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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2011**

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. T 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). T 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 T	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 T No

Common Stock, no par value,
36,454,263 shares outstanding
as of June 30, 2011

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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
AC	Alternating Current
AFUDC	Allowance for Funds Used During Construction – consisting of the cost of both the debt and equity funds used to finance utility plant additions during construction periods
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, LLC and its subsidiaries
ARS	Auction Rate Securities
ATC	American Transmission Company LLC
Bison 1	Bison 1 Wind Project
Bison 2	Bison 2 Wind Project
Bison 3	Bison 3 Wind Project
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
CO_2	Carbon Dioxide
Company	ALLETE, Inc. and its subsidiaries
DC	Direct Current
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Form 10-K	ALLETE Annual Report on Form 10-K
Form 10-Q	ALLETE Quarterly Report on Form 10-Q
GAAP	United States Generally Accepted Accounting Principles
GHG	Greenhouse Gases
Hibbard	Hibbard Renewable Energy Center
Invest Direct	ALLETE's Direct Stock Purchase and Dividend Reinvestment Plan
kV	Kilovolt(s)
Laskin	Laskin Energy Center
Manitoba Hydro	Manitoba Hydro-Electric Board
Medicare Part D	Medicare Part D provision of the Patient Protection and Affordable Care Act of 2010
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midwest Independent Transmission System Operator, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)

Abbreviation or Acronym	Term
NAAQS	National Ambient Air Quality Standards
NDPSC	North Dakota Public Service Commission
Non-residential	Retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional
NO_2	Nitrogen Dioxide
NO_X	Nitrogen Oxide
Note ___	Note ___ to the consolidated financial statements in this Form 10-Q
NPDES	National Pollutant Discharge Elimination System
Oliver Wind I	Oliver Wind I Energy Center
Oliver Wind II	Oliver Wind II Energy Center
Palm Coast Park	Palm Coast Park development project in Florida
Palm Coast Park District	Palm Coast Park Community Development District
PPA	Power Purchase Agreement
PPACA	The Patient Protection and Affordable Care Act of 2010
PSCW	Public Service Commission of Wisconsin
Rainy River Energy	Rainy River Energy Corporation - Wisconsin
SEC	Securities and Exchange Commission
SO_2	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
Taconite Ridge	Taconite Ridge Energy Center
Town Center	Town Center at Palm Coast development project in Florida
Town Center District	Town Center at Palm Coast Community Development District
WDNR	Wisconsin Department of Natural Resources

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

Statements in this report that are not statements of historical facts may be 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 is 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,” “will likely result,” “will continue,” “could,” “may,” “potential,” “target,” “outlook” or words of similar meaning) are not statements of historical facts and may be forward-looking.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are hereby filing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected, or expectations suggested, in forward-looking statements made by or on behalf of ALLETE in this Quarterly Report on 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:

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

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this report are discussed in Item 1A under the heading “Risk Factors” beginning on page 22 of our 2010 Form 10-K. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by us in this Form 10-Q and in our other reports filed with the SEC that attempt to advise interested parties of the factors that may affect our business.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions – Unaudited

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and Cash Equivalents	$79.4	$44.9
Short-Term Investments	–	6.7
Accounts Receivable (Less Allowance of $1.0 and $0.9)	71.9	99.5
Inventories	61.3	60.0
Prepayments and Other	20.6	28.6
Total Current Assets	233.2	239.7
Property, Plant and Equipment - Net	1,861.1	1,805.6
Regulatory Assets	290.2	310.2
Investment in ATC	96.3	93.3
Other Investments	129.0	126.0
Other Non-Current Assets	35.7	34.3
Total Assets	$2,645.5	$2,609.1
Liabilities and Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$44.4	$75.4
Accrued Taxes	19.8	22.0
Accrued Interest	12.8	13.4
Long-Term Debt Due Within One Year	12.9	13.4
Notes Payable	2.5	1.0
Other	23.6	33.7
Total Current Liabilities	116.0	158.9
Long-Term Debt	770.7	771.6
Deferred Income Taxes	353.8	325.2
Regulatory Liabilities	43.4	43.6
Defined Benefit Pension and Other Postretirement Benefit Plans	222.9	231.4
Other Non-Current Liabilities	100.9	93.4
Total Liabilities	1,607.7	1,624.1
Commitments and Contingencies (Note 13)		
Equity		
ALLETE's Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 36.5 and 35.8 Shares Outstanding	660.1	636.1
Unearned ESOP Shares	(32.4)	(36.8)
Accumulated Other Comprehensive Loss	(21.3)	(23.2)
Retained Earnings	422.6	399.9
Total ALLETE Equity	1,029.0	976.0
Non-Controlling Interest in Subsidiaries	8.8	9.0
Total Equity	1,037.8	985.0
Total Liabilities and Equity	$2,645.5	$2,609.1

The accompanying notes are an integral part of these statements.

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Operating Revenue	$219.9	$211.2	$462.1	$444.8
Operating Expenses				
Fuel and Purchased Power	76.0	74.3	155.0	154.1
Operating and Maintenance	95.7	85.4	185.8	173.1
Depreciation	22.1	19.8	44.4	39.8
Total Operating Expenses	193.8	179.5	385.2	367.0
Operating Income	26.1	31.7	76.9	77.8
Other Income (Expense)				
Interest Expense	(11.0)	(9.5)	(21.7)	(18.4)
Equity Earnings in ATC	4.6	4.4	9.0	8.9
Other	1.0	2.2	1.8	3.2
Total Other Expense	(5.4)	(2.9)	(10.9)	(6.3)
Income Before Non-Controlling Interest and Income Taxes	20.7	28.8	66.0	71.5
Income Tax Expense	3.8	9.4	12.0	29.3
Net Income	16.9	19.4	54.0	42.2
Less: Non-Controlling Interest in Subsidiaries	(0.1)	–	(0.2)	(0.2)
Net Income Attributable to ALLETE	$17.0	$19.4	$54.2	$42.4
Average Shares of Common Stock				
Basic	35.0	34.1	34.8	34.0
Diluted	35.1	34.2	34.9	34.1
Basic Earnings Per Share of Common Stock	$0.49	$0.57	$1.56	$1.25
Diluted Earnings Per Share of Common Stock	$0.48	$0.57	$1.55	$1.25
Dividends Per Share of Common Stock	$0.445	$0.44	$0.89	$0.88

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions – Unaudited

	Six Months Ended June 30,	
	2011	**2010**
Operating Activities		
Net Income	$54.0	$42.2
Allowance for Funds Used During Construction	(1.1)	(2.1)
Income from Equity Investments, Net of Dividends	(0.9)	(1.4)
Gain on Sale of Assets	(0.7)	(0.7)
Depreciation Expense	44.4	39.8
Amortization of Debt Issuance Costs	0.5	0.5
Deferred Income Tax Expense	11.8	23.1
Share-Based Compensation Expense	1.1	1.1
ESOP Compensation Expense	3.6	3.5
Bad Debt Expense	0.5	0.5
Changes in Operating Assets and Liabilities		
Accounts Receivable	27.2	10.1
Inventories	(1.3)	(0.1)
Prepayments and Other	8.0	2.4
Accounts Payable	(17.7)	(10.4)
Other Current Liabilities	(10.1)	(3.7)
Changes in Regulatory and Other Non-Current Assets	(2.5)	5.1
Changes in Defined Benefit Pension and Other Postretirement Benefit Plans	(8.5)	(0.4)
Changes in Regulatory and Other Non-Current Liabilities	21.7	(1.0)
Cash from Operating Activities	130.0	108.5
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	7.2	0.5
Payments for Purchase of Available-for-sale Securities	(1.2)	(1.4)
Investment in ATC	(1.4)	(1.2)
Changes to Other Investments	(1.4)	(0.6)
Additions to Property, Plant and Equipment	(91.6)	(79.5)
Proceeds from Sale of Assets	1.4	–
Cash for Investing Activities	(87.0)	(82.2)
Financing Activities		
Proceeds from Issuance of Common Stock	22.9	15.2
Proceeds from Issuance of Long-Term Debt	–	80.0
Payments on Long-Term Debt	(1.5)	(69.9)
Debt Issuance Costs	–	(0.7)
Dividends on Common Stock	(31.4)	(30.8)
Changes in Notes Payable	1.5	(0.5)
Cash for Financing Activities	(8.5)	(6.7)
Change in Cash and Cash Equivalents	34.5	19.6
Cash and Cash Equivalents at Beginning of Period	44.9	25.7
Cash and Cash Equivalents at End of Period	$79.4	$45.3

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all of the information and notes required by GAAP for complete financial statements. Similarly, the December 31, 2010, consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Operating results for the periods ended June 30, 2011, are not necessarily indicative of results that may be expected for any other interim periods or for the year ending December 31, 2011. For further information, refer to the consolidated financial statements and notes included in our 2010 Form 10-K.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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

Inventories	June 30, 2011	December 31, 2010
Millions		
Fuel	$23.5	$22.9
Materials and Supplies	37.8	37.1
Total Inventories	$61.3	$60.0

Prepayments and Other Current Assets	June 30, 2011	December 31, 2010
Millions		
Deferred Fuel Adjustment Clause	$15.0	$20.6
Other	5.6	8.0
Total Prepayments and Other Current Assets	$20.6	$28.6

Other Non-Current Liabilities	June 30, 2011	December 31, 2010
Millions		
Asset Retirement Obligation	$52.0	$50.3
Other	48.9	43.1
Total Other Non-Current Liabilities	$100.9	$93.4

Supplemental Statement of Cash Flows Information.

For the Six Months Ended June 30,	2011	2010
Millions		
Cash Paid During the Period for Interest – Net of Amounts Capitalized	$21.9	$16.3
Cash Paid During the Period for Income Taxes	$0.4	$1.5
Noncash Investing and Financing Activities		
Increase (Decrease) in Accounts Payable for Capital Additions to Property, Plant and Equipment	$(13.2)	$4.4
AFUDC – Equity	$1.1	$2.1

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.

Fair Value. In May 2011, the FASB issued an accounting standards update on fair value measurement. This update requires disclosure of a sensitivity analysis for fair value measurements within Level 3 and the valuation processes used. This guidance is effective for the quarter ended March 31, 2012, and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Comprehensive Income. In June 2011, the FASB issued an accounting standards update on the presentation of comprehensive income. This guidance will be effective for the quarter ended March 31, 2012 and will modify our presentation of other comprehensive income, moving it from the footnotes to the face of the financial statements in a single, continuous statement of comprehensive income. The components of net income and other comprehensive income are unchanged and EPS continues to be based on net income.

NOTE 2. BUSINESS SEGMENTS

Regulated Operations includes our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. Investments and Other is comprised primarily of BNI Coal, our coal mining operations in North Dakota, and ALLETE Properties, our Florida real estate investment. This segment also includes a small amount of non-rate base generation, land available-for-sale in Minnesota and earnings on cash and short-term investments.

Millions	Consolidated	Regulated Operations	Investments and Other
For the Quarter Ended June 30, 2011			
Operating Revenue	$219.9	$201.8	$18.1
Fuel and Purchased Power Expense	76.0	76.0	–
Operating and Maintenance Expense	95.7	77.2	18.5
Depreciation Expense	22.1	20.9	1.2
Operating Income (Loss)	26.1	27.7	(1.6)
Interest Expense	(11.0)	(9.1)	(1.9)
Equity Earnings in ATC	4.6	4.6	–
Other Income	1.0	0.6	0.4
Income (Loss) Before Non-Controlling Interest and Income Taxes	20.7	23.8	(3.1)
Income Tax Expense (Benefit)	3.8	5.5	(1.7)
Net Income (Loss)	16.9	18.3	(1.4)
Less: Non-Controlling Interest in Subsidiaries	(0.1)	–	(0.1)
Net Income (Loss) Attributable to ALLETE	$17.0	$18.3	$(1.3)

Millions	Consolidated	Regulated Operations	Investments and Other
For the Quarter Ended June 30, 2010			
Operating Revenue	$211.2	$194.1	$17.1
Fuel and Purchased Power Expense	74.3	74.3	–
Operating and Maintenance Expense	85.4	69.3	16.1
Depreciation Expense	19.8	18.7	1.1
Operating Income (Loss)	31.7	31.8	(0.1)
Interest Expense	(9.5)	(7.7)	(1.8)
Equity Earnings in ATC	4.4	4.4	–
Other Income	2.2	1.1	1.1
Income (Loss) Before Non-Controlling Interest and Income Taxes	28.8	29.6	(0.8)
Income Tax Expense (Benefit)	9.4	11.4	(2.0)
Net Income	19.4	18.2	1.2
Less: Non-Controlling Interest in Subsidiaries	–	–	–
Net Income Attributable to ALLETE	$19.4	$18.2	$1.2

NOTE 2. BUSINESS SEGMENTS (Continued)

Millions	Consolidated	Regulated Operations	Investments and Other
For the Six Months Ended June 30, 2011			
Operating Revenue	$462.1	$424.8	$37.3
Fuel and Purchased Power Expense	155.0	155.0	–
Operating and Maintenance Expense	185.8	148.4	37.4
Depreciation Expense	44.4	42.1	2.3
Operating Income (Loss)	76.9	79.3	(2.4)
Interest Expense	(21.7)	(17.7)	(4.0)
Equity Earnings in ATC	9.0	9.0	–
Other Income	1.8	1.2	0.6
Income (Loss) Before Non-Controlling Interest and Income Taxes	66.0	71.8	(5.8)
Income Tax Expense (Benefit)	12.0	15.1	(3.1)
Net Income (Loss)	54.0	56.7	(2.7)
Less: Non-Controlling Interest in Subsidiaries	(0.2)	–	(0.2)
Net Income (Loss) Attributable to ALLETE	$54.2	$56.7	$(2.5)
As of June 30, 2011			
Total Assets	$2,645.5	$2,381.6	$263.9
Property, Plant and Equipment – Net	$1,861.1	$1,808.9	$52.2
Accumulated Depreciation	$1,062.6	$1,011.3	$51.3
Capital Additions	$79.7	$69.3	$10.4

Millions	Consolidated	Regulated Operations	Investments and Other
For the Six Months Ended June 30, 2010			
Operating Revenue	$444.8	$410.2	$34.6
Fuel and Purchased Power Expense	154.1	154.1	–
Operating and Maintenance Expense	173.1	139.1	34.0
Depreciation Expense	39.8	37.7	2.1
Operating Income (Loss)	77.8	79.3	(1.5)
Interest Expense	(18.4)	(15.3)	(3.1)
Equity Earnings in ATC	8.9	8.9	–
Other Income	3.2	2.3	0.9
Income (Loss) Before Non-Controlling Interest and Income Taxes	71.5	75.2	(3.7)
Income Tax Expense (Benefit)	29.3	32.1	(2.8)
Net Income (Loss)	42.2	43.1	(0.9)
Less: Non-Controlling Interest in Subsidiaries	(0.2)	–	(0.2)
Net Income (Loss) Attributable to ALLETE	$42.4	$43.1	$(0.7)
As of June 30, 2010			
Total Assets	$2,447.8	$2,211.2	$236.6
Property, Plant and Equipment – Net	$1,671.7	$1,627.4	$44.3
Accumulated Depreciation	$1,007.5	$959.4	$48.1
Capital Additions	$85.1	$85.0	$0.1

NOTE 3. INVESTMENTS

Investments. Our long-term investment portfolio includes the real estate assets of ALLETE Properties, debt and equity securities consisting primarily of securities held to fund employee benefits and land held-for-sale in Minnesota.

Investments	June 30, 2011	December 31, 2010
Millions		
ALLETE Properties	$92.7	$94.0
Available-for-sale Securities	30.5	25.2
Other	5.8	6.8
Total Investments	$129.0	$126.0

ALLETE Properties	June 30, 2011	December 31, 2010
Millions		
Land Held-for-sale Beginning Balance (January 1, 2011 and 2010, respectively)	$86.0	$74.9
Deeds to Collateralized Property	1.6	9.9
Capitalized Improvements and Other	–	1.2
Cost of Real Estate Sold	(0.3)	–
Land Held-for-sale Ending Balance	87.3	86.0
Long-Term Finance Receivables (net of allowances of $0.9 and $0.8)	2.1	3.7
Other	3.3	4.3
Total Real Estate Assets	$92.7	$94.0

Land Held-for-sale. Land held-for-sale is recorded at the lower of cost or fair value as determined by the evaluation of individual land parcels. Land values are reviewed for impairment on a quarterly basis and no impairments were recorded for the quarter ended June 30, 2011 (none in 2010).

Long-Term Finance Receivables. As of June 30, 2011, long-term finance receivables were $2.1 million net of allowance ($3.7 million net of allowance as of December 31, 2010). The decrease is primarily the result of the transfer of property back to ALLETE Properties by deed-in-lieu of foreclosure, in satisfaction of amounts previously owed under long-term financing receivables. Long-term finance receivables are collateralized by property sold, accrue interest at market-based rates and are net of an allowance for doubtful accounts.

Long-Term Finance Receivables Allowance Roll-Forward	Real Estate
Millions	
Beginning Balance as of December 31, 2010	$0.8
Additional Reserve	0.1
Ending Balance as of June 30, 2011	$0.9

NOTE 4. FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs, which are used to measure fair value, are prioritized through the fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Descriptions of the three levels of the fair value hierarchy are discussed in Note 8. Fair Value to the consolidated financial statements in our 2010 Form 10-K.

NOTE 4. FAIR VALUE (Continued)

The following tables set forth by level within the fair value hierarchy our assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2011, and December 31, 2010. Each asset and liability is classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Fair Value as of June 30, 2011			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Millions				
Assets:				
Equity Securities	$21.4	–	–	$21.4
Available-for-sale Securities – Corporate Debt Securities	–	$8.0	–	8.0
Money Market Funds	3.6	–	–	3.6
Total Fair Value of Assets	$25.0	$8.0	–	$33.0
Liabilities:				
Deferred Compensation	–	$14.6	–	$14.6
Total Fair Value of Liabilities	–	$14.6	–	$14.6
Total Net Fair Value of Assets (Liabilities)	$25.0	$(6.6)	–	$18.4

	Fair Value as of December 31, 2010			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Millions				
Assets:				
Equity Securities	$19.4	–	–	$19.4
Available-for-sale Securities				
Corporate Debt Securities	–	$7.5	–	7.5
Debt Securities Issued by States of the United States (ARS)	–	–	$6.7	6.7
Total Available-for-sale Securities	–	7.5	6.7	14.2
Money Market Funds	0.8	–	–	0.8
Total Fair Value of Assets	$20.2	$7.5	$6.7	$34.4
Liabilities:				
Deferred Compensation	–	$13.3	–	$13.3
Total Fair Value of Liabilities	–	$13.3	–	$13.3
Total Net Fair Value of Assets (Liabilities)	$20.2	$(5.8)	$6.7	$21.1

Recurring Fair Value Measures Activity in Level 3	**Derivatives**		**Debt Securities Issued by States of the United States (ARS)**	
Millions				
Balance as of December 31, 2010 and December 31, 2009, respectively	–	$0.7	$6.7	$6.7
Redeemed During the Period	–	(0.7)	(6.7)	–
Balance as of June 30, 2011 and June 30, 2010, respectively	–	–	–	$6.7

On January 5, 2011, the remaining $6.7 million of ARS were redeemed at carrying value.

The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or of the change in circumstances that caused the transfer. For the six months ended June 30, 2011 and 2010, there were no transfers in or out of Levels 1, 2 or 3.

NOTE 4. FAIR VALUE (Continued)

Fair Value of Financial Instruments. With the exception of the items listed below, the estimated fair value of all financial instruments approximates the carrying amount. The fair value for the items listed below was based on quoted market prices for the same or similar instruments.

Financial Instruments	Carrying Amount	Fair Value
Millions		
Long-Term Debt, Including Current Portion		
June 30, 2011	$783.6	$807.8
December 31, 2010	$785.0	$796.7

NOTE 5. REGULATORY MATTERS

Electric Rates. Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, the FERC or the PSCW.

2010 Rate Case. On November 2, 2009, Minnesota Power filed an $81 million retail rate increase request to recover the costs of significant investments to ensure current and future system reliability, enhance environmental performance and bring new renewable energy to northeastern Minnesota. Interim rates were put into effect on January 1, 2010, and were originally estimated to increase revenues by $48.5 million in 2010. In April 2010, we adjusted our initial filing for events that had occurred since November 2009 – primarily increased sales to our industrial customers – resulting in a retail rate increase request of $72 million, a return on equity request of 11.25 percent and a capital structure consisting of 54.29 percent equity and 45.71 percent debt.

On November 2, 2010, Minnesota Power received a written order from the MPUC approving a retail rate increase of $53.5 million, a 10.38 percent return on common equity and a 54.29 percent equity ratio, subject to reconsideration. On May 24, 2011, the MPUC issued an order authorizing Minnesota Power to implement final rates of $53.5 million, effective June 1, 2011. The May 24, 2011 order authorized Minnesota Power to collect a $3.2 million differential between interim rates and final rates for the period from November 2, 2010, through June 1, 2011, all of which was recorded in the second quarter of 2011.

Under the terms of a stipulation and settlement agreement approved by the MPUC as part of this rate case, Minnesota Power agreed to forgo collection of $20.5 million in revenue receivable that it was entitled to under a prior rider for the Boswell Unit 3 environmental retrofit. The agreement required the Company to capitalize, as part of rate base, the $20.5 million to property, plant and equipment representing AFUDC. In conjunction with the settlement agreement, and upon receipt of the final rate order in February 2011, the Company reversed a $6.2 million deferred tax liability related to the revenue receivable Minnesota Power agreed to forgo. The $20.5 million revenue receivable was previously included in Regulatory Assets on the Company's consolidated balance sheet.

On February 22, 2011, Minnesota Power timely filed an appeal of the MPUC's interim rate decision in the Company's 2010 rate case with the Minnesota Court of Appeals. The Company is appealing the MPUC's finding of exigent circumstances in the interim rate decision with the primary arguments that the MPUC exceeded its statutory authority, made its decision without the support of a body of record evidence and that the decision violated public policy. The Company desires to resolve whether the MPUC's finding of exigent circumstances was lawful for application in future rate cases. The briefing schedule is complete and oral argument is scheduled for September 21, 2011. If the appeal is successful, the Minnesota Court of Appeals would remand the case to the MPUC for further action consistent with its decision. The Company cannot predict the outcome of the matter at this time.

NOTE 5. REGULATORY MATTERS (Continued)

FERC-Approved Wholesale Rates. Minnesota Power's non-affiliated municipal customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. SWL&P, a wholly-owned subsidiary of ALLETE, is also a private utility in Wisconsin and a customer of Minnesota Power. In 2008, Minnesota Power entered into formula-based rate contracts with these customers. In February 2011, Minnesota Power entered into a new formula-based contract with the City of Nashwauk, effective May 1, 2012, through April 30, 2022, and in June 2011, Minnesota Power entered into restated contracts, effective July 1, 2011, through June 30, 2019, with the remaining 15 Minnesota municipal customers. The rates included in these contracts are calculated using a cost-based formula methodology that is set each July using estimated costs and provides for a true-up calculation for actual costs. The contract terms include a termination clause requiring a three-year notice to terminate. Under the restated contracts, no termination notices may be given prior to June 30, 2016.

2010 Wisconsin Rate Increase. SWL&P's 2011 retail rates are based on a 2010 PSCW retail rate order, effective January 1, 2011, that allows for a 10.9 percent return on common equity. The new rates reflect a 2.4 percent average increase in retail utility rates for SWL&P customers (a 12.8 percent increase in water rates, a 2.5 percent increase in natural gas rates and a 0.7 percent increase in electric rates). On an annualized basis, the rate increase will generate approximately $2 million in additional revenue.

The Patient Protection and Affordable Care Act of 2010 (PPACA). In March 2010, PPACA was signed into law. One of the provisions changed the tax treatment for retiree prescription drug expenses by eliminating the tax deduction for expenses that are reimbursed under Medicare Part D, beginning January 1, 2013. Based on this provision, we are subject to additional taxes in the future and were required to reverse previously recorded tax benefits in the first quarter of 2010. Consequently, the reversal of the previously recorded tax benefit resulted in a non-recurring charge to net income of $4.0 million in the first quarter of 2010. In October 2010, we submitted a filing with the MPUC requesting deferral of the retail portion of the tax charge taken in 2010 resulting from PPACA. On May 24, 2011, the MPUC approved our request for deferral until the next rate case and as a result we recorded an income tax benefit of $2.9 million in the second quarter of 2011, and a related regulatory asset of $5.0 million. (See also Note 9. Income Tax Expense.)

Regulatory Assets and Liabilities. Our regulated utility operations are subject to the accounting guidance for Regulated Operations. We capitalize incurred costs as regulatory assets, which are probable of recovery in future utility rates. Regulatory liabilities represent amounts expected to be credited to customers in rates. No regulatory assets or liabilities are currently earning a return.

Regulatory Assets and Liabilities	June 30, 2011	December 31, 2010
Millions		
Current Regulatory Assets *(a)*		
Deferred Fuel	$15.0	$20.6
Total Current Regulatory Assets	15.0	20.6
Non-Current Regulatory Assets		
Future Benefit Obligations Under		
Defined Benefit Pension and Other Postretirement Benefit Plans	249.5	257.9
Boswell Unit 3 Environmental Rider	–	20.5
Income Taxes	22.1	17.3
Asset Retirement Obligation	8.7	7.8
Medicare Part D	5.0	–
Premium on Reacquired Debt	1.7	1.8
Rate Case Expenses	1.0	1.4
Other	2.2	3.5
Total Non-Current Regulatory Assets	290.2	310.2
Total Regulatory Assets	$305.2	$330.8
Non-Current Regulatory Liabilities		
Income Taxes	$22.2	$23.4
Plant Removal Obligations	16.4	16.9
Other	4.8	3.3
Total Non-Current Regulatory Liabilities	$43.4	$43.6

(a) Current regulatory assets are included in prepayments and other on the consolidated balance sheet.

NOTE 6. INVESTMENT IN ATC

Our wholly-owned subsidiary, Rainy River Energy, owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. ATC rates are FERC approved and are based on a 12.2 percent return on common equity dedicated to utility plant. We account for our investment in ATC under the equity method of accounting. On July 29, 2011, we invested an additional $0.6 million in ATC for a total investment of $2.0 million in 2011.

ALLETE's Investment in ATC	
Millions	
Equity Investment Balance as of December 31, 2010	$93.3
Cash Investments	1.4
Equity in ATC Earnings	9.0
Distributed ATC Earnings	(7.4)
Equity Investment Balance as of June 30, 2011	$96.3

ATC's summarized financial data for the quarter and six months ended June 30, 2011 and 2010, is as follows:

	Quarter Ended		Six Months Ended	
ATC Summarized Financial Data	**June 30,**		**June 30,**	
Income Statement Data	**2011**	**2010**	**2011**	**2010**
Millions				
Revenue	$138.2	$138.7	$277.8	$277.1
Operating Expense	63.0	62.9	126.1	125.7
Other Expense	19.6	21.7	41.9	42.2
Net Income	$55.6	$54.1	$109.8	$109.2
ALLETE's Equity in Net Income	$4.6	$4.4	$9.0	$8.9

NOTE 7. SHORT-TERM AND LONG-TERM DEBT

Short-Term Debt. As of June 30, 2011, total short-term debt outstanding was $15.4 million ($14.4 million as of December 31, 2010) and consisted of long-term debt due within one year and notes payable.

On May 25, 2011, BNI Coal amended its Promissory Note and Supplement (Line of Credit) with CoBANK, ACB. The Line of Credit was increased from $3.0 million to $10.0 million and is being used for general corporate purposes. As of June 30, 2011, $2.5 million was drawn on the Line of Credit.

Long-Term Debt. As of June 30, 2011, total long-term debt outstanding was $770.7 million ($771.6 million as of December 31, 2010).

On May 25, 2011, we entered into a new $250 million Credit Agreement (Agreement) with JPMorgan Chase Bank, N.A., as Administrative Agent, and several other lenders that are parties thereto. The Agreement was effective July 1, 2011, and replaced our previous $150 million credit facility. The Agreement is unsecured and has a maturity date of June 30, 2015, which may be extended for one year. Such extension is subject to bank approvals. Advances from the Agreement may be used for general corporate purposes, to provide liquidity in support of ALLETE's commercial paper program and to issue up to $40 million in letters of credit.

NOTE 7. SHORT-TERM AND LONG-TERM DEBT (Continued)

Financial Covenants. Our long-term debt arrangements contain customary covenants. In addition, our lines of credit and letters of credit supporting certain long-term debt arrangements contain financial covenants. Our compliance with financial covenants is not dependent on debt ratings. The most restrictive covenant requires ALLETE to maintain a ratio of Indebtedness to Total Capitalization (as the amounts are calculated in accordance with the respective long-term debt arrangements) of less than or equal to 0.65 to 1.00 measured quarterly. As of June 30, 2011, our ratio was approximately 0.42 to 1.00. Failure to meet this covenant would give rise to an event of default if not cured after notice from a lender, in which event ALLETE may need to pursue alternative sources of funding. Some of ALLETE's debt arrangements contain "cross-default" provisions that would result in an event of default if there is a failure under other financing arrangements to meet payment terms or to observe other covenants that would result in an acceleration of payments due. As of June 30, 2011, ALLETE was in compliance with its financial covenants.

NOTE 8. OTHER INCOME (EXPENSE)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Millions				
AFUDC – Equity	$0.5	$0.9	$1.1	$2.1
Investment and Other Income	0.5	1.3	0.7	1.1
Total Other Income	$1.0	$2.2	$1.8	$3.2

NOTE 9. INCOME TAX EXPENSE

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Millions				
Current Tax Expense (Benefit)				
Federal *(a)*	–	–	–	$7.2
State *(a)*	$0.1	$(1.9)	$0.2	(1.0)
Total Current Tax Expense (Benefit)	0.1	(1.9)	0.2	6.2
Deferred Tax Expense				
Federal *(b)*	4.0	8.2	10.8	18.0
State *(b)*	–	3.3	1.5	5.5
Deferred Tax Credits	(0.3)	(0.2)	(0.5)	(0.4)
Total Deferred Tax Expense	3.7	11.3	11.8	23.1
Total Income Tax Expense	$3.8	$9.4	$12.0	$29.3

(a) For the quarter and six months ended June 30, 2011, the federal and state current tax expense was affected by a net operating loss (NOL) which resulted primarily from the bonus depreciation provision of tax legislation passed in 2010. The 2011 federal and state NOL will be carried forward to offset future taxable income. For the six months ended June 30, 2010, we recorded federal current tax expense, as the 2010 tax legislation allowing bonus depreciation was not enacted until the third quarter of 2010. The state current benefit for the quarter and six months ended June 30, 2010, was due to the completion of a state audit and state renewable tax credits.

(b) The quarter ended June 30, 2011, includes a $2.9 million income tax benefit related to the MPUC approval of our request to defer the retail portion of the tax charge taken in 2010 resulting from PPACA. The six months ended June 30, 2011, includes the second quarter item above and the reversal in the first quarter of 2011 of a $6.2 million deferred tax liability related to a revenue receivable that Minnesota Power agreed to forgo as part of a stipulation and settlement agreement in its 2010 rate case. Included in the six months ended June 30, 2010, is a charge of $4.0 million as a result of PPACA (See Note 5. Regulatory Matters).

For the six months ended June 30, 2011, the effective tax rate was 18.2 percent (41.0 percent for the six months ended June 30, 2010). The effective tax rate for the six months ended June 30, 2011, was lowered by 4.4 percent due to the non-recurring income tax benefit related to the MPUC approval of our request to defer the retail portion of the tax charge taken in 2010 resulting from PPACA and by 9.4 percent due to the non-recurring reversal of the deferred tax liability related to a revenue receivable that Minnesota Power agreed to forgo as part of a stipulation and settlement agreement in its 2010 rate case. The effective tax rate deviated from the statutory rate of approximately 41 percent primarily due to non-recurring items discussed above, deductions for AFUDC-Equity, investment tax credits, renewable tax credits and depletion.

NOTE 9. INCOME TAX EXPENSE (Continued)

Uncertain Tax Positions. As of June 30, 2011, we had gross unrecognized tax benefits of $11.3 million. Of this total, $0.6 million represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate.

We expect that the total amount of unrecognized tax benefits as of June 30, 2011, will change by an immaterial amount in the next 12 months.

NOTE 10. COMPREHENSIVE INCOME

The components of total comprehensive income were as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
Comprehensive Income (Loss)	**2011**	**2010**	**2011**	**2010**
Millions				
Net Income	$16.9	$19.4	$54.0	$42.2
Other Comprehensive Income (Loss)				
Unrealized Gain (Loss) on Securities				
Net of income taxes of $0.2, $(0.4), $0.8 and $(0.4)	0.2	(0.6)	1.1	(0.5)
Defined Benefit Pension and Other Postretirement Plans				
Net of income taxes of $0.2, $0.2, $0.5 and $0.4	0.4	0.3	0.8	0.6
Total Other Comprehensive Income (Loss)	0.6	(0.3)	1.9	0.1
Total Comprehensive Income	$17.5	$19.1	$55.9	$42.3
Less: Non-Controlling Interest in Subsidiaries	(0.1)	–	(0.2)	(0.2)
Comprehensive Income Attributable to ALLETE	$17.6	$19.1	$56.1	$42.5

NOTE 11. EARNINGS PER SHARE AND COMMON STOCK

The difference between basic and diluted earnings per share, if any, arises from outstanding stock options and performance share awards granted under our Executive and Director Long-Term Incentive Compensation Plans. For the quarter and six months ended June 30, 2011 and 2010, 0.3 million and 0.6 million, respectively, options to purchase shares of common stock were excluded from the computation of diluted earnings per share because the option exercise prices were greater than the average market prices; therefore, their effect would have been anti-dilutive.

	2011			2010		
Reconciliation of Basic and Diluted Earnings Per Share	**Basic**	**Dilutive Securities**	**Diluted**	**Basic**	**Dilutive Securities**	**Diluted**
Millions Except Per Share Amounts						
For the Quarter Ended June 30,						
Net Income Attributable to ALLETE	$17.0		$17.0	$19.4		$19.4
Common Shares	35.0	0.1	35.1	34.1	0.1	34.2
Earnings Per Share	$0.49		$0.48	$0.57		$0.57
For the Six Months Ended June 30,						
Net Income Attributable to ALLETE	$54.2		$54.2	$42.4		$42.4
Common Shares	34.8	0.1	34.9	34.0	0.1	34.1
Earnings Per Share	$1.56		$1.55	$1.25		$1.25

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

	Pension		Other Postretirement	
Components of Net Periodic Benefit Expense	**2011**	**2010**	**2011**	**2010**
Millions				
For the Quarter Ended June 30,				
Service Cost	$1.9	$1.6	$0.9	$1.2
Interest Cost	6.8	6.5	2.7	2.8
Expected Return on Plan Assets	(8.6)	(8.4)	(2.5)	(2.4)
Amortization of Prior Service Costs	0.1	0.1	(0.5)	–
Amortization of Net Loss	3.0	1.7	2.2	1.2
Amortization of Transition Obligation	–	–	0.1	0.6
Net Periodic Benefit Expense	$3.2	$1.5	$2.9	$3.4
For the Six Months Ended June 30,				
Service Cost	$3.8	$3.1	$1.9	$2.4
Interest Cost	13.7	13.1	5.4	5.5
Expected Return on Plan Assets	(17.3)	(16.8)	(4.9)	(4.8)
Amortization of Prior Service Costs	0.2	0.2	(0.9)	–
Amortization of Net Loss	6.0	3.3	4.3	2.4
Amortization of Transition Obligation	–	–	0.1	1.2
Net Periodic Benefit Expense	$6.4	$2.9	$5.9	$6.7

Employer Contributions. For the six months ended June 30, 2011, no contributions were made to our defined benefit pension plan (no contributions were made for the six months ended June 30, 2010). For the six months ended June 30, 2011, $10.9 million was contributed to our other postretirement benefit plan ($2.6 million for the six months ended June 30, 2010). On July 15, 2011, $0.2 million was contributed to our defined benefit pension plan. We expect to make approximately $2 million in contributions to our defined benefit pension plan and an additional $1 million to our other postretirement benefit plan in 2011.

Accounting and disclosure requirements for the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) provides guidance for employers that sponsor postretirement health care plans that provide prescription drug benefits. We provide postretirement health benefits that include prescription drug benefits, which qualify us for the federal subsidy under the Act. For the six months ended June 30, 2011, we received $0.2 million in prescription drug reimbursements.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Power Purchase Agreements. Our long-term PPAs have been evaluated under the accounting guidance for variable interest entities. We have determined that either we have no variable interest in the PPA or where we do have variable interests, we are not the primary beneficiary; therefore, consolidation is not required. These conclusions are based on the fact that we do not have both control over activities that are most significant to the entity and an obligation to absorb losses or receive benefits from the entity's performance. Our financial exposure relating to these PPAs is limited to our fixed capacity and energy payments.

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

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Power Purchase Agreements (Continued)

Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Our output entitlement under the Agreement is 50 percent for the remainder of the contract, subject to the provisions of the Minnkota Power sales agreement described below. Minnesota Power's payment obligation will be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's costs consist primarily of debt service, operating and maintenance, depreciation and fuel expenses. We expect debt service, operating and maintenance and depreciation expenses for Square Butte to increase in 2011 due to environmental compliance obligations. As of June 30, 2011, Square Butte had total debt outstanding of $424.1 million. Annual debt service for Square Butte is expected to be approximately $39 million in each of the five years, 2011 through 2015, of which Minnesota Power's obligation is 50 percent. Fuel expenses are recoverable through our fuel adjustment clause and include the cost of coal purchased from BNI Coal, our subsidiary, under a long-term contract.

Minnkota Power Sales Agreement. In conjunction with the purchase of the existing 250 kV DC transmission line from Square Butte in December 2009, Minnesota Power entered into a power sales agreement with Minnkota Power. Under the power sales agreement, Minnesota Power will sell a portion of its output from Square Butte to Minnkota Power, resulting in Minnkota Power's net entitlement increasing and Minnesota Power's net entitlement decreasing until Minnesota Power's share is eliminated at the end of 2025.

No power will be sold under this agreement until Minnkota Power has placed in service a new AC transmission line, which is anticipated to occur in 2013. This new AC transmission line will allow Minnkota Power to transmit its entitlement from Square Butte directly to its customers, which, in turn, will enable Minnesota Power to transmit new wind generation on the DC transmission line.

Wind PPAs. In 2006 and 2007, Minnesota Power entered into two long-term wind PPAs with an affiliate of NextEra Energy, Inc., to purchase the output from Oliver Wind I (50 MW) and Oliver Wind II (48 MW) – wind facilities located near Center, North Dakota. Each agreement is for 25 years and provides for the purchase of all output from the facilities at fixed prices. There are no fixed capacity charges and we only pay for energy as it is delivered to us.

Hydro PPAs. Minnesota Power has a PPA with Manitoba Hydro that expires in April 2015. Under this agreement Minnesota Power is purchasing 50 MW of capacity and the energy associated with that capacity. Both the capacity price and the energy price are adjusted annually by the change in a governmental inflationary index.

Minnesota Power has a separate PPA with Manitoba Hydro to purchase surplus energy beginning in May 2011 through April 2022. This energy-only transaction primarily consists of surplus hydro energy on Manitoba Hydro's system that is delivered to Minnesota Power on a non-firm basis. The pricing is based on forward market prices. Under this agreement Minnesota Power will be purchasing at least one million MWh of energy over the contract term. On March 11, 2011, the MPUC approved this PPA with Manitoba Hydro.

North Dakota Wind Development. In December 2009, we purchased an existing 250 kV DC transmission line from Square Butte. The 465-mile transmission line runs from Center, North Dakota, to Duluth, Minnesota. We use this line to transport increasing amounts of wind energy from North Dakota, while gradually phasing out coal-based electricity currently being delivered to our system over this transmission line from Square Butte's coal-fired generating unit.

Bison 1 is a two phase, 82 MW wind project in North Dakota. All permitting has been received and the first phase was completed in 2010. Phase one included the construction of a 22-mile, 230 kV transmission line and the installation of sixteen 2.3-MW wind turbines. Phase two is expected to be completed in late 2011 and consists of the installation of fifteen 3.0-MW wind turbines. Bison 1 is expected to have a total capital cost of approximately $177 million, of which $137.4 million was spent through June 30, 2011. In 2009, the MPUC approved Minnesota Power's petition seeking current cost recovery for investments and expenditures related to Bison 1 and in July 2010, the MPUC approved our petition establishing rates effective August 1, 2010. On March 31, 2011, Minnesota Power petitioned the MPUC to update the rates for additional investments and expenditures related to Bison 1.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
North Dakota Wind Development (Continued)

Bison 2 and Bison 3 are both 105 MW wind projects in North Dakota which, if approved by the MPUC, are expected to be completed by the end of 2012. Total project costs for Bison 2 and Bison 3 are estimated to be approximately $160 million each. Construction would begin upon the receipt of appropriate regulatory and permitting approvals. Requests for approval of Bison 2 and Bison 3 were filed with the MPUC on March 24, 2011, and June 21, 2011, respectively. Site permit applications were submitted to the NDPSC on April 6, 2011, and July 7, 2011, respectively. Approvals of the site permit applications are expected in the third quarter of 2011. We will file for current cost recovery for Bison 2 and Bison 3 with the MPUC once the projects and related permitting have been approved.

Coal, Rail and Shipping Contracts. We have coal supply agreements and transportation agreements providing for the purchase and delivery of a significant portion of our coal requirements. These coal and transportation agreements, including option terms, expire in various years between late 2011 and 2015. Our minimum annual payment obligation is $31.8 million in 2011, $15.8 million in 2012 and $16.3 million in 2013. Our minimum annual payment obligations will increase when annual nominations are made for coal deliveries in future years. The delivered costs of fuel for Minnesota Power's generation are recoverable from Minnesota Power's utility customers through the fuel adjustment clause.

Leasing Agreements. BNI Coal is obligated to make lease payments for a dragline totaling $2.8 million annually for the lease term which expires in 2027. BNI Coal has the option at the end of the lease term to renew the lease at fair market value, purchase the dragline at fair market value or surrender the dragline and pay a $3.0 million termination fee. We lease other properties and equipment under operating lease agreements with terms expiring through 2016. The aggregate amount of minimum lease payments for all operating leases is $8.1 million in 2011, $8.4 million in 2012, $8.5 million in 2013, $8.7 million in 2014, $8.4 million in 2015 and $44.7 million thereafter.

Transmission. We are making investments in Upper Midwest transmission opportunities that strengthen or enhance the regional transmission grid. These investments include the CapX2020 initiative, investments in our transmission assets and our investment in ATC.

Transmission Investments. We have an approved cost recovery rider in place for certain transmission expenditures and the continued use of our 2009 billing factor was approved by the MPUC on May 11, 2011. The billing factor allows us to charge our retail customers on a current basis for the costs of constructing certain transmission facilities plus a return on the capital invested. On June 29, 2011, we filed an updated billing factor that includes additional transmission projects and expenses, which we expect to be approved in late 2011.

CapX2020. Minnesota Power is a participant in the CapX2020 initiative which represents an effort to ensure electric transmission and distribution reliability in Minnesota and the surrounding region for the future. CapX2020, which consists of electric cooperatives, municipals and investor-owned utilities, including Minnesota's largest transmission owners, has assessed the transmission system and projected growth in customer demand for electricity through 2020. Studies show that the region's transmission system will require major upgrades and expansion to accommodate increased electricity demand as well as support renewable energy expansion through 2020.

Minnesota Power is currently participating in three CapX2020 projects: the Fargo to St. Cloud project, the Monticello to St. Cloud project, which together total a 238-mile, 345 kV line from Fargo to Monticello, and the 70-mile, 230 kV line between Bemidji and Minnesota Power's Boswell Energy Center near Grand Rapids, Minnesota. Based on projected costs of the three transmission lines and the percentage agreements among participating utilities, Minnesota Power plans to invest between $100 million and $125 million in the CapX2020 initiative through 2015, of which $17.5 million was spent through June 30, 2011. As future CapX2020 projects are identified, Minnesota Power may elect to participate on a project-by-project basis.

In July 2010, the MPUC granted a route permit for the 28-mile, 345 kV line between Monticello and St. Cloud. Construction of the project is expected to be completed in late 2011. On June 10, 2011, the MPUC approved the route permit for the Minnesota portion of the St. Cloud to Fargo project. The North Dakota permitting process is underway. The entire 238-mile, 345 kV line from St. Cloud to Fargo is expected to be in service by 2015. Construction for the Bemidji to Grand Rapids 230 kV line project commenced in January 2011.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Transmission (Continued)

In November 2010, the MPUC approved a route permit for the Bemidji to Grand Rapids line. The Leech Lake Band of Ojibwe (LLBO) subsequently requested that the MPUC suspend or revoke the route permit and also served the CapX2020 utilities with a tribal court complaint asserting adjudicatory and regulatory authority over the project. The CapX2020 utilities filed a request for declaratory judgment in federal court that the project does not require the LLBO consent to the line crossing non-tribal land within the Leech Lake reservation. In response, the LLBO filed a motion to dismiss at the federal court scheduled for hearing on September 16, 2011. The MPUC has taken no action in the matter in light of ongoing litigation in federal and tribal court. On June 22, 2011, the Federal Judge issued a preliminary injunction directing the LLBO to cease and desist its claims of tribal court jurisdiction or from taking other actions to interfere with regulatory review, approval or project construction. The CapX2020 utilities are vigorously defending against the LLBO actions.

Environmental Matters

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Currently, a number of regulatory changes to the Clean Air Act, the Clean Water Act and various waste management requirements are under consideration by both Congress and the EPA. Minnesota Power's fossil fuel facilities will likely be subject to regulation under these proposals. Our intention is to reduce our exposure to these requirements by reshaping our generation portfolio over time to reduce our reliance on coal.

We consider our businesses to be in substantial compliance with currently applicable environmental regulations and believe all necessary permits to conduct such operations have been obtained. Due to future restrictive environmental requirements through legislation and/or rulemaking, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments.

We review environmental matters on a quarterly basis. Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. Accruals are adjusted as assessment and remediation efforts progress or as additional technical or legal information become available. Accruals for environmental liabilities are included in the consolidated balance sheet at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. Costs related to environmental contamination treatment and cleanup are charged to expense unless recoverable in rates from customers.

Air. The electric utility industry is heavily regulated both at the federal and state level to address air emissions. Minnesota Power's generating facilities mainly burn low-sulfur western sub-bituminous coal. Square Butte, located in North Dakota, burns lignite coal. All of Minnesota Power's generating facilities are equipped with pollution control equipment such as scrubbers, bag houses and low NO_x technologies. At this time, these facilities are substantially compliant with applicable emission requirements.

New Source Review. In August 2008, Minnesota Power received a Notice of Violation (NOV) from the EPA asserting violations of the New Source Review (NSR) requirements of the Clean Air Act at Boswell Units 1-4 and Laskin Unit 2. The NOV asserts that seven projects undertaken at these coal-fired plants between the years 1981 and 2000 should have been reviewed under the NSR requirements and that the Boswell Unit 4 Title V permit was violated. In April 2011, Minnesota Power received a NOV alleging that two projects undertaken at Rapids Energy Center in 2004 and 2005 should have been reviewed under the NSR requirements and that the Rapids Energy Center's Title V permit was violated. Minnesota Power believes the projects in both NOVs were in full compliance with the Clean Air Act, NSR requirements and applicable permits. We are engaged in discussions with the EPA regarding resolution of these matters, but we are unable to predict the outcome of these discussions.

The resolution could result in civil penalties and the installation of control technology, some of which is already planned or completed for other regulatory requirements. Any costs of installing pollution control technology would likely be eligible for recovery in rates over time subject to MPUC and FERC approval in a rate proceeding. Since 2006, Minnesota Power has significantly reduced emissions at Laskin and Boswell and continues to reduce emissions at Boswell.

Cross-State Air Pollution Rule (CSAPR). On July 6, 2011, the EPA finalized the CSAPR; however, it has not yet been published in the Federal Register. The CSAPR requires 27 states to significantly improve air quality by reducing power plant emissions that contribute to ozone and/or fine particle pollution in other states. This final rule, referred to as the Transport Rule during the proposal stage, replaces the EPA's 2005 Clean Air Interstate Rule (CAIR). Minnesota participation in the CAIR was stayed by EPA administrative action while the EPA completed review of air quality modeling issues in conjunction with development of a final, replacement rule. In their final determination, the EPA has listed Minnesota as a CSAPR-affected state based on new, 24-hour fine particulate NAAQS analysis. The CSAPR-related emission restrictions become effective for Minnesota utilities in 2012.

Since 2006, we have made substantial investments in pollution control equipment at our Laskin, Taconite Harbor and Boswell generating units which have significantly reduced emissions. Ongoing analysis of the CSAPR preliminarily indicates our recent emission reductions may satisfy Minnesota Power's SO_2 and NO_x emission compliance obligations with respect to the CSAPR requirements. We are unable to predict any additional CSAPR compliance costs we might incur at this time.

Minnesota Regional Haze. The federal regional haze rule requires states to submit state implementation plans (SIPs) to the EPA to address regional haze visibility impairment in 156 federally-protected parks and wilderness areas. Under the regional haze rule, certain large stationary sources, put in place between 1962 and 1977, with emissions contributing to visibility impairment are required to install emission controls, known as Best Available Retrofit Technology (BART). We have two steam units, Boswell Unit 3 and Taconite Harbor Unit 3, which are subject to BART requirements.

Pursuant to the regional haze rule, Minnesota was required to develop its SIP by December 2007. As a mechanism for demonstrating progress towards meeting the long-term regional haze goal, in April 2007, the MPCA advanced a draft conceptual SIP which relied on the implementation of CAIR. However, a formal SIP was not filed at that time due to the United States Court of Appeals for the District of Columbia Circuit's remand of CAIR. Subsequently, the MPCA requested that companies with BART eligible units complete and submit a BART emissions control retrofit study, which was completed for Taconite Harbor Unit 3 in November 2008. The retrofit work completed in 2009 at Boswell Unit 3 meets the BART requirements for that unit. In December 2009, the MPCA approved the Minnesota SIP for submittal to the EPA for its review and approval. The Minnesota SIP incorporates information from the BART emissions control retrofit studies that were completed as requested by the MPCA. A decision by the EPA is pending on whether to approve the Minnesota SIP. If approved, Minnesota Power will have up to five years to bring Taconite Harbor Unit 3 into compliance. It is uncertain what controls will ultimately be required at Taconite Harbor Unit 3 in connection with the regional haze rule.

EPA National Emission Standards for Hazardous Air Pollutants (NESHAPs) for Coal- and Oil-fired Electric Utility Steam Generating Units (EUSGU). Under Section 112 of the Clean Air Act, the EPA is required to set emission standards for hazardous air pollutants for certain source categories. The EPA released their proposed EUSGU NESHAPs rule on March 16, 2011. As part of the NESHAPs rulemaking, the EPA will develop Maximum Achievable Control Technology standards for utilities. The final rule is expected to be issued in November 2011. Costs for complying with potential future mercury and other hazardous air pollutant regulations under the Clean Air Act cannot be estimated at this time.

EPA National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial and Institutional Boilers and Process Heaters. In March 2011, the final rules were published in the Federal Register. The rule was stayed by the EPA on May 16, 2011, to allow the EPA time to consider additional comments received. The EPA currently plans to re-propose the rule, with a final rule expected in April 2012. Major sources have three years to achieve compliance with the final rules. These rules may result in additional control measures being required at Rapids Energy Center and Hibbard. Costs for complying with these proposed rules cannot be estimated at this time.

Minnesota Mercury Emission Reduction Act. Under Minnesota law, a mercury emissions reduction plan for Boswell Unit 4 is required to be submitted by July 1, 2015, with implementation no later than December 31, 2018. The statute also calls for an evaluation of a mercury control alternative which provides for environmental and public health benefits without imposing excessive costs on the utility's customers. Costs for the Boswell Unit 4 emission reduction plan cannot be estimated at this time. Until Minnesota Power files its mercury emission reduction plan for Boswell 4, it must file an annual report updating the MPUC and other stakeholders on the status of emission reduction planning for Boswell 4. The first such update was filed with the MPUC on June 30, 2011.

Proposed and Finalized National Ambient Air Quality Standards (NAAQS). The EPA is required to review the NAAQS every five years. If the EPA determines that a state's air quality is not in compliance with a NAAQS, the state is required to adopt plans describing how they will reduce emissions to attain the NAAQS. These state plans often include more stringent air emission limitations on sources of air pollutants. Four NAAQS have either recently been revised or are currently proposed for revision, as described below.

Ozone NAAQS. The EPA is proposing to more stringently control emissions that result in ground level ozone. In January 2010, the EPA proposed to reduce the eight-hour ozone standard and to adopt a secondary standard for the protection of sensitive vegetation from ozone-related damage. The EPA was scheduled to decide upon the standard at the end of July 2011, however the decision has been delayed. As proposed, states have until early 2014 to submit plans outlining how they will meet the standards.

Particulate Matter NAAQS. The EPA finalized the NAAQS Particulate Matter standards in September 2006. The EPA established a more stringent 24-hour average fine particulate ($PM_{2.5}$) standard and kept the annual average fine particulate matter standard and the 24-hour coarse particulate matter standard unchanged. The District of Columbia Circuit Court of Appeals has remanded the $PM_{2.5}$ standard to the EPA, requiring consideration of lower annual average standard values. The EPA plans to finalize the new $PM_{2.5}$ standards in 2011 and state attainment status determination will likely not occur prior to 2013. As early as late 2014, affected sources would have to take additional control measures if modeling demonstrates non-compliance at the property boundary. The EPA has indicated that ambient air quality monitoring for 2008 through 2010 will be used as a basis for states to characterize their attainment status.

SO_2 and NO_2 NAAQS. During 2010, the EPA finalized a new one-hour NAAQS for SO_2 and NO_2. Monitoring data indicates that Minnesota will likely be in compliance with these new standards; however, the SO_2 NAAQS also requires the EPA to evaluate modeling data to determine attainment. MPCA intends to have this modeling effort completed by the end of 2011, using facility data Minnesota Power provides for all of our steam generating facilities. It is unclear what the outcome of this evaluation will be. These NAAQS could also result in more stringent emission limits on our steam generating facilities, possibly resulting in additional control measures on some of our units.

We are unable to predict the nature or timing of any additional NAAQS regulation or compliance costs we might incur at this time.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

Climate Change. Minnesota Power is addressing climate change by taking the following steps that also ensure reliable and environmentally compliant generation resources to meet our customers' requirements:

- Expand our renewable energy supply;
- Improve the efficiency of our coal-based generation facilities, as well as other process efficiencies;
- Provide energy conservation initiatives for our customers and engage in other demand side efforts;
- Support research of technologies to reduce carbon emissions from generation facilities and support carbon sequestration efforts; and
- Achieve overall carbon emission reductions.

The scientific community generally accepts that emissions of GHGs are linked to global climate change. Climate change creates physical and financial risk. These physical risks could include, but are not limited to, increased or decreased precipitation and water levels in lakes and rivers; increased temperatures; and the intensity and frequency of extreme weather events. These all have the potential to affect the Company's business and operations.

EPA Regulation of GHG Emissions. In May 2010, the EPA issued the final Prevention of Significant Deterioration (PSD) and Title V Greenhouse Gas Tailoring Rule (Tailoring Rule). The PSD/Tailoring Rule establishes permitting thresholds required to address GHG emissions for new facilities, at existing facilities that undergo major modifications and at other facilities characterized as major sources under the Clean Air Act's Title V program.

For our existing facilities, the rule does not require amending our existing Title V Operating Permits to include GHG requirements. Implementation of the requirement to add GHG provisions to permits will be completed at the state level in Minnesota by the MPCA when the Title V permits are renewed. However, installation of new units or modification of existing units resulting in a significant increase in GHG emissions will require obtaining PSD permits and amending our operating permits to demonstrate that Best Available Control Technology (BACT) is being used at the facility to control GHG emissions. The EPA has defined significant emissions increase for existing sources as a GHG increase of 75,000 tons or more per year of total GHG on a CO_2 equivalent basis.

In late 2010, the EPA issued guidance to permitting authorities and affected sources to facilitate incorporation of the Tailoring Rule permitting requirements into the Title V and PSD permitting programs. The guidance stated that the project-specific top-down BACT determination process used for other pollutants will also be used to determine BACT for GHG emissions. Through sector-specific white papers, the EPA also provided examples and technical summaries of GHG emission control technologies and techniques the EPA considers available or likely to be available to sources. It is possible these control technologies could be determined to be BACT on a project-by-project basis. In the near term, one option appears to be energy efficiency maximization.

Legal challenges to the EPA's regulation of GHG emissions, including the Tailoring Rule, have been filed by others and are awaiting judicial determination. Comments to the permitting guidance were also submitted by Minnesota Power and others and may be addressed by the EPA in the form of revised guidance documents.

We cannot predict the nature or timing of any additional GHG legislation or regulation. Although we are unable to predict the compliance costs we might incur, the costs could have a material impact on our financial results.

Water. The Clean Water Act requires NPDES permits to be obtained from the EPA (or, when delegated, from individual state pollution control agencies) for any wastewater discharged into navigable waters. We have obtained all necessary NPDES permits, including NPDES storm water permits for applicable facilities, to conduct our operations. We are in substantial compliance with these permits.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

Clean Water Act - Aquatic Organisms. On April 20, 2011, the EPA published in the Federal Register proposed regulations under section 316(b) of the Clean Water Act that set standards applicable to cooling water intake structures for the protection of aquatic organisms. The proposed regulations would require existing large power plants and manufacturing facilities that withdraw greater than 25 percent of water from adjacent water bodies for cooling purposes to limit the number of aquatic organisms that are killed when they are pinned against the facility's intake structure or that are drawn into the facility's cooling system. The section 316(b) standards would be implemented through NPDES permits issued to the covered facilities. The EPA has re-opened the comment period and is accepting public comments on the proposed rule through August 18, 2011. The EPA is obligated to finalize the rule by July 27, 2012. Minnesota Power is in the process of evaluating the potential impacts the proposed rule may have on its facilities. We are unable to predict the compliance costs we might incur; however, the costs could have a material impact on our financial results.

Solid and Hazardous Waste. The Resource Conservation and Recovery Act of 1976 regulates the management and disposal of solid and hazardous wastes. We are required to notify the EPA of hazardous waste activity and, consequently, routinely submit the necessary reports to the EPA.

Coal Ash Management Facilities. Minnesota Power generates coal ash at all five of its steam electric generating facilities. Two facilities store ash in onsite impoundments (ash ponds) with engineered liners and containment dikes. Another facility stores dry ash in a landfill with an engineered liner and leachate collection system. Two facilities generate a combined wood and coal ash that is either land applied as an approved beneficial use or trucked to state permitted landfills. In June 2010, the EPA proposed regulations for coal combustion residuals generated by the electric utility sector. The proposal sought comments on three general regulatory schemes for coal ash. Comments on the proposed rule were due in November 2010. It is estimated that the final rule will be published in late 2012 or early 2013. We are unable to predict the compliance costs we might incur; however, the costs could have a material impact on our financial results.

Manufactured Gas Plant Site. We are reviewing and addressing environmental conditions at a former manufactured gas plant site in the City of Superior, Wisconsin, and formerly operated by SWL&P. We have been working with the WDNR to determine the extent of contamination and the remediation of contaminated locations. As of June 30, 2011, we have a $0.5 million liability for this site and a corresponding regulatory asset as we expect recovery of remediation costs to be allowed by the PSCW.

Other Matters

BNI Coal. As of June 30, 2011, BNI Coal had surety bonds outstanding of $29.7 million related to the reclamation liability for closing costs associated with its mine and mine facilities which meet the requirements for BNI Coal's total reclamation liability. BNI Coal does not believe it is likely that any of these outstanding bonds will be drawn upon.

ALLETE Properties. As of June 30, 2011, ALLETE Properties, through its subsidiaries, had surety bonds outstanding of $10.2 million primarily related to performance and maintenance obligations to governmental entities to construct improvements in the Company's various projects. The cost of the remaining work to be completed on these improvements is estimated to be approximately $8.0 million and ALLETE Properties does not believe it is likely that any of these outstanding bonds will be drawn upon.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Community Development District Obligations. In March 2005, the Town Center District issued $26.4 million of tax-exempt, 6 percent capital improvement revenue bonds and in May 2006, the Palm Coast Park District issued $31.8 million of tax-exempt, 5.7 percent special assessment bonds. The capital improvement revenue bonds and the special assessment bonds are payable over 31 years (by May 1, 2036 and 2037, respectively) and secured by special assessments on the benefitted land. The bond proceeds were used to pay for the construction of a portion of the major infrastructure improvements in each district and to mitigate traffic and environmental impacts. The assessments were billed to the landowners beginning in November 2006 for Town Center and November 2007 for Palm Coast Park. To the extent that we still own land at the time of the assessment, we will incur the cost of our portion of these assessments, based upon our ownership of benefited property. At June 30, 2011, we owned 73 percent of the assessable land in the Town Center District (69 percent at December 31, 2010) and 93 percent of the assessable land in the Palm Coast Park District (93 percent at December 31, 2010). At these ownership levels, our annual assessments are approximately $1.5 million for Town Center and $2.2 million for Palm Coast Park. As we sell property, the obligation to pay special assessments will pass to the new landowners. Under current accounting rules, these bonds are not reflected as debt on our consolidated balance sheet.

Legal Proceedings. In January 2011, the Company was named as a defendant in a lawsuit in the Sixth Judicial District for the State of Minnesota by one of our customer's, United Taconite, LLC, property and business interruption insurers. In October 2006, United Taconite experienced a fire as a result of the failure of certain electrical protective equipment. The equipment at issue in the incident was not owned, designed or installed by Minnesota Power, but Minnesota Power had provided testing and calibration services related to the equipment. The lawsuit alleges approximately $20 million in damages related to the fire. The Company believes that it has strong defenses to the lawsuit and intends to vigorously assert such defenses. An expense related to any damages that may result from the lawsuit has not been recorded as of June 30, 2011, because a potential loss is not currently probable or reasonably estimable; however, the Company believes it has adequate insurance coverage for any potential loss.

Other. We are involved in litigation arising in the normal course of business. Also in the normal course of business, we are involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base and cost of service issues, among other things. While the resolution of such matters could have a material affect on earnings and cash flows in the year of resolution, none of these matters are expected to materially change our present liquidity position or have a material adverse affect on our financial condition.

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

The following discussion should be read in conjunction with our consolidated financial statements, notes to those statements, Management's Discussion and Analysis of Financial Condition and Results of Operations from the 2010 Form 10-K and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this Form 10-Q contain forward-looking information that involves risks and uncertainties. Readers are cautioned that forward-looking statements should be read in conjunction with our disclosures in this Form 10-Q under the heading "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" located on page 5 and "Risk Factors" located in Part I, Item 1A, page 22 of our 2010 Form 10-K. The risks and uncertainties described in this Form 10-Q and our 2010 Form 10-K are not the only risks facing our Company. Additional risks and uncertainties that we are not presently aware of, or that we currently consider immaterial, may also affect our business operations. Our business, financial condition or results of operations could suffer if the concerns set forth are realized.

OVERVIEW

Regulated Operations includes our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC, a Wisconsin-based regulated utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. Minnesota Power provides regulated utility electric service in northeastern Minnesota to 144,000 retail customers and wholesale electric service to 16 municipalities. Minnesota Power also provides regulated utility electric service to 1 private utility in Wisconsin. SWL&P provides regulated electric, natural gas and water service in northwestern Wisconsin to 15,000 electric customers, 12,000 natural gas customers and 10,000 water customers. Our regulated utility operations include retail and wholesale activities under the jurisdiction of state and federal regulatory authorities.

Investments and Other is comprised primarily of BNI Coal, our coal mining operations in North Dakota, and ALLETE Properties, our Florida real estate investment. This segment also includes a small amount of non-rate base generation, approximately 5,500 acres of land available-for-sale in Minnesota and earnings on cash and investments.

ALLETE is incorporated under the laws of Minnesota. Our corporate headquarters are in Duluth, Minnesota. Statistical information is presented as of June 30, 2011, unless otherwise indicated. All subsidiaries are wholly-owned unless otherwise specifically indicated. References in this report to “we,” “us” and “our” are to ALLETE and its subsidiaries, collectively.

Financial Overview

The following net income discussion summarizes a comparison of the six months ended June 30, 2011, to the six months ended June 30, 2010.

Net income attributable to ALLETE for the six months ended June 30, 2011, was $54.2 million, or $1.55 per diluted share, compared to $42.4 million, or $1.25 per diluted share, for the same period of 2010. The first six months of 2011 included the reversal of a $6.2 million, or $0.18 per share, deferred tax liability related to a revenue receivable Minnesota Power agreed to forgo as part of a stipulation and settlement agreement in its 2010 rate case, and the recognition of a $2.9 million, or $0.08 per share, income tax benefit related to the MPUC approval of our request to defer the retail portion of the tax charge taken in 2010 resulting from PPACA (See Note 5. Regulatory Matters). Net income for the first six months of 2010 was reduced by a $4.0 million, or $0.12 per share, income tax charge resulting from PPACA which eliminated the deduction for expenses reimbursed under Medicare Part D. 2011 also included increases in MWh sales and current cost recovery rider revenue over 2010, which were offset by lower power marketing margins and higher expenses.

Regulated Operations net income attributable to ALLETE was $56.7 million for the first six months of 2011, compared to $43.1 million for the same period of 2010. The first six months of 2011 included the reversal of a $6.2 million deferred tax liability related to a revenue receivable Minnesota Power agreed to forgo as part of a stipulation and settlement agreement in its 2010 rate case and the recognition of a $2.9 million income tax benefit related to the MPUC approval of our request to defer a portion of the tax charge taken in 2010 resulting from PPACA. Net income for the first six months of 2010 was reduced by a $3.6 million income tax charge resulting from PPACA. The remaining increase over 2010 is attributable to an increase in MWh sales, the implementation of final rates and an increase in current cost recovery rider revenue, offset by lower power marketing margins and higher expenses.

Investments and Other reflected a net loss attributable to ALLETE of $2.5 million in the first six months of 2011, compared to a net loss of $0.7 million in 2010. Net income for 2010 included an income tax benefit of $1.1 million (including interest) resulting from the completion of a state income tax audit. In addition, higher interest and investment-related expenses contributed to a greater net loss in 2011. 2010 was also reduced by a $0.4 million charge resulting from PPACA.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2011 AND 2010

(See Note 2. Business Segments for financial results by segment.)

Regulated Operations

Operating revenue increased $7.7 million, or 4 percent, from 2010 primarily due to increased sales to our retail and municipal customers, higher fuel clause recoveries, implementation of final rates and increased current cost recovery rider revenue. These increases were partially offset by lower sales to Other Power Suppliers.

Revenue and kilowatt-hour sales to retail and municipal customers increased $8.4 million and 2.6 percent, respectively, from 2010 primarily due to increased sales to industrial customers and the implementation of final rates. Increased revenue from those sales was offset by a $7.2 million and a 16.6 percent decrease in revenue and kilowatt-hour sales, respectively, to Other Power Suppliers. Sales to Other Power Suppliers are sold at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations.

Kilowatt-hours Sold			**Quantity**	**%**
Quarter Ended June 30,	**2011**	**2010**	**Variance**	**Variance**
Millions				
Regulated Utility				
Retail and Municipals				
Residential	238	229	9	3.9%
Commercial	328	327	1	0.3%
Industrial	1,782	1,728	54	3.1%
Municipals	230	228	2	0.9%
Total Retail and Municipals	2,578	2,512	66	2.6%
Other Power Suppliers	614	736	(122)	(16.6)%
Total Regulated Utility Kilowatt-hours Sold	3,192	3,248	(56)	(1.7)%

Revenue from electric sales to taconite customers accounted for 27 percent of consolidated operating revenue in 2011 (26 percent in 2010). Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in 2011 (9 percent in 2010). Revenue from electric sales to pipelines and other industrials accounted for 8 percent of consolidated operating revenue in 2011 (6 percent in 2010).

Fuel adjustment clause recoveries increased $3.9 million, or 23 percent, primarily due to higher fuel and purchased power expense resulting from a 2.6 percent increase in kilowatt-hour sales to our retail and municipal customers. (See Operating Expenses.)

Transmission and renewable rider revenue increased by $0.9 million due to higher capital expenditures related to our Bison 1 and CapX2020 projects.

Operating expenses increased $11.8 million, or 7 percent, from 2010.

Fuel and Purchased Power Expense increased $1.7 million, or 2 percent, from 2010 reflecting increased costs under our Square Butte PPA and increased coal prices, partially offset by lower purchased power prices.

Operating and Maintenance Expense increased $7.9 million, or 11 percent, from 2010 primarily reflecting increased property taxes, plant expenses due to timing of scheduled maintenance, and salaries and benefit expenses.

Depreciation Expense increased $2.2 million, or 12 percent, from 2010 reflecting additional property, plant and equipment in service.

Interest expense increased $1.4 million, or 18 percent, from 2010 primarily due to higher long-term debt balances.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2011 AND 2010
Regulated Operations (Continued)

Income tax expense decreased $5.9 million, or 52 percent, from 2010 primarily due to the recognition of a $2.9 million income tax benefit related to the MPUC approval of our request to defer the retail portion of the tax charge taken in 2010 resulting from PPACA. Also contributing to the decrease were additional renewable tax credits in 2011.

Investments and Other

Operating revenue increased $1.0 million, or 6 percent, from 2010 primarily due to a $1.6 million increase in revenue at BNI Coal, which operates under a cost-plus contract and recorded higher sales revenue as a result of higher expenses in 2011. (See Operating Expense.)

Revenue at ALLETE Properties decreased $0.7 million from 2010 primarily due to a $0.7 million pre-tax gain in the second quarter of 2010.

ALLETE Properties	**2011**		**2010**	
Revenue and Sales Activity	**Quantity**	**Amount**	**Quantity**	**Amount**
Dollars in Millions				
Revenue from Land Sales				
Acres	–	–	–	–
Revenue from Land Sales		–		–
Other Revenue *(a)*		$0.5		$1.2
Total ALLETE Properties Revenue		$0.5		$1.2

(a) For the quarter ended June 30, 2011, Other Revenue includes a forfeited deposit due to the transfer of property back to ALLETE Properties by deed-in-lieu of foreclosure, in satisfaction of amounts previously owed under long-term financing receivables. For the quarter ended June 30, 2010, Other Revenue primarily includes a $0.7 million pre-tax gain resulting from the transfer of property back to ALLETE Properties by deed-in-lieu of foreclosure, in satisfaction of amounts previously owed under long-term financing receivables from an entity which filed for bankruptcy in June 2009.

Operating expenses increased $2.5 million, or 15 percent, from 2010 reflecting higher expenses at BNI Coal of $1.3 million primarily due to higher fuel costs and equipment repairs; these costs are recovered through the cost-plus contract. (See Operating Revenue.) 2011 also included higher investment-related expenses of $1.1 million.

Income Taxes – Consolidated

For the quarter ended June 30, 2011, the effective tax rate was 18.4 percent (32.6 percent for the quarter ended June 30, 2010). The effective tax rate for the quarter ended June 30, 2011, was lowered by 14.0 percent due to the non-recurring income tax benefit related to the MPUC approval of our request to defer the retail portion of the tax charge taken in 2010 resulting from the PPACA. The effective tax rate for both years deviated from the statutory rate (approximately 41 percent) due to non-recurring items discussed above, deductions for AFUDC-Equity, investment tax credits, renewable tax credits and depletion. We expect the effective tax rate for the full year 2011 to be approximately 25 percent. (See Note 9. Income Tax Expense.)

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(See Note 2. Business Segments for financial results by segment.)

Regulated Operations

Operating revenue increased $14.6 million, or 4 percent, from 2010 primarily due to increased sales to our retail and municipal customers, higher fuel clause recoveries, implementation of final rates and increased current cost recovery rider revenue. These increases were partially offset by lower sales to Other Power Suppliers.

Revenue and kilowatt-hour sales to retail and municipal customers increased $18.2 million and 9.9 percent, respectively, from 2010 primarily due to a 14.7 percent increase in sales to our industrial customers and the implementation of final rates. Increased revenue from those sales was offset by a $19.6 million and a 25.0 percent decrease in revenue and kilowatt-hour sales, respectively, to Other Power Suppliers. Sales to Other Power Suppliers are sold at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations.

Kilowatt-hours Sold			**Quantity**	**%**
Six Months Ended June 30,	**2011**	**2010**	**Variance**	**Variance**
Millions				
Regulated Utility				
Retail and Municipals				
Residential	600	586	14	2.4%
Commercial	704	699	5	0.7%
Industrial	3,620	3,157	463	14.7%
Municipals	499	493	6	1.2%
Total Retail and Municipals	5,423	4,935	488	9.9%
Other Power Suppliers	1,154	1,539	(385)	(25.0)%
Total Regulated Utility Kilowatt-hours Sold	6,577	6,474	103	1.6%

Revenue from electric sales to taconite customers accounted for 26 percent of consolidated operating revenue in 2011 (23 percent in 2010). Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in 2011 (9 percent in 2010). Revenue from electric sales to pipelines and other industrials accounted for 7 percent of consolidated operating revenue in 2011 (6 percent in 2010).

Fuel adjustment clause recoveries increased $10.4 million, or 28 percent, primarily due a 9.9 percent increase in kilowatt-hour sales to our retail and municipal customers.

Transmission and renewable rider revenue increased by $3.6 million due to higher capital expenditures related to our Bison 1 and CapX2020 projects.

Operating expenses increased $14.6 million, or 4 percent, from 2010.

Fuel and Purchased Power Expense increased $0.9 million, or 1 percent, from 2010 as a result of increased costs under our Square Butte PPA and increased coal prices which were mostly offset by lower purchased power prices. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause (See Operating Revenue) and increased due to higher kilowatt-hour sales to these customers.

Operating and Maintenance Expense increased $9.3 million, or 7 percent, from 2010 primarily reflecting increased property taxes, higher plant expenses due to timing of scheduled maintenance, and salaries and benefit expenses.

Depreciation Expense increased $4.4 million, or 12 percent, from 2010 reflecting additional property, plant and equipment in service.

Interest expense increased $2.4 million, or 16 percent, from 2010 primarily due to higher long-term debt balances.

Income tax expense decreased $17.0 million, or 53 percent, from 2010 primarily due the reversal of a $6.2 million deferred tax liability related to a revenue receivable Minnesota Power agreed to forgo as part of a stipulation and settlement agreement in its 2010 rate case and the recognition of a $2.9 million income tax benefit related to the MPUC approval of our request to defer the retail portion of the tax charge taken in 2010 resulting from PPACA. Also contributing to the decrease were additional renewable tax credits in 2011, as well as a non-recurring income tax charge of $3.6 million resulting from PPACA in the first quarter of 2010.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

Investments and Other

Operating revenue increased $2.7 million, or 8 percent, from 2010 primarily due to a $2.9 million increase in revenue at BNI Coal, which operates under a cost-plus contract and recorded higher sales revenue as a result of higher expenses in 2011. (See Operating Expense.)

ALLETE Properties	2011		2010	
Revenue and Sales Activity	Quantity	Amount	Quantity	Amount
Dollars in Millions				
Revenue from Land Sales				
Acres *(a)*	3	$0.4	–	–
Revenue from Land Sales		0.4		–
Other Revenue *(b)*		0.7		$1.3
Total ALLETE Properties Revenue		$1.1		$1.3

(a) Acreage amounts are shown on a gross basis, including wetlands and non-controlling interest.

(b) For the six months ended June 30, 2011, Other Revenue includes a forfeited deposit due to the transfer of property back to ALLETE Properties by deed-in-lieu of foreclosure, in satisfaction of amounts previously owed under long-term financing receivables. For the six months ended June 30, 2010, Other Revenue primarily includes a $0.7 million pre-tax gain resulting from the transfer of property back to ALLETE Properties by deed-in-lieu of foreclosure, in satisfaction of amounts previously owed under long-term financing receivables from an entity which filed for bankruptcy in June 2009.

Operating expenses increased $3.6 million, or 10 percent, from 2010 reflecting higher expenses at BNI Coal of $2.6 million primarily due to higher fuel costs and equipment repairs; these costs were recovered through the cost-plus contract. (See Operating Revenue.) 2011 also included higher investment-related expenses of $1.5 million. These increases were offset by decreased expenses at ALLETE Properties of $1.0 million primarily due to reduction in operating expenses.

Income Taxes – Consolidated

For the six months ended June 30, 2011, the effective tax rate was 18.2 percent (41.0 percent for the six months ended June 30, 2010). The effective tax rate for the six months ended June 30, 2011, was lowered by 4.4 percent due to the income tax benefit related to the MPUC approval of our request to defer the retail portion of the tax charge taken in 2010 resulting from the PPACA and by 9.4 percent due to the reversal of the deferred tax liability related to a revenue receivable that Minnesota Power agreed to forgo as part of a stipulation and settlement agreement in its 2010 rate case. The effective tax rate deviated from the statutory rate (approximately 41 percent) due to non-recurring items discussed above, deductions for AFUDC-Equity, investment tax credits, renewable tax credits and depletion. We expect the effective tax rate for the full year 2011 to be approximately 25 percent. (See Note 9. Income Tax Expense.)

CRITICAL ACCOUNTING ESTIMATES

Certain accounting measurements under GAAP involve management's judgment about subjective factors and estimates, the effects of which are inherently uncertain. Accounting measurements that we believe are most critical to our reported results of operations and financial condition include: regulatory accounting, valuation of investments, pension and postretirement health and life actuarial assumptions and taxation. These policies are reviewed with the Audit Committee of our Board of Directors on a regular basis and summarized in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2010 Form 10-K.

OUTLOOK

For additional information see our 2010 Form 10-K.

ALLETE is an energy company committed to earning a financial return that rewards our shareholders, allows for reinvestment in our businesses and sustains growth. The Company has a key long-term objective of achieving a minimum average earnings per share growth of 5 percent per year and maintaining a competitive dividend payout. To accomplish this, we intend to take the actions necessary to earn our allowed rate of return in our regulated businesses, while we pursue growth initiatives in renewable energy, transmission and other energy-centric businesses.

We believe that, over the long-term, less carbon intensive and more sustainable renewable energy sources will play an increasingly important role in our nation's energy mix. Minnesota Power intends to develop additional renewable resources which will be used to meet regulated renewable supply requirements. In addition, in July 2011, we established ALLETE Clean Energy Inc., a wholly-owned subsidiary of ALLETE. ALLETE Clean Energy will operate independently of Minnesota Power to acquire or develop new projects aimed at delivering energy with minimal environmental impact, including wind, hydro, biomass, solar and natural gas. ALLETE Clean Energy intends to market to electric utilities, cooperatives, municipalities, independent power marketers and large end-users across North America and will be subject to appropriate state and federal regulatory approvals.

For wind development, we will capitalize on our existing presence in North Dakota through BNI Coal, our recently acquired DC transmission line and our Bison 1, 2 and 3 wind projects. We have a long-term business presence and established landowner relationships in North Dakota. See Renewable Energy below for more discussion on the DC line acquisition and our Bison 1, 2 and 3 wind projects.

We also plan to make investments in Upper Midwest transmission opportunities that strengthen or enhance the regional transmission grid or take advantage of our geographical location between sources of renewable energy and end users. Minnesota Power is participating with other regional utilities in making regional transmission investments as a member of the CapX2020 initiative. In addition, we plan to make additional investments to fund our pro rata share of ATC's future capital expansion program. Both the CapX2020 initiative and our investment in ATC are discussed in more detail under Transmission below.

We are also exploring investing in other energy-centric businesses that will complement our non-regulated renewable energy business or leverage demand trends related to transmission, environmental control or energy efficiency.

ALLETE intends to sell its Florida land assets at reasonable prices, over time or in bulk transactions, and reinvest the proceeds in its growth initiatives. ALLETE Properties does not intend to acquire additional real estate.

Regulated Operations. Minnesota Power's long-term strategy is to maintain its competitively priced production of energy, while complying with environmental permit conditions and renewable requirements, and to earn our allowed rate of return. Keeping the cost of energy production competitive enables Minnesota Power to effectively compete in the wholesale power markets and minimizes retail rate increases to help maintain the viability of its customers. As part of maintaining cost competitiveness, Minnesota Power intends to reduce its exposure to possible future carbon and GHG legislation by reshaping its generation portfolio, over time, to reduce its reliance on coal. We will monitor and review proposed environmental regulations and may challenge those that add considerable cost with limited environmental benefit. Current economic conditions require a very careful balancing of the benefit of further environmental controls with the impacts of the costs of those controls on our customers as well as on the Company and its competitive position. We will pursue current cost recovery rider approval for environmental and renewable investments, and will work with our legislators and regulators to earn a fair return. We project that our Regulated Operations will not earn its allowed rate of return in 2011.

***Rates*.** Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, the FERC or the PSCW.

2010 Rate Case. On February 22, 2011, Minnesota Power timely filed an appeal of the MPUC's interim rate decision in the Company's 2010 rate case with the Minnesota Court of Appeals. The Company is appealing the MPUC's finding of exigent circumstances in the interim rate decision with the primary arguments that the MPUC exceeded its statutory authority, made its decision without the support of a body of record evidence and that the decision violated public policy. The Company desires to resolve whether the MPUC's finding of exigent circumstances was lawful for application in future rate cases. The briefing schedule is complete and oral argument is scheduled for September 21, 2011. If the appeal is successful, the Minnesota Court of Appeals will remand the case to the MPUC for further action consistent with its decision. The Company cannot predict the outcome of the matter at this time.

FERC-Approved Wholesale Rates. Minnesota Power's non-affiliated municipal customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. SWL&P, a wholly-owned subsidiary of ALLETE, is also a private utility in Wisconsin and a customer of Minnesota Power. In 2008, Minnesota Power entered into formula-based rate contracts with these customers. In February 2011, the Minnesota Power entered into a new formula-based contract with the City of Nashwauk, effective May 1, 2012, through April 30, 2022, and in June 2011, Minnesota Power entered into restated contracts, effective July 1, 2011, through June 30, 2019, with the remaining 15 Minnesota municipal customers. The rates included in these contracts are calculated using a cost-based formula methodology that is set each July using estimated costs and provides for a true-up calculation for actual costs. The contract terms include a termination clause requiring a three-year notice to terminate. Under the restated contracts, no termination notices may be given prior to June 30, 2016.

Industrial Customers. Electric power is one of several key inputs in the taconite mining, paper production and pipeline industries. Approximately 55 percent of our Regulated Utility kilowatt-hour sales in the six months ended June 30, 2011 (49 percent in the six months ended June 30, 2010) were made to our industrial customers, which include the taconite, paper and pulp and pipeline industries.

During 2010, the domestic steel industry rebounded from the low levels of production seen in 2009. According to the American Iron and Steel Institute (AISI), an association of North American steel producers, United States raw steel production operated at approximately 70 percent of capacity in 2010. AISI projects that U.S. steel production levels will be at about 75 percent of capacity in 2011 (for the six months ended June 30, 2011, steel production was at 74 percent). There has been a general historical correlation between U.S. steel production and Minnesota taconite production. Based on these projections, 2011 taconite production levels in Minnesota are on track to exceed 2010 production levels (36 million tons). We will market available power to Other Power Suppliers, when necessary, in an effort to mitigate the earnings impact of any lower industrial sales. Other Power Supply sales are dependent upon the availability of generation and are sold at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations.

City of Nashwauk. In February 2011, the Company entered into a new formula-based wholesale electric sales agreement with the City of Nashwauk for all of the City's electric service requirements, effective May 1, 2012, through April 30, 2022. On July 27, 2011, the City of Nashwauk entered into a long-term electric service agreement with Essar Steel Ltd. for service beginning in 2012, for Essar's proposed taconite facility of 70 to 110 MW, which is currently under construction, as well as an expansion to include a direct reduced iron and steelmaking facility expected in 2015.

Renewable Energy. In February 2007, Minnesota enacted a law requiring 25 percent of Minnesota Power's total retail energy sales in Minnesota to come from renewable energy sources by 2025. The law also requires Minnesota Power to meet interim milestones of 12 percent by 2012, 17 percent by 2016 and 20 percent by 2020. Minnesota Power has developed a plan to meet the renewable goals set by Minnesota and has included this plan in its 2010 Integrated Resource Plan. The MPUC approved our Integrated Resource Plan at its April 7, 2011 hearing and issued its final order on May 6, 2011. The law allows the MPUC to modify or delay meeting a milestone if implementation will cause significant ratepayer cost or technical reliability issues. If a utility is not in compliance with a milestone, the MPUC may order the utility to construct facilities, purchase renewable energy or purchase renewable energy credits. We are currently on track to meet the 12 percent renewable energy sales milestone by 2012.

Minnesota Power has taken several steps to begin executing its renewable energy strategy through key renewable projects that will ensure we meet the identified state mandate. We have executed two long-term power purchase agreements with an affiliate of NextEra Energy, Inc., for wind energy in North Dakota (Oliver Wind I and II). Other steps include Taconite Ridge, our wind facility located in northeastern Minnesota, our Bison 1, 2 and 3 wind development projects and our Hibbard biomass upgrade project.

North Dakota Wind Development. In December 2009, we purchased an existing 250 kV DC transmission line from Square Butte. The 465-mile transmission line runs from Center, North Dakota, to Duluth, Minnesota. We use this line to transport increasing amounts of wind energy from North Dakota, while gradually phasing out coal-based electricity currently being delivered to our system over this transmission line from Square Butte's coal-fired generating unit.

Bison 1 is a two phase, 82 MW wind project in North Dakota. All permitting has been received and the first phase was completed in 2010. Phase one included the construction of a 22-mile, 230 kV transmission line and the installation of sixteen 2.3-MW wind turbines. Phase two is expected to be completed in late 2011 and consists of the installation of fifteen 3.0-MW wind turbines. Bison 1 is expected to have a total capital cost of approximately $177 million, of which $137.4 million was spent through June 30, 2011. In 2009, the MPUC approved Minnesota Power's petition seeking current cost recovery for investments and expenditures related to Bison 1 and in July 2010, the MPUC approved our petition establishing rates effective August 1, 2010. On March 31, 2011, Minnesota Power petitioned the MPUC to update the rates for additional investments and expenditures related to Bison 1.

Bison 2 and Bison 3 are both 105 MW wind projects in North Dakota which, if approved by the MPUC, are expected to be completed by the end of 2012. Total project costs for Bison 2 and Bison 3 are estimated to be approximately $160 million each. Construction would begin upon the receipt of appropriate regulatory and permitting approvals. Requests for approval of Bison 2 and Bison 3 were filed with the MPUC on March 24, 2011, and June 21, 2011, respectively. Site permit applications were submitted to the NDPSC on April 6, 2011, and July 7, 2011, respectively. Approvals of the site permit applications are expected in the third quarter of 2011. We will file for current cost recovery for Bison 2 and Bison 3 with the MPUC once the projects and related permitting have been approved.

Manitoba Hydro. Minnesota Power has a long-term PPA with Manitoba Hydro, for the purchase of 50 MW of capacity and energy associated with that capacity, which expires in 2015. In addition, in April 2010, Minnesota Power signed a PPA with Manitoba Hydro to purchase surplus energy through April 2022. This energy-only transaction primarily consists of surplus hydro energy on Manitoba Hydro's system that is delivered to Minnesota Power on a non-firm basis. The pricing is based on forward market prices. Under this agreement with Manitoba Hydro, Minnesota Power will be purchasing at least one million MWh of energy over the contract term. On March 11, 2011, the MPUC approved this PPA with Manitoba Hydro.

On May 19, 2011, Minnesota Power and Manitoba Hydro signed a long-term PPA. The PPA, subject to regulatory approval, calls for Manitoba Hydro to sell 250 MWs of capacity and energy to Minnesota Power under a power sales and an energy exchange agreement for 15 years beginning in 2020 and requires construction of additional transmission capacity between Manitoba and the United States. The capacity price is adjusted annually until 2020 by a change in a governmental inflationary index. The energy price is based on a formula that includes an annual fixed price component adjusted for a change in a governmental inflationary index and a natural gas index, as well as market prices.

OUTLOOK (Continued)

Integrated Resource Plan. In October 2009, Minnesota Power filed with the MPUC its 2010 Integrated Resource Plan, a comprehensive estimate of future capacity needs within Minnesota Power's service territory. Minnesota Power does not anticipate the need for new base load generation within the Minnesota Power service territory through 2025 and plans to meet estimated future customer demand while achieving:

- Increased system flexibility to adapt to volatile business cycles and varied future industrial load scenarios;
- Reductions in the emission of GHGs (primarily CO_2); and
- Compliance with mandated renewable energy standards.

To achieve these objectives over the coming years, we plan to reshape our generation portfolio by adding approximately 300 MW of renewable energy to our generation mix and exploring options to incorporate peaking or intermediate resources. The first phase of the Bison 1 wind project in North Dakota was put into service in 2010 and the second phase is expected to be in service in late 2011, increasing our renewable generation by a total of 82 MW. The Bison 2 105 MW and the Bison 3 105 MW wind projects, if approved by the MPUC, along with the Hibbard Biomass Upgrade Project, will continue our expansion into renewable energy to meet our Integrated Resource Plan goals.

We project average annual long-term growth, excluding prospective additional load from industrial and municipal customers, of approximately one percent in electric usage through 2025. We will also focus on conservation and demand side management to meet the energy savings goals established in Minnesota legislation. The MPUC approved our Integrated Resource Plan in its final order issued on May 6, 2011. Minnesota Power is required to file a baseload diversification study within nine months of receiving the final order. Minnesota Power's next Integrated Resource Plan must be filed with the MPUC no later than July 1, 2013.

Transmission. We are making investments in Upper Midwest transmission opportunities that strengthen or enhance the regional transmission grid. These investments include the CapX2020 initiative, investments in our transmission assets and our investment in ATC.

Transmission Investments. We have an approved cost recovery rider in place for certain transmission expenditures and the continued use of our 2009 billing factor was approved by the MPUC on May 11, 2011. The billing factor allows us to charge our retail customers on a current basis for the costs of constructing certain transmission facilities plus a return on the capital invested. On June 29, 2011, we filed an updated billing factor that includes additional transmission projects and expenses which we expect to be approved in late 2011.

*CapX2020***.** Minnesota Power is a participant in the CapX2020 initiative which represents an effort to ensure electric transmission and distribution reliability in Minnesota and the surrounding region for the future. CapX2020, which consists of electric cooperatives, municipals and investor-owned utilities, including Minnesota's largest transmission owners, has assessed the transmission system and projected growth in customer demand for electricity through 2020. Studies show that the region's transmission system will require major upgrades and expansion to accommodate increased electricity demand as well as support renewable energy expansion through 2020.

Minnesota Power is currently participating in three CapX2020 projects: the Fargo to St. Cloud project, the Monticello to St. Cloud project, which together total a 238-mile, 345 kV line from Fargo to Monticello, and the 70-mile, 230 kV line between Bemidji and Minnesota Power's Boswell Energy Center near Grand Rapids, Minnesota. Based on projected costs of the three transmission lines and the percentage agreements among participating utilities, Minnesota Power plans to invest between $100 million and $125 million in the CapX2020 initiative through 2015, of which $17.5 million was spent through June 30, 2011. As future CapX2020 projects are identified, Minnesota Power may elect to participate on a project-by-project basis.

In July 2010, the MPUC granted a route permit for the 28-mile, 345 kV line between Monticello and St. Cloud. Construction of the project is expected to be completed in late 2011. On June 10, 2011, the MPUC approved the route permit for the Minnesota portion of the St. Cloud to Fargo project. The North Dakota permitting process is underway. The entire 238-mile, 345 kV line from St. Cloud to Fargo is expected to be in service by 2015. Construction for the Bemidji to Grand Rapids 230 kV line project commenced in January 2011.

In November 2010, the MPUC approved a route permit for the Bemidji to Grand Rapids line. The Leech Lake Band of Ojibwe (LLBO) subsequently requested that the MPUC suspend or revoke the route permit and also served the CapX2020 utilities with a tribal court complaint asserting adjudicatory and regulatory authority over the project. The CapX2020 utilities filed a request for declaratory judgment in federal court that the project does not require the LLBO consent to the line crossing non-tribal land within the Leech Lake reservation. In response, the LLBO filed a motion to dismiss at the federal court scheduled for hearing on September 16, 2011. The MPUC has taken no action in the matter in light of ongoing litigation in federal and tribal court. On June 22, 2011, the Federal Judge issued a preliminary injunction directing the LLBO to cease and desist its claims of tribal court jurisdiction or from taking other actions to interfere with regulatory review, approval or project construction. The CapX2020 utilities are vigorously defending against the LLBO actions.

Investment in ATC. As of June 30, 2011, our equity investment in ATC was $96.3 million, representing an approximate 8 percent ownership interest. ATC rates are based on a FERC approved 12.2 percent return on common equity dedicated to utility plant. ATC has identified $3.4 billion in future projects needed over the next 10 years to improve the adequacy and reliability of the electric transmission system as well as to meet regional needs based on economic benefits and public policy initiatives for renewable energy. This investment is expected to be funded through a combination of internally generated cash, debt and investor contributions. As additional opportunities arise, we plan to make additional investments in ATC through general capital calls based upon our pro-rata ownership interest in ATC. On July 29, 2011, we invested an additional $0.6 million in ATC for a total investment of $2.0 million in 2011. (See Note 6. Investment in ATC.)

On April 13, 2011, ATC and Duke Energy Corporation announced the creation of a joint venture that intends to build, own and operate new electric transmission infrastructure in the United States and Canada. The joint venture will be subject to the rules and regulations of FERC, MISO and various other independent system operators and state regulatory authorities. We are unable to predict how this joint venture will affect ATC operations. We intend to maintain our approximate 8 percent ownership interest in ATC.

Investments and Other

BNI Coal. BNI Coal anticipates selling approximately 4 million tons of coal in 2011 (3.8 million tons were sold in 2010) and has sold 2.1 million tons through June 30, 2011 (2.2 million tons were sold as of June 30, 2010).

ALLETE Properties. ALLETE Properties represents our Florida real estate investment. Our current strategy for the assets is to complete and maintain key entitlements and infrastructure improvements without requiring significant additional investment, and sell the portfolio over time or in bulk transactions. ALLETE intends to sell its Florida land assets at reasonable prices when opportunities arise, and reinvest the proceeds in its growth initiatives. ALLETE does not intend to acquire additional Florida real estate.

Our two major development projects are Town Center and Palm Coast Park. Another major project, Ormond Crossings, is currently in the planning stage. The City of Ormond Beach, Florida, approved a Development Agreement for Ormond Crossings which will facilitate development of the project as currently planned. Separately, the Lake Swamp wetland mitigation bank was permitted on land that was previously part of Ormond Crossings.

Summary of Development Projects			Residential	Non-residential
Land Available-for-Sale	**Ownership**	**Acres *(a)***	**Units *(b)***	**Sq. Ft. *(b, c)***
Current Development Projects				
Town Center	80%	963	2,373	2,225,200
Palm Coast Park	100%	3,842	3,564	3,056,800
Total Current Development Projects		4,805	5,937	5,282,000
Planned Development Project				
Ormond Crossings	100%	2,924	2,950	3,215,000
Other				
Lake Swamp Wetland Mitigation Project	100%	3,049	*(d)*	*(d)*
Total of Development Projects		**10,778**	**8,887**	**8,497,000**

(a) Acreage amounts are approximate and shown on a gross basis, including wetlands and non-controlling interest.
(b) Estimated and includes non-controlling interest. Density at build out may differ from these estimates.
(c) Depending on the project, non-residential includes retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional.
(d) The Lake Swamp wetland mitigation bank is a permitted, regionally significant wetlands mitigation bank. Wetland mitigation credits will be used at Ormond Crossings and will also be available-for-sale to developers of other projects that are located in the bank's service area.

In addition to the three development projects and the mitigation bank, ALLETE Properties has 1,976 acres of other land available-for-sale.

ALLETE intends to sell its Florida land assets at reasonable prices when opportunities arise. However, if weak market conditions continue for an extended period of time, the impact on our future operations would be the continuation of little or no sales while still incurring operating expenses and carrying costs such as community development district assessments and property taxes.

Income Taxes. ALLETE's aggregate federal and multi-state statutory tax rate is approximately 41 percent for 2011. On an ongoing basis, ALLETE has certain tax credits and other tax adjustments that will reduce the statutory rate to the expected effective tax rate. These tax credits and adjustments historically have included items such as investment tax credits, renewable tax credits, AFUDC-Equity, domestic manufacturer's deduction, depletion and other items. The annual effective rate can also be impacted by such items as changes in income before non-controlling interest and income taxes, state and federal tax law changes that become effective during the year, business combinations and configuration changes, tax planning initiatives, regulatory action and resolution of prior years' tax matters. We expect the effective tax rate for the full year 2011 to be approximately 25 percent. (See Note 9. Income Tax Expense.)

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Position. ALLETE is well-positioned to meet the Company's cash flow needs. As of June 30, 2011, we had a cash balance of $79.4 million, $158.5 million in available consolidated lines of credit which included a committed, syndicated, unsecured revolving line of credit of $150 million and a debt-to-capital ratio of 43 percent. Effective July 1, 2011, we replaced our $150 million line of credit with a new $250 million credit facility. (See Note 7. Short-Term and Long-Term Debt.)

Capital Structure. ALLETE's capital structure is as follows:

	June 30, 2011	**%**	**December 31, 2010**	**%**
Millions				
ALLETE Equity	$1,029.0	56	$976.0	55
Non-Controlling Interest in Subsidiaries	8.8	1	9.0	1
Long-Term Debt (Including Current Maturities)	783.6	43	785.0	44
Short-Term Debt	2.5	–	1.0	–
	$1,823.9	100	$1,771.0	100

Cash Flows. Selected information from ALLETE's Consolidated Statement of Cash Flows is as follows:

For the Six Months Ended June 30,	2011	2010
Millions		
Cash and Cash Equivalents at Beginning of Period	$44.9	$25.7
Cash Flows from (used for)		
Operating Activities	130.0	108.5
Investing Activities	(87.0)	(82.2)
Financing Activities	(8.5)	(6.7)
Change in Cash and Cash Equivalents	34.5	19.6
Cash and Cash Equivalents at End of Period	$79.4	$45.3

Operating Activities. Cash from operating activities was $130.0 million for the six months ended June 30, 2011 ($108.5 million for the six months ended June 30, 2010). Cash from operating activities was higher in 2011 primarily due to higher net income as a result of strong operations. Also contributing to the increase over 2010 were income tax refunds of $14.2 million.

Investing Activities. Cash used for investing activities was $87.0 million for the six months ended June 30, 2011 ($82.2 million for the six months ended June 30, 2010). Higher capital expenditures in 2011 were offset by the $6.7 million redemption of ARS in January 2011.

Financing Activities. Cash used for financing activities was $8.5 million for the six months ended June 30, 2011 ($6.7 million for the six months ended June 30, 2010). In 2010, cash from financing activities included $15 million of net proceeds from the issuance of long-term debt. There were no debt issuances in 2011. This was partially offset by higher proceeds from issuances of common stock of $7.7 million in 2011.

Working Capital. Additional working capital, if and when needed, generally is provided by consolidated bank lines of credit or the sale of securities or commercial paper. As of June 30, 2011, we had available consolidated bank lines of credit aggregating $158.5 million, the majority of which expire in January 2012. On May 25, 2011, ALLETE entered into a $250 million Credit Agreement (Agreement) to replace our $150 million credit facility. The new Agreement, effective July 1, 2011, is unsecured and has a maturity date of June 30, 2015, and replaced the $150 million line of credit expiring in January 2012. In addition, we have 1.7 million original issue shares of our common stock available for issuance through Invest Direct, our direct stock purchase and dividend reinvestment plan, and 2.7 million original issue shares of common stock available for issuance through a Distribution Agreement with KCCI, Inc. The amount and timing of future sales of our securities will depend upon market conditions and our specific needs.

Securities. We entered into a distribution agreement with KCCI, Inc., in February 2008, as amended, with respect to the issuance and sale of up to an aggregate of 6.6 million shares of our common stock, without par value. For the six months ended June 30, 2011, 0.4 million shares of common stock were issued under this agreement, for net proceeds of $14.7 million (0.2 million shares were issued for the six months ended June 30, 2010, for net proceeds of $6.0 million). As of June 30, 2011, 2.7 million shares of common stock remain available for issuance pursuant to the amended distribution agreement. The shares issued in 2011 and 2010 were offered for sale, from time to time, in accordance with the terms of the amended distribution agreement pursuant to Registration Statement Nos. 333-170289 and 333-147965. The remaining shares may be offered for sale, from time to time, in accordance with the terms of the amended distribution agreement pursuant to Registration Statement No. 333-170289.

In 2011, we issued 0.3 million shares of common stock through Invest Direct, the Employee Stock Purchase Plan and the Retirement Savings and Stock Ownership Plan resulting in net proceeds of $8.2 million. These shares of common stock were registered under Registration Statement Nos. 333-150681, 333-105225, and 333-162890, respectively.

Financial Covenants. See Note 7. Short-Term and Long-Term Debt for information regarding our financial covenants.

Pension and Other Postretirement Benefit Plans. Management considers various factors when making funding decisions, such as regulatory requirements, actuarially determined minimum contribution requirements and contributions required to avoid benefit restrictions for the defined benefit pension plans. We expect to make approximately $2 million in contributions to our defined benefit pension plan and an additional $1 million to our other postretirement benefit plan in 2011. (See Note 12. Pension and Other Postretirement Benefit Plans.)

Off-Balance Sheet Arrangements

Off-balance sheet arrangements are summarized in our 2010 Form 10-K, with additional disclosure in Note 13. Commitments, Guarantees and Contingencies of this Form 10-Q.

Capital Requirements

Our capital expenditures for 2011 are expected to be $278 million. For the six months ended June 30, 2011, capital expenditures totaled $79.7 million ($85.1 million for the six months ended June 30, 2010). The expenditures were primarily made in the Regulated Operations segment.

ALLETE's projected capital expenditures for the years 2011 through 2015 are presented in the table below. Actual capital expenditures may vary from the estimates due to changes in forecasted plant maintenance, regulatory decisions or approvals, future environmental requirements, base load growth, capital market conditions or executions of new business strategies.

Capital Expenditures	2011	2012	2013	2014	2015	Total
Millions						
Regulated Utility Operations						
Base and Other	$107	$97	$92	$94	$99	$489
Current Cost Recovery *(a)*						
Renewable *(b)*	124	291	4	8	1	428
Transmission *(c)*	26	26	32	20	11	115
Total Current Cost Recovery	150	317	36	28	12	543
Regulated Utility Capital Expenditures	257	414	128	122	111	1,032
Other	21	25	14	8	8	76
Total Capital Expenditures	$278	$439	$142	$130	$119	$1,108

(a) Estimated current capital expenditures recoverable outside of a rate case.
(b) Renewable riders include Bison 1, Bison 2, Bison 3 and Hibbard Projects.
(c) Transmission capital expenditures include CapX2020 projects.

Pending environmental regulations could result in significant capital expenditures in the future that are not included in the table above. Currently, future CapX2020 transmission projects are under discussions. Minnesota Power may elect to participate on a project-by-project basis.

OTHER

Environmental Matters

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Due to restrictive environmental requirements through legislation and/or rulemaking in the future, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. Environmental Matters are summarized in our 2010 Form 10-K, with additional disclosure in Note 13. Commitments, Guarantees and Contingencies of this Form 10-Q. We are unable to predict the outcome of the matters discussed.

Employees

BNI Coal's labor agreement with the International Brotherhood of Electrical Workers Local 1593 was accepted on March 1, 2011. The contract went into effect on April 1, 2011, and expires on March 31, 2014.

NEW ACCOUNTING STANDARDS

New accounting standards are discussed in Note 1. Operations and Significant Accounting Policies of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SECURITIES INVESTMENTS

*Available-for-sale Securities***.** As of June 30, 2011, our available-for-sale securities portfolio consisted of securities established to fund certain employee benefits. (See Note 3. Investments.)

COMMODITY PRICE RISK

Our regulated utility operations incur costs for power and fuel (primarily coal and related transportation) in Minnesota and power and natural gas purchased for resale in our regulated service territory in Wisconsin. Our Minnesota regulated utility's exposure to price risk for these commodities is significantly mitigated by the current ratemaking process and regulatory environment, which allows recovery of fuel costs in excess of those included in base rates. Conversely, costs below those in base rates result in a credit to our ratepayers. We seek to prudently manage our customers' exposure to price risk by entering into contracts of various durations and terms for the purchase of power and coal and related transportation costs (in Minnesota) and natural gas (in Wisconsin).

POWER MARKETING

Power Marketing. Our power marketing activities consist of (1) purchasing energy in the wholesale market to serve our regulated service territory when retail energy requirements exceed generation output and (2) selling excess available energy and purchased power. From time to time, our utility operations may have excess energy that is temporarily not required by retail and wholesale customers in our regulated service territory. We actively sell to the wholesale market to optimize the value of our generating facilities.

We are exposed to credit risk primarily through our power marketing activities. We use credit policies to manage credit risk, which includes utilizing an established credit approval process and monitoring counterparty limits.

INTEREST RATE RISK

We are exposed to risks resulting from changes in interest rates as a result of our issuance of variable rate debt. We manage our interest rate risk by varying the issuance and maturity dates of our fixed rate debt, limiting the amount of variable rate debt and continually monitoring the effects of market changes in interest rates. Interest rates on variable rate long-term debt are reset on a periodic basis reflecting prevailing market conditions. Based on the variable rate debt outstanding at June 30, 2011, and assuming no other changes to our financial structure, an increase of 100 basis points in interest rates would impact the amount of pretax interest expense by $0.7 million. This amount was determined by considering the impact of a hypothetical 100 basis point increase to the average variable interest rate on the variable rate debt outstanding as of June 30, 2011.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of June 30, 2011, evaluations were performed, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of ALLETE's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (Exchange Act)). Based upon those evaluations, our principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are effective to provide assurance that information required to be disclosed in ALLETE's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls. There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The Company is undertaking a project with the objective of improving business process and information systems. The focus of the project is the upgrade or addition of certain financial and supply-chain applications; these changes are not the result of any identified deficiencies in our internal control over financial reporting. The Company expects the project to result in greater efficiencies and enhance the processes used by employees to record financial transactions, purchase materials and service, process payments and analyze data. Implementation is expected in the first quarter of 2012.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Interim Rate Decision. On February 22, 2011, Minnesota Power timely filed an appeal of the MPUC's interim rate decision in the Company's 2010 rate case with the Minnesota Court of Appeals. The Company is appealing the MPUC's finding of exigent circumstances in the interim rate decision with the primary arguments that the MPUC exceeded its statutory authority, made its decision without the support of a body of record evidence and that the decision violated public policy. The Company desires to resolve whether the MPUC's finding of exigent circumstances was lawful for application in future rate cases. The briefing schedule is complete and oral argument is scheduled for September 21, 2011. If the appeal is successful, the Minnesota Court of Appeals will remand the case to the MPUC for further action consistent with its decision. The Company cannot predict the outcome of the matter at this time.

CapX2020 Bemidji to Grand Rapids Line. In November 2010, the MPUC approved a route permit for the Bemidji to Grand Rapids line. The Leech Lake Band of Ojibwe (LLBO) subsequently requested the MPUC suspend or revoke the route permit and also served the CapX2020 owners with a tribal court complaint asserting adjudicatory and regulatory authority over the project. The CapX2020 owners filed a declaratory judgment in federal court that the project does not require LLBO consent to cross non-tribal land within the reservation. In response, the LLBO filed a motion to dismiss at the federal court scheduled for hearing on September 16, 2011. The MPUC has taken no action in the matter in light of ongoing litigation in federal and tribal court. On June 22, 2011, the Federal Judge issued a preliminary injunction directing the LLBO to cease and desist its claims of tribal court jurisdiction or from taking other actions to interfere with regulatory review, approval or project construction. The CapX2020 utilities are vigorously defending against LLBO actions.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part 1, Item 1A Risk Factors of our 2010 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

Submission of Matters to a Vote of Security Holders. At its meeting on July 19, 2011, the Board of Directors of the Company determined to hold future non-binding shareholder advisory votes on executive compensation on an annual basis until the next vote on the frequency of shareholder votes on executive compensation. Such determination is consistent with the previous recommendation of the Board of Directors and the preference of Company shareholders, as represented by their votes at the annual meeting of shareholders on May 10, 2011.

Mine Safety Disclosures – Required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Act requires issuers to include in periodic reports filed with the SEC certain information relating to citations or orders for violations of standards under the Federal Mine Safety and Health Act of 1977 (Mine Safety Act).

For the six months ended June 30, 2011, there were no citations, orders or notices received under Sections 104, 104(b), 104(d), 107(a) or 104(e) of the Mine Safety Act, no violations of Section 110(b)(2) of the Mine Safety Act and there were no fatalities. In May 2011, BNI Coal received one citation under Section 104(a) for $873.

ITEM 6. EXHIBITS

Exhibit Number

10(a) Credit Agreement dated as of May 25, 2011 among ALLETE, Inc., as Borrower, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and JPMorgan Securities LLC, as Sole Lead Arranger and Sole Book Runner (filed as Exhibit 10 to the May 27, 2011, Form 8-K, File No. 1-3548).

10(b) Amended and Restated Letter of Credit Agreement, dated as of June 3, 2011, among ALLETE, the Participating Banks and Wells Fargo Bank, National Association, as Administrative Agent and Issuing Bank.

31(a) Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31(b) Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Section 1350 Certification of Periodic Report by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance
101.SCH XBRL Schema
101.CAL XBRL Calculation
101.DEF XBRL Definition
101.LAB XBRL Label
101.PRE XBRL Presentation

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, INC.

August 5, 2011

/s/ Mark A. Schober
Mark A. Schober
Senior Vice President and Chief Financial Officer

August 5, 2011

/s/ Steven Q. DeVinck
Steven Q. DeVinck
Controller and Vice President – Business Support

Exhibit 31(a)

Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Alan R. Hodnik, of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2011, of ALLETE;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

Alan R. Hodnik

Alan R. Hodnik
President and Chief Executive Officer

Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark A. Schober, of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2011, of ALLETE;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

Exhibit 32

Section 1350 Certification of Periodic Report
By the Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, each of the undersigned officers of ALLETE, Inc. (ALLETE), does hereby certify that:

1. The Quarterly Report on Form 10-Q of ALLETE for the quarterly period ended June 30, 2011, (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ALLETE.

Date: August 5, 2011

Alan R. Hodnik

Alan R. Hodnik
President and Chief Executive Officer

Date: August 5, 2011

Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability pursuant to that section. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that ALLETE specifically incorporates it by reference.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to ALLETE and will be retained by ALLETE and furnished to the Securities and Exchange Commission or its staff upon request.

AMENDED AND RESTATED LETTER OF CREDIT AGREEMENT

DATED AS OF JUNE 3, 2011

AMONG

ALLETE, INC.
(formerly known as Minnesota Power, Inc.)

THE PARTICIPATING BANKS PARTY HERETO

AND

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent and Issuing Bank

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AMENDED AND RESTATED LETTER OF CREDIT AGREEMENT

This Agreement is entered into as of June 3, 2011 by and among ALLETE, Inc., a Minnesota corporation (as more fully defined below, the "*Company*"), Wells Fargo Bank, National Association, a national banking association (*"Wells Fargo"*), in its capacity as letter of credit issuer (in such capacity, the *"Issuing Bank"*) and as administrative agent for the Participating Banks hereunder (in such capacity, the "*Administrative Agent*"), and the financial institutions from time to time party hereto (each a "*Participating Bank*").

At the request of the Company, the Collier County Industrial Authority, a public body corporate and politic organized and existing under the laws of the State of Florida (the *"Issuer"*) issued its Industrial Development Variable Rate Demand Refunding Revenue Bonds (ALLETE, Inc. Project), Series 2006 (the *"Bonds"*) in the principal amount of $27,800,000 pursuant to an Indenture of Trust dated as of July 1, 2006 (as amended or supplemented in accordance with the terms hereof and thereof, the *"Indenture"*) between the Issuer and U.S. Bank National Association, as trustee for the purchasers of the Bonds (the *"Trustee"*).

The Company and the Issuer executed a Financing Agreement dated July 5, 2006 (as amended or supplemented in accordance with the terms hereof and thereof, the *"Financing Agreement"*), under which the Issuer agreed to lend the proceeds of the Bonds to the Company.

Pursuant to a Letter of Credit Agreement dated July 5, 2006 among the Company, Wells Fargo, as Issuing Bank and Administrative Agent, and the Participating Banks, as defined therein (the *"2006 Letter of Credit Agreement"*), the Issuing Bank issued its Irrevocable Letter of Credit No. NZS569069, dated July 5, 2006 (the *"Letter of Credit"*), and the Company agreed to reimburse the Issuing Bank for any draws under the Letter of Credit.

The stated Expiration Date of the Letter of Credit is July 5, 2011. The Company has requested that the Issuing Bank extend the Letter of Credit by issuing its extension of the Letter of Credit in the form of Exhibit A (the *"L/C Extension"*).

The Issuing Bank has agreed to extend the requested letter of credit, and the Participating Banks have agreed to participate in the risk of such letter of credit on the terms and subject to the conditions set forth herein.

ACCORDINGLY, in consideration of the mutual covenants contained herein and in related documents, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Definitions. As used in this Agreement:

"2006 Letter of Credit Agreement" has the meaning specified in the preamble.

"*Administrative Agent*" has the meaning specified in the preamble to this Agreement.

"*Agreement*" means this Amended and Restated Letter of Credit Agreement, as amended or supplemented from time to time.

"Applicable Hedge Agreement" means any Hedge Agreement engaged in by a Person as part of its normal business operations with the purpose and effect of hedging and protecting such Person against fluctuations or adverse changes in the prices of electricity, gas, fuel or other commodities, interest rates or currency exchange rates, which Hedge Agreement is part of a risk management strategy and not for purposes of speculation and not intended primarily as a borrowing of funds.

"*Applicable Margin*" means (i) 0.850% per annum for any day Level I Status exists; (ii) 1.075% per annum for any day Level II Status exists; (iii) 1.300% per annum for any day Level III Status exists; (iv) 1.525% per annum for any day Level IV Status exists; (v) 1.750% per annum for any day Level V Status exists; and (vi) 1.500% per annum for any day Level VI Status exists.

"Authorizing Order" means any order of the MPUC or any other regulatory body having jurisdiction over the Company or any affiliate of the Company authorizing and/or restricting the indebtedness that may be created from time to time hereunder.

"*Available Amount*" means, at any time, the amount available for drawing under the Letter of Credit, after giving effect to any payments thereunder, reductions thereof, and reinstatements thereof.

"*Banks*" means, collectively, the Issuing Bank, the Administrative Agent and the Participating Banks.

"*Base Rate*" means for any day the greatest of:

(i) the rate of interest announced by the Administrative Agent from time to time as its prime commercial rate for U.S. dollar loans as in effect on such day, with any change in the Base Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said prime commercial rate;

(ii) the sum of (x) the rate determined by the Administrative Agent to be the prevailing rate (rounded upwards, if necessary, to the next higher 1/100 of 1%) at approximately 10:00 am. (or as soon thereafter as is practicable) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) for the purchase at face value of overnight federal funds in an amount equal or comparable to the principal amount owed to the Administrative Agent for which such rate is being determined, *plus* (y) 1/2 of 1% (0.50%); or

(iii) the sum of (x) the rate determined by the Administrative Agent to be LIBOR in effect as of such day (or, if such day is not a Business Day, as of the immediately preceding Business Day), rounded upwards, if necessary, to the next higher 1/100 of 1%), *plus* (y) 1-1/2% (1.50%).

"*Bond Documents*" means the Indenture, the Financing Agreement and the Bonds.

"*Bonds*" has the meaning specified in the preamble to this Agreement.

"*Business Day*" shall have the same meaning herein as the term "business day" in the Letter of Credit and, if the applicable Business Day relates to a determination of LIBOR, means any day on which banks are dealing in U.S. dollar deposits in the interbank market in London, England.

"Capital Lease Obligations" means with respect to any Person, obligations of such Person to pay rent or other amounts under any lease (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP, provided that no power purchase agreement shall constitute a Capital Lease Obligation.

"*Code*" means the Internal Revenue Code of 1986, as amended, and the regulations, rulings and proclamations promulgated and proposed thereunder or under the predecessor Code.

"*Commitment Percentage*" means, as to each Participating Bank, the percentage set forth by such Participating Bank's name in Exhibit B, as such percentage may be adjusted pursuant to any assignment under Section 7.8.

"*Company*" means ALLETE, Inc., a Minnesota corporation duly organized and validly existing under the laws of the State of Minnesota, and its lawful successors and assigns, to the extent permitted by this Agreement.

"Consolidated Assets" means the total amount of assets shown on the consolidated balance sheet of the Company and its Subsidiaries, determined in accordance with GAAP and prepared as of the end of the fiscal quarter then most recently ended for which financial statements have been delivered pursuant to Section 5.1(a) or 5.1(b).

"*Consolidated Subsidiary*" means at any date any Subsidiary or other entity the accounts of which would be consolidated with those of the Company in consolidated financial statements in accordance with GAAP if such statements were prepared as of such date.

"*Controlled Group*" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Company or any Subsidiary, are treated as a single employer under Section 414 of the Code.

"Disclosed Matters" means the actions, suits, proceedings and environmental matters (a) disclosed in the current and periodic reports filed by the Company prior to the date hereof with the SEC pursuant to the requirements of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, or (b) disclosed by the Company to the Banks (either directly or indirectly through the Administrative Agent) in writing prior to the date hereof.

"Disqualified Stock" means any Equity Interest that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures (excluding any maturity as a result of an optional redemption by the issuer thereof) or is mandatorily redeemable, pursuant to a sinking fund

obligation or otherwise, or is redeemable at the unconditional sole option of the holder thereof (other than solely for Equity Interests that do not constitute Disqualified Stock), in whole or in part, on or prior to the date that is 180 days after the Stated Expiration Date.

"*Drawing Loan*" has the meaning specified in Section 2.3(b).

"*Environmental Laws*" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to the environment, the effect of the environment on human health or to emissions, discharges or releases of pollutants, contaminants, Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, Hazardous Substances or wastes or the clean-up or other remediation thereof, in each case as in effect and applicable to the Company and its Subsidiaries at the time the representation in Section 4.1(m) is made or deemed made or compliance with Section 5.4 is determined.

"Equity Interest" means (i) shares of corporate stock, partnership interests, limited liability company membership interests, and any other interest that confers on a Person the right to receive a share of the profits and losses of, or distribution of assets of, the issuing Person, and (ii) all warrants, options or other rights to acquire any Equity Interest set forth in the foregoing clause (i).

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations issued thereunder, as from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Company or any Subsidiary, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30 day notice period is waived), (b) any failure to satisfy the minimum funding standards of Section 412 of the Code or Section 302 of ERISA with respect to any Plan, whether or not waived, (c) the incurrence by the Company, any Subsidiary or any ERISA Affiliate of any liability under Title IV of ERISA with respect to the termination of any Plan, (d) the receipt by the Company, any Subsidiary or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan, (e) the incurrence by the Company, any Subsidiary or any ERISA Affiliate of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan or (f) the receipt by the Company, any Subsidiary or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Company, any Subsidiary or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"*Event of Default*" has the meaning specified in Section 6.1.

"*Federal Funds Rate*" means the fluctuating interest rate per annum described in part (x) of clause (ii) of the definition of Base Rate.

"*Financing Documents*" means this Agreement, the Letter of Credit, and any agreement or instrument relating thereto.

"*Financing Agreement*" has the meaning specified in the preamble to this Agreement.

"*First Mortgage*" means the Mortgage and Deed of Trust, dated as of September 1, 1945, from the Company to The Bank of New York Mellon and Ming Ryan (successors to Irving Trust Company and Richard H. West), as trustees, as heretofore and hereafter amended and supplemented.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and in the statements and pronouncements of the Financial Accounting Standards Board or in such other statement by such other entity as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination, consistently applied; provided that if the Company converts to use the International Financial Reporting Standards by the International Accounting Standards Board or other method of accounting, as may hereafter be required or permitted by the SEC, then the term "GAAP" as used in this Agreement shall be deemed to mean and refer to such International Financial Reporting Standards or such other method of accounting instead, which are applicable to the circumstances as of the date of determination, consistently applied.

"*Governmental Body*" means any government, foreign, or domestic, any court or any foreign or domestic, federal, state, municipal or other governmental department, commission, board, bureau, agency, public authority or instrumentality.

"Guaranty" of or by any Person (the *"guarantor"*) means any obligation, contingent or otherwise, of the guarantor guarantying or having the economic effect of guarantying any Indebtedness or other obligation of any other Person (the *"primary obligor"*) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation, provided that the term "Guaranty" shall not include endorsements for collection or deposit in the ordinary course of business. The term *"Guarantied"* has a meaning correlative thereto. The amount of any Guaranty of a Person shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guaranty is made (or, if less, the maximum amount of such primary

obligation for which such Person may be liable pursuant to the terms of the instrument evidencing such Guaranty) or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith, provided that, notwithstanding anything in this definition to the contrary, the amount of any Guaranty of a Person in respect of any Applicable Hedge Agreement by any other Person with a counterparty shall be deemed to be the maximum reasonably anticipated liability of such other Person, as determined in good faith by such Person, net of any obligation or liability of such counterparty in respect of any Applicable Hedge Agreement with such Person, provided further that the obligations of such other Person under such Applicable Hedge Agreement with such counterparty shall be terminable at the election of such other Person in the event of a default by such counterparty in its obligations to such other Person.

"*Hazardous Substances*" means any toxic, radioactive, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

"Hedge Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest rate, currency exchange rate or commodity price hedge, future, forward, swap, option, cap, floor, collar or similar agreement or arrangement (including both physical and financial settlement transactions).

"Indebtedness" means as to any Person, at a particular time, all items which constitute, without duplication, (a) indebtedness for borrowed money or the deferred purchase price of property (excluding trade payables incurred in the ordinary course of business and excluding any such obligations payable solely through the Company's issuance of Equity Interests (other than the Disqualified Stock and Equity Interests convertible into Disqualified Stock)), (b) indebtedness evidenced by notes, bonds, debentures or similar instruments, (c) obligations with respect to any conditional sale or title retention agreement, (d) indebtedness arising under acceptance facilities and the amount available to be drawn under all letters of credit issued for the account of such Person and, without duplication, all drafts drawn thereunder to the extent such Person shall not have reimbursed the issuer in respect of the issuer's payment of such drafts, (e) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof, provided that the amount of such liabilities included for purposes of this definition will be the amount equal to the lesser of the fair market value of such property and the amount of the liabilities so secured, (f) indebtedness in respect of Disqualified Stock valued at the greater of its voluntary or involuntary maximum fixed repurchase price plus accrued dividends, (g) liabilities in respect of any obligation (contingent or otherwise) to purchase, redeem, retire, acquire or make any other payment in respect of any shares of equity securities or any option, warrant or other right to acquire any shares of equity securities, (h) obligations under Capital Lease Obligations, (i) Guaranties of such Person in respect of Indebtedness of others, and (i) to the extent not otherwise included, all net obligations of such Person under Applicable Hedge Agreements.

"*Indenture*" has the meaning set forth in the preamble to this Agreement.

"Interest Drawing" means a drawing under the Letter of Credit resulting from the presentation of a certificate in the form of Annex F to the Letter of Credit.

"*Interest Period*" means a period commencing on a Business Day and ending on the day in the next succeeding month that immediately precedes the date which numerically corresponds to the first day of such Interest Period, except that (i) if such final month has no numerically corresponding day, then the Interest Period shall end on the last Business Day of such month, and (ii) if an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next following Business Day, unless such next following Business Day is the first Business Day of a month, in which case such Interest Period shall end on the next preceding Business Day.

"*Issuer*" has the meaning specified in the preamble to this Agreement.

"*Issuing Bank*" has the meaning set forth in the preamble to this Agreement.

"*L/C Commitment*" means, as to any Participating Bank, the obligation of such Participating Bank under Section 2.1(b) hereof to participate in the Letter of Credit.

"*L/C Disbursement*" means any payment or disbursement made by the Issuing Bank under the Letter of Credit.

"*L/C Extension*" has the meaning specified in the preamble to this Agreement.

"L/C Margin" means 0.75% per annum.

"*L/C Obligations*" means, at any time, an amount equal to the sum of (a) the Available Amount at such time and (b) the aggregate amount of Reimbursement Obligations outstanding at such time.

"*Letter of Credit*" has the meaning specified in the preamble to this Agreement.

"*Letter of Credit Fee*" means the fee payable by the Company under Section 2.8(a).

"*Level I Status*" means the S&P Rating is A- or higher and the Moody's Rating is A3 or higher.

"*Level II Status*" means Level I Status does not exist, but the S&P Rating is BBB+ or higher and the Moody's Rating is Baal or higher.

"*Level III Status*" means neither Level I Status nor Level II Status exists, but the S&P Rating is BBB or higher and the Moody's Rating is Baa2 or higher.

"*Level IV Status*" means none of Level I Status, Level II Status nor Level III Status exists, but the S & P Rating is BBB- or higher and the Moody's Rating is Baa3 or higher.

"*Level V Status*" means none of Level I Status, Level II Status, Level III Status nor Level IV Status exists, but the S & P Rating is BB+ - or higher and the Moody's Rating is Baa1 or higher.

"*Level VI Status*" means none of Level I Status, Level II Status, Level III Status, Level IV Status nor Level V Status exists.

"LIBO Base Rate" means the rate per annum for United States dollar deposits quoted by the Administrative Agent as the Interbank Market Offered Rate, with the understanding that such rate is quoted by the Administrative Agent for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of an Interest Period for delivery of funds on said date for a period of time approximately equal to the number of days in such Interest Period and in an amount approximately equal to the principal amount to which such Interest Period applies. The Company understands and agrees that the Administrative Agent may base its quotation of the Interbank Market Offered Rate upon such offers or other market indicators of the London interbank market as the Administrative Agent in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London interbank market.

"*LIBOR*" means, with respect to any Interest Period and any principal, an annual rate equal (a) the applicable LIBO Base Rate (rounded up to the nearest 1/16 of 1%) for funds to be made available on the first day of such Interest Period in an amount approximately equal to such principal and maturing at the end of such Interest Period, divided by (b) a number determined by subtracting from 1.00 the maximum reserve percentage for determining reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency liabilities, such rate to remain fixed for such Interest Period. The Administrative Agent's determination of LIBOR shall be conclusive, absent manifest error.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind, or any other type of preferential arrangement that has the practical effect of creating a security interest, in respect of such asset; *provided*, *however*, Lien shall not mean any Trading securities or Available-for-sale securities (as defined in the Notes to the Consolidated Financial Statements contained in the Company's 2010 Annual Report) pledged to secure or cover any hedging transaction in Trading securities or Available-for-sale securities. For the purposes of this Agreement, the Company or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sales agreement, capital lease or other title retention agreement relating to such asset.

"*Majority Participating Banks*" mean Participating Banks holding at least 66 2/3% of the sum of (a) the aggregate unpaid principal amount of the Drawing Loans plus (b) the aggregate amount of all L/C Obligations.

"Margin Stock" has the meaning assigned to such term in Regulation U.

"Material Adverse Change" means a material adverse change in (a) the financial condition, operations, business or property of (i) the Company or (ii) the Company and its Subsidiaries, taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement and the Related Documents or (c) the ability of the Banks to enforce their rights and remedies under this Agreement and the Related Documents.

"*Material Subsidiary*" means any Subsidiary of the Company that has assets that constitute more than 10% of the consolidated assets of the Company and its Subsidiaries as shown on the most recent financial statements delivered to the Administrative Agent pursuant to Section 5.1 hereof.

"*Moody's Rating*" means the rating assigned by Moody's Investors Service, Inc. and any successor thereto that is a nationally recognized rating agency to the outstanding senior secured non-credit enhanced long-term indebtedness of the Company (or if neither Moody's Investors Service, Inc. nor any such successor shall be in the business of rating long-term indebtedness, a nationally recognized rating agency in the U.S. as mutually agreed between the Administrative Agent and the Company). Any reference in this Agreement to any specific rating is a reference to such rating as currently defined by Moody's Investors Service, Inc. (or such a successor) and shall be deemed to refer to the equivalent rating if such rating system changes.

"MPUC" means the Minnesota Public Utilities Commission.

"*Multiemployer Plan*" means a plan described in Section 4001(a)(3) of ERISA to which the Company or any member of the Controlled Group contributed or has contributed during the last five years of such plan.

"*Obligations*" means the Drawing Loans, fees relating to the Letter of Credit, any and all obligations of the Company to reimburse the Banks for any drawings under the Letter of Credit and all other obligations of the Company to any Bank arising under or in relation to this Agreement.

"*Official Statement*" means the Official Statement relating to the Bonds, dated June 30, 2006.

"*Original Stated Amount*" has the meaning specified in the 2006 Letter of Credit Agreement.

"*Outstanding*," "*Bonds Outstanding*" or "*Bonds then Outstanding*" shall have the same meaning as the terms "Outstanding Bonds," "Bonds Outstanding" or "Outstanding" in the Indenture.

"Paying Agent" has the meaning specified in the Indenture.

"*PBGC*" means the Pension Benefit Guaranty Corporation or any Governmental Body succeeding to the functions thereof.

"Permitted Encumbrances" means:

(a) Liens imposed by law for taxes, assessments or similar charges incurred in the ordinary course of business that are not yet due or are being contested in compliance with Section 5.7, provided that enforcement of such Liens is stayed pending such contest;

(b) landlords', vendors', carriers', warehousemen's, mechanics', materialmen's, contractors', repairmen's and other like Liens imposed by law, arising in the ordinary course of business and securing obligations which are not delinquent or are being contested, provided that enforcement of such Liens is stayed pending such contest;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations (but not ERISA);

(d) pledges and deposits to secure the performance of bids, trade contracts, leases, purchase agreements, government contracts, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business, and other than promissory notes and contracts for the repayment of borrowed money;

(e) Liens (including contractual security interests) in favor of a financial institution (including securities firms) encumbering deposit accounts or checks or instruments for collection, commodity accounts or securities accounts (including the right of set-off) at or held by such financial institution in the ordinary course of its commercial business and which secure only liabilities owed to such financial institution arising out of or resulting from its maintenance of such account or otherwise are within the general parameters customary in the financial industry;

(f) judgment liens in respect of judgments that do not constitute an Event of Default under Section 6.1(i);

(g) any interest of a lessor or licensor in property under an operating lease under which the Company or any Subsidiary is lessee or licensee, and any restriction or encumbrance to which the interest of such lessor or licensor is subject;

(h) Liens arising from filed UCC-1 financing statements relating solely to leases not prohibited by this Agreement;

(i) leases or subleases granted to others that do not materially interfere with the ordinary conduct of business of the Company and its Subsidiaries;

(j) licenses of intellectual property granted by the Company or any Subsidiary in the ordinary course of business and not materially interfering with the ordinary conduct of the business of the Company and its Subsidiaries;

(k) easements, servitudes (contractual and legal), zoning restrictions, rights of way, encroachments, minor defects and irregularities in title and other similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not render title to such property unmarketable or materially interfere with the ability of the Company and its Subsidiaries, as the case may be, to utilize their respective properties for their intended purposes;

(l) Liens securing obligations, neither assumed by the Company or any Subsidiary nor on account of which the Company or any Subsidiary customarily pays interest, upon real estate on which the Company or any Subsidiary has a right-of-way, easement, franchise or other servitude or of which the Company or any Subsidiary is the lessee, for the purpose of locating transmission and distribution lines and related support structures, pipe lines, substations, measuring stations, tanks, pumping or delivery equipment or similar equipment, or service buildings incidental to any of the foregoing;

(m) with respect to properties involved in the production of oil, gas and other minerals, unitization and pooling agreements and orders, operating agreements, royalties, reversionary interests, preferential purchase rights, farmout agreements, gas balancing agreements and other agreements, in each case that are customary in the oil, gas and mineral production business in the general area of such property and that are entered into in the ordinary course of business;

(n) Liens in favor of Governmental Bodies encumbering assets acquired in connection with a government grant program, and the right reserved to, or vested in, any Governmental Body by the terms of any right, power, franchise, grant, license, or permit, or by any provision of law, to purchase, condemn, recapture or designate a purchaser of any property;

(o) Liens on Margin Stock to the extent that a prohibition on such Liens would violate Regulation U;

(p) Liens on cash collateral securing letters of credit issued under the Company's primary credit facility;

(q) customary Liens for the fees and expenses of trustees and escrow agents pursuant to any indenture, escrow agreement or similar agreement establishing a trust or escrow arrangement;

(r) agreements for and obligations (other than repayment of borrowed money) relating to the joint or common ownership, operation, and use of property, including Liens under joint venture or similar agreements securing obligations incurred in the conduct of operations or consisting of a purchase option, call or right of first refusal with respect to the Equity Interests in such jointly owned Person; and

(s) Liens granted on cash or invested funds constituting proceeds of any sale or disposition of property deposited into escrow accounts to secure indemnification, adjustment of purchase price or similar obligations incurred in connection with such sale or disposition, in an amount not to exceed the amount of gross proceeds received from such sale or disposition.

"*Person*" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

"*Plan*" means, with respect to the Company and each Subsidiary thereof at any time, an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and either (i) is or has been maintained or contributed to by a member of the Controlled Group for employees of any member of the Controlled Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the Controlled Group for employees of any Person which was at such time a member of the Controlled Group.

"Pledged Bonds" has the meaning specified in the Indenture.

"*Potential Default*" means an event which but for the lapse of time or the giving of notice, or both, would, unless cured or waived, constitute an Event of Default.

"*Register*" has the meaning specified in Section 7.20.

"*Regulation U*" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"*Reimbursement Obligation*" means the Company's obligation to reimburse the Issuing Bank on account of any L/C Disbursement as provided in Section 2.3.

"*Related Documents*" means the Bond Documents, this Agreement, the Letter of Credit, and any other agreement or instrument relating thereto.

"*Remarketing Agent*" means Wells Fargo Brokerage Services, LLC, as remarketing agent under the Indenture, and any successor remarketing agent.

"*Reportable Event*" means any of the events set forth in Section 4043(b) of ERISA.

"*S&P Rating*" means the rating assigned by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. and any successor thereto that is a nationally recognized rating agency to the outstanding senior secured non-credit enhanced long-term indebtedness of the Company (or, if neither such division nor any successor shall be in the business of rating long-term indebtedness, a nationally recognized rating agency in the U.S. as mutually agreed between the Administrative Agent and the Company). Any reference in this Agreement to any specific rating is a reference to such rating as currently defined by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. (or such a successor) and shall be deemed to refer to the equivalent rating if such rating system changes.

"*SEC*" means the Securities and Exchange Commission, or any entity succeeding to the functions thereof.

"Special Deposit Account" has the meaning specified in Section 6.2(a).

"*State*" means the State of Minnesota.

"*Stated Expiration Date*" means July 5, 2013, or such later date to which the Stated Expiration Date may be extended from time to time pursuant to the Letter of Credit and Section 2.15.

"*Subsidiary*" means, as to any Person, any corporation, association, partnership, limited liability company, joint venture or other business entity of which such Person or any Subsidiary of such Person, directly or indirectly, either (i) in respect of a corporation, owns or controls more than 50% of the outstanding Equity Interests having ordinary voting power to elect a majority of the board of directors or similar managing body, irrespective of whether a class or classes shall or might have voting power by reason of the happening of any contingency, or (ii) in respect of an association, partnership, joint venture or other business entity, is entitled to share in more than 50% of the profits and losses, however determined. Unless the context otherwise requires, any reference to a Subsidiary shall be deemed to refer to a Subsidiary of the Company.

"Taxes" means, except as used and defined in Section 7.1, any present or future tax, levy, assessment, impost, duty, charge, fee, deduction or withholding of any nature, and whatever called, by a Governmental Body, on whomsoever and wherever imposed, levied, collected, withheld or assessed.

"*Termination Date*" means the Expiration Date, as defined in the Letter of Credit.

"Total Capitalization" means, at any time, the difference between (i) the sum of each of the following at such time with respect to the Company and the Subsidiaries, determined on a consolidated basis in accordance with GAAP: (A) preferred Equity Interests, plus (B) common Equity Interests and any premium on Equity Interests thereon (as such term is used in the Consolidated Financial Statements contained in the Company's 2010 Annual Report), excluding accumulated other comprehensive income or loss, plus (C) retained earnings, plus (D) Total Indebtedness, and (ii) (A) stock of the Company acquired by the Company and (B) stock of a Subsidiary acquired by such Subsidiary, in each case at such time, as applicable, determined on a consolidated basis in accordance with GAAP.

"Total Indebtedness" means at any time, all Indebtedness (net of unamortized premium and discount (as such term is used in the Consolidated Financial Statements contained in the Company's 2010 Annual Report)) at such time of the Company and the Subsidiaries, determined on a consolidated basis in accordance with GAAP.

"*Unreimbursed Drawing Rate*" has the meaning specified in Section 2.5.

"*U.S."* means the United States of America.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. Any capitalized terms used herein which are not specifically defined herein shall have the same meaning herein as in the Indenture. All references in this Agreement to times of day shall be references to Minneapolis, Minnesota time unless otherwise expressly provided herein.

ARTICLE II
LETTER OF CREDIT

Section 2.1 Issuance of L/C Extension.

(a) The Issuing Bank agrees to issue the L/C Extension on the date hereof, upon the terms, subject to the conditions and relying upon the representations and warranties set forth in this Agreement,.

(b) Effective upon the issuance of the L/C Extension and without further action on the part of any Bank, each Participating Bank shall automatically acquire a

participation in the Issuing Bank's liability under the Letter of Credit in an amount equal to such Participating Bank's Commitment Percentage of the Original Stated Amount.

Section 2.2 Letter of Credit Drawings.

The Trustee is authorized to make drawings under the Letter of Credit in accordance with the terms thereof. The Company hereby directs the Issuing Bank to make payments under the Letter of Credit in the manner therein provided. The Company hereby irrevocably approves reductions and reinstatements of the Available Amount as provided in the Letter of Credit. No further consent of, notice to or authorization by the Company shall be required in connection with any such reinstatement occurring from time to time as contemplated hereby.

Section 2.3 Company Reimbursement Obligations; Participating Bank Payments in Respect of the Letter of Credit; Drawing Loans.

(a) *L/C Disbursements to be Reimbursed Immediately.* On the day of (i) each L/C Disbursement on account of an Interest Drawing, and (ii) each other L/C Disbursement made when the conditions precedent contained in Section 3.2 are not true or have not been satisfied, the Company will pay to the Administrative Agent, for the account of the Participating Banks or the Issuing Bank, as the case may be, the full amount of such L/C Disbursement, without notice or demand of any kind. If the Company fails to make any such payment when due, the unpaid amount thereof shall bear interest until paid by the Company at the rate specified in Section 2.13.

(b) *Other L/C Disbursements.* Upon the occurrence of any L/C Disbursement not described in subsection (a), the Issuing Bank may request payment in the amount of such L/C Disbursement from the Participating Banks as provided in subsection (c). The amount so paid by each Participating Bank shall constitute a loan (a "*Drawing Loan*") to the Company by such Participating Bank, the proceeds of which Drawing Loan shall be remitted by the Participating Banks to the Administrative Agent and applied by the Administrative Agent or the Issuing Bank to the payment of the corresponding Reimbursement Obligation. Each Drawing Loan shall be due and payable on demand and shall bear interest on the unpaid principal amount thereof from the date such Drawing Loan is made until it is paid in full, at a rate per annum equal to the Unreimbursed Drawing Rate.

(c) *Payments by Participating Banks.* Upon any L/C Disbursement described in subsection (b), the Issuing Bank, directly or through the Administrative Agent, shall (and, at any time following any other L/C Disbursement, may) give each Participating Bank prompt notice (orally or in writing) of such L/C Disbursement, specifying (a) the amount of such L/C Disbursement, (b) the date such L/C Disbursement was or is to be made and (c) such Participating Bank's *pro rata* share of the amount of such L/C Disbursement (determined on the basis of such Participating Bank's Commitment Percentage). If so requested, each Participating Bank shall pay to the Administrative Agent, for the account of the Issuing Bank, an amount equal to such Participating Bank's Commitment Percentage of such L/C Disbursement, such payment to be made not later than 3:00 p.m. on the date on which such L/C Disbursement is made or to be made (if

such Participating Bank was notified at or prior to 1:00 p.m. on such date) or on the next Business Day (if such Participating Bank was notified after such time). Each Participating Bank's obligation to make each such payment, and the right of the Administrative Agent and the Issuing Bank to receive the same, are absolute and unconditional and shall not be affected by any circumstance whatsoever, including (without limiting the effect of the foregoing or of Section 2.4) the occurrence or continuance of a Potential Default or Event of Default or the failure of any other Participating Bank to make any payment under this Section, and each Participating Bank further agrees that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Participating Bank shall indemnify and hold harmless the Administrative Agent and the Issuing Bank from and against any and all losses, liabilities (including, without limitation, liabilities for penalties), actions, suits, judgments, demands, costs and expenses (including reasonable attorneys' fees) resulting from any failure of such Participating Bank to provide, or from any delay in providing, the Administrative Agent with such Participating Bank's Commitment Percentage of such L/C Disbursement in accordance with the provisions of this Section, but no Participating Bank shall be so liable for any such failure on the part of any other Participating Bank.

(d) If any amount required to be paid by any Participating Bank to the Administrative Agent pursuant to Section 2.3(c) in respect of any unreimbursed portion of any L/C Disbursement is made after the date such payment is due, such Participating Bank shall additionally pay to the Administrative Agent, for the account of the Issuing Bank, on demand, an amount equal to the product of (i) such amount, times (ii) the Applicable Rate, as defined below, times (iii) a fraction the numerator of which is the number of days during the period commencing on such due date and ending on the date on which payment is made (the "*Delinquency Period*") and the denominator of which is 360. As used in this subsection, "Applicable Rate" means (x) if the Delinquency Period is 3 days or less, the daily average Federal Funds Rate during the Delinquency Period, and (y) in all other cases, the daily average Base Rate during the Delinquency Period. A certificate of the Administrative Agent submitted to any Participating Bank with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error. For purposes of this subsection, payment by any Participating Bank to the Administrative Agent shall not be deemed made until such time as that payment is available to the Administrative Agent in immediately available funds.

(e) Whenever, at any time after the Issuing Bank has made an L/C Disbursement and has received from any Participating Bank (through the Administrative Agent) that Participating Bank's *pro rata* share of such L/C Disbursement in accordance with section 2.3(c), the Administrative Agent receives any payment on account of such L/C Disbursement (whether or not such L/C Disbursement has been treated as a Drawing Loan under subsection (c), and whether such payment is received directly from the Company or otherwise, including proceeds of collateral applied thereto by the Issuing Bank), or any payment of interest on account thereof, the Administrative Agent will distribute to such Participating Bank that Participating Bank's Commitment Percentage of such payment.

Section 2.4 Agreement of the Company and Each Participating Bank.

Without limiting the effect of subsection 2.3, the Company and each Participating Bank agree with the Issuing Bank that:

(a) The Issuing Bank is authorized to make payments under the Letter of Credit upon the presentation of the documents provided for therein and without regard to whether the Company has failed to fulfill any of its obligations with respect to any Related Document or any other default has occurred thereunder.

(b) The Issuing Bank is authorized to take such action on its behalf under the provisions of this Agreement and to exercise such powers and perform such duties as are specifically delegated to or required of the Issuing Bank by the terms hereof, together with such powers as are reasonably incidental thereto.

(c) The Issuing Bank shall be entitled to rely upon any certificate, notice, demand or other communication (whether by cable, telegram, telecopy, S.W.I.F.T., telex or other written communication) believed by it to be genuine and to have been signed or sent by the proper Person or Persons (and no such reliance or failure shall place the Issuing Bank under any liability to the Company or any Participating Bank or limit or otherwise affect the Company's or any Participating Bank's obligations under this Agreement).

(d) Any action, inaction or omission on the part of the Issuing Bank under or in connection with the Letter of Credit or the instruments or documents related thereto, if in good faith and in conformity with such laws, regulations or customs as the Issuing Bank may reasonably deem to be applicable, shall be binding upon the Company and each Participating Bank (and shall not place the Issuing Bank under any liability to the Company or any Participating Bank or limit or otherwise affect the Company's or any Participating Bank's obligations under this Agreement).

(e) Notwithstanding any change or modification, with or without the consent of the Company, in any instruments or documents called for in the Letter of Credit, including waiver of noncompliance of any such instruments or documents with the terms of the Letter of Credit, this Agreement shall be binding on the Company with regard to the Letter of Credit and to any action taken by the Issuing Bank relative thereto.

(f) The Company shall indemnify and hold harmless each Bank from any loss or expense arising from or in connection with the Letter of Credit (except to the extent that such loss or expense arises directly from the gross negligence or willful misconduct of the Issuing Bank).

Section 2.5 Interest Rates and Payment Dates.

Each Drawing Loan shall bear interest determined as follows (the "*Unreimbursed Drawing Rate*"):

(a) through the third Business Day following the corresponding L/C Disbursement, at the Base Rate;

(b) thereafter for the immediately following 6 Interest Periods, at a rate per annum equal to the LIBOR applicable to such Interest Periods, plus the Applicable Margin;

(c) thereafter through the day preceding the first anniversary of such L/C Disbursement, at a rate per annum equal to the Base Rate; and

(d) thereafter, at a rate per annum equal to the Base Rate plus 2%.

Interest on all Drawing Loans shall be payable on demand or, if demand is not sooner made, on the last day of each calendar quarter.

Section 2.6 Payments.

(a) To the extent the Administrative Agent actually receives payment in respect of principal of or interest on any Pledged Bond, the Drawing Loan made in connection with the purchase of such Pledged Bond shall be deemed to have been reduced *pro tanto*, with the Issuing Bank crediting any interest payment on the Pledged Bond received by it to the payment of interest on the related Drawing Loan (and, after payment of all interest accrued on the related Drawing Loan, to the payment of principal of the related Drawing Loan) and crediting any principal repayment received to the principal thereof (and, after payment of all principal of the related Drawing Loan, to the payment of interest accrued on the related Drawing Loan); *provided* that if such interests or principal payments on such Pledged Bonds are derived from the Letter of Credit, any such payments shall not be credited against the Drawing Loans unless the Company has fully reimbursed the Issuing Bank for such amounts derived from the Letter of Credit. Prior to the occurrence of an Event of Default the Issuing Bank agrees that any amount actually received by it in respect of principal of or interest on such Pledged Bonds and not credited to the payment of principal of or interest on the related Drawing Loan as provided in the preceding sentence shall be paid promptly to the Company unless such funds have been derived from a draw on the Letter of Credit which has not been fully reimbursed by the Company in which case only such amounts in excess of the amount necessary to fully reimburse the Issuing Bank for such payment from the Letter of Credit shall be returned to the Company. After the occurrence and during the continuance of an Event of Default any such excess shall be held as collateral for the Obligations pursuant to the terms of Section 6.2(a) and 6.3. Any such payment of a Drawing Loan will be subject, in the case of the first 180 days, to Section 2.16(a) hereof.

(b) Each payment (including each prepayment) by the Company on account of principal of and interest on the Obligations payable to the Participating Banks hereunder shall be made *pro rata* according to the respective outstanding principal amounts of the Obligations then held by the Participating Banks. The Administrative Agent shall distribute such payments to the Participating Banks promptly upon receipt in like funds as received.

(c) The Administrative Agent agrees that upon any payment of principal by the Company on a Drawing Loan (other than a payment deemed made pursuant to Section 2.6(a) above) the Administrative Agent will promptly thereafter direct the Trustee to transfer to the Company a corresponding amount of Pledged Bonds *provided* that the Administrative Agent shall only be obligated to transfer Pledged Bonds in an amount equal to Authorized Denominations (as defined in the Indenture).

(d) Unless the Administrative Agent shall have received notice from the Company no later than 12:00 noon on the date on which any payment is due to the Participating Banks hereunder that the Company will not make such payment in full, the Administrative Agent may assume that the Company will make such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Participating Bank on such due date an amount equal to the amount then due such Participating Bank. If and to the extent the Company shall not have so made such payment in full to the Administrative Agent, each Participating Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Participating Bank, together with interest thereon at the Federal Funds Rate for each day from the date such amount is distributed to such Participating Bank until the date such Participating Bank repays such amount to the Administrative Agent. A certificate of the Administrative Agent submitted to any Participating Bank with respect to any amounts owing by such Participating Bank under this paragraph (d) shall be conclusive and binding for all purposes absent manifest error.

Section 2.7 Security Interest in Pledged Bonds.

The Company hereby grants to the Administrative Agent, for the benefit of each of the Banks, a first priority security interest in all of its right, title and interest in and to all Pledged Bonds to secure the repayment of the Obligations. This Agreement shall constitute a security agreement for purposes of the Uniform Commercial Code. The Company hereby agrees from time to time, at the request of the Administrative Agent, to cause any financing statements to be filed, registered and recorded in such manner and in all places as may be required by law or reasonably requested by the Administrative Agent in order to fully perfect and protect any lien and security interest created hereby and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed any and all continuation statements and further instruments that may be reasonably requested or required by the Administrative Agent for such perfection and protection. The Administrative Agent hereby appoints the Trustee as its bailee for purposes of perfecting its security interest in the Pledged Bonds.

Section 2.8 Fees.

The Company will pay, or cause to be paid, to the Administrative Agent:

(a) for the account of the Participating Banks in accordance with their respective Commitment Percentages, a letter of credit fee on the average daily Available Amount at a rate equal to the L/C Margin. Such fee shall be payable in arrears on the last day of each calendar quarter and on the Termination Date, unless the Letter of Credit is

terminated in whole on any earlier date, in which event the letter of credit fee for the period to the date of such termination shall be paid on the date of such termination;

(b) for the account of the Issuing Bank, on demand, all administrative fees charged by the Issuing Bank in the ordinary course of business in connection with the honoring of drafts under the Letter of Credit, amendments thereto, transfers thereof and all other activity with respect to the Letter of Credit at the then current rates published by the Issuing Bank for such services rendered on behalf of customers of the Issuing Bank generally; and

(c) for the account of the Administrative Agent, on the date of each transfer of the Letter of Credit to a successor Trustee, a transfer fee in an amount equal to the Issuing Bank's then standard out-of-pocket fee for transfers in effect on such date.

Section 2.9 Method of Payment.

All payments to be made by the Company and the Participating Banks under this Agreement shall be made to the Administrative Agent at Wells Fargo Bank, National Association, ABA No. 121000248, reference: ALLETE, Inc., not later than 3:00 p.m., on the date when due and shall be made in lawful money of the United States of America (in freely transferable U.S. dollars) and in immediately available funds.

Section 2.10 Lending Offices and Funding.

Each Participating Bank may fund its Drawing Loans at such branch, office or affiliate as it may from time to time elect and designate in a written notice to the Administrative Agent and the Company. Notwithstanding any other provision of this Agreement, each Participating Bank shall be entitled to fund and maintain its funding of all or any part of each Drawing Loan in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder shall be made as if in the first 180 days the Issuing Bank had actually funded and maintained such Drawing Loan through the purchase of deposits in the eurodollar interbank market having a maturity corresponding to the Interest Periods applicable to such Drawing Loan and bearing an interest rate equal to the applicable LIBOR for such Interest Periods.

Section 2.11 Computation of Interest.

All computations of interest and fees payable by the Company under this Agreement shall be made on the basis of a 360-day year and actual days elapsed except where interest is computed using the Base Rate, in which case a year of 365 or 366 days and actual days elapsed shall be used. Interest shall accrue during each period during which interest is computed from and including the first day thereof to but excluding the last day thereof.

Section 2.12 Payment Due on Non-Business Day to be made on Next Business Day.

If any sum becomes payable pursuant to this Agreement on a day which is not a Business Day, the date for payment thereof shall be extended, without penalty, to the next succeeding Business Day, and such extended time shall be included in the computation of interest and fees. If the date

for any payment of principal is extended by operation of law or otherwise, interest shall be payable for such extended time.

Section 2.13 Late Payments.

Except as set forth in Section 2.5, if the principal amount of any Obligation is not paid when due, such Obligation shall bear interest from the due date thereof until paid in full at a rate per annum equal to the Base Rate from time to time in effect plus 2%, payable on demand.

Section 2.14 Source of Funds.

All payments made by the Issuing Bank pursuant to the Letter of Credit shall be made from funds of the Issuing Bank and not from funds obtained from any other Person.

Section 2.15 Extension of Stated Expiration Date.

(a) No later than 90 days before each anniversary date of this Agreement the Company may make a request for a one-year extension of the Stated Expiration Date in a written notice to the Administrative Agent. The Administrative Agent will promptly inform the Issuing Bank and the Participating Banks of any such request. Each of the Issuing Bank and each Participating Bank may, in its sole and absolute discretion, determine whether to consent to such request. If each of the Issuing Bank and each Participating Bank shall give irrevocable written notice to the Administrative Agent not later than 45 days prior to such Stated Expiration Date stating that it is so willing to extend the Stated Expiration Date, then, subject to any conditions precedent that the Administrative Agent may require in connection with such extension (e.g., the remaking of representations and warranties, no Potential Default or Event of Default having occurred or the delivery of a legal opinion and other appropriate documentation), the Stated Expiration Date shall be so extended, such extension to be effective as provided in Section 2.15(b) and the Administrative Agent shall promptly notify the Issuing Bank, the Participating Banks and the Company of such circumstance. Failure by the Issuing Bank or any Participating Bank to deliver such a notice to the Administrative Agent within such time frame shall be deemed to be a denial of the Company's request by the Issuing Bank or such Participating Bank. If the Issuing Bank and each Participating Bank have not delivered written notices in accordance with the terms hereof consenting to the extension of the Stated Expiration Date, the Stated Expiration Date shall not be extended and the Administrative Agent shall promptly notify the Issuing Bank, the Participating Banks and the Company of such circumstance. Any date to which the Stated Expiration Date has been extended in accordance with this Section 2.15 may be extended in like manner.

(b) If the Stated Expiration Date is extended pursuant to Section 2.15(a), the Issuing Bank shall deliver to the Trustee an amendment (an "Extension Amendment") designating the date to which the Stated Expiration Date is being extended. Such extension of the Stated Expiration Date shall be effective, after receipt of such notice, on the Business Day following the date of delivery of such Extension Amendment, and thereafter all references in this Agreement to the Stated Expiration Date shall be deemed

to be references to the date designated as such in the most recent Extension Amendment delivered to the Trustee. No later than 90 days prior to the then current Stated Expiration Date the Company shall notify the Issuing Bank as to whether it will provide the Trustee with an Alternate Letter of Credit (as defined in the Indenture) or no credit enhancement.

Section 2.16 Provisions Applicable to LIBOR Drawing Loans.

(a) *Funding Losses.* If the Company makes any payment or prepayment of principal with respect to any Drawing Loan in the first 180 days on any day other than the last day of an Interest Period applicable to such Drawing Loan, the Company shall reimburse each Participating Bank, within 15 days after demand, for any resulting loss or expense incurred by it (or by any existing or prospective participant in the related Drawing Loan) including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after such payment or failure to borrow or prepay; *provided*, *however*, that such Participating Bank shall have delivered to the Company a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

(b) *Basis for Determining Interest Rate Unavailable.* If on or prior to the first day of any Interest Period deposits in dollars (in the applicable amounts) are not being offered to a Participating Bank in the London interbank market for such Interest Period, such Participating Bank shall forthwith give notice thereof to the Administrative Agent and the Company, whereupon the obligation of the Banks to make a Drawing Loan at LIBOR shall be suspended until that Participating Bank notifies the Company that the circumstances giving rise to such suspension no longer exist. Such Participating Bank shall instead make such Drawing Loan at the Base Rate for the first 365 days.

(c) *Illegality.* If after the date hereof the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Participating Bank with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Participating Bank to make, maintain or fund its Drawing Loans at LIBOR, such Participating Bank shall forthwith so notify the Administrative Agent and the Company, whereupon such Participating Bank's obligation to fund any Drawing Loans at LIBOR shall be suspended. If any Participating Bank shall determine that it may not lawfully continue to maintain and fund any of its outstanding Drawing Loans bearing interest at LIBOR to maturity and shall so specify in such notice, the Company shall immediately prepay in full the then outstanding principal amount of each such Drawing Loan bearing interest at LIBOR, together with accrued interest thereon. Concurrently with prepaying each such Drawing Loan, the Company may borrow a Drawing Loan at the Base Rate in an equal principal amount for a period coincident with the remaining term of the Interest Period applicable to such Drawing Loan.

Section 2.17 Rescission of Payments.

If, following the payment of any Reimbursement Obligation or any interest thereon by the Company to the Administrative Agent pursuant to Section 2.6, any portion of such Reimbursement Obligation and/or interest shall he rescinded or must otherwise be restored by the Issuing Bank, then each Participating Bank, upon notice to it by the Administrative Agent of such rescission or restoration, shall pay to the Administrative Agent its Commitment Percentage of the amount so rescinded or restored.

ARTICLE III
CONDITIONS PRECEDENT

Section 3.1 Conditions Precedent to Issuance of the L/C Extension.

As conditions precedent to the obligation of the Issuing Bank to issue the L/C Extension:

(a) the Company shall provide to the Administrative Agent (or the Administrative Agent shall otherwise have received) on or before the date hereof, in form and substance satisfactory to the Administrative Agent and its counsel:

(i) a written opinion of counsel to the Company dated the date hereof;

(ii) a certificate of the Company signed by an authorized officer of the Company, dated the date hereof and stating that:

(A) the representations and warranties of the Company contained in Article IV are correct on and as of the date hereof as though made on such date;

(B) no Event of Default has occurred and is continuing, or would result from the issuance of the L/C Extenstion or the execution and delivery of this Agreement, and no event has occurred and is continuing which would constitute an Event of Default or a Potential Default; and

(C) no event of default has occurred or is continuing on the part of the Company under any of its existing debt agreements;

(iii) a copy of resolutions of the board of directors (or a committee thereof) of the Company certified as of the date hereof by the Secretary or an Assistant Secretary of the Company, authorizing, among other things, the execution, delivery and performance by the Company of this Agreement and authorizing the Company to obtain the issuance of the Letter of Credit and to borrow Drawing Loans;

(iv) certified copies of the Company’s by-laws and articles of incorporation;

(v) a certificate of the Secretary or any Assistant Secretary of the Company certifying the name and true signatures of the officers of the Company authorized to sign this Agreement;

(vi) evidence of the status of the Company as a duly organized and validly existing corporation under the laws of the State of Minnesota;

(vii) true and correct copies of the Related Documents;

(viii) a consent of any Participating Bank, as defined in the 2006 Letter of Credit Agreement, that is not a Participating Bank hereunder, consenting to this restatement of the 2006 Letter of Credit Agreement and the assumption of such Participating Bank's obligations hereunder; and

(ix) such other documents, certificates and opinions as the Administrative Agent or its counsel may reasonably request;

(b) no law, regulation or ruling of the United States or any political subdivision or authority therein or thereof shall be in effect or shall have occurred, the effect of which would be to prevent any Bank from fulfilling its obligations under this Agreement; and

(c) all legal requirements provided herein incident to the execution, delivery and performance of this Agreement and the Related Documents and the transaction contemplated hereby and thereby, shall be reasonably satisfactory to the Administrative Agent and its counsel.

Section 3.2 Conditions Precedent to Drawing Loans.

Upon payment by the Issuing Bank of any drawing under the Letter of Credit, such drawing shall constitute a Drawing Loan to the Company only if on the date of payment of such drawing the following statements shall be true:

(a) the representations and warranties of the Company contained in Article IV are correct in all material respects on and as of the date of such payment as though made on and as of such date; *provided*, *however*, with respect to subsection 4.1(e) the references shall be deemed to refer to the Company's most recent annual report filed on Form 10-K and 10-Q and with respect to subsection 4.1(h), the references shall be deemed to be with respect to the consolidated financial statements of the Company and its Consolidated Subsidiaries contained in the Company's most recent annual report filed on Form 10-K and the most recent quarterly report filed on Form 10-Q, as applicable; and

(b) no event has occurred and is continuing, or would result from such payment, which constitutes a Potential Default or Event of Default.

Unless the Company shall have previously advised the Administrative Agent in writing that one or both of the above statements is no longer true, the Company shall be deemed to have

represented and warranted on the date of such payment that both of the above statements are true and correct.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.1 Company's Representations.

In order to induce the Banks to enter into this Agreement, the Company represents and warrants as of the date hereof that:

(a) The Company is duly incorporated, validly existing and in good standing under the laws of the State of Minnesota, has all requisite power and authority to own its property and to carry on its business as now conducted, and is in good standing and authorized to do business in each jurisdiction in which the character of the property owned or leased by it therein or the transaction of its business makes such qualification necessary and where failure to so qualify could reasonably (either individually or in the aggregate) be expected to constitute, cause or result in a Material Adverse Change.

(b) The Company has full corporate power and authority to enter into, execute, deliver and carry out its obligations under this Agreement and the Related Documents to which the Company is a party, and to incur the obligations provided for herein and therein, all of which have been duly authorized by all proper and necessary corporate action and are in full compliance with the Company's articles of incorporation and by-laws. No consent or approval of, or exemption by, or notice to or filing with any Person is required in respect of the Company to authorize the execution, delivery and performance of, or as a condition to the validity or enforceability of, this Agreement, the Related Documents to which the Company is a party or any other agreement of the Company delivered in connection herewith or therewith, except those which have been received and except those which are required under the securities or blue sky laws of any jurisdiction.

(c) The officers of the Company who have executed this Agreement, who have requested the issuance of the Letter of Credit and who have executed or will execute the Related Documents to which the Company is a party and all other documents, instruments and agreements required to be delivered or contemplated hereunder or thereunder was and are properly in office and was and are duly authorized to execute the same.

(d) This Agreement and the Related Documents to which the Company is a party each constitutes the valid and legally binding obligations of the Company enforceable in accordance with their terms except that the enforceability thereof may be limited by applicable bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and by equitable principles.

(e) Except for the Disclosed Matters, there are no actions, suits or arbitration proceedings pending or, to the knowledge of the Company, threatened against the

Company, at law or in equity, before any Governmental Body which individually or in the aggregate, if adversely determined, would materially and adversely affect the financial condition of the Company or materially impair the ability of the Company to perform its obligations under this Agreement, the Related Documents to which the Company is a party, or any other document, instrument or agreement required to be delivered or contemplated hereunder or thereunder. There are no proceedings pending or, to the knowledge of the Company, threatened against the Company which call into question the validity or enforceability of this Agreement, the Related Documents to which the Company is a party or any agreement of the Company delivered in connection herewith or therewith.

(f) The execution, delivery and performance by the Company of this Agreement and the Related Documents to which the Company is a party (i) do not violate any provision of the articles of incorporation or by-laws of the Company, (ii) do not violate any order, decree or judgment, or any provision of any statute, rule or regulation applicable to or binding on the Company or affecting any of its property, (iii) do not violate or conflict with, result in a breach of or constitute (with notice or lapse of time, or both) a default under any shareholder agreement or stock preference agreement or under any material mortgage, indenture, contract or other agreement to which the Company is a party or by which any of its property is bound and (iv) do not result in the creation or imposition of any Lien upon any property of the Company except as set forth in Section 6.3.

(g) The Company has filed all United States tax returns and all other tax returns, if any, which are required to be filed by the Company, and has paid all taxes due, if any, as shown on said returns, or pursuant to any assessment received by the Company, except such taxes, if any, as are being contested in good faith and by appropriate proceedings.

(h) The consolidated financial statements of the Company and its Consolidated Subsidiaries as of December 31, 2009 and December 31, 2010 contained in the Company's Annual Report on Form 10-K for the years ended on those dates, copies of which have been furnished to the Banks, present fairly the consolidated financial position of the Company and its Consolidated Subsidiaries as of those dates and the results of their operations for the two years ended December 31, 2010, in conformity with GAAP. The consolidated financial statements contained in the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2011, copies of which have been furnished to the Bank, present fairly the consolidated financial position of the Company and its Consolidated Subsidiaries as of the dates thereof and have been prepared in conformity with GAAP (subject to normal year-end and audit adjustments). The Company has no contingent liabilities which are required by GAAP to be shown on the financial statements of the Company other than as indicated on said financial statements and since December 31, 2010, there has been no Material Adverse Change.

(i) To the best knowledge of the Company, the Company is not in default with respect to any judgment, order, writ, injunction, decree or decision of any

Governmental Body which default could reasonably be expected to constitute, cause or result in a Material Adverse Change.

(j) The Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No part of the proceeds of the Bonds or any Drawing Loan will be used, directly or indirectly, by the Company for a purpose which violates any law, rule, or regulation of any Governmental Body, including, without limitation, the provisions of Regulation U or X of the Board of Governors of the Federal Reserve System, as amended.

(k) No Potential Default or Event of Default has occurred and is continuing or would result from the obligations incurred by the Company hereunder or by the actions contemplated hereby.

(l) The representations and warranties of the Company in the Related Documents to which it is a party are (or, in the case of Related Documents entered into prior to the date hereof, were, when made) true and correct in every material respect, and the Company has furnished the Administrative Agent a true and correct copy of all the Related Documents as in effect on the date hereof.

(m) Except for the Disclosed Matters, the Company and its Subsidiaries (a) are in compliance with Environmental Laws, (b) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (c) are in compliance with all terms and conditions of any such permit, license, or approval, except, in each case, such as could not reasonably be expected to constitute, cause or result in a Material Adverse Change.

(n) No Plan has been terminated nor have any proceedings been instituted to terminate any Plan; the Company has not withdrawn from any Multiemployer Plan in a complete or partial withdrawal nor has a condition occurred which if continued would result in a complete or partial withdrawal; the Company has not incurred any withdrawal liability under Section 4201 or 4204 of ERISA with respect to any Multiemployer Plan; the Company has not incurred any liability to PBGC other than for required insurance premiums which have been paid when due; no Reportable Event with respect to any Plan has occurred; and no Plan has an accumulated funding deficiency under Section 302 of ERISA or Section 412 of the Code. Each employee benefit plan (as defined in Section 3(3) of ERISA) maintained by the Company is in compliance with ERISA, except where the failure so to comply could not reasonably be expected to constitute, cause or result in a Material Adverse Change.

ARTICLE V
COVENANTS

The Company covenants and agrees with the Banks that it will do the following so long as any amounts may be drawn under the Letter of Credit, and thereafter, so long as any amounts remain

outstanding or Obligations remain unfulfilled under this Agreement, unless the Majority Participating Banks shall otherwise consent in writing:

Section 5.1 Information.

The Company will deliver to each Bank:

(a) as soon as available and in any event within 120 days after the end of each fiscal year of the Company, the annual report of the Company and its Subsidiaries filed with the SEC on Form 10-K for such year, together with a certificate of the treasurer, chief financial officer, principal accounting officer or controller of the Company showing the Company's compliance with Section 5.10 hereof;

(b) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Company, the quarterly report of the Company and its Subsidiaries filed with the SEC on Form 10-Q for such quarter, together with a certificate of the treasurer, chief financial officer, principal accounting officer or controller of the Company showing the Company's compliance with Section 5.10 hereof;

(c) promptly after any officer of the Company obtains knowledge of any Potential Default or Event of Default, if such Potential Default or Event of Default is then continuing, a written notice setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto;

(d) promptly upon the mailing thereof to the shareholders of the Company, copies of all financial statements, reports and proxy statements so mailed;

(e) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Form 8-K (or its equivalent) which the Company shall have filed with the SEC;

(f) from time to time such additional information regarding the financial position or business of the Company and its Subsidiaries as any Bank may reasonably request;

(g) (i) copies of each of the notices, reports and certificates which are required to be given to the Trustee by the Company under any of the Bond Documents and (ii) upon request of any Bank, copies of each of the notices, reports and certificates which are required to be given to the holders of the Bonds by the Trustee under the Indenture to the extent (A) received by the Company and (B) not delivered to the Banks by the Trustee; and

(h) as promptly as possible and in any event within ten Business Days after the Company has knowledge thereof, notice of any downgrade in the S&P Rating or the Moody's Rating.

The Company shall be deemed to have made delivery of any Form 10-K, Form 10-Q, Form S-8 or Form 8-K required to be delivered under paragraph (a), (b) or (e) if it shall have timely made such Form 10-K, Form 10-Q, Form S-8 or Form 8-K available on "EDGAR" and on its home page on the worldwide web, and (in the case of requirements under paragraph (a) or (b)) shall have delivered the corresponding certificate as otherwise provided in this Agreement.

Section 5.2 Maintenance of Property; Insurance.

(a) The Company will keep, and will cause each of its Subsidiaries to keep, all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted.

(b) The Company will, and will cause each of its Subsidiaries to, maintain (either in the name of the Company or in such Subsidiary's own name) with financially sound and responsible insurance companies, insurance on all their properties in at least such amounts, against at least such risks and with no greater than such risk retention as are customarily maintained, insured against or retained, as the case may be, in the same general area by companies of established repute engaged in the same or a similar business; and will furnish to the Administrative Agent, upon reasonable request from the Administrative Agent, information presented in reasonable detail as to the insurance so carried.

Section 5.3 Maintenance of Existence.

Except as permitted under Section 5.9, the Company shall maintain its legal existence in good standing in the jurisdiction of its organization or formation and in each other jurisdiction in which the failure so to do could reasonably be expected to constitute, cause or result in a Material Adverse Change, and cause each of the Subsidiaries to maintain its qualification to do business and good standing in each jurisdiction in which the failure so to do could reasonably be expected to constitute, cause or result in a Material Adverse Change (it being understood that the foregoing shall not prohibit the Company from dissolving or terminating the existence of any Subsidiary that is inactive or whose preservation otherwise is no longer desirable in the conduct of the business of the Company and its Subsidiaries considered as a whole).

Section 5.4 Compliance with Laws.

The Company will comply, and cause each Subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder) a violation of which would individually or collectively reasonably be expected to result in a Material Adverse Change, except where the necessity or fact of compliance therewith is contested in good faith by appropriate proceedings.

Section 5.5 Inspection of Property, Books and Records.

The Company will keep proper books of record and account in conformity with GAAP and all requirements of law; and will permit representatives of the Administrative Agent at the Administrative Agent's expense to visit and inspect any of its properties (subject to reasonable

procedures relating to safety and security), to examine and make abstracts from any of its books and records and to discuss the affairs, finances and accounts of the Company and its Subsidiaries with their officers, employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided that representatives of the Administrative Agent shall not be entitled to examine or make copies or abstracts of, or otherwise obtain information with respect to, the Company's records relating to pending or threatened litigation if any such disclosure by the Company would reasonably be expected (i) to give rise to a waiver of any attorney/client privilege of Company or any of its Subsidiaries relating to such information or (ii) to be otherwise materially disadvantageous to the Company or any of its Subsidiaries in the defense of such litigation; and provided further that in the case of any discussion with the independent accountants, the Company shall have been given the opportunity to participate in such discussion. In the case of any discussion with such independent accountants, unless a Potential Default or Event of Default exists, the Administrative Agent shall pay any fees and expenses of such accountants in connection therewith.

Section 5.6 Use of Proceeds.

None of the proceeds of any drawing under the Letter of Credit will be used, directly or indirectly, by the Company for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock.

Section 5.7 Taxes.

The Company shall pay and discharge when due, and cause each of the Subsidiaries so to do, all Taxes imposed upon it or upon its property, which if unpaid would, individually or collectively, could reasonably be expected to constitute, cause or result in a Material Adverse Change or become a Lien on the property of the Company or such Subsidiary (other than a Lien described in clause (a) of the definition of Permitted Encumbrances), as the case may be, unless and to the extent only that such Taxes shall be contested in good faith and by appropriate proceedings diligently conducted by the Company or such Subsidiary, as the case may be.

Section 5.8 Negative Pledge.

The Company shall not, and shall not permit any Subsidiary to, create, incur, assume or suffer to exist any Lien upon any of its property, whether now owned or hereafter acquired by it, except:

(a) Liens now existing or hereafter arising in favor of the Administrative Agent or the Issuing Bank under the Related Documents;

(b) Permitted Encumbrances;

(c) any Lien existing on any property prior to the acquisition thereof by the Company or any Subsidiary, or existing on any property of any Person that becomes a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary or that is merged with or into or consolidated with the Company or any Subsidiary prior to such merger or consolidation, provided that (i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary or such merger or consolidation, as the case may be, (ii) such Lien shall not apply to any other

property of the Company or any Subsidiary and (iii) such Lien shall secure only those obligations and liabilities that it secures on the date of such acquisition or the date such Person becomes a Subsidiary of the Company or such merger or consolidation, as the case may be;

(d) Liens (including precautionary Liens in connection with Capital Lease Obligations) on fixed or capital assets and other property (including any natural gas, oil or other mineral assets, pollution control facilities, electrical generating plants, equipment and machinery, and related accounts, financial assets, contracts and general intangibles) acquired, constructed, explored, drilled, developed, improved, repaired or serviced (including in connection with the financing of working capital and ongoing maintenance) by the Company or any Subsidiary, provided that (i) such security interests and the obligations and liabilities secured thereby are incurred prior to or within 270 days after the acquisition of the relevant asset or the completion of the relevant construction, exploration, drilling, development, improvement, repair or servicing (including the relevant financing of working capital and ongoing maintenance), as the case may be, (ii) the obligations and liabilities secured thereby do not exceed the cost of acquiring, constructing, exploring, drilling, developing, improving, repairing or servicing (including the financing of working capital and ongoing maintenance in respect of) the relevant assets, and (iii) such security interests shall not apply to any other property beyond the relevant property set forth in this paragraph (d) (and in the case of construction or improvement, any theretofore unimproved real property on which the property so constructed or the improvement is located) and paragraph (f), as applicable, of the Company or any Subsidiary;

(e) Liens created under or in connection with the First Mortgage;

(f) Liens on any Equity Interest owned or otherwise held by or on behalf of the Company or any Subsidiary in any Person created as a special purpose, bankruptcy-remote Person for the sole and exclusive purpose of engaging in activities in connection with the owning and operating of property in connection with any project financing permitted to be secured under paragraph (d);

(g) Liens created to secure Indebtedness of any Subsidiary to the Company or to any other Subsidiary;

(h) rights reserved to or vested in others to take or receive any part of any coal, ore, gas, oil and other minerals, any timber and/or any electric capacity or energy, gas, water, steam and any other product developed, produced, manufactured, generated, purchased or otherwise acquired by the Company or by others on property of the Company or any of its Subsidiaries, provided that no Lien described in this paragraph shall secure Indebtedness;

(i) Liens created for the sole purpose of extending, renewing or replacing in whole or in part Indebtedness secured by any lien, mortgage or security interest referred to in the foregoing paragraphs (a) through (h), provided that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so

secured at the time of such extension, renewal or replacement and that such extension, renewal or replacement, as the case may be, shall be limited to all or a part of the property or indebtedness that secured the lien or mortgage so extended, renewed or replaced (and any improvements on such property);

(j) Liens on cash or invested funds used to make a defeasance, covenant defeasance or in substance defeasance of any Indebtedness pursuant to an express contractual provision in the agreement governing such Indebtedness, provided that immediately before and immediately after giving effect to the making of such defeasance, no Potential Default or Event of Default exists; and

(k) any Lien, in addition to those described in the foregoing paragraphs (a) through (j), securing obligations that, together with all other obligations secured pursuant to this paragraph (k), do not exceed 10% of Consolidated Assets at the time of the incurrence thereof.

Section 5.9 Prohibition of Fundamental Changes.

The Company shall not:

(a) enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); or

(b) convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or a substantial portion of its business or property without the prior written consent of the Majority Participating Banks, which consent shall not be unreasonably withheld.

Notwithstanding the foregoing provisions of this Section 5.9, the Company may merge or consolidate with any other Person if the Company is the surviving corporation or the surviving corporation assumes the liabilities of the Company by operation of law or otherwise.

Section 5.10 Maximum Ratio of Total Indebtedness to Total Capitalization.

The Company shall maintain a maximum ratio of Total Indebtedness to Total Capitalization of .65 to 1.0.

Section 5.11 Bond Documents.

The Company will perform and comply in all material respects with all terms, covenants and conditions of each of the Bond Documents to which it is a party.

Section 5.12 Official Statement.

The Company will not refer to the Issuing Bank in any representation, official statement or offering memorandum, except for the Official Statement, or make any changes in reference to the Issuing Bank in any revision of the Official Statement or other remarketing materials for the Bonds, except for updated descriptions provided by the Issuing Bank. The Administrative Agent

shall use reasonable efforts to provide the Company information necessary to update the description of the Issuing Bank in the Official Statement or such marketing materials.

Section 5.13 Optional Redemptions.

The Company will not permit an optional redemption or purchase for purposes of cancellation of the Bonds, without the prior written consent of the Majority Participating Banks; *provided, however*, that if the Company has deposited with the Issuing Bank or the Trustee an amount equal to the principal amount of the Bonds to be redeemed or purchased, the Participating Banks shall consent to such optional redemption or purchase to the extent of such amounts.

Section 5.14 Conversion.

The Company shall not (i) convert the Bonds to a Fixed Rate (as defined in the Indenture) without giving the Issuing Bank at least 30 days' prior written notice, or (ii) cause the Bonds to bear interest at the Commercial Paper Rate (as defined in the Indenture) or Long-Term Rate (as defined in the Indenture) without a letter of credit securing the Bonds without giving the Issuing Bank at least 30 days' prior written notice.

Section 5.15 Pari Passu.

The Obligations hereunder shall rank *pari passu* with all of the Company's other senior unsecured indebtedness.

Section 5.16 Patriot Act Compliance

The Company will ensure that no person who owns a controlling interest in or otherwise controls the Company or any Subsidiary is or shall be (i) listed on the Specially Designated Nationals and Blocked Person List maintained by the Office of Foreign Assets Control ("OFAC"), Department of the Treasury, and/or any other similar lists maintained by OFAC pursuant to any authorizing statute, Executive Order or regulation or (ii) a person designated under Section 1(b), (c) or (d) of Executive Order No. 13224 (September 23, 2001), any related enabling legislation or any other similar Executive Orders, (c) without limiting clause (a) above, comply, and cause the Company and each Subsidiary to comply, with all applicable Bank Secrecy Act ("BSA") and anti-money laundering laws and regulations.

ARTICLE VI
EVENTS OF DEFAULT

Section 6.1 Events of Default.

"Event of Default", wherever used herein, means any one of the following events:

(a) any material representation or warranty made by the Company in this Agreement or the Bond Documents or in any certificate, agreement, instrument or statement contemplated by or made or delivered pursuant to or in connection herewith or

therewith, shall prove to have been false or misleading in any material respect when made;

(b) an Event of Default (as defined in any Related Document) shall have occurred;

(c) default in payment by the Company of (i) any Obligations (other than interest or any Letter of Credit Fee) required to be paid or reimbursed under this Agreement to any Bank when and as the same shall become due and payable as herein provided (or, to the extent that such Obligations are payable on demand, on demand)or (ii) any interest or Letter of Credit Fee within five days after the same is due (or, to the extent that such interest is payable on demand, on demand);

(d) default in any respect in the due observance or performance by the Company of any covenant set forth in Section 5.8, 5.9, 5.10, 5.13 or 5.14;

(e) default in any material respect in the due observance or performance by the Company of any other term, covenant or agreement set forth in this Agreement and such default has not been remedied within 30 days after receiving notice from the Administrative Agent;

(f) any material provision of this Agreement, or any of the Bond Documents shall cease to be valid and binding, or the Company or any governmental authority shall contest the validity or binding effect of any such provision, or the Company, or any agent or trustee on behalf of the Company, shall deny that the Company has any or further liability under this Agreement or any of the Bond Documents;

(g) (i) the Company makes an assignment for the benefit of creditors, files a petition in bankruptcy, is unable generally to pay its debts as they come due, is adjudicated insolvent or bankrupt or there is entered any order or decree granting relief in any involuntary case commenced against the Company under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or (ii) the Company petitions or applies to any tribunal for any receiver, trustee, liquidator, assignee or custodian or other similar official of the Company, or commences any proceeding in a court of law for a reorganization, arrangement, dissolution, liquidation or other similar procedure under any bankruptcy law or laws for the relief of debtors, whether now or hereafter in effect, or (iii) there is commenced against the Company any such proceeding in a court of law which remains undismissed or shall not be discharged, vacated or stayed, or such jurisdiction shall not be relinquished, within 60 days after commencement, or the Company by any act, indicates its consent to, approval of, or acquiescence in any such proceeding in a court of law, or to an order for relief in an involuntary case commenced against the Company under any such law, or the appointment of any receiver, trustee, liquidator, assignee, custodian or other similar official for the Company, or (iv) the Company suffers any such receivership, trusteeship, liquidation, assignment or custodianship or other similar procedure to continue undischarged for a period of 60 days after commencement or if the Company takes any action for the purposes of effecting the foregoing;

(h) the maturity of any indebtedness of the Company under any agreement or obligation in an aggregate principal amount exceeding $35,000,000 shall be accelerated, or any default shall occur under one or more agreements or instruments under which such indebtedness may be issued or created and such default shall continue for a period of time sufficient to permit the holder or beneficiary of such indebtedness or a trustee therefor to cause the acceleration of the maturity of such indebtedness or any mandatory unscheduled prepayment, purchase or funding thereof;

(i) judgments or orders for the payment of money in excess of $35,000,000 shall be rendered against the Company and such judgments or orders shall continue unsatisfied and unstayed for a period of 30 days;

(j) the Trustee shall fail to have a valid and enforceable pledge and assignment of the Trust Estate (as defined in the Indenture); or

(k) an ERISA Event shall have occurred that, in the opinion of the Majority Participating Banks, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Change.

Section 6.2 Remedies.

Upon the occurrence of any Event of Default, the Administrative Agent may and, at the written request of the Majority Participating Banks, shall, exercise any one or more of the following rights and remedies in addition to any other remedies herein or by law provided:

(a) by notice to the Company, require that the Company immediately pay to the Administrative Agent, in immediately available funds, for deposit in one or more accounts to be maintained by the Administrative Agent (collectively, the *"Special Deposit Account"*), an amount equal to the Available Amount (such amount to be held by the Administrative Agent in accordance with Section 6.3); *provided*, *however*, that in the case of an Event of Default described in Section 6.1(g), the Company shall pay such amount to the Administrative Agent immediately, without any notice;

(b) without limiting the right of the Administrative Agent to demand payment of certain Obligations at any time, declare the principal of and interest on the Obligations owing hereunder immediately due and payable, and such amounts shall thereupon become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company; *provided*, *however*, that upon the occurrence of an Event of Default under Section 6.1(g) such acceleration shall automatically occur;

(c) give notice of the occurrence of an Event of Default to the Trustee and instruct the Trustee to accelerate the Bonds;

(d) pursue any rights and remedies it may have under the Related Documents; or

(e) pursue any other remedy available at law or in equity.

Section 6.3 Pledge of Special Deposit Account.

The Company hereby pledges, and grants the Administrative Agent, as agent for the Issuing Bank and the Participating Banks, a security interest in, all sums held in the Special Deposit Account from time to time and all proceeds thereof as security for the payment of the Obligations. The Administrative Agent may, at any time and from time to time, apply funds then held in the Special Deposit Account to the payment of such Obligations (in such order as the Administrative Agent may elect) as shall have become or shall become due and payable by the Company to the Banks under this Agreement. Following expiration of the Letter of Credit in accordance with its terms, and the payment of all amounts payable by the Company to the Banks under this Agreement, any funds remaining in the Special Deposit Account shall be returned by the Administrative Agent to the Company or paid to whomever may be legally entitled thereto. The Administrative Agent shall have full ownership and control of the Special Deposit Account, and, except as set forth in the preceding sentence, the Company shall have no right to withdraw the funds maintained in the Special Deposit Account.

ARTICLE VII
MISCELLANEOUS

Section 7.1 Taxes.

(a) For the purposes of this Section 7.1, the following terms have the following meanings:

"*Taxes*" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by the Company pursuant to this Agreement and all penalties and interest with respect thereto, excluding (i) taxes imposed on its income, and franchise or similar taxes imposed on it, by a jurisdiction under the laws of which any Bank is organized or in which its principal executive office is located, in which its applicable lending office is located or in which it would be subject to tax due to some connection other than that created by this Agreement and (ii) any United States withholding tax imposed on such payments but only to the extent that such Bank is subject to United States withholding tax on the date hereof.

"*Other Taxes*" means any present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies and all penalties and interest with respect thereto, which arise from the making of any payment pursuant to this Agreement or from the execution or delivery of this Agreement or the Letter of Credit.

(b) Any and all payments by the Company to or for the account of any Bank hereunder shall be made without deduction for any Taxes or Other Taxes; *provided* that, if the Company shall be required by law to deduct any Taxes or Other Taxes from any such payments, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the applicable Bank receives an amount equal to the sum it would have

received had no such deductions been made, (ii) the Company shall make such deductions, (iii) the Company shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Company shall furnish to the Banks, the original or a certified copy of a receipt evidencing payment thereof.

(c) The Company agrees to indemnify each Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes on amounts payable under this Section) paid by such Bank. This indemnification shall be paid within 15 days after any Bank makes appropriate demand therefor.

(d) On or prior to the date of its execution and delivery of this Agreement, and from time to time thereafter if requested in writing by the Company (but only so long as each Bank remains lawfully able to do so), each Bank shall provide the Company with Internal Revenue Service form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Bank is entitled to benefits under an income tax treaty to which the United States is a party which exempts such Bank from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Bank or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States.

(e) For any period with respect to which any Bank has failed to provide the Company with the appropriate form pursuant to Section 7.1(d) (unless such failure is due to a change in treaty, law or regulation occurring subsequent to the date on which such form originally was required to be provided), such Bank shall not be entitled to indemnification under Section 7.1(b) or (c) with respect to Taxes imposed by the United States; *provided* that, if such Bank, which is otherwise exempt from or subject to a reduced rate of withholding tax, becomes subject to Taxes because of its failure to deliver a form required hereunder, the Company shall take such steps (at the expense of such Bank) as such Bank shall reasonably request to assist such Bank to recover such Taxes.

(f) If the Company is required to pay additional amounts to or for the account of any Bank pursuant to this Section, then such Bank will change the jurisdiction of its applicable lending office if, in the judgment of such Bank, such change (i) will eliminate
or reduce any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous to such Bank in its sole judgment.

Section 7.2 Increased Costs.

(a) If after the date hereof any change in any applicable law, treaty, regulation, guideline or directive (including, without limitation, regulations and guidelines with respect to capital adequacy and Regulation D promulgated by the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect) or any new law, treaty, regulation, guideline or directive, or any interpretation of any of the foregoing by any authority charged with the administration or interpretation thereof or any central bank of other fiscal, monetary or other authority having jurisdiction

over any Bank or the transactions contemplated by this Agreement (whether or not having the force of law) (all of the foregoing being referred to as a "*Regulatory Change*") shall:

(i) subject such Bank to any tax, deduction or withholding with respect to the Bonds, the Letter of Credit or this Agreement, or any amount paid or to be paid by such Bank as the issuer of the Letter of Credit (other than any tax measured by or based upon the overall net income of such Bank imposed by any jurisdiction having control over such Bank);

(ii) impose, modify, require, make or deem applicable to any Bank, any reserve requirement (other than reserves against "*Eurocurrency liabilities*" under paragraph (b) below), capital requirement, special deposit requirement, insurance assessment or similar requirement against any assets held by, deposits with or for the account of, or loans, letters of credit or commitments by, an office of such Bank;

(iii) change the basis of taxation of payments due any Bank under this Agreement or the Bonds (other than by a change in taxation of the overall net income of such Bank);

(iv) cause or deem letters of credit to be assets held by such Bank and/or as deposits on its books; or

(v) impose upon such Bank any other condition with respect to such amount paid or payable to or by such Bank or with respect to this Agreement, the Letter of Credit or the Bonds;

and the result of any of the foregoing is to increase the cost to any Bank of making any payment or maintaining the Letter of Credit, or to reduce the amount of any payment (whether of principal, interest or otherwise) receivable by such Bank, or to reduce the rate of return on the capital of such Bank (taking into consideration such Bank's policies with respect to capital adequacy) or to require such Bank to make any payment on or calculated by reference to the gross amount of any sum received by it, or to increase the cost to such Bank of making or maintaining any Drawing Loan at LIBOR, or to reduce the amount of any sum received or receivable by such Bank under this Agreement with respect thereto, in each case by an amount which such Bank in its reasonable judgment deems material, then:

(A) such Bank shall promptly notify the Company in writing of the happening of such event and will designate a different lending office if such designation will avoid the need for, or reduce the amount of such compensation and will not, in the judgement of such Bank, be otherwise disadvantageous to such Bank;

(B) such Bank shall promptly deliver to the Company a certificate stating the change which has occurred or the reserve requirements or other costs or conditions which have been imposed on such

Bank or the request, direction, or requirement with which it has complied, together with the date thereof, the amount of such increased cost, reduction or payment and reasonably detailed description of the way in which such amount has been calculated, and such Bank's determination of such amounts, absent fraud or manifest error, shall be conclusive (in determining such amount, such Bank may use any reasonable averaging and attribution methods); and

(C) the Company shall pay to each Bank, from time to time as specified by such Bank, such amount as will compensate such Banks, for such additional cost, reduction, or payment.

The protection of this paragraph shall be available to each Bank regardless of any possible contention of invalidity or inapplicability of the law, regulation or condition which has been imposed; *provided*, *however*, that if it shall later be determined by such Bank that any amount so paid by the Company pursuant to this Section 7.2 is in excess of the amount payable under the provisions hereof, such Bank shall refund such excess amount to the Company.

(b) Without limiting the effect of the foregoing, the Company shall pay to the Issuing Bank and each Participating Bank on the last day of each Interest Period so long as such Bank is maintaining reserves against "*Eurocurrency liabilities*" under Regulation D (or so long as such Bank is, by reason of any Regulatory Change, maintaining reserves against any other category of liabilities that includes deposits by reference to which the interest rate on Drawing Loans bearing interest at LIBOR is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Bank that includes any Drawing Loans bearing interest at LIBOR) an additional amount (determined by such Bank and notified to the Company) equal to the product of the following for each such Drawing Loan for each day during such Interest Period:

(i) the principal amount of such Drawing Loan outstanding on such day;

(ii) the remainder of (x) a fraction the numerator of which is the rate (expressed as a decimal) at which interest accrues on such Drawing Loan for such Interest Period as provided in this Agreement and the denominator of which is one minus the effective rate (expressed as a decimal) at which such reserve requirements are imposed on such Bank on such day minus (y) such numerator; and

(iii) 1/360.

Section 7.3 Right of Setoff; Other Collateral.

(a) In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence of any Event of Default,

each Bank is hereby authorized by the Company at any time or from time to time, without notice to the Company or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, including, but not limited to, indebtedness evidenced by certificates of deposit, whether matured or unmatured, and in whatever currency denominated) and any other indebtedness at any time held or owing by such Bank or that subsequent holder to or for the credit or the account of the Company, whether or not matured, against and on account of the obligations and liabilities of the Company to such Bank or that subsequent holder hereunder, including, but not limited to, all claims of any nature or description arising out of or connected with this Agreement and the Related Documents, irrespective of whether or not (a) the Administrative Agent shall have made any demand hereunder or (b) the principal or the interest on the Drawing Loans and other amounts due hereunder shall have become due and payable and although said obligations and liabilities, or any of them, may be contingent or unmatured.

(b) Each of the Issuing Bank and each Participating Bank agrees with each other party hereto that if such Bank shall receive and retain any payment, whether by set-off or application of deposit balances or otherwise, hereunder in excess of its ratable share of payments on all such obligations then outstanding to the Banks, then such Bank shall purchase for cash at face value, but without recourse, ratably from each of the other Banks such amount of the Obligations, or participations therein, held by each such other Banks (or interest therein) as shall be necessary to cause such Bank to share such excess payment ratably with all the other Banks; *provided*, *however*, that if any such purchase is made by any Bank, and if such excess payment or part thereof is thereafter recovered from such purchasing Bank, the related purchases from the other Banks shall be rescinded ratably and the purchase price restored as to the portion of such excess payment so recovered, but without interest.

(c) The rights of any Bank under this Section 7.3 are in addition to, in augmentation of, and, except as specifically provided in this Section 7.3, do not derogate from or impair other rights and remedies (including, without limitation, other rights of setoff) which such Bank may have.

Section 7.4 Indemnity; Costs and Expenses.

(a) The Company hereby agrees to indemnify each Bank, its affiliates and the respective directors, officers, agents and employees of the foregoing (each an "*Indemnitee*") and hold each Indemnitee harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened relating to this Agreement, the Letter of Credit, the Drawing Loans, any drawing under the Letter of Credit or any actual or proposed use of proceeds of the drawings under the Letter of Credit; except, only if, and to the extent that any such claim, damage, loss, liability, cost or expense shall be caused by the willful misconduct or gross negligence of such Indemnitee in performing or failing to perform its obligations under this Agreement or in

making payment against a drawing presented under the Letter of Credit which does not comply with the terms thereof (it being understood and agreed by the parties hereto that in making such payment the Issuing Bank's exclusive reliance on the documents presented to the Issuing Bank in accordance with the terms of the Letter of Credit as to any and all matters set forth therein, whether or not any statement or any document presented pursuant to the Letter of Credit proves to be forged, fraudulent, invalid or insufficient in any respect or any statement therein proves to be untrue or inaccurate in any respect whatsoever shall not be deemed willful misconduct or gross negligence of the Issuing Bank).

(b) The Company shall pay (i) all reasonable costs and out-of-pocket expenses of the Issuing Bank and the Administrative Agent, including, without limitation, costs in connection with the negotiation, documentation and execution of this Agreement and any and all documents, agreements and instruments related thereto, reasonable fees and disbursements of special counsel for the Issuing Bank and the Administrative Agent, in connection with any waiver or consent hereunder or any amendment hereof or any Potential Default or Event of Default hereunder and (ii) if an Event of Default occurs, all reasonable out-of-pocket expenses incurred by the Issuing Bank and the Administrative Agent, including (without duplication) the reasonable fees and disbursements of outside counsel and the allocated cost of inside counsel, in connection with such Event of Default and investigation, collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(c) The Company hereby agrees to indemnify, defend and hold each Indemnitee harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnitee including reasonable expenses of investigating a claim, arising out of or in any way connected with, or as a result of the following:

(i) the issuance, offering and sale of the Bonds;

(ii) any acquisition or attempted acquisition of Equity Interests or assets of another Person or entity by the Company, or the use of any of the proceeds of any transaction contemplated hereunder by the Company for the making or furtherance of any such acquisition or attempted acquisition;

(iii) any breach or alleged breach by the Company of, or any liability or alleged liability of the Company under, any Environmental Laws, or any liability or alleged liability incurred by any Indemnitee under any Environmental Laws in connection with this Agreement, any Related Documents or the transactions contemplated hereunder or thereunder;

(iv) the negotiation, preparation, execution, delivery, administration, and enforcement of this Agreement, the Related Documents and any other document required hereunder or thereunder, including, without limitation, any amendment, supplement, modification or waiver of or to any of the foregoing or

the consummation or failure to consummate the transactions contemplated hereby or thereby, or the performance by the parties of their obligations hereunder or thereunder, and the transfer of or payment or failure to pay under this Agreement or any of the Related Documents; or

(v) any claim, litigation, investigation or proceedings related to any of the foregoing, whether or not the Indemnitee is a party thereto;

provided, *however*, that such indemnity shall not apply to any such losses, claims, damages, liabilities or related expenses arising from (A) any unexcused breach by the Administrative Agent of its obligations under this Agreement or (B) any commitment made by the Administrative Agent to a person other than the Company which would be breached by the performance of the obligations under this Agreement. Nothing in this subsection is intended to limit the payment and reimbursement obligations of the Company contained in this Agreement.

(d) The Company agrees to indemnify the Indemnitees and each person, if any, who controls the Administrative Agent within the meaning of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, against all losses, claims, damages, liabilities and expenses (including, without limitation, reasonable attorneys' fees and expenses, including the fees and expenses of in-house counsel, and including reasonable expenses of investigating a claim) incurred by an indemnified party arising out of in any way connected with, or as a result of:

(i) the assertion that any materials used in connection with the offering and sale of the Bonds (except for the materials provided by the Administrative Agent for such use) contain an alleged untrue statement of a material fact or an alleged omission to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; or

(ii) the failure to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Financing Agreement or the Indenture under the Trust Indenture Act of 1939, as amended.

(e) The foregoing agreements and indemnities shall remain operative and in full force and effect regardless of termination of this Agreement, the consummation of or failure to consummate either the transactions contemplated by this Agreement or any amendment, supplement, modification or waiver, the drawing of any draft and reimbursement of the Issuing Bank therefor, the invalidity or unenforceability of any term or provision of this Agreement, any Related Documents, or any other document required hereunder or thereunder, any investigation made by or on behalf of the Administrative Agent, or the Company or the content or accuracy of any representation or warranty made under this Agreement, any Related Documents or any other document required hereunder or thereunder.

Section 7.5 Non-Controlled Persons,

The Issuing Bank does not control, either directly or indirectly through one or more intermediaries, the Company. Nor does the Company control, either directly or indirectly through one or more intermediaries, the Issuing Bank. The Issuing Bank and the Company shall provide written notice to the Trustee, Remarketing Agent and the Owners (as defined in the Indenture) at least 30 days prior to the consummation of any transaction that would result in the Company controlling or being controlled by the Issuing Bank.

Section 7.6 Obligations Absolute.

The obligations of the Company under this Agreement including, without limitation, all fees to be paid hereunder, shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances whatsoever.

Section 7.7 Liability of the Issuing Bank.

The Company assumes all risks of the acts or omissions of the Trustee, the Remarketing Agent, any Paying Agent or any agent of the Trustee, the Remarketing Agent or any Paying Agent and any transferee of the Letter of Credit with respect to their use of the Letter of Credit. Neither the Issuing Bank nor any of its officers or directors shall be liable or responsible for (a) the use of the Letter of Credit or for any acts or omissions of the Trustee and any transferee in connection therewith, (b) the validity or genuineness of documents, or of any endorsement thereon, even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged, (c) payment by the Issuing Bank against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit, or (d) any other circumstances whatsoever in making or failing to make payment under the Letter of Credit; *provided, however*, that the Company shall have a claim against the Issuing Bank, and the Issuing Bank shall be liable to the Company, to the extent of any direct, as opposed to consequential, damages suffered by the Company which the Company proves were caused by (i) the Issuing Bank's willful misconduct or gross negligence in determining whether documents presented under the Letter of Credit comply with the terms of the Letter of Credit or (ii) the Issuing Bank's wrongful failure to make lawful payment under the Letter of Credit after the presentation to the Issuing Bank by the Trustee or a successor trustee under the Indenture of a draft and certificate strictly complying with the terms and conditions of the Letter of Credit (it being understood that in making such payment the Issuing Bank's exclusive reliance on the documents presented to the Issuing Bank in accordance with the terms of the Letter of Credit as to any and all matters set forth therein, whether or not any statement or any document presented pursuant to the Letter of Credit proves to forged, fraudulent, invalid or insufficient in any respect or any statement whatsoever, shall not be deemed willful misconduct or gross negligence of the Issuing Bank). The Issuing Bank is hereby expressly authorized and directed to honor any demand for payment which is made under the Letter of Credit without regard to, and without any duty on its part to inquire into the existence of, any disputes or controversies between the Issuer, the Company, the Remarketing Agent, the Trustee, any Paying Agent, or any other person or the respective rights, duties or liabilities of any of them, or whether any facts or occurrences represented in any of the documents presented under the Letter of Credit are true and correct.

Section 7.8 Participants, Etc.

(a) Each Participating Bank shall have the right at any time, with the written consent of the Company (which consent shall not be unreasonably withheld) and the Issuing Bank (which consent shall be granted in the sole discretion of the Issuing Bank), to assign all or any part of its L/C Commitment (including the corresponding portion of its Commitment Percentage) to one or more other Persons; *provided* that such assignment is in an amount of at least $5,000,000 or the entire L/C Commitment of such Participating Bank, and if such assignment is not for such Participating Bank's entire L/C Commitment then such Participating Bank's L/C Commitment after giving effect to such assignment shall not be less than $5,000,000. Each such assignment shall set forth the assignees address for notices to be given hereunder. Upon any such assignment, delivery to the Administrative Agent of an executed copy of such assignment agreement and the forms referred to in Section 7.1 hereof, if applicable, and the payment of a $3,500 recordation fee to the Administrative Agent, the assignee shall become a Participating Bank hereunder, and the Participating Bank granting such assignment shall have its L/C Commitment (including the corresponding portion of its Commitment Percentage), and its obligations and rights in connection therewith, reduced by the amount of such assignment.

(b) Each Participating Bank shall have the right at its own cost to grant participations (to be evidenced by one or more agreements or certificates of participation) in the L/C Commitments, and its corresponding participation obligation in the Letter of Credit, held by such Participating Bank at any time; *provided* that (i) no such participation shall relieve any Participating Bank of any of its obligations under this Agreement, (ii) no such participant shall have any rights under this Agreement except as provided in this Section 7.8(b), and (iii) neither the Issuing Bank nor the Administrative Agent shall have any obligation or responsibility to such participant. Any party to which such a participation has been granted shall have the benefits of Sections 7.1, 7.2, 7.3, 7.4 and 7.15, but shall not be entitled to receive any greater payment under such Sections than the Participating Bank granting such participation would have been entitled to receive in connection with the rights transferred. Any agreement pursuant to which any Participating Bank may grant such a participating interest shall provide that such Participating Bank shall retain the sole right and responsibility to enforce the obligations of the Company hereunder, including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; *provided* that such participation agreement may provide that such Participating Bank will not agree to any modification, amendment or waiver of this Agreement that would (A) increase or extend any L/C Commitment of such Participating Bank if such increase or extension would also increase or extend the participant's obligations, (B) forgive any amount of or postpone the date for payment of any principal of or interest on any Obligation payable hereunder in which such participant has an interest or (C) reduce the stated rate at which interest or fees in which such participant has an interest accrue hereunder.

Section 7.9 Survival of this Agreement.

All covenants, agreements, representations and warranties made in this Agreement shall survive the issuance by the Issuing Bank of the Letter of Credit and shall continue in full force and effect so long as the Letter of Credit shall be unexpired or any sums drawn or due hereunder shall be outstanding and unpaid, regardless of any investigation made by any person. Wherever in this Agreement the Issuing Bank is referred to, such reference shall be deemed to include the successors and assigns of the Issuing Bank and all covenants, promises and agreements by or on behalf of the Company which are contained in this Agreement shall inure to the benefit of the successors and assigns of the Issuing Bank. The rights and duties of the Company, however, may not he assigned or transferred, except as specifically provided in this Agreement or with the prior written consent of the Administrative Agent, and all obligations of the Company hereunder shall continue in full force and effect notwithstanding any assignment by the Company of any of its rights or obligations under any of the Bond Documents or any entering into, or consent by the Company, to any supplement or amendment to any of the Bond Documents.

Section 7.10 Amendments and Waivers.

Neither this Agreement nor any Related Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. The Majority Participating Banks may, or, with, but only with, the written consent of the Majority Participating Banks, the Administrative Agent or the Issuing Bank, as applicable, may, from time to time, (a) enter into with the Company written amendments, supplements or modifications hereto and to the other Financing Documents for the purpose of adding any provisions to this Agreement or the other Financing Documents or changing in any manner the rights of the Participating Banks or of the Company hereunder or thereunder or (b) waive, on such terms and conditions as the Majority Participating Banks or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of an Event of Default and its consequences; *provided*, *however*, that no such waiver and no such amendment, supplement or modification shall, without the consent of each Participating Bank, (i) reduce the amount or extend the scheduled date of maturity of any Obligation or any installment thereof, or reduce the stated rate of any interest or fee payable hereunder or extend the scheduled date of any payment thereof or increase the amount or extend the Stated Expiration Date, in each case without the consent of each Participating Bank affected thereby, or (ii) amend, modify or waive any provision of this subsection or reduce the percentage specified in the definition of Majority Participating Banks, or consent to the assignment or transfer by the Company of any of its rights and obligations under this Agreement and the other Financing Documents, in each case without the written consent of all the Participating Banks, or (iii) amend, modify or waive any provision of Article VIII or any provision hereunder affecting the rights or obligations of the Issuing Bank without the written consent of the Administrative Agent or the Issuing Bank, respectively. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Participating Banks and shall be binding upon the Company, the Participating Banks, the Issuing Bank and the Administrative Agent. In the case of any waiver, the Company, the Participating Banks, the Issuing Bank and the Administrative Agent shall be restored to their former positions and rights hereunder and under the other Financing Documents, and any Potential Default or Event of Default waived shall be deemed to be cured and not continuing; no

such waiver shall extend to any subsequent or other Potential Default or Event of Default or impair any right consequent thereon.

Section 7.11 Waiver of Rights by the Banks.

No course of dealing or failure or delay on the part of any Bank in exercising any right, power or privilege hereunder or under the Letter of Credit shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise, or the exercise of any other right or privilege. The rights of the Banks under this Agreement and the Letter of Credit are cumulative and not exclusive of any rights or remedies which the Banks would otherwise have.

Section 7.12 Severability.

In case any one or more of the provisions contained in this Agreement shall be held or deemed to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

Section 7.13 Governing Law; Submission to Jurisdiction.

This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. The Company hereby submits to the nonexclusive jurisdiction of the United States District Court for the District of Minnesota and of any State court sitting in Hennepin County, Minnesota for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Company irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

Section 7.14 Notices.

(a) Except as otherwise expressly provided herein, all notices, requests, demands and other communications provided for hereunder shall be in writing (including facsimile transmission or e-mail) and shall be sent to the applicable party at its address, e-mail address or facsimile number. Notices hereunder shall be effective when received and shall be addressed:

If to the Issuing Bank and/or the Administrative Agent, to

Wells Fargo Bank, National Association
MAC N9305-070
90 South Seventh Street
Minneapolis, MN 55479
Attention: Patrick McCue
Telephone: 612-667-0700
Facsimile: 612-316-0506
E-mail: Patrick.mccue@wellsfargo.com

and to:

Faegre & Benson LLP
2200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402
Attention: James M. Pfau
Telephone: 612-766-7000
Facsimile: 612-766-1600
E-mail: jpfau@faegre.com

If to the Company, to

ALLETE, Inc.
30 West Superior Street
Duluth, Minnesota 55802
Attention: Treasurer
Telephone: 218-723-3942
Facsimile: 218-723-3912
E-mail: dstellmaker@allete.com

If to the Remarketing Agent, to

Wells Fargo Brokerage Services, LLC
MAC N9303 105
608 Second Avenue South
Minneapolis, Minnesota 55402
Attention: Remarketing Desk
Telephone: 612-667-9435
Facsimile: 612-667-1593

If to the Trustee, to

U.S. Bank National Association
60 Livingston Avenue
St. Paul, Minnesota 55107
Attention: Corporate Trust Department
Telephone: 651-495-3915
Facsimile: 651-495-8097

Any party may change any information above for purposes hereof by notice to the other parties.

(b) The Issuing Bank agrees to give immediate notice, promptly confirmed in writing, to the Remarketing Agent of any notice of an Event of Default given to the Trustee by the Issuing Bank.

Section 7.15 Survival of Certain Obligations.

The obligation of the Company to reimburse the Banks pursuant to Sections 7.1, 7.2 and 7.4 shall survive the payment of the Bonds and the termination of this Agreement.

Section 7.16 Taxes and Expenses.

Any transfer, stamp, documentary or other similar taxes payable or ruled payable by any Governmental Body in respect of this Agreement, the Letter of Credit or the Bonds shall be paid by the Company, together with interest and penalties, if any; *provided*, *however*, that the Company may reasonably contest any such taxes with the prior written consent of the Administrative Agent, which consent shall not be unreasonably withheld.

Section 7.17 Pleadings.

The table of contents and captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

Section 7.18 Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall constitute an original but both or all of which, when taken together, shall constitute one instrument, and shall become effective when copies hereof bearing the signatures of each of the parties hereto shall be delivered to the Company and the Administrative Agent.

Section 7.19 Waiver of Jury Trial.

Each of the Company and each Bank hereby irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

Section 7.20 Register.

The Administrative Agent, on behalf of the Company, shall maintain at the address of the Administrative Agent referred to in subsection 7.14 a register (the "*Register*") for the recordation of the names and addresses of the Participating Banks and the Commitment Percentages of, and principal amount of the Obligations owing to, each Participating Bank from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Company, the Administrative Agent and the Participating Banks may treat each Person whose name is recorded in the Register as the owner of an Obligation hereunder and the other Financing Documents, notwithstanding any notice to the contrary. The Register shall be available for inspection by the Company or any Participating Bank at any reasonable time and from time to time upon reasonable prior notice.

Section 7.21 Adjustments; Set-off.

If any Participating Bank (a "*benefited Participating Bank*") shall at any time receive any payment of all or part of the Obligations owing to it, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set off, or otherwise), in a greater proportion than any such payment to or collateral received by any other Participating Bank, if any, in respect of such other Participating Bank's Obligations owing to it, or interest thereon, such benefited Participating Bank shall purchase for cash from the other Participating Banks a participating interest in such portion of each such other Participating Bank's Commitment Percentage or the Obligations owing to it, or shall provide such other Participating Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefited Participating Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Participating Banks; *provided*, *however*, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefited Participating Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest.

Section 7.22 Patriot Act Notice

As required by the USA Patriot Act (Title III of Pub. L. 107-56, signed into law October 26, 2001) (the "Act"), the Banks hereby notify the Company that pursuant to the requirements of the Act, and the Banks' policies and practices, the Banks are required to obtain, verify and record certain information and documentation that identifies the Company, which information includes the name and address of the Company and such other information that will allow the Banks to identify the Company in accordance with the Act.

Section 7.23 Restatement.

Upon execution and delivery of this Agreement by each of the parties hereto and satisfaction of the conditions precedent set forth in Section 3.1, the 2006 Letter of Credit Agreement shall be and hereby is amended, superseded and restated in its entirety by the terms and provisions of this Agreement. This Agreement shall not constitute a novation of the 2006 Letter of Credit Agreement or the indebtedness created thereunder. The L/C Commitment of each Bank that is a party to the 2006 Letter of Credit Agreement shall, on the date hereof, automatically be deemed amended and the only L/C Commitments shall be those hereunder.

ARTICLE VIII
THE ADMINISTRATIVE AGENT

Section 8.1 Appointment and Authorization of Administrative Agent.

Each Participating Bank hereby appoints Wells Fargo Bank, National Association, as the Administrative Agent under this Agreement and hereby authorizes the Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto. The relationship between the Administrative Agent and the Participating Bank is and shall be that of agent and principal only, and nothing contained

in this Agreement or the Letter of Credit shall be construed to constitute the Administrative Agent as a trustee or fiduciary for any Participating Bank or the Company.

Section 8.2 Administrative Agent and its Affiliates.

The Administrative Agent shall have the same rights and powers under this Agreement as any other Participating Bank and may exercise or refrain from exercising the same as though it were not the Administrative Agent, and the Administrative Agent and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Company or any affiliate of the Company as if it were not the Administrative Agent hereunder. The term "*Participating Bank*" as used herein, unless the context otherwise clearly requires, includes the Administrative Agent in its individual capacity as a Participating Bank.

Section 8.3 Action by Administrative Agent.

If the Administrative Agent delivers to the Company a written notice of an Event of Default hereunder, the Administrative Agent shall promptly give each of the Participating Banks written notice thereof. The obligations of the Administrative Agent hereunder are only those expressly set forth herein. Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action hereunder with respect to any Potential Default or Event of Default. In no event, however, shall the Administrative Agent be required to take any action in violation of applicable law or of this Agreement, and the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder or under the Letter of Credit unless it shall be first indemnified to its reasonable satisfaction by the Participating Banks against any and all costs, expense, and liability which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall be entitled to assume that no Potential Default or Event of Default exists unless notified to the contrary by a Participating Bank or the Company. In all cases in which this Agreement and the Letter of Credit do not require the Administrative Agent to take certain actions, the Administrative Agent shall be fully justified in using its discretion in failing to take or in taking any action hereunder and thereunder.

Section 8.4 Consultation with Experts.

The Administrative Agent may consult with legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 8.5 Liability of Administrative Agent; Credit Decision.

Neither the Administrative Agent nor any of its directors, officers, agents, or employees shall be liable for any action taken or not taken by it in connection transactions contemplated by this Agreement (i) with the consent or at the request of the Majority Participating Banks or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement or the Letter of Credit; (ii) the performance or observance of any of the covenants or agreements of the Company or any other party contained herein or in the Letter of Credit; (iii) the satisfaction of any condition specified in Section 3.1 or 3.2 hereof, except receipt

of items required to be delivered to the Administrative Agent; or (iv) the validity, effectiveness, genuineness, enforceability, perfection, value, worth or collectibility hereof or of any other documents or writing furnished in connection herewith; and the Administrative Agent makes no representation of any kind or character with respect to any such matter mentioned in this sentence. The Administrative Agent may execute any of its duties under this Agreement or the Letter of Credit by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Participating Banks, the Company, or any other Person for the default or misconduct of any such agents or attorneys-in-fact selected with reasonable care. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, other document or statement (whether written or oral) believed by it to he genuine or to be sent by the proper party or parties. Each Participating Bank acknowledges that it has independently and without reliance on the Administrative Agent or any other Participating Bank, and based upon such information, investigations and inquiries as it deems appropriate, made its own credit analysis and decision to extend credit to the Company in the manner set forth herein. It shall be the responsibility of each Participating Bank to keep itself informed as to the creditworthiness of the Company and any other relevant Person, and the Administrative Agent shall have no liability to any Participating Bank with respect thereto.

Section 8.6 Indemnity.

The Participating Banks shall ratably, in accordance with their respective Commitment Percentage, indemnify and hold the Administrative Agent, and its directors, officers, employees, agents and representatives harmless from and against any liabilities, losses, costs or expenses suffered or incurred by it hereunder or in connection with the transactions contemplated hereby, regardless of when asserted or arising, except to the extent they are promptly reimbursed for the same by the Company and except to the extent that any event giving rise to a claim was caused by the gross negligence or willful misconduct of the party seeking to be indemnified. The obligations of the Participating Banks under this Section 8.6 shall survive termination of this Agreement.

Section 8.7 Resignation of Administrative Agent and Successor Administrative Agent.

The Administrative Agent may resign at any time by giving written notice thereof to the Participating Banks and the Company. Upon any such resignation of the Administrative Agent, the Majority Participating Banks shall have the right to appoint a successor Administrative Agent with the consent of the Company. If no successor Administrative Agent shall have been so appointed by the Majority Participating Banks, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent’s giving of notice of resignation, then the retiring Administrative Agent may, on behalf of the Participating Banks, appoint a successor Administrative Agent, which shall be any Participating Bank hereunder or any commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $200,000,000. Upon the acceptance of its appointment as the Administrative Agent hereunder, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring or removed Administrative Agent hereunder, and the retiring Administrative Agent shall be discharged from its duties and obligations thereunder. After any retiring Administrative Agent’s resignation hereunder as Administrative Agent, the provisions of this Section 8.7 and all protective

provisions hereof shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

Signature pages follow.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above-written.

ALLETE, INC.

By /s/Donald W. Stellmaker
Its Treasurer

Signature Page for Letter of Credit Agreement

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, as Issuing Bank and as a Participating Bank

By /s/Keith R. Luettel
Keith R. Luettel
Its Vice President

Signature Page for Letter of Credit Agreement

Exhibit A

FORM OF EXTENSION OF LETTER OF CREDIT

See attached.

Wells Fargo Bank, N.A.
U. S. Trade Services
Standby Letters of Credit
MAC A0195-212
One Front Street, 21st Floor
San Francisco, CA 94111
Phone: 1(800) 798-2815 Option 1
E-Mail: sftrade@wellsfargo.com

Amendment To
Irrevocable Standby Letter Of Credit
Number : NZS569069
Amendment Number : 1
Amend Date : _____ __, 2011

BENEFICIARY	APPLICANT
U.S. Bank National Association Attention: Corp. Trust Dept. 60 Livingston Avenue St. Paul, Minnesota 55107	Allete, Inc. 30 W. Superior Street Attn: Richard Ausman-Cash Mgr Duluth, Minnesota 55802

Ladies and Gentlemen:

At the request and for the account of the above referenced applicant, we hereby amend our irrevocable Standby Letter of Credit (the "Wells Credit") in your favor as follows:

The third paragraph of the first page of our Letter of Credit dated July 5, 2006 is now to read:

"This Letter of Credit expires at our Letter of Credit Operations Office in San Francisco, California on July 5th, 2013 or, if such date is not a Business Day, then on the first (1st) succeeding Business Day thereafter (the "Expiration Date")."

All other terms and conditions remain unchanged.

This Amendment is to be attached to the original Wells Credit and is an integral part thereof.

Very Truly Yours,

WELLS FARGO BANK, N.A.

By: _____
Authorized Signature

The original of the Letter of Credit contains an embossed seal over the Authorized Signature.

Please direct any written correspondence or inquiries regarding this Letter of Credit, always quoting our reference number, to **Wells Fargo Bank, National Association,** Attn: U.S. Standby Trade Services

at either	One Front Street MAC A0195-212, San Francisco, CA 94111	***or***	401 Linden Street MAC D4004-017, Winston-Salem, NC 27101

Phone inquiries regarding this credit should be directed to our Standby Customer Connection Professionals

1-800-798-2815 Option 1 (Hours of Operation: 8:00 a.m. PT to 5:00 p.m. PT)	1-800-776-3862 Option 2 (Hours of Operation: 8:00 a.m. EST to 5:30 p.m. EST)

Exhibit B

Commitment Percentages

Participating Bank	Commitment Percentage
Wells Fargo Bank, National Association	100%