obligations or its obligations hereunder, except the defense of discharge by payment in full. Without limiting the generality of the foregoing, the Guarantor will not assert, plead or enforce against the Administrative Agent or any Bank any defense of waiver, release, discharge in bankruptcy, statute of limitations, res judicata, statute of frauds, anti-deficiency statute, fraud, incapacity, minority, usury, illegality or unenforceability which may be available to the Company or any other person liable in respect of any of the Guaranteed Obligations, or any setoff available against the Administrative Agent or any Banks to the Company or any such other person, whether or not on account of a related transaction. The Guarantor agrees that the Guarantor shall be and remain liable for any deficiency remaining after foreclosure of any mortgage or security interest securing the Guaranteed Obligations, whether or not the liability of the Company or any other obligor for such deficiency is discharged pursuant to statute or judicial decision.

Without limiting the other rights of the Administrative Agent and the Minnesota Power Banks and the obligations of the Guarantor hereunder, if an Event of Default occurs under the Credit Agreement and the Administrative Agent and the Banks are prohibited or stayed by law from accelerating or making demand on the Guaranteed Obligations vis-a-vis the Company, the Administrative Agent and the Minnesota Power Banks may, by written notice to the Guarantor, declare the full amount of the Guaranteed Obligations to be immediately due and payable from the Guarantor whether or not such Guaranteed Obligations has been declared to be or has become immediately due and payable from the Company and without regard to any constraints on or impediments to the ability of the Administrative Agent and the Minnesota Power Banks to accelerate the maturity of such Guaranteed Obligations.

Section 5. REPRESENTATIONS AND WARRANTIES. The Guarantor represents and warrants to the Administrative Agent and the Minnesota Power Banks that:

(a) The Guarantor (i) is a Minnesota corporation, duly organized validly existing and in good standing under the law of the jurisdiction of its formation, with full right, power and authority to enter into this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby; (ii) is duly qualified to do business and in good standing in each other jurisdiction where the character of its properties or the nature of its activities makes such qualification necessary, except where the failure to so qualify or be authorized would not materially and adversely affect its ability to perform its obligations hereunder, and (iii) has the power to carry on its business as now being conducted and as proposed to be conducted;

(b) The Guarantor has taken all necessary action to authorize the transactions contemplated by this Agreement. This Agreement has been duly executed and delivered by the Guarantor and constitutes the legal, valid and binding obligation of the Guarantor enforceable in accordance with its terms, except as the enforceability thereof may be limited by (i) bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and (ii) general equitable principles regardless of whether the issue of enforceability is considered in a proceeding in equity or at law;

(c) Neither the execution and delivery of this Agreement nor the the compliance with any of the terms and provisions hereof (i) contravenes any laws applicable to the Guarantor or any of its properties or other assets, (ii) conflicts with, breaches or contravenes the provisions of the organizational documents of the Guarantor or any contractual obligation of the Guarantor, or (iii) results in the creation of a condition or event that constitutes (or that, upon notice or lapse of time or both, would constitute) an event of default under any contractual obligation of the Guarantor;

(d) No governmental approvals are required to authorize, or are required in connection with, the execution, delivery and performance of this Agreement or the taking of any action by the Guarantor hereby contemplated;

(e) There are no actions, suits or proceedings at law or in equity now pending or, to the best of the Guarantor's knowledge, threatened against or affecting the Guarantor or any of its properties or rights which could materially and adversely affect the right or ability of the Guarantor to fulfill its obligations hereunder, or which question or challenge the validity of this Agreement or any action taken or to be taken by the Guarantor pursuant to this Agreement or in connection with the transactions contemplated hereby; and

(f) Section 5 of the Minnesota Power Credit Facility is hereby incorporated by reference in its entirety, provided that as incorporated herein by reference the reference to "December 31, 1997" in Section 5(d) of the Minnesota Power Credit Facility shall be deemed herein to be a reference to December 31, 1999 and the reference to "September 30, 1997" in Section 5(d) of the Minnesota Power Credit Facility shall be deemed herein to be a reference to March 31, 2000.

Section 6. COVENANTS - GUARANTOR. So long as any obligation of the Guarantor under this Agreement is outstanding, the Guarantor covenants and agrees with the Banks and the Agent as follows:

(a) Guarantor shall preserve and maintain its legal existence and form and all of its rights, privileges and franchises, if any, necessary for the operation of its business and the maintenance of its existence;

(b) Guarantor shall not change its form of organization or its business or liquidate or dissolve itself (or suffer any liquidation or dissolution) or transfer all or substantially all of its assets;

(c) Guarantor shall continue to own, directly or indirectly, a sufficient percentage of the voting membership interests of the Company to prevent, when aggregated with percentage of the voting membership interests of the Company owned, directly or indirectly, by GRE, the occurrence of a Change of Control Event (it being acknowledged and agreed by the Guarantor that no change in its ownership of the Company (in compliance with this clause (c) or otherwise) shall in any way affect its obligations hereunder);

(d) Section 6 of the Minnesota Power Credit Facility is hereby incorporated by reference in its entirety;

(e) Guarantor will maintain a system of accounting in accordance accordance with GAAP and will furnish to the Banks and their respective duly authorized representatives such information respecting the business and financial condition of the Guarantor as any Bank may reasonably request; and without any request, the Guarantor will furnish each of the following to each Bank:

(f) within 120 days after the end of each fiscal year of the Guarantor (including, without limitation, 12/31/99), a copy of the Guarantor's financial statements for such fiscal year, including the balance sheet of the Guarantor for such year and the related statements of income and statements of cash flow, each as certified by independent public accountants of recognized national standing selected by the Guarantor in accordance

with GAAP with such accountants' unqualified opinion to the effect that the financial statements have been prepared in accordance with GAAP and present fairly in all material respects in accordance with GAAP the financial position of the Guarantor as of the close of such fiscal year and the results of its operations and cash flows for the fiscal year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;

(g) within 60 days after the end of each of the first three quarterly fiscal periods of the Guarantor, an unaudited balance sheet of the Guarantor, and the related statements of income and statements of cash flow, as of the close of such period, all of the foregoing prepared by the in reasonable detail in accordance with GAAP and certified by the Guarantor's chief financial officer or corporate controller as fairly presenting the financial condition as at the dates thereof and the results of operations for the periods covered thereby; and

(h) promptly after the sending or filing thereof, copies of all proxy statements, financial statements and reports the Guarantor sends to its shareholders, and copies of all other regular, periodic and special reports and all registration statements the Guarantor files with the SEC or any successor thereto, or with any national securities exchanges.

(i) Each financial statement furnished to the Banks pursuant to subsection (f) or (g) of this Section 6 shall be accompanied by a written certificate signed by the Guarantor's chief financial officer or corporate controller to the effect that, to their knowledge, (i) no Default or Event of Default has occurred during the period covered by such statements or, if any such Default or Event of Default has occurred during such period, setting forth a description of such Default or Event of Default and specifying the action, if any, taken by the Guarantor to remedy the same, and (ii) the representations and warranties contained in Section 5 hereof are true and correct in all material respects as though made on the date of such certificate (other than those made solely as of an earlier date, which need only remain true as of such date), except as otherwise described therein.

(j) The Guarantor will promptly (and in any event within three Business Days after an officer of the Guarantor has knowledge thereof) give notice to the Administrative Agent and each Bank:

(1) of the occurrence of any Default or Event of Default; and

(2) any event or condition which could reasonably be expected to have a Material Adverse Effect.

Section 7. EVENTS OF DEFAULT; REMEDIES. The events of default set forth in Section 7(a) of the Minnesota Power Credit Facility are hereby incorporated by reference in their entirety (including any applicable grace periods). If (i) any representation or warranty made by the Guarantor hereunder (whether incorporated by reference or expressly set forth herein) proves untrue in any material respect when made, (ii) the Guarantor fails to comply with its agreements and covenants contained herein (whether incorporated by reference or expressly set forth herein), or (ii) an event of default contained herein (whether incorporated by reference or expressly set forth herein) occurs, an "event of default" shall be deemed to have occurred hereunder and the Administrative Agent and/or the Minnesota Power Banks shall have the right to demand payment hereunder, the proceeds of such demand to be applied against the Guaranteed Obligations or, at the option of the Minnesota Power Banks, held as cash collateral for the payment of the Guaranteed Obligations as and when due. Any such cash collateral not applied previously applied to the payment of the Guaranteed Obligations shall be returned to the Guarantor upon the termination of this Agreement and the Credit Agreement and the satisfaction and irrevocable payment in full of all Guaranteed Obligations.

No remedy herein conferred upon or reserved to the Administrative Agent and the Minnesota Power Banks is intended to be exclusive or any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. In order to entitle the Administrative Agent and/or the Minnesota Power Banks to exercise any remedy reserved to it in this Agreement, it shall not be necessary to give any notice, other than such notice as may be expressly required by this Agreement. No notice to or demand on the Guarantor in any case shall entitle it to any other or further notice or demand in the same or similar circumstances.

Section 8. NOTICES. Any notice or other communication hereunder shall be given in the manner set forth in the Credit Agreement to the parties at the addresses set forth therein (or, in the case of the Guarantor, as set forth below):

If to Guarantor, at:

Minnesota Power, Inc.
30 West Superior Street
Duluth, Minnesota 55802
Attn: Corporate Treasurer
Facsimile: (218) 723-3912

Section 9. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon the Guarantor and its successors and inure to the benefit of the Administrative Agent and the Minnesota Power Banks and their respective successors and assigns. This Agreement may not be assigned by the Guarantor.

Section 10. AMENDMENT, ETC. No amendment or waiver of any provision of this Agreement nor any consent to any departure by the Guarantor herefrom shall in any event be effective unless the same shall be in writing and signed by the Guarantor, the Administrative Agent and the Minnesota Power Banks, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure or delay on the part of the Administrative Agent and the Minnesota Power Banks in exercising any right or remedy hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any power or right preclude other or further exercise thereof or the exercise of any other right or remedy.

Section 11. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, and the parties hereby submit to the jurisdiction of Federal and State courts located in the City of New York.

Section 12. EXPENSES. The Guarantor will, upon demand, pay to the Administrative Agent and the Minnesota Power Banks any and all reasonable expenses, including attorneys' fees and expenses, which the Administrative Agent and the Minnesota Power Banks may incur in connection with the exercise or enforcement or any of the rights or interests of the Administrative Agent and the Minnesota Power Banks with respect to the Guarantor hereunder.

Section 13. COUNTERPARTS. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

Section 14. SEVERABILITY. If any provision of this Agreement shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatever.

IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be executed by the duly authorized officers as of the date first written above.

MINNESOTA POWER, INC.

By: /s/ David G. Gartzke

Name: David G. Gartzke

Its: Sr. Vice President - Finance and Chief Financial Officer

COBANK, ACB, as Administrative Agent and not in its individual capacity

By: /s/ Teresa L. Fountain

Name: Teresa L. Fountain

Its: Assistant Corporate Secretary

ABN AMRO BANK N.V., as the sole Minnesota Power Bank as of the date hereof

By: /s/ David B. Bryant

Name: DAVID B. BRYANT

Its: SENIOR VICE PRESIDENT & MANAGING DIRECTOR

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ALLETE'S CONSOLIDATED BALANCE SHEET, STATEMENT OF INCOME, AND STATEMENT OF CASH FLOW FOR THE PERIOD ENDED SEPTEMBER 30, 2000, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS
DEC-31-2000
JAN-01-2000
SEP-30-2000
183
104
284
12
28
118
1,327
949
2,596
644
709
75
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572
596
2,596
0
973
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768
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0
47
202
72
130
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130
1.85
1.84

In May 2000 ALLETE sold its investment in ACE Limited (ACE) common stock, which resulted in an after-tax gain of $30.4 million, or $0.44 per share. The ACE shares were received in December 1999 upon completion of ACE's merger with Capital Re Corporation (Capital Re). During 1999 ALLETE recorded an aggregate $36.2 million, or $0.52 per share after-tax non-cash charge in connection with the valuation and exchange of its investment in Capital Re stock for the ACE shares, including a $24.1 million, or $0.35 per share charge in the second quarter.