

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 **March 31, 2010**

or

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

For the transition period from _____ to _____

Commission File Number **1-3548**

ALLETE, Inc.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0418150

(IRS Employer Identification No.)

30 West Superior Street

Duluth, Minnesota 55802-2093

(Address of principal executive offices)

(Zip Code)

(218) 279-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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). £ 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
Non-Accelerated Filer £

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,
35,451,209 shares outstanding
as of March 31, 2010

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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
Basin	Basin Electric Power Cooperative
Bison I	Bison I Wind Project
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
Boswell NO _x Reduction Plan	Plan to reduce NO _x emissions from Boswell Units 1, 2, and 4
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
FTR	Financial Transmission Rights
GAAP	United States Generally Accepted Accounting Principles
GHG	Greenhouse Gases
IBEW Local 31	International Brotherhood of Electrical Workers Local 31
Invest Direct	ALLETE’s Direct Stock Purchase and Dividend Reinvestment Plan
kV	Kilovolt(s)
Laskin	Laskin Energy Center
Manitoba Hydro	Manitoba Hydro-Electric Board
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)
NDPSC	North Dakota Public Service Commission
Non-residential	Retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional

Definitions (Continued)

Abbreviation or Acronym	Term
NO _x	Nitrogen Oxide
Note ____	Note ____ to the consolidated financial statements in this Form 10-Q
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
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 other 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, capital and land development 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 23 of our 2009 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

	March 31, 2010	December 31, 2009
Assets		
Current Assets		
Cash and Cash Equivalents	\$32.5	\$25.7
Accounts Receivable (Less Allowance of \$0.9 at March 31, 2010 and December 31, 2009)	119.0	118.5
Inventories	51.7	57.0
Prepayments and Other	19.4	24.3
Total Current Assets	222.6	225.5
Property, Plant and Equipment - Net	1,649.1	1,622.7
Regulatory Assets	287.9	293.2
Investment in ATC	90.3	88.4
Other Investments	132.6	130.5
Other Assets	33.5	32.8
Total Assets	\$2,416.0	\$2,393.1
Liabilities and Equity		
Liabilities		
Current Liabilities		
Accounts Payable	\$36.4	\$62.1
Accrued Taxes	25.0	20.6
Accrued Interest	9.7	11.1
Long-Term Debt Due Within One Year	1.6	5.2
Notes Payable	1.7	1.9
Other	34.2	32.2
Total Current Liabilities	108.6	133.1
Long-Term Debt	710.1	695.8
Deferred Income Taxes	266.5	253.1
Regulatory Liabilities	47.2	47.1
Other Liabilities	326.4	325.0
Total Liabilities	1,458.8	1,454.1
Commitments and Contingencies (Note 14)		
Equity		
ALLETE's Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 35.5 and 35.2 Shares Outstanding	621.2	613.4
Unearned ESOP Shares	(42.9)	(45.3)
Accumulated Other Comprehensive Loss	(23.6)	(24.0)
Retained Earnings	393.2	385.4
Total ALLETE Equity	947.9	929.5
Non-Controlling Interest in Subsidiaries	9.3	9.5
Total Equity	957.2	939.0
Total Liabilities and Equity	\$2,416.0	\$2,393.1

The accompanying notes are an integral part of these statements.

ALLETE First Quarter 2010 Form 10-Q

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

	Quarter Ended	
	March 31,	
	2010	2009
Operating Revenue		
Operating Revenue	\$233.6	\$204.9
Prior Year Rate Refunds	–	(5.3)
Total Operating Revenue	233.6	199.6
Operating Expenses		
Fuel and Purchased Power	79.8	72.8
Operating and Maintenance	87.7	80.5
Depreciation	20.0	15.2
Total Operating Expenses	187.5	168.5
Operating Income	46.1	31.1
Other Income (Expense)		
Interest Expense	(8.9)	(8.7)
Equity Earnings in ATC	4.5	4.2
Other	1.0	1.1
Total Other Income (Expense)	(3.4)	(3.4)
Income Before Non-Controlling Interest and Income Taxes	42.7	27.7
Income Tax Expense	19.9	10.8
Net Income	22.8	16.9
Less: Non-Controlling Interest in Subsidiaries	(0.2)	–
Net Income Attributable to ALLETE	\$23.0	\$16.9
Average Shares of Common Stock		
Basic	33.8	30.9
Diluted	33.8	31.0
Basic Earnings Per Share of Common Stock	\$0.68	\$0.55
Diluted Earnings Per Share of Common Stock	\$0.68	\$0.55
Dividends Per Share of Common Stock	\$0.44	\$0.44

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions – Unaudited

	Quarter Ended	
	March 31,	
	2010	2009
Operating Activities		
Net Income	\$22.8	\$16.9
Allowance for Funds Used During Construction	(1.2)	(1.3)
(Income) Loss from Equity Investments, Net of Dividends	(0.4)	0.3
Depreciation Expense	20.0	15.2
Amortization of Debt Issuance Costs	0.2	0.2
Deferred Income Tax Expense	11.8	10.5
Stock Compensation Expense	0.5	0.6
Bad Debt Expense	0.2	0.3
Changes in Operating Assets and Liabilities		
Accounts Receivable	(0.6)	(0.3)
Inventories	5.4	(0.1)
Prepayments and Other	4.9	4.5
Accounts Payable	(20.0)	(10.0)
Other Current Liabilities	5.0	6.9
Regulatory and Other Assets	5.1	(1.2)
Regulatory and Other Liabilities	3.0	(8.0)
Cash from Operating Activities	56.7	34.5
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	0.6	0.9
Payments for Purchase of Available-for-sale Securities	(1.2)	(0.2)
Investment in ATC	(1.2)	(1.9)
Changes to Other Investments	(1.8)	6.2
Additions to Property, Plant and Equipment	(48.1)	(74.6)
Cash for Investing Activities	(51.7)	(69.6)
Financing Activities		
Proceeds from Issuance of Common Stock	7.3	2.8
Proceeds from Issuance of Long-Term Debt	80.0	42.9
Reductions of Long-Term Debt	(69.4)	(0.5)
Debt Issuance Costs	(0.7)	(0.5)
Dividends on Common Stock	(15.2)	(13.6)
Changes in Notes Payable	(0.2)	–
Cash from Financing Activities	1.8	31.1
Change in Cash and Cash Equivalents	6.8	(4.0)
Cash and Cash Equivalents at Beginning of Period	25.7	102.0
Cash and Cash Equivalents at End of Period	\$32.5	\$98.0

The accompanying notes are an integral part of these statements.

ALLETE First Quarter 2010 Form 10-Q

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, 2009, consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Operating results for the period ended March 31, 2010, are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2010. For further information, refer to the consolidated financial statements and notes included in our 2009 Form 10-K.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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

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

Inventories	March 31,	December 31,
Millions	2010	2009
Fuel	\$16.8	\$23.0
Materials and Supplies	34.9	34.0
Total Inventories	\$51.7	\$57.0

Prepayments and Other Current Assets	March 31,	December 31,
Millions	2010	2009
Deferred Fuel Adjustment Clause	\$12.7	\$15.5
Other	6.7	8.8
Total Prepayments and Other Current Assets	\$19.4	\$24.3

Other Liabilities	March 31,	December 31,
Millions	2010	2009
Future Benefit Obligation Under Defined Benefit Pension and Other Postretirement Benefit Plans	\$230.1	\$231.2
Asset Retirement Obligation	48.0	44.6
Other	48.3	49.2
Total Other Liabilities	\$326.4	\$325.0

Supplemental Statement of Cash Flows Information.

For the Quarter Ended March 31,	2010	2009
Millions		
Cash Paid During the Period for		
Interest – Net of Amounts Capitalized	\$10.0	\$7.3
Income Taxes	\$1.0	\$0.6
Noncash Investing and Financing Activities		
Change in Accounts Payable for Capital Additions to Property Plant and Equipment	\$(5.7)	\$(13.8)
AFUDC – Equity	\$1.2	\$1.3
ALLETE Common Stock contributed to the Defined Benefit Pension Plan	–	\$(12.0)

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards.

Subsequent Events. In February of 2010, the FASB issued amended guidance that eliminates the requirement to disclose the date through which subsequent events have been evaluated. The amended guidance was adopted and effective during the first quarter of 2010, and did not have an impact on our consolidated financial position, results of operations or cash flows.

Derivative Instruments and Hedging Activities. In March of 2010, the FASB issued new guidance on the accounting for credit derivatives that are embedded in beneficial interests in securitized financial assets. This new guidance eliminates the scope exception for embedded credit derivatives and provides new guidance on the evaluation to be performed. This guidance is effective on June 15, 2010. This new guidance will impact ALLETE if we enter into any instruments with embedded credit derivatives. As of March 31, 2010, we did not have any embedded credit derivatives.

Fair Value. In January of 2010, the FASB issued an amendment to the fair value measurement and disclosure standard improving disclosures about fair value measurements. This amended guidance requires separate disclosure of significant transfers in and out of Levels 1 and 2 and the reasons for the transfers. The amended guidance also requires that in the Level 3 reconciliation, the information about purchases, sales, issuances, and settlements be disclosed separately on a gross basis rather than as one net number. The guidance for the Level 1 and 2 disclosures was adopted on January 1, 2010, and did not have an impact on our consolidated financial position, results of operations or cash flows. The guidance for the activity in Level 3 disclosures is effective January 1, 2011, and will not have an impact on our consolidated financial position, results of operations or cash flows as the amended guidance provides only disclosure requirements.

Variable Interest Entities. In June of 2009, the FASB issued guidance amending the manner in which entities evaluate whether consolidation is required for variable interest entities (VIEs). A company must first perform a qualitative analysis in determining whether it must consolidate a VIE, and if the qualitative analysis is not determinative, must perform a quantitative analysis. The guidance requires continuous evaluation of VIEs for consolidation, rather than upon the occurrence of triggering events. Additional enhanced disclosures about how an entity's involvement with a VIE affects its financial statements and exposure to risk are required. This guidance was adopted January 1, 2010. The adoption of this standard did not have an impact on our consolidated financial position, results of operations or cash flows.

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, approximately 7,000 acres of land available-for-sale in Minnesota, and earnings on cash and short-term investments.

NOTE 2. BUSINESS SEGMENTS (Continued)

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Quarter Ended March 31, 2010			
Operating Revenue	\$233.6	\$216.1	\$17.5
Fuel and Purchased Power	79.8	79.8	–
Operating and Maintenance	87.7	69.8	17.9
Depreciation Expense	20.0	19.0	1.0
Operating Income (Loss)	46.1	47.5	(1.4)
Interest Expense	(8.9)	(7.6)	(1.3)
Equity Earnings in ATC	4.5	4.5	–
Other Income (Expense)	1.0	1.2	(0.2)
Income (Loss) Before Non-Controlling Interest and Income Taxes	42.7	45.6	(2.9)
Income Tax Expense (Benefit)	19.9	20.7	(0.8)
Net Income (Loss)	22.8	24.9	(2.1)
Less: Non-Controlling Interest in Subsidiaries	(0.2)	–	(0.2)
Net Income (Loss) Attributable to ALLETE	\$23.0	\$24.9	\$(1.9)

As of March 31, 2010

Total Assets	\$2,416.0	\$2,196.4	\$219.6
Property, Plant and Equipment – Net	\$1,649.1	\$1,604.0	\$45.1
Accumulated Depreciation	\$990.3	\$942.8	\$47.5
Capital Additions	\$43.6	\$43.4	\$0.2

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Quarter Ended March 31, 2009			
Operating Revenue	\$204.9	\$186.4	\$18.5
Prior Year Rate Refunds	(5.3)	(5.3)	–
Total Operating Revenue	199.6	181.1	18.5
Fuel and Purchased Power	72.8	72.8	–
Operating and Maintenance	80.5	62.8	17.7
Depreciation Expense	15.2	14.1	1.1
Operating Income (Loss)	31.1	31.4	(0.3)
Interest Expense	(8.7)	(7.3)	(1.4)
Equity Earnings in ATC	4.2	4.2	–
Other Income (Expense)	1.1	1.2	(0.1)
Income (Loss) Before Non-Controlling Interest and Income Taxes	27.7	29.5	(1.8)
Income Tax Expense (Benefit)	10.8	11.8	(1.0)
Net Income (Loss)	16.9	17.7	(0.8)
Less: Non-Controlling Interest in Subsidiaries	–	–	–
Net Income (Loss) Attributable to ALLETE	\$16.9	\$17.7	\$(0.8)

As of March 31, 2009

Total Assets	\$2,168.9	\$1,872.5	\$296.4
Property, Plant and Equipment – Net	\$1,435.2	\$1,381.9	\$53.3
Accumulated Depreciation	\$867.1	\$817.6	\$49.5
Capital Additions	\$61.7	\$60.8	\$0.9

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, ARS, and land held-for-sale in Minnesota.

	March 31, 2010	December 31, 2009
Investments		
Millions		
ALLETE Properties	\$93.3	\$93.1
Available-for-sale Securities	30.0	29.5
Other	9.3	7.9
Total Investments	\$132.6	\$130.5

	March 31, 2010	December 31, 2009
ALLETE Properties		
Millions		
Land Held-for-sale Beginning Balance	\$74.9	\$71.2
Additions during period: Capitalized Improvements	0.6	5.6
Deductions during period: Cost of Real Estate Sold	–	(1.9)
Land Held-for-sale Ending Balance	75.5	74.9
Long-Term Finance Receivables	12.5	12.9
Other	5.3	5.3
Total Real Estate Assets	\$93.3	\$93.1

Land Held-for-sale. Land held-for-sale is recorded at the lower of cost or fair value determined by the evaluation of individual land parcels. Land values are reviewed for impairment and no impairments have been recorded for the quarter ended March 31, 2010 (none in 2009).

Long-Term Finance Receivables. Long-term finance receivables, which are collateralized by property sold, accrue interest at market-based rates and are net of an allowance for doubtful accounts of \$0.3 million at March 31, 2010 (\$0.4 million at December 31, 2009). A majority of the receivables have maturities up to three years. Finance receivables totaling \$7.6 million at March 31, 2010, were due from an entity which filed for voluntary Chapter 11 bankruptcy protection in June of 2009. The estimated fair value of the collateral relating to these receivables was greater than the \$7.6 million amount due at March 31, 2010, and no impairment was recorded on these receivables. Due to the lack of recent market activity, we estimate fair value based primarily on recent property tax assessed values. This valuation technique constitutes a Level 3 non-recurring fair value measurement.

Auction Rate Securities. Included in Available-for-sale Securities, as of March 31, 2010, is an auction rate municipal bond of \$6.7 million (\$6.7 million at December 31, 2009) with a stated maturity date of March 1, 2024. Our ARS consist of guaranteed student loans insured or reinsured by the federal government. Our ARS were historically auctioned every 35 days to set new rates and provided a liquidating event in which investors could either buy or sell securities. Since 2008, the auctions for our ARS have been unable to sustain themselves due to the overall lack of market liquidity and we have been unable to liquidate all of our ARS. As a result, we have classified our ARS as long-term investments and have the ability to hold these securities to maturity, until called by the issuer, or until liquidity returns to this market. We anticipate our ARS will be redeemed in the second quarter of 2010, as we received a Notice of Contemplated Refunding on January 29, 2010. The investment remains classified as long-term until officially called by the issuer.

NOTE 4. DERIVATIVES

During 2009 and 2010, we entered into financial derivative instruments to manage price risk for certain power marketing contracts and congestion risk for forward power sales contracts. Outstanding derivative contracts at March 31, 2010, consist of FTRs purchased to manage congestion risk for forward power sales contracts. These FTRs are recorded on our consolidated balance sheet at fair value. As of March 31, 2010, \$0.7 million of FTRs are included in other assets on our consolidated balance sheet, and will settle by May 31, 2010.

NOTE 5. 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 our 2009 Form 10-K.

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 March 31, 2010, and December 31, 2009. 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.

Recurring Fair Value Measures	Fair Value as of March 31, 2010			
	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Equity Securities – Mutual Funds	\$13.0	–	–	\$13.0
Available-for-sale Securities				
Corporate Debt Securities	–	\$7.2	–	7.2
Debt Securities Issued by States of the United States (ARS)	–	–	\$6.7	6.7
Total Available-for-sale Securities	–	7.2	6.7	13.9
Derivatives – Financial Transmission Rights	–	–	0.7	0.7
Money Market Funds	7.6	–	–	7.6
Total Fair Value of Assets	\$20.6	\$7.2	\$7.4	\$35.2
Liabilities:				
Deferred Compensation	–	\$14.3	–	\$14.3
Total Fair Value of Liabilities	–	\$14.3	–	\$14.3
Total Net Fair Value of Assets (Liabilities)	\$20.6	\$(7.1)	\$7.4	\$20.9

Recurring Fair Value Measures	Fair Value as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Equity Securities – Mutual Funds	\$17.8	–	–	\$17.8
Available-for-sale Securities				
Corporate Debt Securities	–	\$6.4	–	6.4
Debt Securities Issued by States of the United States (ARS)	–	–	\$6.7	6.7
Total Available-for-sale Securities	–	6.4	6.7	13.1
Derivatives - Financial Transmission Rights	–	–	0.7	0.7
Money Market Funds	1.4	–	–	1.4
Total Fair Value of Assets	\$19.2	\$6.4	\$7.4	\$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)	\$19.2	\$(8.2)	\$7.4	\$18.4

NOTE 5. FAIR VALUE (Continued)

Recurring Fair Value Measures Activity in Level 3	Debt Securities Issued by States of the United States			
	Derivatives		(ARS)	
Millions				
Balance as of December 31, 2009 and December 31, 2008, respectively	\$0.7	–	\$6.7	\$15.2
Purchases, Sales, Issuances and Settlements, Net	–	–	–	(0.9)
Balance as of March 31, 2010 and March 31, 2009, respectively	\$0.7	–	\$6.7	\$14.3

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 quarters ended March 31, 2010, and March 31, 2009, there were no transfers in or out of Levels 1, 2 or 3.

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 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		
March 31, 2010	\$711.7	\$751.3
December 31, 2009	\$701.0	\$734.8

NOTE 6. 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 a retail rate increase request for additional revenues 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. This retail rate request seeks a return on equity of 11.50 percent, a capital structure consisting of 54.29 percent equity and 45.71 percent debt, and on an annualized basis, an \$81.0 million net increase in electric retail revenue.

Minnesota law allows the collection of interim rates while the MPUC processes the rate filing. On December 30, 2009, the MPUC issued an Order (the Order) authorizing \$48.5 million of Minnesota Power's November 2, 2009, interim rate increase request of \$73.0 million. Interim rates, which were implemented on January 1, 2010, are subject to refund pending the MPUC's final rate order. As interim rates are substantially below our requested levels, Minnesota Power does not anticipate that it will earn, in 2010, the return on equity that has been authorized by the MPUC.

The MPUC cited exigent circumstances in reducing Minnesota Power's interim rate request. Because the scope and depth of this reduction in interim rates was unprecedented, and because Minnesota law does not allow Minnesota Power to formally challenge the MPUC's action until a final decision in the case is rendered, on January 6, 2010, Minnesota Power sent a letter to the MPUC expressing its concerns about the Order and requested that the MPUC reconsider its decision on its own motion. Minnesota Power described its belief that the MPUC's decision violates the law by prejudging the merits of the rate request prior to an evidentiary hearing and results in the confiscation of utility property. Further, the Company is concerned that the decision will have negative consequences on the environmental policy directions of the State of Minnesota by denying recovery for statutory mandates during the pendency of the rate proceeding. The MPUC has not acted in response to Minnesota Power's letter.

The rate case process requires public hearings and an evidentiary hearing before an Administrative Law Judge. The public hearings occurred in April of 2010, and the evidentiary hearing is scheduled for May of 2010. A report and recommendation from the Administrative Law Judge is scheduled to be issued in August of 2010, with a final decision on the rate request expected in November of 2010.

NOTE 6. REGULATORY MATTERS (Continued)

In our April 29, 2010, rebuttal testimony filing, we lowered our initial retail rate increase request from \$81 million to approximately \$72 million due to adjustments for known and measurable events that have occurred since we originally filed. The largest of these adjustments is related to the increased sales to our industrial customers. We cannot predict the final level of rates that may be approved by the MPUC and we cannot predict whether a legal challenge to the MPUC's interim rate decision will be forthcoming or successful.

2008 Rate Case – Fuel and Purchase Power. In the final rate case order, the MPUC approved the stipulation and settlement agreement that affirmed Minnesota Power's continued recovery of fuel and purchased power costs under the former base cost of fuel that was in effect prior to the 2008 retail rate filing. The transition to the former base cost of fuel began with the implementation of final rates on November 1, 2009. Any revenue impact associated with this transition will be identified in a future filing related to Minnesota Power's fuel clause operation.

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 new contracts that transitioned these customers to formula-based rates which expire December 31, 2013. Under the formula-based rates provision, wholesale rates are set at the beginning of the year based on expected costs and provide for a true-up calculation for actual costs. Wholesale rate increases totaling approximately \$6 million and \$13 million annually were implemented on February 1, 2009 and January 1, 2010, respectively. In the fourth quarter of 2009, under the true-up provision, approximately \$6 million of additional revenues were accrued, which will be billed in 2010. When final actual costs are known, the final rate increase attributable to 2010 may vary from the wholesale rate increase implemented on January 1, 2010.

2009 Wisconsin Rate Increase. SWL&P's current retail rates are based on a December 2008 PSCW retail rate order that became effective January 1, 2009, and allows for an 11.1 percent return on equity. SWL&P anticipates filing a retail rate case with the PSCW in 2010.

Deferred 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.

Deferred Regulatory Assets and Liabilities	March 31, 2010	December 31, 2009
Millions		
Deferred Regulatory Assets		
Future Benefit Obligations Under		
Defined Benefit Pension and Other Postretirement Benefit Plans	\$232.8	\$235.8
Boswell Unit 3 Environmental Rider (a)	20.5	20.9
Deferred Fuel (b)	18.1	20.8
Income Taxes	15.6	15.7
Asset Retirement Obligation	6.6	6.3
Deferred MISO Costs	1.9	2.4
Premium on Reacquired Debt	2.0	2.0
Other	3.1	4.8
Total Deferred Regulatory Assets	\$300.6	\$308.7
Deferred Regulatory Liabilities		
Income Taxes	\$25.3	\$25.9
Plant Removal Obligations	17.7	16.9
Other	4.2	4.3
Total Deferred Regulatory Liabilities	\$47.2	\$47.1

- (a) *MPUC-approved current cost recovery rider related to environmental improvements that were placed in service in November of 2009. The rider provides for a true-up calculation to be filed with the MPUC in the first quarter of 2011 for recovery of the rider balance.*
- (b) *As of March 31, 2010 and December 31, 2009, \$5 million of this balance relates to deferred fuel costs incurred under the former base cost of fuel calculation. Any revenue impact associated with this transition will be identified in a future filing related to the Company's fuel clause operation.*

NOTE 6. REGULATORY MATTERS (Continued)

Current and Non-Current Deferred Regulatory Assets and Liabilities	March 31, 2010	December 31, 2009
Millions		
Total Current Deferred Regulatory Assets (a)	\$12.7	\$15.5
Total Non-Current Deferred Regulatory Assets	287.9	293.2
Total Deferred Regulatory Assets	\$300.6	\$308.7
Millions		
Total Current Deferred Regulatory Liabilities	-	-
Total Non-Current Deferred Regulatory Liabilities	\$47.2	\$47.1
Total Deferred Regulatory Liabilities	\$47.2	\$47.1

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

NOTE 7. 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 provides transmission service under rates regulated by the FERC that are set in accordance with the FERC's policy of establishing the independent operation and ownership of, and investment in, transmission facilities. We account for our investment in ATC under the equity method of accounting. As of March 31, 2010, our equity investment balance in ATC was \$90.3 million (\$79.7 million at March 31, 2009). In the first quarter of 2010, we invested \$1.2 million in ATC. We expect to invest an additional \$1 million in 2010.

ALLETE's Investment in ATC

Millions	
Equity Investment Balance as of December 31, 2009	\$88.4
Cash Investments	1.2
Equity in ATC Earnings	4.5
Distributed ATC Earnings	(3.8)
Equity Investment Balance as of March 31, 2010	\$90.3

ATC's summarized financial data for the quarter ended March 31, 2010 and 2009, is as follows:

ATC Summarized Financial Data	Quarter Ended	
Income Statement Data	March 31,	
Millions	2010	2009
Revenue	\$138.5	\$126.2
Operating Expense	62.8	57.0
Other Expense	20.6	18.3
Net Income	\$55.1	\$50.9
ALLETE's Equity in Net Income	\$4.5	\$4.2

NOTE 8. SHORT-TERM AND LONG-TERM DEBT

Long-Term Debt. In February of 2010, we issued \$80.0 million in principal amount of unregistered First Mortgage Bonds (Bonds) in the private placement market in three series as follows:

Issue Date	Maturity	Principal Amount	Coupon
February 17, 2010	April 15, 2021	\$15 Million	4.85%
February 17, 2010	April 15, 2025	\$30 Million	5.10%
February 17, 2010	April 15, 2040	\$35 Million	6.00%

NOTE 8. SHORT-TERM AND LONG-TERM DEBT (Continued)

We used the proceeds from the sale of the Bonds to pay off an outstanding draw on our syndicated revolving credit facility, to fund utility capital investments and for general corporate purposes. We have the option to prepay all or a portion of the Bonds at our discretion, subject to a make-whole provision. The Bonds are subject to the terms and conditions of our utility mortgage. The Bonds were sold in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended, to institutional accredited investors.

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. The most restrictive covenant requires ALLETE to maintain a ratio of its Funded Debt to Total Capital (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 March 31, 2010, our ratio was approximately 0.41 to 1.00. Failure to meet this covenant would give rise to an event of default if not cured after notice from the 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 March 31, 2010, ALLETE was in compliance with its financial covenants.

NOTE 9. OTHER INCOME (EXPENSE)

	Quarter Ended	
	March 31,	
	2010	2009
Millions		
Loss on Emerging Technology Investments	\$(0.4)	\$(1.2)
AFUDC – Equity	1.2	1.3
Investment and Other Income	0.2	1.0
Total Other Income	\$1.0	\$1.1

NOTE 10. INCOME TAX EXPENSE

On March 23, 2010, the Patient Protection and Affordable Care Act (H.R. 3590), which was subsequently amended on March 30, 2010, was signed into law by the President. The law includes provisions to generate tax revenue to help offset the cost of the new legislation. One of the provisions changes 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 are required to reverse previously recorded tax benefits in the period of enactment. Consequently, the elimination 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. We plan to address the impacts of this legislation with our regulators in the near future, but at this time are unable to predict the outcome of this issue.

	Quarter Ended	
	March 31,	
	2010	2009
Millions		
Current Tax Expense (Benefit)		
Federal (a)	\$7.2	\$(0.7)
State	0.9	1.0
Total Current Tax Expense	8.1	0.3
Deferred Tax Expense		
Federal (b)	9.8	9.3
State	2.2	1.5
Deferred Tax Credits	(0.2)	(0.3)
Total Deferred Tax Expense	11.8	10.5
Total Income Tax Expense	\$19.9	\$10.8

- (a) Due to the bonus depreciation provisions in the American Recovery and Reinvestment Act of 2009, we were in a net operating loss position for the year ended December 31, 2009. The loss will be utilized by carrying it back against prior years' taxable income.
- (b) Included in 2010 is a one-time charge of \$4.0 million as a result of the Patient Protection and Affordable Care Act eliminating the tax deduction for expenses that are reimbursed under Medicare Part D beginning January 1, 2013.

NOTE 10. INCOME TAX EXPENSE (Continued)

For the quarter ended March 31, 2010, the effective tax rate was 46.6 percent (39.0 percent for the quarter ended March 31, 2009). Excluding additional tax expense recorded as a result of the Patient Protection and Affordable Care Act, the 2010 effective tax rate was 37.2 percent. The 2010 effective tax rate, excluding the additional tax expense recorded as a result of the Patient Protection and Affordable Care Act, deviated from the statutory rate of approximately 41 percent primarily due to deductions for AFUDC-Equity, investment tax credits, wind production tax credits, and depletion.

Uncertain Tax Positions. As of March 31, 2010, we have gross unrecognized tax benefits of \$10.9 million. Of this total, \$1.5 million represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate.

During the next 12 months it is reasonably possible the amount of unrecognized tax benefits as of March 31, 2010, could be reduced by \$3.6 million due to statute expirations and anticipated audit settlements. This amount is primarily due to timing issues.

NOTE 11. OTHER COMPREHENSIVE INCOME

The components of total comprehensive income were as follows:

Other Comprehensive Income (Loss)	Quarter Ended	
	March 31,	
	2010	2009
Millions		
Net Income	\$22.8	\$16.9
Other Comprehensive Income		
Unrealized Gain (Loss) on Securities		
Net of income taxes of \$- and \$(0.6)	0.1	(1.0)
Unrealized Gain on Derivatives		
Net of income taxes of \$- and \$0.1	-	0.1
Defined Benefit Pension and Other Postretirement Plans		
Net of income taxes of \$0.2 and \$0.1	0.3	0.3
Total Other Comprehensive Income (Loss)	0.4	(0.6)
Total Comprehensive Income	\$23.2	\$16.3
Less: Non-Controlling Interest in Subsidiaries	(0.2)	-
Comprehensive Income Attributable to ALLETE	\$23.4	\$16.3

NOTE 12. 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 quarters ended March 31, 2010, and March 31, 2009, 0.6 million 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, and therefore, their effect would have been anti-dilutive.

Reconciliation of Basic and Diluted Earnings Per Share	2010			2009		
	Basic	Dilutive Securities	Diluted	Basic	Dilutive Securities	Diluted
Millions Except Per Share Amounts						
For the Quarter Ended March 31,						
Net Income Attributable to ALLETE	\$23.0	-	\$23.0	\$16.9	-	\$16.9
Common Shares	33.8	-	33.8	30.9	0.1	31.0
Earnings Per Share	\$0.68	-	\$0.68	\$0.55	-	\$0.55

NOTE 13. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Components of Net Periodic Benefit Expense	Pension		Other Postretirement	
	2010	2009	2010	2009
Millions				
For the Quarter Ended March 31,				
Service Cost	\$1.5	\$1.4	\$1.2	\$1.0
Interest Cost	6.6	6.5	2.7	2.5
Expected Return on Plan Assets	(8.4)	(8.4)	(2.4)	(2.1)
Amortization of Prior Service Costs	0.1	0.1	–	–
Amortization of Net Loss	1.6	0.9	1.2	0.6
Amortization of Transition Obligation	–	–	0.6	0.7
Net Periodic Benefit Expense	\$1.4	\$0.5	\$3.3	\$2.7

Employer Contributions. For the quarter ended March 31, 2010, no contributions were made to our defined benefit pension plan (\$18.0 million for the quarter ended March 31, 2009) and \$2.6 million was contributed to our other postretirement benefit plan (\$9.3 million for the quarter ended March 31, 2009). We expect to make approximately \$2 million in contributions to our defined benefit pension plan and additional contributions of approximately \$11 million to our other postretirement benefit plan in 2010.

We provide postretirement health benefits that include prescription drug benefits which qualify us for the federal subsidy under the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The expected reimbursement for Medicare health subsidies reduced our postretirement medical expense by \$1.3 million for 2010 (\$2.0 million for 2009). For the quarter ended March 31, 2010, we have not received any prescription drug reimbursements.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Off-Balance Sheet Arrangements

Power Purchase Agreements. Our long-term power purchase agreements (PPA) 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 following factors: we do not have control over activities that are most significant to the entity, and we have no 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 Power Purchase Agreement. Minnesota Power has a power purchase agreement 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.

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. 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 fixed costs consist primarily of debt service. At March 31, 2010, Square Butte had total debt outstanding of \$290.4 million. Annual debt service for Square Butte is expected to be approximately \$31 million in each of the five years, 2010 through 2014. Variable operating costs include the price of coal purchased from BNI Coal, our subsidiary, under a long-term contract.

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

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

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 late 2013. This new AC transmission line will allow Minnkota to transmit their entitlement from Square Butte to their customers, and allow Minnesota Power additional capacity on the recently acquired DC line to transmit new wind generation.

Wind Power Purchase Agreements. We have two wind power purchase agreements with an affiliate of NextEra Energy to purchase the output from two wind facilities, Oliver Wind I (50 MWs) and Oliver Wind II (48 MWs), located near Center, North Dakota. Each agreement is for 25 years and provides for the purchase of all output from the facilities.

Hydro Power Purchase Agreement. We also have a power purchase agreement with Manitoba Hydro that began in May of 2009 and expires in April of 2015. Under the agreement with Manitoba Hydro, 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.

North Dakota Wind Project. On December 31, 2009, we purchased an existing 250 kV DC transmission line from Square Butte for \$69.7 million. The 465-mile transmission line runs from Center, North Dakota, to Duluth, Minnesota. We expect to 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 lignite coal-fired generating unit. Acquisition of this transmission line was approved by an MPUC order dated December 21, 2009. In addition, the FERC issued an order on November 24, 2009, authorizing acquisition of the transmission facilities and conditionally accepting, upon compliance and other filings, the proposed tariff revisions, interconnection agreement and other related agreements.

On July 7, 2009, the MPUC approved our petition seeking current cost recovery eligibility for investments and expenditures related to Bison I and associated transmission upgrades. On September 29, 2009, the NDPSC authorized site construction for Bison I. On March 10, 2010, the NDPSC authorized construction of a 22 mile, 230 kV transmission line that will connect Bison I to the DC transmission line at the Square Butte Substation in Center, North Dakota. Bison I is the first portion of several hundred MWs of our North Dakota Wind Project, which upon completion will help fulfill the Minnesota 2025 renewable energy supply requirement for our retail load. Bison I, located near Center, North Dakota, will be comprised of 33 wind turbines with a total nameplate capacity of 75.9 MWs and will be phased into service in late 2010 and 2011. The Bison I Project, including the associated transmission upgrades to the DC Line, will have a total capital cost of approximately \$177 million. In March of 2010, we filed a petition with the MPUC to establish current cost recovery through customer billings for the approved project. We are unable to predict the outcome of this proceeding.

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 a fair market value, to purchase the dragline at fair market value, or to 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 \$8.8 million in 2010, \$8.9 million in 2011, \$9.0 million in 2012, \$8.5 million in 2013, \$8.2 million in 2014 and \$45.7 million thereafter.

Coal, Rail and Shipping Contracts. We have three primary coal supply agreements and transportation agreements providing for the purchase and delivery of a significant portion of our coal requirements. These agreements, including option terms, expire in various years between 2010 and 2015. In total, we are committed to a minimum payment of approximately \$28 million under these coal, rail and shipping agreements for 2010. Our annual payment obligation for 2011 is \$7.6 million, with no specific commitments beyond 2011. 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.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Currently, a number of regulatory changes are under consideration by both Congress and the EPA. Most notably, clean energy technologies and the regulation of GHGs have taken a lead in these discussions. Minnesota Power's fossil fueled facilities will likely be subject to regulation under these climate change policies. Our intention is to reduce our exposure to possible future carbon and GHG legislation 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. These accruals are adjusted periodically 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.

Clean Air Act. The federal Clean Air Act Amendments of 1990 (Clean Air Act) established the acid rain program which created emission allowances for SO₂ and system-wide average NO_x limits. Minnesota Power's generating facilities mainly burn low-sulfur western sub-bituminous coal. Square Butte, located in North Dakota, burns lignite coal. All of these facilities are equipped with pollution control equipment such as scrubbers, bag houses, or electrostatic precipitators. Minnesota Power's generating facilities are currently in compliance with applicable emission requirements.

New Source Review. On August 8, 2008, Minnesota Power received a Notice of Violation (NOV) from the United States 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. Minnesota Power believes the projects 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. Since 2006, Minnesota Power has significantly reduced, and continues to reduce, emissions at Boswell. 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. We are unable to predict the ultimate financial impact or the resolution of these matters at this time.

EPA Clean Air Interstate Rule. In March 2005, the EPA announced the Clean Air Interstate Rule (CAIR) that sought to reduce and permanently cap emissions of SO₂, NO_x, and particulates in the eastern United States. Minnesota was included as one of the 28 states considered as "significantly contributing" to air quality standards non-attainment in other downwind states. On July 11, 2008, the United States Court of Appeals for the District of Columbia Circuit (Court) vacated the CAIR and remanded the rulemaking to the EPA for reconsideration while also granting our petition that the EPA reconsider including Minnesota as a CAIR state. In September of 2008, the EPA and others petitioned the Court for a rehearing or alternatively requested that the CAIR be remanded without being vacated. In December of 2008, the Court granted the request that the CAIR be remanded without being vacated, effectively reinstating a January 1, 2009 compliance date for the CAIR, including Minnesota. However, pursuant to an amendment to CAIR effective December 3, 2009, the effectiveness of CAIR with respect to Minnesota has been stayed until completion of the EPA's determination of whether Minnesota should be included as a CAIR state.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

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, that were 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 certain 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 of 2007. As a mechanism for demonstrating progress towards meeting the long-term regional haze goal, in April of 2007, the MPCA advanced a draft conceptual SIP which relied on the implementation of CAIR. However, a formal SIP was never filed due to the United States Court of Appeals for the District of Columbia Circuit review of CAIR as more fully described above under "EPA Clean Air Interstate Rule." Subsequently, the MPCA requested that companies with BART eligible units complete and submit a BART emissions control retrofit study, which was done on Taconite Harbor Unit 3 in November of 2008. The retrofit work completed in 2009 at Boswell Unit 3 meets the BART requirement for that unit. On December 15, 2009, the MPCA approved the SIP for submittal to the EPA for review and approval. The EPA is expected to make a decision on whether to approve the state SIP by January of 2011. If approved, Minnesota Power will have 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. In March of 2005, the EPA announced the Clean Air Mercury Rule (CAMR) that would have reduced and permanently capped electric utility mercury emissions in the continental United States through a cap-and-trade program. In February 2008, the United States Court of Appeals for the District of Columbia Circuit vacated the CAMR and remanded the rulemaking to the EPA for reconsideration. In October of 2008, the EPA petitioned the Supreme Court to review the Court's decision in the CAMR case. In January of 2009, the EPA withdrew its petition, paving the way for possible regulation of mercury and other hazardous air pollutant emissions through Section 112 of the Clean Air Act, setting Maximum Achievable Control Technology standards for the utility sector. In December of 2009, Minnesota Power and other utilities received an Information Collection Request from the EPA requiring that emissions data be provided and stack testing be performed in order to develop an improved database upon which to base future regulations. On March 30, 2010, Minnesota Power responded to the Information Collection Request. Stack testing is scheduled to be completed by July 30, 2010. The EPA is subject to a consent decree which requires the EPA to propose a rule by March of 2011, with the final rule by November of 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.

Minnesota Mercury Emission Reduction Act. This legislation requires Minnesota Power to file mercury emission reduction plans for Boswell Units 3 and 4, with a goal of 90 percent reduction in mercury emissions. The Boswell Unit 3 emission reduction plan was filed with the MPCA in October of 2006. Mercury control equipment has been installed and was placed into service in November of 2009. A mercury emissions reduction plan for Boswell Unit 4 is required to be submitted by July 1, 2011, with implementation no later than December 31, 2014. This legislation 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. Minnesota legislation has been introduced that would potentially extend the mercury compliance date. Costs for the Boswell Unit 4 emission reduction plan cannot be estimated at this time.

Ozone. The EPA is attempting to control, more stringently, emissions that result in ground level ozone. In January of 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 expects to issue final standards in 2010. As proposed, states have until December of 2013 to submit plans outlining how they will meet the standards.

NOTE 14. 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 customer's 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 other demand side efforts.
- Support research of technologies to reduce carbon emissions from generation facilities and support carbon sequestration efforts.
- 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.

Federal Legislation. We believe that future regulations may restrict the emissions of GHGs from our generation facilities. Several proposals at the federal level to "cap" the amount of GHG emissions have been made. On June 26, 2009, the U.S. House of Representatives passed H.R. 2454, the American Clean Energy and Security Act of 2009. H.R. 2454 is a comprehensive energy bill that also includes a cap-and-trade program. H.R. 2454 allocates a significant number of emission allowances to the electric utility sector to mitigate cost impacts on consumers. Based on the emission allowance allocations proposed in H.R. 2454, we expect we would have to purchase additional allowances. At this time we are unable to predict the cost of these allowances.

On September 30, 2009, the Senate introduced S. 1733, the Senate version of H.R. 2454. This legislation proposes a more stringent, near-term greenhouse emissions reduction target in 2020 of 20 percent below 2005 levels, as compared to a 17 percent reduction proposed by H.R. 2454.

Congress may consider proposals other than cap-and-trade programs to address GHG emissions. We are unable to predict the outcome of H.R. 2454, S. 1733, or other efforts that Congress may make with respect to GHG emissions, and the impact that any GHG emission regulations may have on the Company. We also cannot predict the nature or timing of any additional GHG legislation or regulation.

Greenhouse Gas Reduction. In 2007, Minnesota passed legislation establishing non-binding targets for carbon dioxide reductions. This legislation establishes a goal of reducing statewide GHG emissions across all sectors to a level at least 15 percent below 2005 levels by 2015, at least 30 percent below 2005 levels by 2025, and at least 80 percent below 2005 levels by 2050.

Midwestern Greenhouse Gas Reduction Accord. Minnesota is also participating in the Midwestern Greenhouse Gas Reduction Accord (the Accord), a regional effort to develop a multi-state approach to GHG emission reductions. The Accord includes an agreement to develop a multi-sector cap-and-trade system to help meet the targets established by the group.

Minnesota Greenhouse Gas Emissions Reporting. In May 2008, Minnesota passed legislation that required the MPCA to track emissions and make interim emissions reduction recommendations towards meeting the State's goal of reducing GHG by 80 percent by 2050.

International Climate Change Initiatives. The United States is not a party to the Kyoto Protocol, which is a protocol to the United Nations Framework Convention on Climate Change (UNFCCC) that requires developed countries to cap GHG emissions at certain levels during the 2008 to 2012 time period. In December 2009, leaders of developed and developing countries met in Copenhagen, Denmark, under the UNFCCC and issued the Copenhagen Accord. The Copenhagen Accord provides a mechanism for countries to make economy-wide GHG emission mitigation commitments for reducing emissions of GHG by 2020 and provide for developed countries to fund GHG emissions mitigation projects in developing countries. President Obama participated in the development of, and endorsed, the Copenhagen Accord.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

EPA Greenhouse Gas Reporting Rule. On September 22, 2009, the EPA issued a final rule mandating that certain GHG emission sources, including electric generating units, are required to report emission levels. The rule is intended to allow the EPA to collect accurate and timely data on GHG emissions that can be used to form future policy decisions. The rule was effective January 1, 2010, and all GHG emissions must be reported on an annual basis by March 31 of the following year. Currently, we have the equipment and data tools necessary to report our 2010 emissions to comply with this rule.

Title V Greenhouse Gas Tailoring Rule. On October 27, 2009, the EPA issued the proposed Prevention of Significant Deterioration (PSD) and Title V Greenhouse Gas Tailoring rule. This proposed regulation addresses the six primary GHGs and includes new thresholds for when permits will be required for new facilities and existing facilities which undergo major modifications. The rule would require large industrial facilities, including power plants, that undergo major modifications that result in a significant increase in emissions to obtain construction and operating permits that demonstrate Best Available Control Technologies (BACT) are being used at the facility. The EPA is expected to propose BACT standards for GHG emissions from stationary sources.

For our existing facilities, the proposed rule does not require amending our existing Title V operating permits to include BACT for GHGs. However, modifying or installing units with GHG emissions that trigger the PSD permitting requirements could require amending operating permits to incorporate BACT to control GHG emissions. On March 29, 2010, the EPA affirmed that they will not institute measures to require stationary source operating permits for GHG emissions under the Clean Air Act any earlier than 2011.

Minnesota Power's existing facilities may become subject to the GHG BACT requirements if they undergo major modifications that result in a significant emissions increase. The significant increase thresholds are under review by the EPA.

EPA Endangerment Findings. On December 15, 2009, the EPA published its findings that the emissions of six GHG, including CO₂, methane, and nitrous oxide, endanger human health or welfare. On April 1, 2010, the United States Department of Transportation and the EPA jointly announced establishment of motor vehicle GHG emissions standards for passenger vehicles and light trucks. Starting with 2012 model year vehicles, the rules together require automakers to improve fleet-wide fuel economy and reduce fleet-wide GHG emissions by approximately five percent every year for 2012 through 2016. The National Highway Traffic Safety Administration has established fuel economy standards that strengthen each year reaching an estimated 34.1 miles per gallon for the combined industry-wide fleet for model year 2016. There is also a possibility that the endangerment finding will enable expansion of the EPA regulation under the Clean Air Act to include GHGs emitted from stationary sources. A petition for review of the EPA's endangerment findings was filed by the Coalition for Responsible Regulation, et. al. with the United States Court of Appeals for the District of Columbia Circuit on December 23, 2009. The EPA has announced that they do not intend to impose GHG emission requirements on stationary sources any earlier than January 2011.

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.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

Coal Ash Management Facilities. Minnesota Power generates coal ash at all five of its steam electric stations. 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. Minnesota Power continues to monitor state and federal legislative and regulatory activities that may affect its ash management practices. The EPA is expected to propose new regulations pertaining to the management of coal ash by electric utilities. It is unknown how potential coal ash management rule changes will affect Minnesota Power's facilities. On March 9, 2009, the EPA requested information from Minnesota Power (and other utilities) on its ash storage impoundments at Boswell and Laskin. On June 22, 2009, Minnesota Power received an additional EPA information request pertaining to Boswell. Minnesota Power responded to both of these information requests. On August 19, 2009, dam safety officials from the Minnesota Department of Natural Resources (MDNR) visited both the Boswell and Laskin ash ponds. The purpose of the inspection was to assess the structural integrity of the ash ponds, as well as review operational and maintenance procedures. There were no significant findings or concerns from the MDNR staff during the inspections.

Manufactured Gas Plant Site. We are reviewing and addressing environmental conditions at a former manufactured gas plant site within 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. At March 31, 2010, 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.

BNI Coal. As of March 31, 2010, BNI Coal had surety bonds outstanding of \$18.4 million related to the reclamation liability for closing costs associated with its mine and mine facilities. Although the coal supply agreements obligate the customers to provide for the closing costs, an additional guarantee is required by federal and state regulations. In addition to the surety bonds, BNI Coal has secured a Letter of Credit with CoBANK ACB for an additional \$10.0 million. The combination of the surety bonds and the Letter of Credit is sufficient to meet the requirements to guarantee BNI Coal's total reclamation liability, currently estimated at \$25.1 million.

ALLETE Properties. As of March 31, 2010, ALLETE Properties, through its subsidiaries, had surety bonds outstanding of \$14.7 million primarily related to performance and maintenance obligations to governmental entities to construct improvements in the Company's various projects. The remaining work to be completed on these improvements is estimated to be approximately \$9.9 million, and ALLETE Properties does not believe it is likely that any of these outstanding bonds will be drawn upon.

Community Development District Obligations. In March of 2005, the Town Center District issued \$26.4 million of tax-exempt, 6 percent Capital Improvement Revenue Bonds, Series 2005; and in May of 2006, the Palm Coast Park District issued \$31.8 million of tax-exempt, 5.7 percent Special Assessment Bonds, Series 2006. The Capital Improvement Revenue Bonds and the Special Assessment Bonds are payable through property tax assessments on the land owners over 31 years (by May 1, 2036, and 2037, respectively). 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 bonds are payable from and secured by the revenue derived from annual assessments imposed, levied and collected by each district. 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 March 31, 2010, we owned 69 percent of the assessable land in the Town Center District (69 percent at December 31, 2009) and 86 percent of the assessable land in the Palm Coast Park District (86 percent at December 31, 2009). At these ownership levels our annual assessments are approximately \$1.5 million for Town Center and \$2.0 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.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

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 effect 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 effect 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 2009 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 23 of our 2009 Form 10-K. The risks and uncertainties described in this Form 10-Q and our 2009 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 145,000 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 7,000 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 March 31, 2010, 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 quarter ended March 31, 2010, to the quarter ended March 31, 2009.

Net income attributable to ALLETE for the quarter ended March 31, 2010, was \$23.0 million, or \$0.68 per diluted share, compared to \$16.9 million, or \$0.55 per diluted share, for the same period of 2009. The first quarter of 2009 was reduced by a \$3.2 million, or \$0.10 per share, after-tax charge for the accrual of retail rate refunds related to 2008.

OVERVIEW (Continued)

Regulated Operations net income attributable to ALLETE was \$24.9 million for the first quarter of 2010, compared to \$17.7 million for the same period of 2009; the first quarter of 2009 was reduced by a \$3.2 million after-tax charge for the accrual of retail rate refunds related to 2008. The period-over-period increase is attributable to MPUC-approved interim retail rates (subject to refund), higher FERC-approved wholesale rates, and increased transmission related margins. These increases were significantly offset by higher operating, depreciation and income tax expenses. Income tax expense included a \$3.6 million charge resulting from the Patient Protection and Affordable Care Act of 2010 that eliminated the deduction for expenses reimbursed under Medicare Part D. In addition, 2010 reflected \$0.2 million in additional after-tax earnings from our investment in ATC.

Investments and Other reflected a net loss attributable to ALLETE of \$1.9 million in the first quarter of 2010, compared to a net loss of \$0.8 million in 2009. Contributing to the decrease is a slightly higher loss at ALLETE Properties (\$1.4 million loss in 2010 compared to a loss of \$1.1 million in 2009), the transfer of a small generating facility to our Regulated Operations in November of 2009, and a \$0.4 million charge related to the Patient Protection and Affordable Care Act of 2010.

COMPARISON OF THE QUARTERS ENDED MARCH 31, 2010 AND 2009

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

Regulated Operations

Operating revenue increased \$35.0 million, or 19 percent, from 2009 due to authorized Minnesota interim retail electric rates from our 2010 rate case, higher FERC-approved wholesale rates, and the absence of an accrual of prior year retail rate refunds related to our 2008 retail rate case. Also contributing to increased revenue was higher fuel and purchased power recoveries, increased sales to our retail and municipal customers, and higher transmission revenues. These increases were partially offset by lower sales to Other Power Suppliers.

Interim retail rates authorized by the MPUC in December of 2009, and effective January 1, 2010, resulted in an increase of approximately \$9.5 million. Interim rates are subject to refund pending the MPUC's final rate order. (See Note 6. Regulatory Matters.)

Higher rates from the February 1, 2009, and January 1, 2010, FERC-approved wholesale rate increases for our municipal customers increased revenue by \$4.0 million. (See Note 6. Regulatory Matters.)

Retail rate refunds related to 2008 resulting from the 2009 MPUC Order were recorded in 2009 and resulted in a reduction in 2009 revenues of \$5.3 million.

Higher fuel and purchased power recoveries, along with an increase in retail and municipal kilowatt-hour sales combined for a total revenue increase of \$11.5 million. Fuel and purchased power recoveries increased due to an increase in fuel and purchased power expense. (See Fuel and Purchased Power Expense.) Total kilowatt-hour sales to retail and municipal customers increased 3.5 percent from 2009 primarily due to increased sales to our taconite customers.

Transmission revenues increased \$6.0 million from 2009 primarily due to revenues related to the 250 kV DC transmission line we purchased from Square Butte on December 31, 2009.

The increase in kilowatt-hour sales to retail customers has been partially offset by decreased revenue from marketing power to Other Power Suppliers, which decreased \$2.8 million in 2010. 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.

COMPARISON OF THE QUARTERS ENDED MARCH 31, 2010 AND 2009 (Continued)
Regulated Operations (Continued)

Total kilowatt-hour sales to retail and municipal customers increased 3.5 percent from 2009 primarily due to an 11 percent increase in sales to our taconite customers. Increased revenue from our industrial sales was partially offset by a 12 percent decrease in kilowatt-hour sales to Other Power Suppliers.

Kilowatt-hours Sold			Quantity	%
Quarter Ended March 31,	2010	2009	Variance	Variance
Millions				
Regulated Utility				
Retail and Municipals				
Residential	357	375	(18)	(4.8) %
Commercial	372	379	(7)	(1.8) %
Industrial	1,429	1,323	106	8.0 %
Municipals	265	265	-	-
Total Retail and Municipals	2,423	2,342	81	3.5 %
Other Power Suppliers	803	916	(113)	(12.3) %
Total Regulated Utility Kilowatt-hours Sold	3,226	3,258	(32)	(1.0) %

Revenue from electric sales to taconite customers accounted for 21 percent of consolidated operating revenue in 2010 (19 percent in 2009). The increase in revenue from our taconite customers was partially offset by a decrease in revenue from electric sales to Other Power Suppliers which accounted for 14 percent of consolidated operating revenue in 2010 (17 percent in 2009). Revenue from electric sales to paper and pulp mills accounted for 8 percent of consolidated operating revenue in 2010 (8 percent in 2009). Revenue from electric sales to pipelines and other industrials accounted for 6 percent of consolidated operating revenue in 2010 (7 percent in 2009).

Operating expenses increased \$18.9 million, or 13 percent, from 2009.

Fuel and Purchased Power Expense increased \$7.0 million, or 10 percent, from 2009. The increase is primarily due to higher fuel costs of \$4.5 million resulting from higher coal prices and related transportation. Purchased power expense also increased \$2.5 million reflecting higher market prices partially offset by lower kilowatt-hour purchases.

Operating and Maintenance Expense increased \$7.0 million, or 11 percent, from 2009 reflecting additional MISO expenses of \$4.1 million relating to the 250 kV DC transmission line we purchased from Square Butte on December 31, 2009, and increased benefits costs of \$2.0 million.

Depreciation Expense increased \$4.9 million, or 35 percent, from 2009 reflecting higher property, plant, and equipment placed in service.

Income tax expense increased \$8.9 million, or 75 percent, from 2009 primarily due to higher pretax income and a non-recurring charge to ALLETE's net income from the Patient Protection and Affordable Care Act of \$3.6 million.

Investments and Other

Operating revenue decreased \$1.0 million, or 5 percent, from 2009 primarily due to a \$1.6 million reduction in sales revenue at ALLETE Properties. No sales were made during the first quarter of 2010 at ALLETE Properties, due to the continued lack of demand for our properties as a result of poor real estate market conditions in Florida. During the first quarter of 2009, ALLETE Properties sold approximately 19 acres of property located outside of its three main development projects for \$2.2 million.

COMPARISON OF THE QUARTERS ENDED MARCH 31, 2010 AND 2009 (Continued)
Investments and Other (Continued)

ALLETE Properties Revenue and Sales Activity	2010		2009	
	Quantity	Amount	Quantity	Amount
Dollars in Millions				
Revenue from Land Sales				
Acres (a)	–	–	19	\$2.2
Contract Sales Price (b)		–		2.2
Deferred Revenue		–		(0.6)
Revenue from Land Sales		–		1.6
Other Revenue		\$0.2		0.2
Total ALLETE Properties Revenue		\$0.2		\$1.8

- (a) Acreage amounts are shown on a gross basis, including wetlands and non-controlling interest.
(b) Reflects total contract sales price on closed land transactions. Land sales are recorded using a percentage-of-completion method.

Revenue from non-regulated generation was down \$1.5 million primarily due to a reduction in kilowatt-hour sales as there was a transfer of a small generating facility to Regulated Operations in November of 2009. These decreases were partially offset by BNI Coal, which operates under a cost-plus contract and recorded additional revenue of \$2.1 million as a result of higher expenses in 2010. (See Operating Expense.)

Operating expenses increased \$0.1 million, or 1 percent, from 2009 reflecting higher expenses at BNI Coal of \$2.0 million primarily due to higher fuel costs; these costs were recovered through the cost-plus contract. (See Operating Revenue.) This increase was offset by decreased expenses at ALLETE Properties of \$1.0 million due to reductions in the cost of land sold and general and administrative expenses, and \$0.9 million as a result of the transfer of a small generating facility to Regulated Operations in November of 2009.

Income Taxes – Consolidated

For the quarter ended March 31, 2010, the effective tax rate was 46.6 percent (39.0 percent for the quarter ended March 31, 2009). Excluding additional tax expense recorded as a result of the Patient Protection and Affordable Care Act, the 2010 effective tax rate was 37.2 percent. The 2010 effective tax rate, excluding the additional tax expense recorded as a result of the Patient Protection and Affordable Care Act, deviated from the statutory rate (approximately 41 percent) due to deductions for AFUDC-Equity, investment tax credits, wind production tax credits, and depletion. In addition to these items, the 2009 effective tax rate included the effect of deductions for Medicare prescription drug subsidies and additional expense related to a non-recurring permanent item. We expect the effective tax rate for the full year 2010 to be approximately 39 percent (36 percent excluding the effect of the Patient Protection and Affordable Care Act). (See Note 10. 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 2009 Form 10-K.

OUTLOOK

For additional information see our 2009 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. 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, wind energy will play an increasingly important role in our nation's energy mix. We intend to pursue the establishment of a renewable energy business focused initially on developing wind assets in North Dakota and the upper Midwest. We intend to develop wind resources which will be used to meet renewable supply requirements of our regulated businesses as well as wind resources that will be marketed to others. We will capitalize on our existing presence in North Dakota through BNI Coal, our recently acquired DC transmission line and our Bison I wind project. Through BNI Coal we have a long-term business presence and established landowner relationships in North Dakota. See page 32 for more discussion on the DC line acquisition and our Bison I project. For projects to be marketed to others, we intend to secure long-term power purchase agreements prior to construction of the wind generation facilities. Establishment of the business is subject to appropriate MPUC approvals.

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. In addition, we plan to make additional investments to fund our pro rata share of ATC's future capital expansion program. Minnesota Power is also participating with other regional utilities in making regional transmission investments as a member of the CapX2020 initiative. The CapX2020 initiative is discussed in more detail on page 33.

We are also exploring investing in other energy-centric businesses that will complement an entrance into the 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, reduce customer concentration exposure, comply with environmental and renewable requirements, and earn our allowed rate of return. Keeping the production of energy 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. Minnesota Power intends to reduce its customer concentration risk to reduce exposure to cyclical industries; this may include restructuring commercial contracts, additional sales to other regional power suppliers, and reshaping our power supply to be more flexible to swings in customer demand. We will monitor and review environmental proposals 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 riders to recover environmental and renewable investments, and will work with our legislators and regulators to earn a fair return.

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 a retail rate increase request for additional revenues 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. This retail rate request seeks a return on equity of 11.50 percent, a capital structure consisting of 54.29 percent equity and 45.71 percent debt, and on an annualized basis, an \$81.0 million net increase in electric retail revenue.

OUTLOOK (Continued)
Rates (Continued)

Minnesota law allows the collection of interim rates while the MPUC processes the rate filing. On December 30, 2009, the MPUC issued an Order (the Order) authorizing \$48.5 million of Minnesota Power's November 2, 2009, interim rate increase request of \$73.0 million. Interim rates, which were implemented on January 1, 2010, are subject to refund pending the MPUC's final rate order. As interim rates are substantially below our requested levels, Minnesota Power does not anticipate that it will earn, in 2010, the return on equity that has been authorized by the MPUC.

The MPUC cited exigent circumstances in reducing Minnesota Power's interim rate request. Because the scope and depth of this reduction in interim rates was unprecedented, and because Minnesota law does not allow Minnesota Power to formally challenge the MPUC's action until a final decision in the case is rendered, on January 6, 2010, Minnesota Power sent a letter to the MPUC expressing its concerns about the Order and requested that the MPUC reconsider its decision on its own motion. Minnesota Power described its belief that the MPUC's decision violates the law by prejudging the merits of the rate request prior to an evidentiary hearing and results in the confiscation of utility property. Further, the Company is concerned that the decision will have negative consequences on the environmental policy directions of the State of Minnesota by denying recovery for statutory mandates during the pendency of the rate proceeding. The MPUC has not acted in response to Minnesota Power's letter.

The rate case process requires public hearings and an evidentiary hearing before an Administrative Law Judge. The public hearings occurred in April of 2010, and the evidentiary hearing is scheduled for May of 2010. A report and recommendation from the Administrative Law Judge is scheduled to be issued in August of 2010, with a final decision on the rate request expected in November of 2010.

In our April 29, 2010, rebuttal testimony filing, we lowered our initial retail rate increase request from \$81 million to approximately \$72 million due to adjustments for known and measurable events that have occurred since we originally filed. The largest of these adjustments is related to the increased sales to our industrial customers. We cannot predict the final level of rates that may be approved by the MPUC and we cannot predict whether a legal challenge to the MPUC's interim rate decision will be forthcoming or successful.

2008 Rate Case – Fuel and Purchase Power. In the final rate case order, the MPUC approved the stipulation and settlement agreement that affirmed Minnesota Power's continued recovery of fuel and purchased power costs under the former base cost of fuel that was in effect prior to the 2008 retail rate filing. The transition to the former base cost of fuel began with the implementation of final rates on November 1, 2009. Any revenue impact associated with this transition will be identified in a future filing related to Minnesota Power's fuel clause operation.

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 new contracts that transitioned these customers to formula-based rates which expire December 31, 2013. Under the formula-based rates provision, wholesale rates are set at the beginning of the year based on expected costs and provide for a true-up calculation for actual costs. Wholesale rate increases totaling approximately \$13 million annually were implemented on January 1, 2010. When final actual costs are known, the final rate increase attributable to 2010 may vary from the wholesale rate increase implemented on January 1, 2010.

2009 Wisconsin Rate Increase. SWL&P's current retail rates are based on a December 2008 PSCW retail rate order that became effective January 1, 2009, and allows for an 11.1 percent return on equity. SWL&P anticipates filing a retail rate case with the PSCW in 2010.

Industrial Customers. Electric power is one of several key inputs in the taconite mining, paper production, and pipeline industries. Approximately 44 percent of our Regulated Utility kilowatt-hour sales in the quarter ended March 31, 2010 (41 percent in the quarter ended March 31, 2009), were made to our industrial customers, which include the taconite, paper and pulp, and pipeline industries.

OUTLOOK (Continued)
Industrial Customers (Continued)

Beginning in the fall of 2008, worldwide steel makers began to dramatically cut steel production in response to reduced demand driven largely by the global credit concerns. United States raw steel production ran at approximately 50 percent of capacity in 2009, reflecting poor demand in automobiles, durable goods, and structural and other steel products.

In late 2008, Minnesota taconite producers began to feel the impacts of decreased steel demand, and reduced taconite production levels occurred in 2009. Annual taconite production in Minnesota was approximately 18 million tons in 2009. Consequently, 2009 kilowatt-hour sales to our taconite customers were lower by approximately 54 percent from 2008 levels, and we sold available power to Other Power Suppliers to partially mitigate the earnings impact of these lower taconite sales.

Raw steel production in the United States is projected to improve in 2010, and is estimated to run at approximately 70 percent of capacity. As a result, Minnesota Power expects an increase in taconite production in 2010 compared to 2009, although production will still be less than previous years' levels (40 million tons in 2008). We will continue to market available power to Other Power Suppliers in an effort to mitigate the earnings impact of these lower industrial sales. Sales to Other Power Suppliers 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. We can make no assurances that our power marketing efforts will fully offset the reduced earnings resulting from lower demand nominations from our industrial customers.

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 identified a plan to meet the renewable goals set by Minnesota and has included this plan in the most recent filing of the Integrated Resource Plan with the MPUC. The law allows the MPUC to modify or delay a standard obligation if implementation will cause significant ratepayer cost or technical reliability issues. If a utility is not in compliance with a standard, the MPUC may order the utility to construct facilities, purchase renewable energy or purchase renewable energy credits. Minnesota Power was developing and making renewable supply additions as part of its generation planning strategy prior to the enactment of this law and this activity continues.

We are executing our renewable energy strategy. In 2006 and 2007, we entered into two long-term power purchase agreements for a total of 98 MWs of wind energy in North Dakota (Oliver Wind I and II). Taconite Ridge Wind I, our \$50 million, 25-MW wind facility located in northeastern Minnesota became operational in 2008.

North Dakota Wind Project. On December 31, 2009, we purchased an existing 250 kV DC transmission line from Square Butte for \$69.7 million. The 465-mile transmission line runs from Center, North Dakota, to Duluth, Minnesota. We expect to 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 lignite coal-fired generating unit.

On July 7, 2009, the MPUC approved our petition seeking current cost recovery eligibility for investments and expenditures related to Bison I and associated transmission upgrades. On September 29, 2009, the NDPSC authorized site construction for Bison I. On March 10, 2010, the NDPSC authorized construction of a 22 mile, 230 kV transmission line that will connect Bison I to the DC transmission line at the Square Butte Substation in Center, North Dakota. Bison I is the first portion of several hundred MWs of our North Dakota Wind Project, which upon completion will help fulfill the 2025 renewable energy supply requirement for our retail load. Bison I, located near Center, North Dakota, will be comprised of 33 wind turbines with a total nameplate capacity of 75.9 MWs and is expected to be in service in late 2010 and 2011. The Bison I Project, including the associated transmission upgrades to the DC Line, will have a total capital cost of approximately \$177 million. In March 2010, we filed a petition with the MPUC to establish current cost recovery through customer billings for the approved project. We are unable to predict the outcome of this proceeding.

OUTLOOK (Continued)

Integrated Resource Plan. On October 5, 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 over the next 15 years, 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 carbon dioxide); and
- Compliance with mandated renewable energy standards.

To achieve these objectives over the coming years, we plan to reshape our generation portfolio by adding 300 to 500 megawatts of renewable energy to our generation mix, and exploring options to incorporate peaking or intermediate resources. Our 76 MW Bison I Wind Project in North Dakota is expected to be in service in late 2010 and 2011.

We project average annual long-term growth of approximately one percent in electric usage over the next 15 years. We will also focus on conservation and demand side management to meet the energy savings goals established in Minnesota legislation.

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 includes Minnesota's largest transmission owners, consists of electric cooperatives, municipals and investor-owned utilities, and 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 intends to invest in two lines, a 250-mile 345 kV line between Fargo, North Dakota and Monticello, Minnesota, and a 70-mile, 230 kV line between Bemidji and Grand Rapids, Minnesota. The MPUC issued the Certificate of Need for the 230 kV line in July 2009. The MPUC decisions on the Route Permit applications for the two projects are expected in 2010. Our total investment in these lines is expected to be approximately \$100 million. We intend to seek recovery of these costs under the Minnesota Power transmission cost recovery tariff rider authorized by Minnesota legislation. Construction of the lines is targeted to begin in late 2010 and may take up to five years.

Emission Reduction Plans. We have made investments in pollution control equipment at our Boswell Unit 3 generating unit that reduces particulates, SO₂, NO_x and mercury emissions to meet future federal and state requirements. This equipment was placed in service in November of 2009. Our 2010 rate case proposes to move this project from a current cost recovery rider to base rates. (See Note 6. Regulatory Matters.)

Boswell NO_x Reduction Plan. In September of 2008, we submitted to the MPCA and MPUC a \$92 million environmental initiative proposing cost recovery for expenditures relating to NO_x emission reductions from Boswell Units 1, 2, and 4. The Boswell NO_x Reduction Plan is expected to significantly reduce NO_x emissions from these units. In conjunction with the NO_x reduction, we plan to make an efficiency improvement to our existing turbine/generator at Boswell Unit 4 adding approximately 60 MWs of total output. The Boswell 1, 2 and 4 selective non-catalytic reduction NO_x controls are currently in service, while the Boswell 4 low NO_x burners and turbine efficiency projects are anticipated to be in service in late 2010. Our 2010 rate case seeks recovery for this project in base rates.

Transmission. We have an approved cost recovery rider in place for certain transmission expenditures, and our current billing factor was approved by the MPUC in June of 2009. 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. Our 2010 rate case proposes to move completed transmission projects from the current cost recovery rider to base rates.

OUTLOOK (Continued)

Power Sales Agreement. On October 29, 2009, Minnesota Power entered into an agreement to sell Basin 100 MWs of capacity and energy for the next ten years, beginning in May of 2010. The Basin agreement contains a fixed monthly schedule of capacity charges with an annual escalation provision. The energy charge is based on a fixed monthly schedule and provides for annual escalation based on our cost of fuel. The agreement allows us to recover a pro-rata share of increased costs related to emissions that may occur during the last five years of the contract.

Investment in ATC. At March 31, 2010, our equity investment in ATC was \$90.3 million, representing an approximate 8 percent ownership interest. ATC provides transmission service under rates regulated by the FERC that are set in accordance with the FERC's policy of establishing the independent operation and ownership of, and investment in, transmission facilities. ATC rates are based on a 12.2 percent return on common equity dedicated to utility plant. ATC has identified \$2.5 billion in future projects needed over the next 10 years to improve the adequacy and reliability of the electric transmission system. 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. We expect to invest an additional \$1 million in 2010. (See Note 7. Investment in ATC.)

Investments and Other

BNI Coal. BNI Coal anticipates selling approximately 4 million tons of coal in 2010 (4.2 million tons were sold in 2009) and has sold approximately 1 million tons through March 31, 2010 (1.0 million tons sold as of March 31, 2009).

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. Ormond Crossings is a third major project that is currently in the planning stage. On February 16, 2010, the City of Ormond Beach, FL approved a Development Agreement for Ormond Crossings. The agreement 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%	854	2,089	2,191,200
Palm Coast Park	100%	3,385	3,154	3,056,800
Total Current Development Projects		4,239	5,243	5,248,000
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		10,212	8,193	8,463,000

(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 regionally significant wetlands mitigation bank that was permitted by the St. Johns River Water Management District in 2008 and by the U.S. Army Corps of Engineers in December 2009. 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.

ALLETE Properties also has 1,374 acres of other land available-for-sale outside of the three development projects.

OUTLOOK (Continued)
Investments and Other (Continued)

Long-term finance receivables as of March 31, 2010, were \$12.5 million, which included \$7.6 million due from an entity that filed for voluntary Chapter 11 bankruptcy protection in June 2009. The estimated fair value of the collateral relating to these receivables was greater than the \$7.6 million amount due at March 31, 2010, and no impairment was recorded.

If a purchaser defaults on a sales contract, the legal remedy is usually limited to terminating the contract, and retaining the collateral and purchaser's deposit. The property is then available for resale. In many cases, contract purchasers incur significant costs during due diligence, planning, designing and marketing the property before the contract closes, therefore they have substantially more at risk than the deposit.

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 minimal or no sales while still incurring operating expenses such as community development district assessments and property taxes. This could result in annual net losses for ALLETE Properties similar to 2009.

Income Taxes. ALLETE's aggregate federal and multi-state statutory tax rate is approximately 41 percent for 2010. 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, wind production tax credits, AFUDC-Equity, domestic manufacturer's deduction, depletion, Medicare prescription drug subsidies, as well as 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 and resolution of prior years' tax matters. We expect our 2010 effective tax rate to be approximately 39 percent (36 percent excluding the effect of the Patient Protection and Affordable Care Act).

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Position. ALLETE is well-positioned to meet the Company's immediate cash flow needs. At March 31, 2010, we have a cash balance of \$32.5 million, \$153.2 million in available consolidated lines of credit which includes a committed, syndicated, unsecured revolving line of credit of \$150.0 million, and a debt-to-capital ratio of 43 percent. At March 31, 2010, we project sufficient capital availability.

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

	March 31, 2010		December 31, 2009	
		%		%
Millions				
ALLETE Equity	\$947.9	57	\$929.5	57
Non-Controlling Interest	9.3	—	9.5	—
Long-Term Debt (Including Current Maturities)	711.7	43	701.0	43
Short-Term Debt	1.7	—	1.9	—
	\$1,670.6	100	\$1,641.9	100

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

For the Quarter Ended March 31,	2010	2009
Millions		
Cash and Cash Equivalents at Beginning of Period	\$25.7	\$102.0
Cash Flows from (used for)		
Operating Activities	56.7	34.5
Investing Activities	(51.7)	(69.6)
Financing Activities	1.8	31.1
Change in Cash and Cash Equivalents	6.8	(4.0)
Cash and Cash Equivalents at End of Period	\$32.5	\$98.0

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Operating Activities. Cash from operating activities was \$56.7 million for the quarter ended March 31, 2010 (\$34.5 million for the quarter ended March 31, 2009). Cash from operating activities was higher in 2010 primarily due to higher net income, higher depreciation expense, and lower contributions to the defined benefit pension and other postretirement benefit plans (included in regulatory and other liabilities on the consolidated statement of cash flows).

Investing Activities. Cash used for investing activities was \$51.7 million for the quarter ended March 31, 2010 (\$69.6 million for the quarter ended March 31, 2009). Cash used for investing activities was lower than 2009 reflecting decreased capital additions to property, plant and equipment. Capital additions in 2009 were higher due to construction activity for environmental retrofit projects in 2009.

Financing Activities. Cash from financing activities was \$1.8 million for the quarter ended March 31, 2010 (\$31.1 million for the quarter ended March 31, 2009). Cash from financing activities was lower in 2010 due to higher bond proceeds in 2009. In February 2010, we issued \$80 million of First Mortgage Bonds and used the majority of the proceeds to pay off the \$65 million borrowed from the syndicated revolving credit facility in late 2009, resulting in net proceeds of \$15 million in 2010, compared to \$42 million of proceeds in 2009.

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. We have available consolidated bank lines of credit aggregating \$153.2 million, the majority of which expire in January 2012. In addition, we have 0.2 million original issue shares of our common stock available for issuance through *Invest Direct*, our direct stock purchase and dividend reinvestment plan, and 3.2 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. In February 2010, we issued \$80.0 million in principal amount of unregistered First Mortgage Bonds (Bonds) in the private placement market in three series (See Note 8. Short-Term and Long-Term Debt). We used the proceeds from the sale of Bonds to pay down the syndicated revolving credit facility, to fund utility capital investments and for general corporate purposes. We have the option to prepay all or a portion of the Bonds at our discretion, subject to a make-whole provision. The Bonds are subject to the terms and conditions of our utility mortgage. The Bonds were sold in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended, to institutional accredited investors.

We entered into a Distribution Agreement with KCCI, Inc., originating in February 2008, and subsequently amended in February 2009, with respect to the issuance and sale of up to an aggregate of 6.6 million shares of our common stock, without par value. The shares may be offered for sale, from time to time, in accordance with the terms of the agreement pursuant to Registration Statement No. 333-147965. For the three months ended March 31, 2010, 0.1 million shares of common stock were issued under this agreement resulting in net proceeds of \$3.0 million (no shares were issued for the three months ended March 31, 2009).

In 2010, we issued 0.2 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 \$4.3 million. These shares of common stock were registered under Registration Statement Nos. 333-150681, 333-105225, and 333-124455, respectively.

Financial Covenants. See Note 8. Short-Term and Long-Term Debt for information regarding our financial covenants.

Pension and Other Postretirement Benefit Plans. The funded status of the defined benefit pension plan and other postretirement benefit plan obligations refers to the difference between plan assets and estimated obligations under the plans. The funded status may change over time due to several factors, including contribution levels, assumed discount rates and actual and assumed rates of return on plan assets.

LIQUIDITY AND CAPITAL RESOURCES (Continued)
Pension and Other Postretirement Benefit Plans (Continued)

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 approximately \$13 million to our other postretirement benefit plan in 2010. (See Note 13. Pension and Other Postretirement Benefit Plans.) Estimated defined benefit pension contributions for years 2011 through 2014 are expected to be up to \$25 million per year, and are based on estimates and assumptions that are subject to change. Funding for the other postretirement benefit plans is impacted by utility regulatory requirements. Estimated other postretirement benefit plan contributions for years 2011 through 2014 are expected to be approximately \$11 million per year, and are based on estimates and assumptions that are subject to change.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements are summarized in our 2009 Form 10-K, with additional disclosure in Note 14. Commitments, Guarantees and Contingencies of this Form 10-Q.

Capital Requirements

For the quarter ended March 31, 2010, capital expenditures totaled \$43.6 million (\$61.7 million at March 31, 2009). The expenditures were primarily made in the Regulated Operations segment. Internally generated funds and long-term debt and equity issuances were the primary sources of funding.

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 2009 Form 10-K, with additional disclosure in Note 14. Commitments, Guarantees and Contingencies of this Form 10-Q. We are unable to predict the outcome of the matters discussed.

Employees

Minnesota Power and SWL&P have an aggregate 614 employees who are members of the International Brotherhood of Electrical Workers (IBEW) Local 31. Throughout 2009, Minnesota Power, SWL&P and IBEW Local 31 worked towards settling new contracts to replace those which expired on January 31, 2009. Final resolution of the union contract for Minnesota Power occurred in January of 2010. SWL&P achieved final resolution through arbitration on March 12, 2010. The terms of both agreements are retroactive to February 1, 2009, and will expire on January 31, 2012.

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 March 31, 2010, our available-for-sale securities portfolio consisted of securities established to fund certain employee benefits and auction rate securities. (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 territories in Wisconsin. Our Minnesota regulated utilities' 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 in the 2008 retail rate case filing. Conversely, costs below those in the 2008 retail rate case filing 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 power and natural gas (in Wisconsin).

POWER MARKETING

Our power marketing activities consist of (1) purchasing energy in the wholesale market to serve our regulated service territories 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 this energy to the wholesale market to optimize the value of our generating facilities.

Demand nominations for power from our taconite customers in 2010 are expected to be higher than 2009, but lower than previous years' levels.

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.

Power Sales Agreement. On October 29, 2009, Minnesota Power entered into an agreement to sell Basin 100 MWs of capacity and energy for the next ten years, beginning in May of 2010. The Basin agreement contains a fixed monthly schedule of capacity charges with a minimum annual escalation provision. The energy charge is based on a fixed monthly schedule and provides for annual escalation based on our cost of fuel. The agreement allows us to recover a pro-rata share of increased costs related to emissions that may occur during the last five years of the contract.

INTEREST RATE RISK

We are also 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 current market conditions. Based on the variable rate debt outstanding at March 31, 2010, and assuming no other changes to our financial structure, an increase or decrease 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 change to the average variable interest rate on the variable rate debt outstanding as of March 31, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of March 31, 2010, 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. While we continue to enhance our internal control over financial reporting, 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part 1, Item 1A Risk Factors of our 2009 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

None.

PART II. OTHER INFORMATION (Continued)

ITEM 6. EXHIBITS

**Exhibit
Number**

- 4 [Thirty-first Supplemental Indenture, dated as of February 1, 2010, between ALLETE and The Bank of New York Mellon and Douglas J. MacInnes, as Trustees.](#)
- 10(a) [Amendment to the ALLETE Director Stock Plan Effective May 1, 2010.](#)
- 10(b) [ALLETE Non-Management Director Compensation Summary Effective May 1, 2010.](#)
- 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.](#)
- 99 [ALLETE News Release dated April 30, 2010, announcing 2010 first quarter earnings. \(This exhibit has been furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.\)](#)

ALLETE, Inc.
(formerly Minnesota Power & Light Company
and formerly Minnesota Power, Inc.)

TO

THE BANK OF NEW YORK MELLON
(formerly The Bank of New York
(formerly Irving Trust Company))

AND

DOUGLAS J. MacINNES
(successor to Richard H. West, J. A. Austin,
E. J. McCabe, D. W. May, J. A. Vaughan and W. T. Cunningham)

As Trustees under ALLETE, Inc.'s Mortgage and Deed of Trust dated as of
September 1, 1945

Thirty-first Supplemental Indenture
Providing, among other things, for
First Mortgage Bonds, 4.85% Series due April 15, 2021
(Thirty-eighth Series),
First Mortgage Bonds, 5.10% Series due April 15, 2025
(Thirty-ninth Series)
and
First Mortgage Bonds, 6.00% Series due April 15, 2040
(Fortieth Series)

Dated as of February 1, 2010

THIRTY-FIRST SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of February 1, 2010, by and between ALLETE, Inc. (formerly Minnesota Power & Light Company and formerly Minnesota Power, Inc.), a corporation of the State of Minnesota, whose post office address is 30 West Superior Street, Duluth, Minnesota 55802 (hereinafter sometimes called the “Company”), and The Bank of New York Mellon (formerly The Bank of New York (formerly Irving Trust Company)), a corporation of the State of New York, whose post office address is 101 Barclay Street, New York, New York 10286 (hereinafter sometimes called the “Corporate Trustee”), and Douglas J. MacInnes (successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May, J. A. Vaughan and W. T. Cunningham), whose post office address is 1784 W. McGalliard Avenue, Hamilton, New Jersey 08610 (said Douglas J. MacInnes being hereinafter sometimes called the “Co-Trustee” and the Corporate Trustee and the Co-Trustee being hereinafter together sometimes called the “Trustees”), as Trustees under the Mortgage and Deed of Trust, dated as of September 1, 1945, between the Company and Irving Trust Company and Richard H. West (Douglas J. MacInnes, successor Co-Trustee), as Trustees, securing bonds issued and to be issued as provided therein (hereinafter sometimes called the “Mortgage”), reference to which Mortgage is hereby made, this indenture (hereinafter sometimes called the “Thirty-first Supplemental Indenture”) being supplemental thereto:

Whereas, the Mortgage was filed and recorded in various official records in the State of Minnesota; and

Whereas, an instrument, dated as of October 16, 1957, was executed and delivered under which J. A. Austin succeeded Richard H. West as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

Whereas, an instrument, dated as of April 4, 1967, was executed and delivered under which E. J. McCabe in turn succeeded J. A. Austin as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

Whereas, under the Sixth Supplemental Indenture, dated as of August 1, 1975, to which reference is hereinafter made, D. W. May in turn succeeded E. J. McCabe as Co-Trustee under the Mortgage; and

Whereas, an instrument, dated as of June 25, 1984, was executed and delivered under which J. A. Vaughan in turn succeeded D. W. May as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

Whereas, an instrument, dated as of July 27, 1988, was executed and delivered under which W. T. Cunningham in turn succeeded J. A. Vaughan as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

Whereas, on May 12, 1998, the Company filed Amended and Restated Articles of Incorporation with the Secretary of State of the State of Minnesota changing its name from Minnesota Power & Light Company to Minnesota Power, Inc. effective May 27, 1998; and

Whereas, an instrument, dated as of April 15, 1999, was executed and delivered under which Douglas J. MacInnes in turn succeeded W. T. Cunningham as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

Whereas, on May 8, 2001, the Company filed Amended and Restated Articles of Incorporation with the Secretary of State of the State of Minnesota changing its name from Minnesota Power, Inc. to ALLETE, Inc.; and

Whereas, by the Mortgage the Company covenanted, among other things, that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Mortgage and to make subject to the lien of the Mortgage any property thereafter acquired and intended to be subject to the lien thereof; and

Whereas, for said purposes, among others, the Company executed and delivered the following indentures supplemental to the Mortgage:

Designation	Dated as of
First Supplemental Indenture	March 1, 1949
Second Supplemental Indenture	July 1, 1951
Third Supplemental Indenture	March 1, 1957
Fourth Supplemental Indenture	January 1, 1968
Fifth Supplemental Indenture	April 1, 1971
Sixth Supplemental Indenture	August 1, 1975
Seventh Supplemental Indenture	September 1, 1976
Eighth Supplemental Indenture	September 1, 1977
Ninth Supplemental Indenture	April 1, 1978
Tenth Supplemental Indenture	August 1, 1978
Eleventh Supplemental Indenture	December 1, 1982
Twelfth Supplemental Indenture	April 1, 1987
Thirteenth Supplemental Indenture	March 1, 1992
Fourteenth Supplemental Indenture	June 1, 1992
Fifteenth Supplemental Indenture	July 1, 1992
Sixteenth Supplemental Indenture	July 1, 1992
Seventeenth Supplemental Indenture	February 1, 1993
Eighteenth Supplemental Indenture	July 1, 1993
Nineteenth Supplemental Indenture	February 1, 1997
Twentieth Supplemental Indenture	November 1, 1997
Twenty-first Supplemental Indenture	October 1, 2000
Twenty-second Supplemental Indenture	July 1, 2003
Twenty-third Supplemental Indenture	August 1, 2004
Twenty-fourth Supplemental Indenture	March 1, 2005
Twenty-fifth Supplemental Indenture	December 1, 2005
Twenty-sixth Supplemental Indenture	October 1, 2006
Twenty-seventh Supplemental Indenture	February 1, 2008

Twenty-eighth Supplemental Indenture	May 1, 2008
Twenty-ninth Supplemental Indenture	November 1, 2008
Thirtieth Supplemental Indenture	January 1, 2009

which supplemental indentures were filed and recorded in various official records in the State of Minnesota; and

Whereas, the Company has heretofore issued, in accordance with the provisions of the Mortgage, as heretofore supplemented, the following series of First Mortgage Bonds:

Series	Principal Amount Issued	Principal Amount Outstanding
3-1/8% Series due 1975	\$26,000,000	None
3-1/8% Series due 1979	4,000,000	None
3-5/8% Series due 1981	10,000,000	None
4-3/4% Series due 1987	12,000,000	None
6-1/2% Series due 1998	18,000,000	None
8-1/8% Series due 2001	23,000,000	None
10-1/2% Series due 2005	35,000,000	None
8.70% Series due 2006	35,000,000	None
8.35% Series due 2007	50,000,000	None
9-1/4% Series due 2008	50,000,000	None
Pollution Control Series A	111,000,000	None
Industrial Development Series A	2,500,000	None
Industrial Development Series B	1,800,000	None
Industrial Development Series C	1,150,000	None
Pollution Control Series B	13,500,000	None
Pollution Control Series C	2,000,000	None
Pollution Control Series D	3,600,000	None
7-3/4% Series due 1994	55,000,000	None
7-3/8% Series due March 1, 1997	60,000,000	None
7-3/4% Series due June 1, 2007	55,000,000	None
7-1/2% Series due August 1, 2007	35,000,000	None
Pollution Control Series E	111,000,000	None
7% Series due March 1, 2008	50,000,000	None
6-1/4% Series due July 1, 2003	25,000,000	None
7% Series due February 15, 2007	60,000,000	None
6.68% Series due November 15, 2007	20,000,000	None
Floating Rate Series due October 20, 2003	250,000,000	None
Collateral Series A	255,000,000	None
Pollution Control Series F	111,000,000	111,000,000
5.28% Series due August 1, 2020	35,000,000	35,000,000
5.69% Series due March 1, 2036	50,000,000	50,000,000
5.99% Series due February 1, 2027	60,000,000	60,000,000
4.86% Series due April 1, 2013	60,000,000	60,000,000
6.02% Series due May 1, 2023	75,000,000	75,000,000
6.94% Series due January 15, 2014	18,000,000	18,000,000
7.70% Series due January 15, 2016	20,000,000	20,000,000
8.17% Series due January 15, 2019	42,000,000	42,000,000

which bonds are also hereinafter sometimes called bonds of the First through Thirty-seventh Series, respectively; and

Whereas, Section 8 of the Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder and of coupons to be attached to coupon bonds of such series shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such bonds are to be issued and/or secured under the Mortgage; and

Whereas, Section 120 of the Mortgage provides, among other things, that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Mortgage, whether such power, privilege or right is in any way restricted or is unrestricted, may (to the extent permitted by law) be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may cure any ambiguity contained therein, or in any supplemental indenture, or may establish the terms and provisions of any series of bonds (other than said First Series) by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

Whereas, the Company now desires to create three new series of bonds and (pursuant to the provisions of Section 120 of the Mortgage) to add to its covenants and agreements contained in the Mortgage, as heretofore supplemented, certain other covenants and agreements to be observed by it and to alter and amend in certain respects the covenants and provisions contained in the Mortgage, as heretofore supplemented; and

Whereas, the execution and delivery by the Company of this Thirty-first Supplemental Indenture, and the terms of the bonds of the Thirty-eighth Series, the Thirty-ninth Series and the Fortieth Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

Now, Therefore, This Indenture Witnesseth:

That the Company, in consideration of the premises and of One Dollar to it duly paid by the Trustees at or before the ensembling and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustees and in order further to secure the payment of both the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, as heretofore supplemented, according to their tenor and effect and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances) unto The Bank of New York Mellon and Douglas J. MacInnes, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all property, real, personal and mixed, of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind or nature acquired by the Company after the date of the execution and delivery of the Mortgage, as heretofore supplemented (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or, subject to the provisions of subsection (I) of Section 87 of the Mortgage, hereafter acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Thirty-first Supplemental Indenture) all lands, power sites, flowage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants for the generation of electricity by steam, water and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water works, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, electric, gas and other machines, regulators, meters, transformers, generators, motors, electrical, gas and mechanical appliances, conduits, cables, water, steam heat, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture and chattels; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of electric current, gas, steam heat or water for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

Together with all and singular the tenements, hereditaments, prescriptions, servitudes and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

It is hereby agreed by the Company that, subject to the provisions of subsection (I) of Section 87 of the Mortgage, all the property, rights, and franchises acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) after the date hereof, except any herein or in the Mortgage, as heretofore supplemented, expressly excepted, shall be and are as fully granted and conveyed hereby and by the Mortgage and as fully embraced within the lien hereof and the lien of the Mortgage as if such property, rights and franchises were now owned by the Company and were specifically described herein or in the Mortgage and conveyed hereby or thereby.

Provided that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, hypothecated, affected, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this Thirty-first Supplemental Indenture and from the lien and operation of the Mortgage, namely: (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the Mortgage or covenanted so to be; (2) merchandise, equipment, apparatus, materials or supplies held for the purpose of sale or other disposition in the usual course of business; fuel, oil and similar materials and supplies consumable in the operation of any of the properties of the Company; all aircraft, rolling stock, trolley coaches, buses, motor coaches, automobiles and other vehicles and materials and supplies held for the purpose of repairing or replacing (in whole or part) any of the same; all timber, minerals, mineral rights and royalties; (3) bills, notes and accounts receivable, judgments, demands and choses in action, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the Company's contractual rights or other interest in or with respect to tires not owned by the Company; (4) the last day of the term of any lease or leasehold which may hereafter become subject to the lien of the Mortgage; (5) electric energy, gas, steam, ice, and other materials or products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; and (6) the Company's franchise to be a corporation; provided, however, that the property and rights expressly excepted from the lien and operation of this Thirty-first Supplemental Indenture and from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that either or both of the Trustees or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 thereof.

To have and to hold all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto the Trustees and their successors and assigns forever.

In trust nevertheless, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as supplemented, this Thirty-first Supplemental Indenture being supplemental thereto.

And it is hereby covenanted by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and Trustees and the beneficiaries of the trust with respect to said property, and to the Trustees and their successors in the trust in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to said Trustees by the Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustees and their successors in said trust under the Mortgage as follows:

ARTICLE I Thirty-eighth Series of Bonds

Section 1. There shall be a series of bonds designated “4.85% Series due April 15, 2021” (herein sometimes referred to as the “Thirty-eighth Series”), each of which shall also bear the descriptive title “First Mortgage Bond”, and the form thereof, which shall be established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Thirty-eighth Series shall be dated as in Section 10 of the Mortgage provided, mature on April 15, 2021, be issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, in any multiple or multiples of One Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and bear interest from February 17, 2010 (or the date of funding if the funding occurs prior to February 17, 2010) (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 4.85% per annum, payable semi-annually on April 15 and October 15 of each year, commencing October 15, 2010, the principal of and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

Any payment of principal of or interest on any bond of the Thirty-eighth Series that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any such bond of the Thirty-eighth Series is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

(I) **Optional Prepayment.** The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the bonds of the Thirty-eighth Series at 100% of the principal amount so prepaid, and the Make-Whole Amount determined for the Settlement Date specified by the Company in such notice with respect to such principal amount. The Company will give each registered owner of Bonds of the Thirty-eighth Series written notice (by first class mail or such other method as may be agreed upon by the Company and such registered owner) of each optional prepayment under this subsection (I) mailed or otherwise given not less than 30 days and not more than 60 days prior to the date fixed for such prepayment, to each such registered owner at his, her or its last address appearing on the registry books. Each such notice shall specify the Settlement Date (which shall be a Business Day), the aggregate principal amount of the bonds of the Thirty-eighth Series to be prepaid on such date, the principal amount of each bond held by such registered owner to be prepaid (determined in accordance with subsection (II) of this section), and the interest to be paid on the Settlement Date with respect to such principal amount being prepaid, and shall be accompanied by a certificate signed by a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such Settlement Date, the Company shall send to each registered owner of bonds of the Thirty-eighth Series (by first class mail or by such other method as may be agreed upon by the Company and such registered owner) a certificate signed by a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified Settlement Date. As promptly as practicable after the giving of the notice and the sending of the certificates provided in this subsection, the Company shall provide a copy of each to the Corporate Trustee. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice or certificate. The bonds of the Thirty-eighth Series are not otherwise subject to voluntary or optional prepayment.

(II) **Allocation of Partial Prepayments.** In the case of each partial prepayment of the bonds of the Thirty-eighth Series, the principal amount of the Bonds of the Thirty-eighth Series to be prepaid shall be allocated by the Company among all of the Bonds of the Thirty-eighth Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

(III) **Maturity; Surrender, Etc.** In the case of each notice of prepayment of bonds of the Thirty-eighth Series pursuant to this section, if cash sufficient to pay the principal amount to be prepaid on the Settlement Date (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any, is not paid as agreed upon by the Company and each registered owner of the affected bonds, or, to the extent that there is no such agreement entered into with one or more such owners, deposited with the Corporate Trustee on or before the Settlement Date, then such notice of prepayment shall be of no effect. If such cash is so paid or deposited, such principal amount of the bonds of the Thirty-eighth Series shall be deemed paid for all purposes and interest on such principal amount shall cease to accrue. In case the Company pays any registered owner pursuant to an agreement with that registered owner, the Company shall notify the Corporate Trustee as promptly as practicable of such agreement and payment, and shall furnish the Corporate Trustee with a copy of such agreement; in case the Company deposits any cash with the Corporate Trustee, the Company shall provide therewith a list of the registered owners and the amount of such cash each registered owner is to receive. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice, list or agreement, and shall not be chargeable with knowledge of any of the contents of any such agreement. Any bond prepaid in full shall be surrendered to the Company or the Corporate Trustee for cancellation on or before the Settlement Date or, with respect to cash deposited with the Corporate Trustee, before payment of such cash by the Corporate Trustee; any bond prepaid in part shall be surrendered to the Company or the Corporate Trustee on or before the Settlement Date (unless otherwise agreed between the Company and the registered owner) or, with respect to cash deposited with the Corporate Trustee before payment of such cash by the Corporate Trustee, for a substitute bond in the principal amount remaining unpaid.

(IV) **Make-Whole Amount.**

“Make-Whole Amount” means, with respect to any bond of the Thirty-eighth Series, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such bond of the Thirty-eighth Series over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

“Business Day” means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

“Called Principal” means, with respect to any bond of the Thirty-eighth Series, the principal of such bond that is to be prepaid pursuant to subsection (I) of this section.

“Discounted Value” means, with respect to the Called Principal of any bond of the Thirty-eighth Series, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the bonds of the Thirty-eighth Series is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“Reinvestment Yield” means, with respect to the Called Principal of any bond of the Thirty-eighth Series, 0.5% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” on the Bloomberg Financial Markets Service (or such other display on the Bloomberg Financial Markets

Service having the same information as PX1 if PX1 is replaced by the Bloomberg Financial Markets Service) for the most recently issued actively traded on-the-run benchmark U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable bond of the Thirty-eighth Series.

“Remaining Average Life” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal of any Bond of the Thirty-eighth Series, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Bonds of the Thirty-eighth Series, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to subsection (I) of this section.

“Settlement Date” means, with respect to the Called Principal of any Bond of the Thirty-eighth Series, the date on which such Called Principal is to be prepaid pursuant to subsection (I) of this section.

“Senior Financial Officer” means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

(V) At the option of the registered owner, any bonds of the Thirty-eighth Series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, together with a written instrument of transfer wherever required by the Company duly executed by the registered owner or by his duly authorized attorney, shall (subject to the provisions of Section 12 of the Mortgage) be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations.

Bonds of the Thirty-eighth Series shall be transferable (subject to the provisions of Section 12 of the Mortgage) at the office or agency of the Company in the Borough of Manhattan, The City of New York. The Company shall not be required to make transfers or exchanges of bonds of the Thirty-eighth Series for a period of ten (10) days next preceding any designation of bonds of said series to be prepaid, and the Company shall not be required to make transfers or exchanges of any bonds of said series designated in whole or in part for prepayment.

Upon any exchange or transfer of bonds of the Thirty-eighth Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Mortgage, but the Company hereby waives any right to make a charge in addition thereto for any exchange or transfer of bonds of the Thirty-eighth Series.

After the delivery of this Thirty-first Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage and receipt of consideration therefor by the Company, there shall be an initial issue of bonds of the Thirty-eighth Series for the aggregate principal amount of \$15,000,000.

ARTICLE II Thirty-ninth Series of Bonds

Section 1. There shall be a series of bonds designated “5.10% Series due April 15, 2025” (herein sometimes referred to as the “Thirty-ninth Series”), each of which shall also bear the descriptive title “First Mortgage Bond”, and the form thereof, which shall be established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Thirty-ninth Series shall be dated as in Section 10 of the Mortgage provided, mature on April 15, 2025, be issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, in any multiple or multiples of One Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and bear interest from February 17, 2010 (or the date of funding if the funding occurs prior to February 17, 2010) (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 5.10% per annum, payable semi-annually on April 15 and October 15 of each year, commencing October 15, 2010, the principal of and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

Any payment of principal of or interest on any bond of the Thirty-ninth Series that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any such bond of the Thirty-ninth Series is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

(I) **Optional Prepayment.** The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the bonds of the Thirty-ninth Series at 100% of the principal amount so prepaid, and the Make-Whole Amount determined for the Settlement Date specified by the Company in such notice with respect to such principal amount. The Company will give each registered owner of Bonds of the Thirty-ninth Series written notice (by first class mail or such other method as may be agreed upon by the Company and such registered owner) of each optional prepayment under this subsection (I) mailed or otherwise given not less than 30 days and not more than 60 days prior to the date fixed for such prepayment, to each such registered owner at his, her or its last address appearing on the registry books. Each such notice shall specify the Settlement Date (which shall be a Business Day), the aggregate principal amount of the bonds of the Thirty-ninth Series to be prepaid on such date, the principal amount of each bond held by such registered owner to be prepaid (determined in accordance with subsection (II) of this section), and the interest to be paid on the Settlement Date with respect to such principal amount being prepaid, and shall be accompanied by a certificate signed by a Senior Financial Officer as to the estimated Make-

Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such Settlement Date, the Company shall send to each registered owner of bonds of the Thirty-ninth Series (by first class mail or by such other method as may be agreed upon by the Company and such registered owner) a certificate signed by a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified Settlement Date. As promptly as practicable after the giving of the notice and the sending of the certificates provided in this subsection, the Company shall provide a copy of each to the Corporate Trustee. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice or certificate. The bonds of the Thirty-ninth Series are not otherwise subject to voluntary or optional prepayment.

(II) **Allocation of Partial Prepayments.** In the case of each partial prepayment of the bonds of the Thirty-ninth Series, the principal amount of the Bonds of the Thirty-ninth Series to be prepaid shall be allocated by the Company among all of the Bonds of the Thirty-ninth Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

(III) **Maturity; Surrender, Etc.** In the case of each notice of prepayment of bonds of the Thirty-ninth Series pursuant to this section, if cash sufficient to pay the principal amount to be prepaid on the Settlement Date (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any, is not paid as agreed upon by the Company and each registered owner of the affected bonds, or, to the extent that there is no such agreement entered into with one or more such owners, deposited with the Corporate Trustee on or before the Settlement Date, then such notice of prepayment shall be of no effect. If such cash is so paid or deposited, such principal amount of the bonds of the Thirty-ninth Series shall be deemed paid for all purposes and interest on such principal amount shall cease to accrue. In case the Company pays any registered owner pursuant to an agreement with that registered owner, the Company shall notify the Corporate Trustee as promptly as practicable of such agreement and payment, and shall furnish the Corporate Trustee with a copy of such agreement; in case the Company deposits any cash with the Corporate Trustee, the Company shall provide therewith a list of the registered owners and the amount of such cash each registered owner is to receive. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice, list or agreement, and shall not be chargeable with knowledge of any of the contents of any such agreement. Any bond prepaid in full shall be surrendered to the Company or the Corporate Trustee for cancellation on or before the Settlement Date or, with respect to cash deposited with the Corporate Trustee, before payment of such cash by the Corporate Trustee; any bond prepaid in part shall be surrendered to the Company or the Corporate Trustee on or before the Settlement Date (unless otherwise agreed between the Company and the registered owner) or, with respect to cash deposited with the Corporate Trustee before payment of such cash by the Corporate Trustee, for a substitute bond in the principal amount remaining unpaid.

(IV) **Make-Whole Amount.**

“Make-Whole Amount” means, with respect to any bond of the Thirty-ninth Series, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such bond of the Thirty-ninth Series over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

“Business Day” means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

“Called Principal” means, with respect to any bond of the Thirty-ninth Series, the principal of such bond that is to be prepaid pursuant to subsection (I) of this section.

“Discounted Value” means, with respect to the Called Principal of any bond of the Thirty-ninth Series, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the bonds of the Thirty-ninth Series is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“Reinvestment Yield” means, with respect to the Called Principal of any bond of the Thirty-ninth Series, 0.5% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” on the Bloomberg Financial Markets Service (or such other display on the Bloomberg Financial Markets Service having the same information as PX1 if PX1 is replaced by the Bloomberg Financial Markets Service) for the most recently issued actively traded on-the-run benchmark U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable bond of the Thirty-ninth Series.

“Remaining Average Life” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal of any Bond of the Thirty-ninth Series, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Bonds of the Thirty-ninth Series, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to subsection (I) of this section.

“Settlement Date” means, with respect to the Called Principal of any Bond of the Thirty-ninth Series, the date on which such Called Principal is to be prepaid pursuant to subsection (I) of this section.

“Senior Financial Officer” means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

(V) At the option of the registered owner, any bonds of the Thirty-ninth Series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, together with a written instrument of transfer wherever required by the Company duly executed by the registered owner or by his duly authorized attorney, shall (subject to the provisions of Section 12 of the Mortgage) be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations.

Bonds of the Thirty-ninth Series shall be transferable (subject to the provisions of Section 12 of the Mortgage) at the office or agency of the Company in the Borough of Manhattan, The City of New York. The Company shall not be required to make transfers or exchanges of bonds of the Thirty-ninth Series for a period of ten (10) days next preceding any designation of bonds of said series to be prepaid, and the Company shall not be required to make transfers or exchanges of any bonds of said series designated in whole or in part for prepayment.

Upon any exchange or transfer of bonds of the Thirty-ninth Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Mortgage, but the Company hereby waives any right to make a charge in addition thereto for any exchange or transfer of bonds of the Thirty-ninth Series.

After the delivery of this Thirty-first Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage and receipt of consideration therefor by the Company, there shall be an initial issue of bonds of the Thirty-ninth Series for the aggregate principal amount of \$30,000,000.

ARTICLE III Fortieth Series of Bonds

Section 1. There shall be a series of bonds designated “6.00% Series due April 15, 2040” (herein sometimes referred to as the “Fortieth Series”), each of which shall also bear the descriptive title “First Mortgage Bond”, and the form thereof, which shall be established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Fortieth Series shall be dated as in Section 10 of the Mortgage provided, mature on April 15, 2040, be issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, in any multiple or multiples of One Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and bear interest from February 17, 2010 (or the date of funding if the funding occurs prior to February 17, 2010) (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 6.00% per annum, payable semi-annually on April 15 and October 15 of each year, commencing October 15, 2010, the principal of and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

Any payment of principal of or interest on any bond of the Fortieth Series that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any such bond of the Fortieth Series is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

(I) **Optional Prepayment.** The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the bonds of the Fortieth Series at 100% of the principal amount so prepaid, and the Make-Whole Amount determined for the Settlement Date specified by the Company in such notice with respect to such principal amount. The Company will give each registered owner of Bonds of the Fortieth Series written notice (by first class mail or such other method as may be agreed upon by the Company and such registered owner) of each optional prepayment under this subsection (I) mailed or otherwise given not less than 30 days and not more than 60 days prior to the date fixed for such prepayment, to each such registered owner at his, her or its last address appearing on the registry books. Each such notice shall specify the Settlement Date (which shall be a Business Day), the aggregate principal amount of the bonds of the Fortieth Series to be prepaid on such date, the principal amount of each bond held by such registered owner to be prepaid (determined in accordance with subsection (II) of this section), and the interest to be paid on the Settlement Date with respect to such principal amount being prepaid, and shall be accompanied by a certificate signed by a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such Settlement Date, the Company shall send to each registered owner of bonds of the Fortieth Series (by first class mail or by such other method as may be agreed upon by the Company and such registered owner) a certificate signed by a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified Settlement Date. As promptly as practicable after the giving of the notice and the sending of the certificates provided in this subsection, the Company shall provide a copy of each to the Corporate Trustee. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice or certificate. The bonds of the Fortieth Series are not otherwise subject to voluntary or optional prepayment.

(II) **Allocation of Partial Prepayments.** In the case of each partial prepayment of the bonds of the Fortieth Series, the principal amount of the Bonds of the Fortieth Series to be prepaid shall be allocated by the Company among all of the Bonds of the Fortieth Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

(III) **Maturity; Surrender, Etc.** In the case of each notice of prepayment of bonds of the Fortieth Series pursuant to this section, if cash sufficient to pay the principal amount to be prepaid on the Settlement Date (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any, is not paid as agreed upon by the Company and each registered owner of the affected bonds, or, to the extent that there is no such agreement entered into with one or more such owners, deposited with the Corporate Trustee on or before the Settlement Date, then such notice of prepayment shall be of no effect. If such cash is so paid or deposited, such principal amount of the bonds of the Fortieth Series shall be deemed paid for all purposes and interest on such principal amount shall cease to accrue. In case the Company pays any registered owner pursuant to an agreement with that registered owner, the Company shall notify the Corporate Trustee as promptly as practicable of such agreement and payment, and shall furnish the Corporate Trustee with a copy of such agreement; in case the Company deposits any cash with the Corporate Trustee, the Company shall provide therewith a list of the registered owners and the amount of such cash each registered owner is to receive. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice, list or agreement, and shall not be chargeable with knowledge of any of the contents of any such agreement. Any bond prepaid in full shall be surrendered to the Company or the Corporate Trustee for cancellation on or before the Settlement Date or, with respect to cash deposited with the Corporate Trustee, before payment of such cash by the Corporate Trustee; any bond prepaid in part shall be surrendered to the Company or the Corporate Trustee on or before the Settlement Date (unless otherwise agreed between the Company and the registered owner) or, with respect to cash deposited with the Corporate Trustee before payment of such cash by the Corporate Trustee, for a substitute bond in the principal amount remaining unpaid.

(IV) Make-Whole Amount.

“Make-Whole Amount” means, with respect to any bond of the Fortieth Series, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such bond of the Fortieth Series over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

“Business Day” means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

“Called Principal” means, with respect to any bond of the Fortieth Series, the principal of such bond that is to be prepaid pursuant to subsection (I) of this section.

“Discounted Value” means, with respect to the Called Principal of any bond of the Fortieth Series, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the bonds of the Fortieth Series is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“Reinvestment Yield” means, with respect to the Called Principal of any bond of the Fortieth Series, 0.5% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” on the Bloomberg Financial Markets Service (or such other display on the Bloomberg Financial Markets Service having the same information as PX1 if PX1 is replaced by the Bloomberg Financial Markets Service) for the most recently issued actively traded on-the-run benchmark U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable bond of the Fortieth Series.

“Remaining Average Life” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal of any Bond of the Fortieth Series, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Bonds of the Fortieth Series, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to subsection (I) of this section.

“Settlement Date” means, with respect to the Called Principal of any Bond of the Fortieth Series, the date on which such Called Principal is to be prepaid pursuant to subsection (I) of this section.

“Senior Financial Officer” means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

(V) At the option of the registered owner, any bonds of the Fortieth Series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, together with a written instrument of transfer wherever required by the Company duly executed by the registered owner or by his duly authorized attorney, shall (subject to the provisions of Section 12 of the Mortgage) be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations.

Bonds of the Fortieth Series shall be transferable (subject to the provisions of Section 12 of the Mortgage) at the office or agency of the Company in the Borough of Manhattan, The City of New York. The Company shall not be required to make transfers or exchanges of bonds of the Fortieth Series for a period of ten (10) days next preceding any designation of bonds of said series to be prepaid, and the Company shall not be required to make transfers or exchanges of any bonds of said series designated in whole or in part for prepayment.

Upon any exchange or transfer of bonds of the Fortieth Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Mortgage, but the Company hereby waives any right to make a charge in addition thereto for any exchange or transfer of bonds of the Fortieth Series.

After the delivery of this Thirty-first Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage and receipt of consideration therefor by the Company, there shall be an initial issue of bonds of the Fortieth Series for the aggregate principal amount of \$35,000,000.

ARTICLE IV
Reservation of Right to Amend the Mortgage

SECTION 1. Release of Unfunded Property The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any other subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend Section 60 of the Mortgage by inserting “(I)” before the word “Unless” in the first line thereof, and by adding a subsection (II) at the end of Section 60 to read substantially as follows:

“(II) Unless the Company is in default in the payment of the interest on any bonds then Outstanding hereunder or one or more of the Defaults defined in Section 65 hereof shall have occurred and be continuing, the Company may obtain the release of any of the Mortgaged and Pledged Property that is not Funded Property, except cash then held by the Corporate Trustee (provided, however, that Qualified Lien Bonds deposited with the Corporate Trustee shall not be released or surrendered except as provided in Article IX hereof and obligations secured by purchase money mortgage deposited with the Corporate Trustee shall not be released except as provided in Section 61 hereof), and the Corporate Trustee shall release all its right, title and interest in and to the same from the Lien hereof upon application of the Company and receipt by the Corporate Trustee of the following (in lieu of complying with the requirements of Section 59 hereof):

- (1) an Officers’ Certificate complying with the requirements of Section 121 hereof and describing in reasonable detail the property to be released and requesting such release, and stating:
 - (a) that the Company is not in default in the payment of interest on any bonds then Outstanding hereunder and that no Default has occurred and is continuing;
 - (b) that the Company has decided to release from the Lien hereof the property to be released;
 - (c) that the property to be released is not Funded Property;
 - (d) that (except in any case where a governmental body or agency has exercised a right to order the Company to divest itself of such property) such release is in the opinion of the signers desirable in the conduct of the business of the Company; and
 - (e) the amount of cash and/or principal amount of obligations secured by purchase money mortgage received or to be received for any portion of said property sold to any Federal, State, County, Municipal or other governmental bodies or agencies or public or semi-public corporations, districts, or authorities;
- (2) an Engineer’s Certificate, made and dated not more than ninety (90) days prior to the date of such application, stating:
 - (a) the fair value, in the opinion of the signers, of the property (or securities) to be released;
 - (b) that in the opinion of the signers such release will not impair the security under this Indenture in contravention of the provisions hereof; and
 - (c) that the Company has Property Additions constituting property that is not Funded Property (not including the Property Additions then being released) of a Cost or fair value to the Company (whichever is less) of not less than one dollar (\$1) (after making any deductions and any additions pursuant to the provisions of Section 4 hereof) after deducting the Cost of the property then being released;
- (3) an Opinion of Counsel complying with the requirements of Section 121 hereof and stating that all conditions precedent provided for in this Indenture relating to the release of the property in question have been complied with; and
- (4) in case the Corporate Trustee is requested to release any franchise, an Opinion of Counsel complying with the requirements of Section 121 hereof and stating that in his or their opinion such release will not impair to any material extent the right of the Company to operate any of its remaining properties.”

SECTION 2. Elimination of Obligation to Dispose of Released Property The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any other subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend clause (a) of subdivision (3) of Section 59 to read substantially as follows:

“(a) that the Company has decided to release from the Lien hereof the property to be released;”

SECTION 3. Elimination of Five Year Limit on Property Additions Used for Releases The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any other subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend clause (b) of subdivision (4) of Section 59 to delete the words “that no such application for release may be based in whole or in part upon Property Additions acquired, made or constructed more than five years prior to the last day of the calendar month immediately preceding the date of such application, and provided, further;”

SECTION 4. Releases Based on Retired Bonds The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend clause (c) of subdivision (4) of Section 59 of the Mortgage to read substantially as follows:

“(c) the principal amount of each bond or fraction of bond to the authentication and delivery of which the Company shall be entitled under the provisions of Section 26 or 10/6ths of the principal amount of each bond or fraction of bond to the authentication and delivery of which the Company shall be entitled under the provisions of Section 29 hereof, by virtue of compliance with all applicable provisions of said Section 26 or Section 29, as the case may be (except as hereinafter in this Section otherwise provided); provided, however, that (except as hereinafter in this Section otherwise provided) the application for such release shall operate as a waiver by the Company of such right to the authentication and

delivery of each such bond or fraction thereof on the basis of which right such property is released and to such extent no such bond or fraction thereof may thereafter be authenticated and delivered hereunder, and any Corresponding Retired Bonds or Corresponding Qualified Lien Bonds, as hereinafter defined, shall be deemed to have been made the basis of the release of such property; for purposes of this clause (c), the following definitions shall apply:

The term “Corresponding Retired Bond” shall mean the bond or fraction of a bond selected by the Company to serve as the basis under the provisions of Section 29 of the Mortgage for such right to the authentication and delivery of bond(s) or fraction of a bond so waived; and

The term “Corresponding Qualified Lien Bond” shall mean the Qualified Lien Bond selected by the Company to serve as the basis under the provisions of Section 26 of the Mortgage for such right to the authentication and delivery of bond(s) or fraction of a bond so waived.”

SECTION 5. Amendments without the Consent of Bondholders The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any other subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend Section 120 of the Mortgage to read substantially as follows:

“SECTION 120. Anything in this Indenture to the contrary notwithstanding, without the consent of any holders of bonds, the Company and the Trustees, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustees, for any of the following purposes:

(a) to evidence the succession of another corporation to the Company and the assumption by any such successor of the covenants of the Company herein and in the bonds, all as provided in Article XVI hereof, or

(b) to add one or more covenants of the Company or other provisions for the benefit of all holders of the bonds or for the benefit of the holders of, or to remain in effect only so long as there shall be Outstanding, bonds of one or more specified series, and to make the occurrence of a default in the performance of any of such additional covenants an additional “Default” under Section 65 permitting the enforcement of all or any of the several remedies provided in this Indenture, as herein set forth; provided, however, that in respect of any such additional covenant, such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than those allowed in the case of other defaults) or may provide for an immediate enforcement upon such default, or may (subject to the provisions of applicable law) limit the remedies available to the Trustees upon such default; or to provide that the occurrence of one or more specified events shall constitute additional “Defaults” under Section 65 as if set forth therein, or to surrender any right or power herein conferred upon the Company, which additional “Default” or surrender may be limited so as to remain in effect only so long as bonds of one or more specified series shall remain Outstanding; or

(c) to correct or amplify the description of any property at any time subject to the Lien of this Indenture, or better to assure, convey and confirm unto the Trustees any property subject or required to be subjected to the Lien of this Indenture, or to subject to the Lien of this Indenture additional property; or

(d) to change or eliminate any provision of this Indenture or to add any new provision to this Indenture; provided, however, that no such change, elimination or addition shall adversely affect the interests of the holders of bonds of any series in any material respect; or

(e) to establish the form or terms of bonds of any series as contemplated by Article II; or

(f) to provide for the procedures required to permit the Company to utilize, at its option, a non-certificated system of registration for all or any series of bonds; or

(g) to change any place or places (within the United States of America) where (1) the principal of and premium, if any, and interest, if any, on all or any series of bonds shall be payable, (2) all or any series of bonds may be surrendered for registration of transfer, (3) all or any series of bonds may be surrendered for exchange and (4) notices and demands to or upon the Company in respect of all or any series of bonds and this Indenture may be served; or

(h) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein; or to make any other changes to the provisions hereof or to add other provisions with respect to matters or questions arising under this Indenture, provided that such other changes or additions shall not adversely affect the interests of the holders of bonds of any series in any material respect.

Without limiting the generality of the foregoing, if the Trust Indenture Act of 1939, as in effect at any time and from time to time,

(x) shall require one or more changes to any provisions hereof or the inclusion herein of any additional provisions, or shall by operation of law be deemed to effect such changes or incorporate such provisions by reference or otherwise, this Indenture shall be deemed to have been amended so as to conform to the Trust Indenture Act of 1939 as then in effect, and the Company and the Trustees may, without the consent of any holders of bonds, enter into an indenture supplemental hereto to evidence such amendment hereof; or

(y) shall permit one or more changes to, or the elimination of, any provisions hereof which shall theretofore have been required by the Trust Indenture Act of 1939 to be contained herein or are contained herein to reflect any provisions of the Trust Indenture Act of 1939, this Indenture shall be deemed to have been amended to effect such changes or elimination, and the Company and the Trustees may, without the consent of any holders of bonds, enter into an indenture supplemental hereto to evidence such amendment hereof, provided that the Indenture shall not be amended as provided in this clause (y) so as to adversely affect the interests of the holders of bonds of any series in any material respect.”

SECTION 6. Recalibration of Funded Property The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any other subsequent series, to amend the Mortgage, as heretofore amended and

supplemented, as follows:

To amend Section 5 of the Mortgage to replace the first two paragraphs thereof with three paragraphs reading substantially as follows:

“The term “Funded Property Certificate” shall mean an Independent Engineer’s Certificate delivered to the Corporate Trustee, within ninety days after the date thereof,

(A) stating the aggregate principal amount of bonds then Outstanding under this Indenture;

(B) stating the aggregate principal amount of bonds which the Company is then entitled to have authenticated and delivered by compliance with the provisions of Section 29 hereof;

(C) stating an amount equal to 10/6ths of the sum of the amounts stated in clauses (A) and (B) above;

(D) describing all or any portion of the Mortgaged and Pledged Property which, in the opinion of the signers, has an aggregate fair value not less than the amount stated in clause (C) above.

The term “Funded Property” shall mean:

(1) all Mortgaged and Pledged Property described in the most recent Funded Property Certificate delivered to the Corporate Trustee;

(2) all Property Additions to the extent that the same shall have been made the basis of the authentication and delivery of bonds under this Indenture after the date of the most recent Funded Property Certificate delivered to the Corporate Trustee;

(3) all Property Additions to the extent that the same shall have been made the basis of the release of property from the Lien of this Indenture after the date of the most recent Funded Property Certificate delivered to the Corporate Trustee, subject, however, to the provisions of Section 59 hereof;

(4) all Property Additions to the extent that the same shall have been substituted (otherwise than under the release or cash withdrawal provisions hereof) for Funded Property retired after the date of the most recent Funded Property Certificate delivered to the Corporate Trustee; and

(5) all Property Additions to the extent that the same shall have been made the basis of the withdrawal of any Funded Cash as hereinafter defined after the date of the most recent Funded Property Certificate delivered to the Corporate Trustee, except to the extent that any such Property Additions shall no longer be deemed to be Funded Property in accordance with the provisions of other Sections of this Indenture.

In the event that in any certificate filed with the Corporate Trustee in connection with any of the transactions referred to in clauses (2), (3) and (5) of this Section only a part of the Cost or fair value of the Property Additions described in such certificate shall be required for the purposes of such certificate, then such Property Additions shall be deemed to be Funded Property only to the extent so required for the purpose of such certificate.”

The foregoing amendment shall not become effective until the Company shall have delivered a Funded Property Certificate to the Corporate Trustee.

SECTION 7. Release of Company After Transfer of Substantially All of Mortgaged Property The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any other subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend Section 86 of the Mortgage to add a new paragraph at the end reading substantially as follows:

“In case the Company, as permitted by Section 85 hereof, shall convey or transfer, subject to the Lien of this Indenture, all or substantially all of the Mortgaged and Pledged Property as an entirety to a successor corporation, the indenture described above in this Section may also provide for the release and discharge of the Company from all obligations under this Indenture or any bonds issued hereunder which are assumed by such successor corporation.”

SECTION 8. Insurance The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend Section 37 of the Mortgage to read substantially as follows:

Section 37. (a) The Company shall (i) keep or cause to be kept all the Mortgaged and Pledged Property insured against loss by fire, to the extent that property of similar character is usually so insured by companies similarly situated and operating like properties, to a reasonable amount, by reputable insurance companies, the proceeds of such insurance (except as to any loss of Excepted Property and except as to any particular loss less than the greater of (A) Twenty Million Dollars (\$20,000,000) and (B) three percent (3%) of the principal amount of bonds Outstanding on the date of such particular loss) to be made payable, subject to applicable law, to the Corporate Trustee as the interest of the Corporate Trustee may appear, or to the trustee or other holder of any Lien prior hereto upon property subject to the Lien hereof, if the terms thereof require such payment, or to the agent or representative of the owners of jointly-owned property if the terms of such joint ownership require such payment or (ii) in lieu of or supplementing such insurance in whole or in part, adopt some other method or plan of protection against loss by fire at least equal in protection to the method or plan of protection against loss by fire of companies similarly situated and operating properties subject to similar fire hazards or properties on which an equal primary fire insurance rate has been set by reputable insurance companies; and if the Company shall adopt such other method or plan of protection, it shall, subject to applicable law (and except as to any loss of Excepted Property and except as to any particular loss less than the greater of (X) Twenty Million Dollars (\$20,000,000) and (Y) three percent (3%) of the principal amount of bonds Outstanding on the date of such particular loss) pay to the Corporate Trustee on account of any loss covered by such method or plan an amount in cash equal to the

amount of such loss less any amounts otherwise paid to the Corporate Trustee in respect of such loss or paid to the trustee or other holder of any Lien prior hereto upon property subject to the Lien hereof in respect of such loss if the terms thereof require such payment or paid to the agent or representative of the owners of jointly-owned property if the terms of such joint ownership require such payment. Any cash so required to be paid by the Company pursuant to any such method or plan shall for the purposes of this Indenture be deemed to be proceeds of insurance. In case of the adoption of such other method or plan of protection, the Company shall furnish to the Corporate Trustee a certificate of an actuary or other qualified person appointed by the Company with respect to the adequacy of such method or plan.

Anything herein to the contrary notwithstanding, the Company may have fire insurance policies with (i) a deductible provision in a dollar amount per occurrence not exceeding the greater of (A) Twenty Million Dollars (\$20,000,000) and (B) three percent (3%) of the principal amount of the bonds Outstanding on the date such policy goes into effect, and/or (ii) co-insurance or self insurance provisions with a dollar amount per occurrence not exceeding thirty percent (30%) of the loss proceeds otherwise payable; provided, however, that the dollar amount described in clause (i) above may be exceeded to the extent such dollar amount per occurrence is below the deductible amount in effect as to fire insurance (X) on property of similar character insured by companies similarly situated and operating like property or (Y) on property as to which an equal primary fire insurance rate has been set by reputable insurance companies.

(b) All moneys paid to the Corporate Trustee by the Company in accordance with this Section or received by the Corporate Trustee as proceeds of any insurance, in either case on account of a loss on or with respect to Funded Property, shall, subject to any Lien prior hereto upon property subject to the Lien hereof, be held by the Corporate Trustee and, subject as aforesaid, shall be paid by it to the Company to reimburse the Company for an equal amount expended or committed for expenditure in the rebuilding, renewal and/or replacement of or substitution for the property destroyed or damaged, upon receipt by the Corporate Trustee of:

- (i) a letter signed by an officer of the Company requesting such payment,
- (ii) an Engineer's Certificate:
 - (A) describing the property so damaged or destroyed;
 - (B) stating the Cost of such property (or, if the fair value to the Company of such property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such fair value, as so certified, in lieu of Cost) or, if such damage or destruction shall have affected only a portion of such property, stating the allocable portion of such Cost or fair value;
 - (C) stating the amounts so expended or committed for expenditure in the rebuilding, renewal, replacement of and/or substitution for such property; and
 - (D) stating the fair value to the Company of such property as rebuilt or renewed or as to be rebuilt or renewed and/or of the replacement or substituted property, and if
 - (a) within six months prior to the date of acquisition thereof by the Company, such property has been used or operated, by a person or persons other than the Company, in a business similar to that in which it has been or is to be used or operated by the Company, and
 - (b) the fair value to the Company of such property as set forth in such Engineer's Certificate is not less than Twenty-five Thousand Dollars (\$25,000) and not less than one percent (1%) of the aggregate principal amount of the bonds at the time Outstanding,

the Engineer making the statement required by this clause (D) shall be an Independent Engineer, and

(iii) an Opinion of Counsel stating that, in the opinion of the signer, the property so rebuilt or renewed or to be rebuilt or renewed, and/or the replacement property, is or will be subject to the Lien hereof.

Any such moneys not so applied within thirty-six (36) months after its receipt by the Corporate Trustee, or in respect of which notice in writing of intention to apply the same to the work of rebuilding, renewal, replacement or substitution then in progress and uncompleted shall not have been given to the Corporate Trustee by the Company within such thirty-six (36) months, or which the Company shall at any time notify the Corporate Trustee is not to be so applied, shall thereafter be withdrawn, used or applied in the manner, to the extent and for the purposes, and subject to the conditions, provided in Section 61; provided, however, that if the amount of such moneys shall exceed the amount stated pursuant to clause (B) in the Engineer's Certificate referred to above, the amount of such excess shall not be deemed to be Funded Cash, shall not be subject to Section 61 and shall be remitted to or upon the order of the Company upon the withdrawal, use or application of the balance of such moneys pursuant to Section 61.

Anything in this Indenture to the contrary notwithstanding, if property on or with respect to which a loss occurs constitutes Funded Property in part only, the Company may, at its election, obtain the reimbursement of insurance proceeds attributable to the part of such property which constitutes Funded Property under this subsection (b) and obtain the reimbursement of insurance proceeds attributable to the part of such property which does not constitute Funded Property under subsection (c) of this Section.

(c) All moneys paid to the Corporate Trustee by the Company in accordance with this Section or received by the Corporate Trustee as proceeds of any insurance, in either case on account of a loss on or with respect to property which does not constitute Funded Property, shall, subject to the requirements of any Lien prior hereto upon property subject to the Lien hereof, be held by the Corporate Trustee and, subject as aforesaid, shall be paid by it to the Company upon receipt by the Corporate Trustee of:

- (i) a letter from an officer of the Company requesting such payment;
- (ii) an Engineer's Certificate stating:
 - (A) that such moneys were paid to or received by the Corporate Trustee on account of a loss on or with respect to

property which does not constitute Funded Property; and

(B) if true, either (I) that the aggregate amount of the Cost or fair value to the Company (whichever is less) of all Property Additions which do not constitute Funded Property (excluding, to the extent of such loss, the property on or with respect to which such loss was incurred), after making deductions therefrom and additions thereto of the character contemplated by Section 4, is not less than zero (0) or (II) that the amount of such loss does not exceed the aggregate Cost or fair value to the Company (whichever is less) of Property Additions acquired, made or constructed on or after the ninetieth (90th) day prior to the date of the request for such payment; or

(C) if neither of the statements contemplated in subclause (B) above can be made, the amount by which zero (0) exceeds the amount referred to in subclause (B)(I) above (showing in reasonable detail the calculation thereof); and

(iii) if the Engineer's Certificate required by clause (ii) above contains neither of the statements contemplated in clause (ii) (B) above, an amount in cash, to be held by the Corporate Trustee as part of the Mortgaged and Pledged Property, equal to the amount shown in clause (ii)(C) above.

To the extent that the Company shall be entitled to withdraw proceeds of insurance pursuant to this subsection (c), such proceeds shall be deemed not to constitute Funded Cash.

(d) Whenever under the provisions of this Section the Company is required to deliver moneys to the Corporate Trustee and at the same time shall have satisfied the conditions set forth herein for payment of moneys by the Corporate Trustee to the Company, there shall be paid to or retained by the Corporate Trustee or paid to the Company, as the case may be, only the net amount.

SECTION 9. Property Additions The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend subdivision (I) of Section 4 of the Mortgage to read substantially as follows:

(I) The term "Property Additions" shall mean Mortgaged and Pledged Property acquired by the Company by purchase, consolidation, merger, donation, construction, erection or in any way whatsoever, subsequent to June 30, 1945, or in the process of construction or erection in so far as actually constructed or erected subsequent to June 30, 1945.

SECTION 10. Definitions The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To add the following definitions reading substantially as follows:

"Business Day", when used with respect to a place of payment for the bonds or any other particular location specified in the bonds or this Indenture, means any day, other than a Saturday or Sunday, which is not a day on which banking institutions or trust companies in such place of payment or other location are required by law, regulation or executive order to remain closed, or a day on which the corporate trust office of the Corporate Trustee is closed for business.

"corporation" means a corporation, association, company, limited liability company, partnership, limited partnership, joint stock company or business trust, and references to "corporate" and other derivations of "corporation" herein shall be deemed to include appropriate derivations of such entities.

"Lien" means any mortgage, deed of trust, pledge, security interest, encumbrance, easement, lease, reservation, restriction, servitude, charge or similar right and any other lien of any kind, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof, and any defect, irregularity, exception or limitation in record title.

"Governmental Authority" means the government of the United States or of any State or Territory thereof or of the District of Columbia or of any county, municipality or other political subdivision of any thereof, or any department, agency, authority or other instrumentality of any of the foregoing.

"Person" means any individual, corporation, joint venture, trust or unincorporated organization or any Governmental Authority.

SECTION 11. Excepted Property The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend the paragraph on pages 47-48 of the Original Mortgage (and the corresponding provision in each supplemental indenture thereto) to read substantially as follows:

Provided that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, hypothecated, affected, pledged, set over or confirmed hereunder and are hereby expressly excepted from the Lien and operation of this Indenture (herein sometimes called "Excepted Property"):

(a) all cash on hand or in banks or other financial institutions, deposit accounts, securities accounts, shares of stock, interests in business trusts, general or limited partnerships or limited liability companies, bonds, notes, mortgages, other evidences of indebtedness and other securities, security entitlements, commodities accounts and other investment property and policies of insurance on lives of officers of the Company, of whatsoever kind and nature, not hereafter paid or delivered to, deposited with or held by the Corporate Trustee hereunder or required so to be;

(b) all contracts, leases, operating agreements and other agreements of whatsoever kind and nature and rights thereunder (other than the Company's franchises, permits and licenses that are transferable and necessary for the operation

of the Mortgaged and Pledged Property); all bills, notes and other instruments and chattel paper (except to the extent that any of the same constitute securities, security entitlements or investment property, in which case they are separately excepted from the Lien of this Indenture under clause (a) above); all revenues, income and earnings, all accounts, accounts receivable, rights to payment, payment intangibles and unbilled revenues, rights or property consisting of rights granted by statute or governmental action to bill and collect revenues or other amounts from customers or others, including rate stabilization charges and other special charges, and all rents, tolls, issues, product and profits, dividends, income, claims, credits, demands and judgments; all governmental and other licenses, permits and franchises (other than the Company's franchises, permits and licenses that are transferable and necessary for the operation of Mortgaged and Pledged Property); all unrecorded easements and rights of way; all consents and allowances, including emission allowances and regulatory assets; all documents, including warehouse receipts; all cooperative interests; and all patents, patent licenses and other patent rights, patent applications, trade names, trademarks, copyrights and other intellectual property; and all claims, credits, choses in action, commercial tort claims, tax credits and other intangible property and general intangibles including, but not limited to, computer software;

(c) all automobiles, buses, trucks, truck cranes, tractors, trailers and similar vehicles and movable equipment; all rolling stock, rail cars and other railroad equipment; all vessels, boats, barges, and other marine equipment; all airplanes, helicopters, aircraft engines and other flight equipment; all parts, accessories and supplies used in connection with any of the foregoing; and all personal property of such character that the perfection of a security interest therein or other Lien thereon is not governed by the Uniform Commercial Code as in effect in the jurisdiction in which the Company is organized;

(d) all merchandise and appliances acquired for the purpose of resale in the ordinary course and conduct of the business of the Company, and all materials and supplies held for consumption in operation or held in advance of use thereof for fixed capital purposes;

(e) all electric energy and capacity, gas, steam and other materials and products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course and conduct of its business;

(f) all property which is the subject of a lease agreement designating the Company as lessee and all right, title and interest of the Company in and to such property and in, to and under such lease agreement, whether or not such lease agreement is intended as security and the last day of the term of any lease or leasehold which may hereafter become subject to the Lien hereof; and

(g) all property, real, personal and mixed, which subsequent to September 1, 1945 has been released from the Lien of this Indenture, and any improvements, extensions and additions to such properties and renewals, replacements and substitutions of or for any parts thereof.

SECTION 12. Excepted Encumbrances The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend Section 6 of the Mortgage to replace the definition of "Excepted Encumbrances" with substantially the following:

The term "Excepted Encumbrances" shall mean as of any particular time, any of the following:

(a) Liens for taxes, assessments and other governmental charges or requirements which are not delinquent or which are being contested in good faith by appropriate proceedings or of which at least ten (10) Business Days notice has not been given to the general counsel of the Company or to such other Person designated by the Company to receive such notices;

(b) mechanics', workmen's, repairmen's, materialmen's, warehousemen's, and carriers' Liens, other Liens incident to construction, Liens or privileges of any employees of the Company for salary or wages earned, but not yet payable, and other Liens, including without limitation Liens for worker's compensation awards, arising in the ordinary course of business for charges or requirements which are not delinquent or which are being contested in good faith and by appropriate proceedings or of which at least ten (10) Business Days notice has not been given to the general counsel of the Company or to such other Person designated by the Company to receive such notices;

(c) Liens in respect of attachments, judgments or awards arising out of judicial or administrative proceedings (i) in an amount not exceeding the greater of (A) Ten Million Dollars (\$10,000,000) and (B) three percent (3%) of the principal amount of the bonds then Outstanding or (ii) with respect to which the Company shall (X) in good faith be prosecuting an appeal or other proceeding for review and with respect to which the Company shall have secured a stay of execution pending such appeal or other proceeding or (Y) have the right to prosecute an appeal or other proceeding for review or (Z) have not received at least ten (10) Business Days notice given to the general counsel of the Company or to such other Person designated by the Company to receive such notices;

(d) easements, leases, reservations or other rights of others in, on, over and/or across, and laws, regulations and restrictions affecting, and defects, irregularities, exceptions and limitations in title to, the Mortgaged and Pledged Property or any part thereof; provided, however, that such easements, leases, reservations, rights, laws, regulations, restrictions, defects, irregularities, exceptions and limitations do not in the aggregate materially impair the use by the Company of the Mortgaged and Pledged Property considered as a whole for the purposes for which it is held by the Company;

(e) Liens, defects, irregularities, exceptions and limitations in (i) title to real property subject to rights-of-way in favor of the Company or otherwise or used or to be used by the Company primarily for right-of-way purposes; (ii) real property held under lease, easement, license or similar right; or (iii) the rights-of-way, leases, easements, licenses or similar

rights in favor of the Company; provided, however, that (A) the Company shall have obtained from the apparent owner or owners of such real property a sufficient right, by the terms of the instrument granting such right-of-way, lease, easement, license or similar right, to the use thereof for the purposes for which the Company acquired the same; (B) the Company has power under eminent domain or similar statutes to remove or subordinate such Liens, defects, irregularities, exceptions or limitations or (C) such defects, irregularities, exceptions and limitations may be otherwise remedied without undue effort or expense; and defects, irregularities, exceptions and limitations in title to flood lands, flooding rights and/or water rights;

(f) Liens securing indebtedness or other obligations neither created, assumed nor guaranteed by the Company nor on account of which it customarily pays interest upon real property or rights in or relating to real property acquired by the Company for the purpose of the transmission or distribution of electric energy, gas or water, for the purpose of telephonic, telegraphic, radio, wireless or other electronic communication or otherwise for the purpose of obtaining rights-of-way;

(g) leases existing on September 1, 1945 affecting properties owned by the Company at said date and renewals and extensions thereof; and leases affecting such properties entered into after such date or affecting properties acquired by the Company after such date which, in either case, (i) have respective terms of not more than ten (10) years (including extensions or renewals at the option of the tenant) or (ii) do not materially impair the use by the Company of such properties for the respective purposes for which they are held by the Company;

(h) Liens vested in lessors, licensors, franchisors or permittees for rent or other amounts to become due or for other obligations or acts to be performed, the payment of which rent or the performance of which other obligations or acts is required under leases, subleases, licenses, franchises or permits, so long as the payment of such rent or other amounts or the performance of such other obligations or acts is not delinquent or is being contested in good faith and by appropriate proceedings;

(i) controls, restrictions, obligations, duties and/or other burdens imposed by federal, state, municipal or other law, or by rules, regulations or orders of Governmental Authorities, upon the Mortgaged and Pledged Property or any part thereof or the operation or use thereof or upon the Company with respect to the Mortgaged and Pledged Property or any part thereof or the operation or use thereof or with respect to any franchise, grant, license, permit or public purpose requirement, or any rights reserved to or otherwise vested in Governmental Authorities to impose any such controls, restrictions, obligations, duties and/or other burdens;

(j) rights which Governmental Authorities may have by virtue of franchises, grants, licenses, permits or contracts, or by virtue of law, to purchase, recapture or designate a purchaser of or order the sale of the Mortgaged and Pledged Property or any part thereof, to terminate franchises, grants, licenses, permits, contracts or other rights or to regulate the property and business of the Company; and any and all obligations of the Company correlative to any such rights;

(k) Liens required by law or governmental regulations (i) as a condition to the transaction of any business or the exercise of any privilege or license, (ii) to enable the Company to maintain self-insurance or to participate in any funds established to cover any insurance risks, (iii) in connection with workmen's compensation, unemployment insurance, social security, any pension or welfare benefit plan or (iv) to share in the privileges or benefits required for companies participating in one or more of the arrangements described in clauses (ii) and (iii) above;

(l) Liens on the Mortgaged and Pledged Property or any part thereof which are granted by the Company to secure duties or public or statutory obligations or to secure, or serve in lieu of, surety, stay or appeal bonds;

(m) 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 products, developed, produced, manufactured, generated, purchased or otherwise acquired by the Company or by others on property of the Company;

(n) (i) rights and interests of Persons other than the Company arising out of contracts, agreements and other instruments to which the Company is a party and which relate to the common ownership or joint use of property; and (ii) all Liens on the interests of Persons other than the Company in property owned in common by such Persons and the Company if and to the extent that the enforcement of such Liens would not adversely affect the interests of the Company in such property in any material respect;

(o) any restrictions on assignment and/or requirements of any assignee to qualify as a permitted assignee and/or public utility or public service corporation;

(p) any Liens which have been bonded for the full amount in dispute or for the payment of which other adequate security arrangements have been made;

(q) any controls, liens, restrictions, regulations, easements, exceptions or reservations of any public authority or unit applying particularly to any form of space satellites (including but not limited to solar power satellites), space stations and other analogous facilities whether or not in the earth's atmosphere;

(r) easements, ground leases or rights-of-way in, upon, over and/or across the property or rights-of-way of the Company for the purpose of roads, pipe lines, transmission lines, distribution lines, communication lines, railways, removal or transportation of coal, lignite, gas, oil or other minerals or timber, and other like purposes, or for the joint or common use of real property, rights-of-way, facilities and/or equipment; provided, however, that such grant shall not materially impair the use of the property or rights-of-way for the purposes for which such property or rights-of-way are held by the Company;

(s) any Lien of the Trustees granted pursuant to Section 78 of this Indenture; and

(t) any Lien securing indebtedness for the payment of which money in the necessary amount shall have been irrevocably deposited in trust with the trustee or other holder of such Lien; provided, however, that if such indebtedness is to be redeemed or otherwise prepaid prior to the stated maturity thereof, any notice requisite to such redemption or prepayment shall have been given in accordance with the mortgage or other instrument creating such Lien or irrevocable instructions to give such notice shall have been given to such trustee or other holder.

SECTION 13. Easements, Ground Leases, Rights-of-Way The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend Section 58 of the Mortgage to restate clause (2) thereof to read substantially as follows:

(2) (a) cancel or make changes or alterations in or substitutions of any and all right of way grants; (b) sell or otherwise dispose of, free from the Lien of this Indenture, cancel, make changes or alterations in or substitutions of any and all contracts, leases, operating agreements, obligations, securities, accounts receivable, choses in action, and other rights, interests and property not constituting Property Additions; and (c) grant, free from the Lien of this Indenture, easements, ground leases or rights-of-way in, upon, over and/or across the property or rights-of-way of the Company for the purpose of roads, pipe lines, transmission lines, distribution lines, communication lines, railways, removal or transportation of coal, lignite, gas, oil or other minerals or timber, and other like purposes, or for the joint or common use of real property, rights-of-way, facilities and/or equipment; provided, however, that such grant shall not materially impair the use of the property or rights-of-way for the purposes for which such property or rights-of-way are held by the Company; and

SECTION 14. Priority Opinions The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend Section 28 of the Mortgage to restate subdivisions (7) and (9) thereof to read substantially as follows:

(7) either an Opinion of Counsel or an Officers' Certificate to the effect that:

(a) this Indenture constitutes, or, upon the delivery of, and/or the filing and/or recording in the proper places and manner of, the instruments of conveyance, assignment or transfer, if any, specified in said opinion or certificate, will constitute, a Lien on all the Property Additions to be made the basis of the authentication and delivery of such bonds, subject to no Lien thereon prior to the Lien of this Indenture except Excepted Encumbrances and any other Liens of which the signer of said opinion or certificate has no actual knowledge and which do not appear on a specified lien search report received by said signer not more than five (5) Business Days prior to the date of said opinion or certificate; and

(b) the Company has corporate authority to operate such Property Additions;

(c) that the general nature and extent of Qualified Liens, and the principal amount of the then Outstanding Qualified Lien Bonds secured thereby, if any, mentioned in the accompanying Engineer's Certificate, are correctly stated;

(9) copies of the instruments of conveyance, assignment and transfer, if any, and the lien search report, if any, specified in the opinion or certificate provided for in clause (7) above.

SECTION 15. Maintenance of Mortgaged Property The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend Section 38 of the Mortgage to read substantially as follows:

Section 38. The Company shall cause (or, with respect to property owned in common with others, make reasonable effort to cause) the Mortgaged and Pledged Property, considered as a whole, to be maintained and kept in good condition, repair and working order and shall cause (or, with respect to property owned in common with others, make reasonable effort to cause) to be made such repairs, renewals, replacements, betterments and improvements thereof, as, in the judgment of the Company, may be necessary in order that the operation of the Mortgaged and Pledged Property, considered as a whole, may be conducted in accordance with common industry practice; provided, however, that nothing in this Section shall prevent the Company from discontinuing, or causing the discontinuance of, the operation and maintenance of any portion of the Mortgaged and Pledged Property if such discontinuance is in the judgment of the Company desirable in the conduct of its business; and provided, further, that nothing in this Section shall prevent the Company from selling, transferring or otherwise disposing of, or causing the sale, transfer or other disposition of, any portion of the Mortgaged and Pledged Property in compliance with the other provisions of this Indenture.

SECTION 16. Majority Vote The Company reserves the right, without any consent, vote or other action by holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series, or of any other subsequent series, to amend the Mortgage, as heretofore amended and supplemented, as follows:

To amend Article XIX of the Mortgage to read substantially as follows:

“ARTICLE XIX.

Meetings and Consents of Bondholders.

SECTION 107. Modifications and alterations of this Indenture and/or of any indenture supplemental hereto and/or of the rights and obligations of the Company and/or of the rights of the holders of bonds and coupons issued hereunder may be made as provided in this Article XIX.

SECTION 108. The Corporate Trustee may at any time call a meeting of the holders of bonds of one or more, or all, series and it shall call such a meeting on written request of the Company, given pursuant to a Resolution of its Board of Directors, or a resolution of the holders of a majority or more in principal amount of the bonds of such series Outstanding hereunder, considered as one class, at the time of such request. In the event of the Corporate Trustee's failing for ten (10) days to call a meeting after being thereunto requested by the Company or bondholders as above set forth, holders of Outstanding bonds in the amount above specified in this Section or the Company, pursuant to Resolution of its Board of Directors, may call such meeting. Every such meeting called by and at the instance of the Corporate Trustee shall be held in the Borough of Manhattan, The City of New York, or with the written approval of the Company, at any other place in the United States of America, and written notice thereof, stating the place and time thereof and in general terms the business to be submitted, shall be mailed by the Corporate Trustee not less than thirty (30) days before such meeting (a) to each registered holder of bonds of the series in respect of which such meeting is being called then Outstanding hereunder addressed to him at his address appearing on the registry books, (b) to all other holders of bonds of such series then Outstanding hereunder the names and addresses of whom are preserved by the Corporate Trustee as required by the provisions of Section 43 hereof and (c) to the Company addressed to it at _____ (or at such other address as may be designated by the Company from time to time), and, if any bonds of such series shall not be in fully registered form, shall be published by the Corporate Trustee at least once a week for four (4) successive calendar weeks immediately preceding the meeting, upon any secular day of each such calendar week, which need not be the same day of each week, in a Daily Newspaper, printed in the English language, and published and of general circulation in The City of New York; provided, however, that, if such notice by publication shall have been given, the mailing of such notice to any bondholders shall in no case be a condition precedent to the validity of any action taken at such meeting. Any meeting of holders of the bonds of one or more, or all, series shall be valid without notice if the holders of all bonds of such series then Outstanding hereunder are present in person or by proxy and if the Company and the Corporate Trustee are present by duly authorized representatives, or if notice is waived in writing before or after the meeting by the Company, the holders of all bonds of such series Outstanding hereunder and by the Corporate Trustee, or by such of them as are not present in person or by proxy.

SECTION 109. Officers and nominees of the Corporate Trustee and of the Company and of the Co-Trustee or their or its nominees may attend such meeting, but shall not as such be entitled to vote thereat. Attendance by bondholders may be in person or by proxy. In order that the holder of any bond payable to bearer and his proxy may attend and vote without producing his bond, the Corporate Trustee, with respect to any such meeting, may make and from time to time vary such regulations as it shall think fit for deposit of bonds with, (i) any bank or trust or insurance company, or (ii) any trustee, secretary, administrator or other proper officer of any pension, welfare, hospitalization, or similar fund or funds, or (iii) the United States of America, any Territory thereof, the District of Columbia, any State of the United States, any municipality in any State of the United States or any public instrumentality of the United States, any State or Territory, or (iv) any other person or corporation satisfactory to the Corporate Trustee, and for the issue to the persons depositing the same of certificates by such depositaries entitling the holders thereof to be present and vote at any such meeting and to appoint proxies to represent them and vote for them at any such meeting in the same way as if the persons so present and voting, either personally or by proxy, were the actual bearers of the bonds in respect of which such certificates shall have been issued and any regulations so made shall be binding and effective. In lieu of or in addition to providing for such deposit, the Corporate Trustee may, in its discretion, permit such institutions to issue certificates stating that bonds were exhibited to them, which certificates shall entitle the holders thereof to vote at any meeting only if the bonds with respect to which they are issued are not produced at the meeting by any other person and are not at the time of the meeting registered in the name of any other person. Each such certificate shall state the date on which the bond or bonds in respect of which such certificate shall have been issued were deposited with or exhibited to such institution and the series, maturities and serial numbers of such bonds. A bondholder in any of the foregoing categories may sign such a certificate in his own behalf. In the event that two or more such certificates shall be issued with respect to any bond or bonds, the certificate bearing the latest date shall be recognized and be deemed to supersede any certificate or certificates previously issued with respect to such bond or bonds. If any such meeting shall have been called under the provisions of Section 108 hereof, by bondholders or by the Company, and the Corporate Trustee shall fail to make regulations as above authorized, then regulations to like effect for such deposit, or exhibition of bonds and the issue of certificates by (i) any bank or trust or insurance company, or (ii) any trustee, secretary, administrator or other proper officer of any pension, welfare, hospitalization, or similar fund or funds, or (iii) by the United States of America, any Territory thereof, the District of Columbia, any State of the United States, any municipality in any State of the United States or any public instrumentality of the United States, any State or Territory shall be similarly binding and effective for all purposes hereof if adopted or approved by the bondholders calling such meeting or by the Board of Directors of the Company, if such meeting shall have been called by the Company, provided that in either such case copies of such regulations shall be filed with the Corporate Trustee. A bondholder in any of the foregoing categories may sign such a certificate in his own behalf.

SECTION 110. Subject to the restrictions specified in Sections 109 and 113 hereof, any registered holder of bonds Outstanding hereunder and any holder of a certificate (not superseded) provided for in Section 109 hereof relating to bonds Outstanding hereunder, in either case of the series in respect of which a meeting shall have been called, shall be entitled in person or by proxy to attend and vote at such meeting as a holder of the bonds registered or certified in the name of such holder without producing such bonds. All others seeking to attend or vote at such meeting in person or by proxy must, if required by any authorized representative of the Corporate Trustee or the Company or by any other bondholder, produce the bonds claimed to be owned or represented at such meeting and every one seeking to attend or vote shall, if required as aforesaid, produce such further proof of bond ownership or personal identity as shall be satisfactory to the authorized representative of the Corporate Trustee, or if none be present then to the Inspectors of Votes hereinafter provided for. Proxies shall be witnessed or in the alternative may (a) have the signature guaranteed by a bank or trust company or a registered dealer in securities participating in a recognized signature guarantee medallion program, (b) be acknowledged before a Notary Public or other officer authorized to take acknowledgements, or (c) have their genuineness otherwise established to the satisfaction of the Inspector of Votes. All proxies and certificates presented at any meeting shall be delivered to said Inspectors of Votes and filed with the Corporate Trustee.

SECTION 111. Persons nominated by the Corporate Trustee if it is represented at the meeting shall act as temporary Chairman and Secretary, respectively, of the meeting, but if the Corporate Trustee shall not be represented or shall fail to nominate such persons or if any person so nominated shall not be present, the bondholders and proxies present shall by a majority vote of bonds represented elect another person or other persons from those present to act as temporary Chairman and/or Secretary. A permanent Chairman and a permanent Secretary of such meeting shall be elected from those present by the bondholders and proxies present by a majority vote of bonds represented. The Corporate Trustee, if represented at the meeting, shall appoint two Inspectors of Votes who shall decide as to the right of anyone to vote and shall count all votes cast at such meeting, except votes on the election of a Chairman and Secretary, both temporary and permanent, as aforesaid, and who shall make and file with the permanent Secretary of the meeting their verified written report in duplicate of all such votes so cast at said meeting. If the Corporate Trustee shall not be represented at the meeting or shall fail to nominate such Inspectors of Votes or if either Inspector of Votes fails to attend the meeting, the vacancy shall be filled by appointment by the permanent Chairman of the meeting.

SECTION 112. The holders of a majority in aggregate principal amount of the bonds Outstanding hereunder of the series with respect to which a meeting shall have been called as hereinbefore provided, considered as one class, shall constitute a quorum for a meeting of holders of

bonds of such series; provided, that if any action is to be taken at such meeting which this Indenture expressly provides may be taken by the holders of a specified percentage which is less than a majority in principal amount of the bonds of such series Outstanding hereunder, considered as one class, then the holders of such specified percentage in principal amount of the bonds of such series Outstanding hereunder, considered as one class, shall constitute a quorum. In the absence of a quorum within one hour of the time appointed for any such meeting, the meeting shall, if convened at the request of holders of bonds of such series, be dissolved. In any other case the meeting may be adjourned for such period or periods as may be determined and announced by the chairman of the meeting prior to the adjournment thereof.

SECTION 113. Any modification or alteration of this Indenture and/or of any indenture supplemental hereto and/or of the rights and obligations of the Company and/or the rights of the holders of bonds and/or coupons issued hereunder in any particular may be made at a meeting of bondholders duly convened and held in accordance with the provisions of this Article, but only by resolution duly adopted by the affirmative vote of the holders of a majority in principal amount of the bonds Outstanding hereunder, considered as one class (or, if such modification or alteration shall materially adversely affect the holders of bonds of one or more, but less than all, series then Outstanding hereunder, then the affirmative vote only of the holders of a majority in aggregate principal amount of the bonds of the series adversely affected in any material respect then Outstanding hereunder, considered as one class), when such meeting is held, and in every case approved by Resolution of the Board of Directors of the Company as hereinafter specified; provided, however, that no such modification or alteration shall, without the consent of the holder of any bond issued hereunder affected thereby, permit (1) the extension of the maturity of the principal of, or interest on, such bond, or (2) the reduction in such principal or the rate of interest thereon or any other modification in the terms of payment of such principal or interest, or (3) the creation of any lien ranking prior to, or on a parity with, the Lien of this Indenture with respect to any of the Mortgaged and Pledged Property, or (4) the deprivation of any non-assenting bondholder of a lien upon the Mortgaged and Pledged Property for the security of his bonds (subject only to Excepted Encumbrances) or (5) the reduction of the percentage required by the provisions of this Section for the taking of any action under this Section with respect to any bond Outstanding hereunder. For all purposes of this Article, the Trustees shall be entitled to rely upon an Opinion of Counsel with respect to the extent, if any, as to which any action taken at such meeting affects the rights under this Indenture or under any indenture supplemental hereto of any holders of bonds then Outstanding hereunder.

Bonds owned and/or held by and/or for account of and/or for the benefit or interest of the Company, or any corporation of which the Company shall own twenty-five per centum (25%) or more of the outstanding voting stock, shall not be deemed Outstanding for the purpose of any vote or of any calculation of bonds Outstanding in Article XVI hereof or in this Article XVIII or for the purpose of the quorum provided for in Section 112 of this Article; provided, however, that bonds so owned or held which have been pledged in good faith may be regarded as Outstanding for purposes of this paragraph if the pledgee establishes to the satisfaction of the Corporate Trustee the pledgee's right to vote or give consents with respect to such bonds and that the pledgee is not the Company or a corporation of which the Company shall own twenty-five per centum (25%) or more of the outstanding voting stock. For all purposes of this Indenture, the Corporate Trustee, the Chairman and Secretary of any meeting held pursuant to the provisions of this Article XIX and the Inspectors of Votes at any such meeting shall (unless the fact is challenged at such meeting by any holder of bonds Outstanding hereunder entitled to vote at such meeting and a contrary fact is established) be entitled conclusively to rely upon a notification in writing by an officer of the Company, specifying the principal amount of bonds Outstanding hereunder owned by or held by or for the account of or for the benefit or interest of the Company or any corporation of which the Company shall own twenty-five per centum (25%) or more of the outstanding voting stock, or stating that no such bonds are so owned or held. In case the meeting shall have been called otherwise than on the written request of the Company, the Corporate Trustee shall be entitled conclusively to assume that none of the bonds Outstanding hereunder is so owned or held unless a notification by the Company is furnished as in this paragraph provided or unless the fact is challenged at such meeting by any holder of bonds Outstanding hereunder and a contrary fact is established.

SECTION 114. A record in duplicate of the proceedings of each meeting of bondholders shall be prepared by the permanent Secretary of the meeting and shall have attached thereto the original reports of the Inspectors of Votes, and affidavits by one or more persons having knowledge of the facts showing a copy of the notice of the meeting, and showing that said notice was mailed and published as provided in Section 108 hereof. Such record shall be signed and verified by the affidavit of the permanent Chairman and the permanent Secretary of the meeting, and one duplicate thereof shall be delivered to the Company and the other to the Corporate Trustee for preservation by the Corporate Trustee. Any record so signed and verified shall be proof of the matters therein stated, and if such record shall also be signed and verified by the affidavit of a duly authorized representative of the Corporate Trustee, such meeting shall be deemed conclusively to have been duly convened and held and such record shall be conclusive, and any resolution or proceeding stated in such record to have been adopted or taken, shall be deemed conclusively to have been duly adopted or taken by such meeting. A true copy of any resolution adopted by such meeting shall be mailed by the Corporate Trustee (a) to each registered holder of bonds of the series adversely affected in any material respect by such resolution then Outstanding addressed to him at his address appearing on the registry books and (b) to all other holders of bonds then Outstanding hereunder, the names and addresses of whom are then preserved by the Corporate Trustee pursuant to the provisions of Section 43 hereof, and proof of such mailing by the affidavit of some person having knowledge of the fact shall be filed with the Corporate Trustee, but failure to mail copies of such resolution as aforesaid shall not affect the validity thereof. No such resolution shall be binding until and unless such resolution is approved by Resolution of the Board of Directors of the Company, of which such Resolution of approval, if any, it shall be the duty of the Company to file a copy certified by the Secretary or an Assistant Secretary of the Company with the Corporate Trustee, but if such Resolution of the Board of Directors of the Company is adopted and a certified copy thereof is filed with the Corporate Trustee, the resolution so adopted by such meeting shall (to the extent permitted by law) be deemed conclusively to be binding upon the Company, the Trustees and the holders of all bonds and coupons issued hereunder, at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such resolution, or annulling the action taken thereby in a legal action or equitable proceeding for such purposes commenced within such sixty (60) day period; provided, however, that no such resolution of the bondholders, or of the Company, shall in any manner be so construed as to change or modify any of the rights, immunities, or obligations of the Trustees or either of them without their, its or his written assent thereto.

SECTION 115. Bonds authenticated and delivered after the date of any bondholders' meeting may bear a notation in form approved by the Corporate Trustee as to the action taken at meetings of bondholders theretofore held, and upon demand of the holder of any bond Outstanding at the date of any such meeting and presentation of his bond for the purpose at the principal office of the Corporate Trustee, the Company shall cause suitable notation to be made on such bond by endorsement or otherwise as to any action taken at any meeting of bondholders theretofore held. If the Company or the Corporate Trustee shall so determine, new bonds so modified as in the opinion of the Corporate Trustee and the Board of Directors of the Company to conform to such bondholders' resolution shall be prepared, authenticated and delivered, and upon demand of the holder of any bond then Outstanding and affected thereby shall be exchanged without cost to such bondholders for bonds then Outstanding hereunder upon surrender of such bonds with all unmatured coupons, if any, appertaining thereto. The Company or the Corporate Trustee may require bonds Outstanding to be presented for notation or exchange as aforesaid if either shall see fit to do so. Instruments supplemental to this Indenture embodying any modification or alteration of this Indenture or of any indenture supplemental hereto made at any bondholders' meeting and approved by Resolution of the Board of Directors of the Company, as aforesaid, may be executed by the Trustees and the Company and upon demand of the Corporate Trustee, or if so specified in any resolution adopted by any such bondholders' meeting, shall be executed by the Company

and the Trustees.

Any instrument supplemental to this Indenture executed pursuant to the provisions of this Section or otherwise, shall comply with all applicable provisions of the Trust Indenture Act of 1939 as in force on the date of the execution of such supplemental indenture.

SECTION 116. (A) Anything in this Article XIX contained to the contrary notwithstanding, the Corporate Trustee shall receive the written consent (in any number of instruments of similar tenor executed by bondholders or by their attorneys appointed in writing or in the supplemental indenture or supplemental indentures creating such series of bonds) of the holders of a majority in principal amount of the bonds Outstanding hereunder, considered as one class (or, if any action proposed to be taken shall materially adversely affect the holders of bonds of one or more, but less than all, series then Outstanding hereunder, then the consent only of the holders of a majority in aggregate principal amount of bonds of the series so adversely affected in any material respect then Outstanding hereunder, considered as one class), at the time the last such needed consent is delivered to the Corporate Trustee, in lieu of the holding of a meeting pursuant to this Article XIX and in lieu of all action at such a meeting and with the same force and effect as a resolution duly adopted in accordance with the provisions of Section 113 hereof.

(B) Instruments of consent shall be witnessed or in the alternative may (a) have the signature guaranteed by a bank or trust company or a registered dealer in securities participating in a recognized signature guarantee medallion program, (b) be acknowledged before a Notary Public or other officer authorized to take acknowledgments, or (c) have their genuineness otherwise established to the satisfaction of the Corporate Trustee.

The amount of bonds payable to bearer, and the series and serial numbers thereof, held by a person executing an instrument of consent (or whose attorney has executed an instrument of consent in his behalf), and the date of his holding the same, may be proved by exhibiting the bonds to and obtaining a certificate executed by (i) any bank or trust or insurance company organized under the laws of the United States of America or of any State thereof, or (ii) any trustee, secretary, administrator or other proper officer of any pension, welfare, hospitalization or similar fund or funds, or (iii) the United States of America, any Territory thereof, the District of Columbia, any State of the United States, any municipality in any State of the United States or any public instrumentality of the United States, or of any State or of any Territory, or (iv) any other person or corporation satisfactory to the Corporate Trustee. A bondholder in any of the foregoing categories may sign a certificate in his own behalf.

Each such certificate shall be dated and shall state in effect that as of the date thereof a coupon bond or bonds bearing a specified serial number or numbers was exhibited to the signer of such certificate. The holding by the person named in any such certificate of any bonds specified therein shall be presumed to continue unless (1) any certificate bearing a later date issued in respect of the same bond shall be produced, (2) the bond specified in such certificate (or any bond or bonds issued in exchange or substitution for such bond) shall be produced, or (3) the bond specified in such certificate shall be registered as to principal in the name of another holder or shall have been surrendered in exchange or a fully registered bond registered in the name of another holder. The Corporate Trustee may nevertheless in its discretion require further proof in cases where it deems further proof desirable. The ownership of registered bonds shall be proved by the registry books.

(C) Until such time as the Corporate Trustee shall receive the written consent of the necessary per centum in principal amount of the bonds required by the provisions of subsection (A) above for action contemplated by such consent, any holder of a bond, the serial number of which is shown by the evidence to be included in the bonds the holders of which have consented to such action, may, by filing written notice with the Corporate Trustee at its principal office and upon proof of holding as provided in subsection (B) above, revoke such consent so far as it concerns such bond unless such consent states that it shall be irrevocable or is set forth in the supplemental indenture creating such series of bonds. Except as aforesaid, any such action taken by the holder of any bond shall be conclusive and binding upon such holder and upon all future holders of such bond (and any bond issued in lieu thereof or exchanged therefor), irrespective of whether or not any notation of such consent is made upon such bond, and in any event any action taken by the holders of the percentage in aggregate principal amount of the bonds specified in subsection (A) above in connection with such action shall be conclusively binding upon the Company, the Corporate Trustee and the holders of all the bonds."

ARTICLE V Consent to Amendments

Section 1. Consent to Amendments Each initial and future holder of bonds of the Thirty-eighth Series, the Thirty-ninth Series and the Fortieth Series, by its acquisition of an interest in such bonds, irrevocably (a) consents to the amendments set forth in Article IV of this Thirty-first Supplemental Indenture without any other or further action by any holder of such bonds, and (b) designates the Corporate Trustee, and its successors, as its proxy with irrevocable instructions to vote and deliver written consents on behalf of such holder in favor of such amendments at any bondholder meeting, in lieu of any bondholder meeting, in any consent solicitation or otherwise.

ARTICLE VI Reservation of Right to Amend Sections 35(a) and 101 of the Mortgage

Section 1. The Company reserves the right, without any vote, consent or other action by the holders of Bonds of the Thirty-eighth Series, the Thirty-ninth Series, the Fortieth Series or any subsequent series, to amend the Mortgage, as herein or heretofore supplemented as follows:

(A) By deleting from Section 35(a) the phrase "having its principal office and place of business in the Borough of Manhattan, The City of New York" and the word "such" at the location in said Section 35(a) at which such word first appears.

(B) By adding the following at the end of the first sentence of Section 101:

"; provided however, that if all of the bonds at that time Outstanding are registered as to principal and interest or as to principal only, such notice shall be sufficiently given if mailed, postage prepaid to each such registered owner of bonds at his/her last address appearing on the registry books, on or before the date of on which the first publication of such notice would otherwise have been required."

ARTICLE VIII Miscellaneous Provisions

Section 1. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words "and April 15, 2021, April 15, 2025 and April 15, 2040" after the words "and January 15, 2019."

Section 2. Subject to the amendments provided for in this Thirty-first Supplemental Indenture, the terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Thirty-first Supplemental Indenture, have the meanings specified in the Mortgage, as heretofore supplemented.

Section 3. The holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series and the Fortieth Series consent that the Company may, but shall not be obligated to, fix a record date for the purpose of determining the holders of bonds of the Thirty-eighth Series, the Thirty-ninth Series and the Fortieth Series entitled to consent to any amendment, supplement or waiver. If a record date is fixed, those persons who were holders at such record date (or their duly designated proxies), and only those persons, shall be entitled to consent to such amendment, supplement or waiver or to revoke any consent previously given, whether or not such persons continue to be holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

Section 4. The Trustees hereby accept the trusts herein declared, provided, created or supplemented and agree to perform the same upon the terms and conditions herein and in the Mortgage set forth and upon the following terms and conditions:

The Trustees shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Thirty-first Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVII of the Mortgage shall apply to and form part of this Thirty-first Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Thirty-first Supplemental Indenture.

Section 5. Whenever in this Thirty-first Supplemental Indenture any party hereto is named or referred to, this shall, subject to the provisions of Articles XVI and XVII of the Mortgage, as heretofore supplemented, be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Thirty-first Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustees shall, subject as aforesaid, bind and inure to the benefit of the respective successors and assigns of such party whether so expressed or not.

Section 6. Nothing in this Thirty-first Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds and coupons Outstanding under the Mortgage, any right, remedy, or claim under or by reason of this Thirty-first Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Thirty-first Supplemental Indenture contained by and on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

Section 7. This Thirty-first Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 8. The Company, the mortgagor named herein, by its execution hereof acknowledges receipt of a full, true and complete copy of this Thirty-first Supplemental Indenture.

In witness whereof, ALLETE, Inc. has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President, one of its Vice Presidents, or its Treasurer, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, all in the City of Duluth, Minnesota, and The Bank of New York Mellon has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by one of its Vice Presidents or one of its Assistant Vice Presidents and its corporate seal to be attested by one of its Assistant Treasurers, one of its Vice Presidents or one of its Assistant Vice Presidents, and Douglas J. MacInnes has hereunto set his hand and affixed his seal, all in The City of New York, as of the day and year first above written.

ALLETE, Inc.

By /s/ Mark Schober
Mark Schober
Senior Vice President and
Chief Financial Officer

Attest:

/s/ Deborah A. Amberg
Deborah A. Amberg
Senior Vice President, General Counsel
and Secretary

Executed, sealed and delivered by ALLETE, Inc.
in the presence of:

/s/ Jodi Nash

/s/ Dawn LaPointe

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Trustees' Signature Page Follows

The Bank of New York Mellon,
as Trustee

By /s/ Rafael Miranda
Rafael Miranda
Vice President

Attest:

/s/ Scott I. Klein
Scott I. Klein
Vice President

/s/ Douglas J. MacInnes L.S.
Douglas J. MacInnes

Executed, sealed and delivered by The Bank of New
York Mellon and Douglas J. MacInnes in the presence of:

/s/ Eva Ho

Thirty-first Supplemental Indenture dated as of February 1, 2010
To Mortgage and Deed of Trust dated as of September 1, 1945

Trustees' Signature Page

State of Minnesota)
) ss.:)
County of St. Louis)

On this 17th day of February, 2010, before me, a Notary Public within and for said County, personally appeared Mark Schober and Deborah A. Amberg, to me personally known, who, being each by me duly sworn, did say that they are respectively the Senior Vice President and Chief Financial Officer and the Senior Vice President, General Counsel and Secretary of ALLETE, Inc., the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said Mark Schober and Deborah A. Amberg acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 17th day of February, 2010, Mark Schober, to me known to be the Senior Vice President and Chief Financial Officer, and Deborah A. Amberg, to me known to be the Senior Vice President, General Counsel and Secretary, of the above named ALLETE, Inc., the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are respectively the Senior Vice President and Chief Financial Officer and the Senior Vice President, General Counsel and Secretary of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors and stockholders, and said Mark Schober and Deborah A. Amberg then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 17th day of February, 2010, before me personally came Mark Schober and Deborah A. Amberg, to me known, who, being by me duly sworn, did depose and say that they each reside at 30 West Superior Street, Duluth, Minnesota; that they are respectively the Senior Vice President and Chief Financial Officer and the Senior Vice President, General Counsel and Secretary of ALLETE, Inc., one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

Given under my hand and notarial seal this 17th day of February, 2010.

/s/ Jodi Nash
Notary Public

State of New York)
) ss:
County of New York)

On this 11th day of February, 2010, before me, a Notary Public within and for said County, personally appeared Rafael Miranda and Scott I Klein, to me personally known, who, being each by me duly sworn, did say that they are each a Vice President of The Bank of New York Mellon, the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said Mary Miselis and Geovanni Barris acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 11th day of February, 2010, Rafael Miranda, to me known to be a Vice President, and Scott I Klein, known to me to be a Vice President, of the above named The Bank of New York Mellon, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are each a Vice President of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said Rafael Miranda and Scott I Klein then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 11th day of February, 2010, before me personally came Rafael Miranda and Scott I Klein, to me known, who, being by me duly sworn, did depose and say that they each reside at 101 Barclay Street, 8W, New York, New York 10286; that they are each a Vice President of The Bank of New York Mellon, one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

Given under my hand and notarial seal this 11th day of February, 2010.

/s/ Cheryl Clarke
Notary Public, State of New York

State of New York)
) ss:
County of New York)

On this 11th day of February, 2010, before me personally appeared Douglas J. MacInnes, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

Personally came before me this 11th day of February, 2010 the above named Douglas J. MacInnes, to me known to be the person who executed the foregoing instrument, and acknowledged the same.

On the 11th day of February, 2010 before me personally came Douglas J. MacInnes, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same.

Given under my hand and notarial seal this 11th day of February, 2010

/s/ Cheryl Clarke
Notary Public, State of New York

**AMENDMENT TO THE
ALLETE DIRECTOR STOCK PLAN**

The ALLETE Director Stock Plan (the "Plan"), dated May 9, 1995, as amended, is amended as follows, effective May 1, 2010:

1. Section V is amended by deleting section B. in its entirety and replacing it with the following:

"B. Each Director shall receive a Stock Payment for services rendered during the Service Period on the first business day of June or as soon as practicable following that date and such Stock Payment shall be equal in value to \$60,000, except that the Stock Payment to the Board Chairman shall be equal in value to \$90,000. The number of shares shall be calculated by dividing the amount of the Stock Payment by the fair market value of a share of Common Stock, which for this purpose means the average New York Stock Exchange closing price for the last 5 days up to and including the date that is 10 calendar days prior to June 1 of the Service Period (or on the first business day thereafter if June 1 is not a business day). To the extent the Director has not elected to defer some or all of the Stock Payment pursuant to the ALLETE Amended and Restated Non-Employee Director Compensation Deferral Plan II, the Company shall either issue shares or cause the appropriate number of shares of Common Stock to be purchased in the market and delivered to the Director or, at the Company's election, to the Director's Invest Direct account or to the Director's account in such successor dividend reinvestment plan as the Company may establish. Fractional shares may be paid in cash. Directors joining the Board during a Service Period after the first business day in June will receive their Stock Payment, valued using the same general methodology described above, as soon as practicable after the first business day following the effective date of their election or appointment to the Board."

2. In all respects not amended, the Plan is hereby ratified and confirmed.

IN WITNESS WHEREOF, and as evidence of the adoption of this amendment to the Director Stock Plan, the Board of Directors of ALLETE, Inc. has caused this amendment to be executed by its duly authorized representative this 20th day April, 2010.

ALLETE, Inc.

By: Alan R. Hodnik
Alan R. Hodnik
President

ATTEST:

By: Deborah A. Amberg
Deborah A. Amberg
Senior Vice President, General Counsel & Secretary

ALLETE, INC.
NON-MANAGEMENT DIRECTOR COMPENSATION
Effective May 1, 2010

Board Retainers ⁽¹⁾⁽²⁾	
Stock	\$60,000
Cash	\$30,000
Committee Cash Retainers ⁽¹⁾⁽²⁾	
Audit	\$9,000
Executive Compensation	\$7,500
Corporate Governance & Nominating	\$7,500
Chair Cash Retainers ⁽¹⁾⁽²⁾	
Audit	\$8,500
Executive Compensation	\$5,500
Corporate Governance & Nominating	\$4,500
Lead Director ⁽¹⁾⁽²⁾⁽³⁾	
Board Stock Retainer	\$60,000
Board Cash Retainer	\$30,000
Lead Director Cash Retainer	\$25,000
Board Chairman ⁽¹⁾⁽²⁾⁽³⁾	
Board Stock Retainer	\$90,000
Board Cash Retainer	\$85,000

(1) Cash and stock retainers may be deferred under the Director Compensation Deferral Plan II.

(2) Cash retainers may be elected to be received in ALLETE stock.

(3) Lead Director and Board Chairman are not eligible for other committee or chair retainers.

**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, Donald J. Shippar, of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2010, 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: April 30, 2010

Donald J. Shippar

Donald J. Shippar
Chairman 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 March 31, 2010, 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: April 30, 2010

Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

**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 March 31, 2010, (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: April 30, 2010

Donald J. Shippar

Donald J. Shippar
Chairman and Chief Executive Officer

Date: April 30, 2010

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.



Exhibit 99
For Release: April 30, 2010
Investor Contact: Tim Thorp
218-723-3953
thorp@allete.com

ALLETE reports first quarter 2010 earnings of 68 cents per share

ALLETE, Inc. (NYSE: ALE) today reported first quarter 2010 earnings of 68 cents per share, which compares to 55 cents per share reported in the first quarter of 2009. Last year's results were reduced by \$3.2 million after-tax, or 10 cents per share, representing the 2008 portion of interim rate refunds. Excluding that charge, earnings per share would have been 65 cents for the first quarter of 2009.

ALLETE's net income was \$23.0 million on total operating revenue of \$233.6 million in the first quarter of 2010. In the same period a year ago, net income was \$16.9 million on total operating revenue of \$199.6 million.

Regulated Operations earned \$24.9 million in the first quarter of 2010, compared with \$17.7 million in the first quarter a year ago. The period-over-period increase includes the impact of the aforementioned \$3.2 million charge, Minnesota Public Utilities Commission-approved interim rates, new FERC-approved rates, and increased transmission related margins. These increases were significantly offset by higher operating, depreciation, and income tax expenses. Income tax expense included a \$3.6 million charge resulting from the Patient Protection and Affordable Care Act of 2010. Earnings from ALLETE's investment in the American Transmission Company rose by \$0.2 million from the same period a year ago.

"We've continued to make significant capital expenditures, including those for mandated environmental improvements and renewable energy additions," said ALLETE President Alan R. Hodnik. "However, because interim rates are substantially below our requested levels, this year we do not anticipate Minnesota Power will earn the return on equity that has been authorized by the MPUC."

ALLETE Chairman Don Shippar, who is retiring as CEO effective April 30, said the company was encouraged by indications that the economic outlook is brightening.

"It's good news for northern Minnesota and the whole region to have its major industry – taconite mining – enjoy increasing production levels," Shippar said. "Prospects for this industry are clearly better than they were a year ago."

The Investments and Other segment recorded a net loss of \$1.9 million during the quarter, compared with a net loss of \$0.8 million in 2009. Results in 2010 included a slightly larger net loss at ALLETE Properties than the year before, and a \$0.4 million charge related to the Patient Protection and Affordable Care Act.

The average number of shares outstanding of ALLETE common stock increased year-over-year as the company continued to fund its capital investments, resulting in dilution of six cents per share.

Hodnik added that ALLETE's earnings guidance for 2010 remains unchanged at \$2.05 to \$2.35 per share, and provides for a range of potential regulatory outcomes. The earnings guidance excludes the impact of the non-recurring 12 cents per share charge resulting from the Patient Protection and Affordable Care Act.

ALLETE's corporate headquarters are located in Duluth, Minnesota. ALLETE provides energy services in the upper Midwest and has real estate holdings in Florida. More information about the company is available on ALLETE's Web site at www.allete.com.

The statements contained in this release and statements that ALLETE may make orally in connection with this release that are not historical facts, are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties and investors are directed to the risks discussed in documents filed by ALLETE with the Securities and Exchange Commission.

ALLETE's press releases and other communications may include certain non-Generally Accepted Accounting Principles (GAAP) financial measures. A "non-GAAP financial measure" is defined as a numerical measure of a company's financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP in the company's financial statements.

Non-GAAP financial measures utilized by the Company include presentations of earnings (loss) per share. ALLETE's management believes that these non-GAAP financial measures provide useful information to investors by removing the effect of variances in GAAP reported results of operations that are not indicative of changes in the fundamental earnings power of the Company's operations. Management believes that the presentation of the non-GAAP financial measures is appropriate and enables investors and analysts to more accurately compare the company's ongoing financial performance over the periods presented.

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ALLETE, Inc.

Consolidated Statement of Income
Millions Except Per Share Amounts - Unaudited

	Quarter Ended March 31,	
	2010	2009
Operating Revenue		
Operating Revenue	\$233.6	\$204.9
Prior Year Rate Refunds	-	(5.3)
Total Operating Revenue	233.6	199.6
Operating Expenses		
Fuel and Purchased Power	79.8	72.8
Operating and Maintenance	87.7	80.5
Depreciation	20.0	15.2
Total Operating Expenses	187.5	168.5
Operating Income	46.1	31.1
Other Income (Expense)		
Interest Expense	(8.9)	(8.7)
Equity Earnings in ATC	4.5	4.2
Other	1.0	1.1
Total Other Income (Expense)	(3.4)	(3.4)
Income Before Non-Controlling Interest and Income Taxes	42.7	27.7
Income Tax Expense	19.9	10.8
Net Income	\$22.8	\$16.9
Less: Non-Controlling Interest in Subsidiaries	(0.2)	-
Net Income Attributable to ALLETE	\$23.0	\$16.9
Average Shares of Common Stock		
Basic	33.8	30.9
Diluted	33.8	31.0
Basic and Diluted Earnings Per Share of Common Stock	\$0.68	\$0.55
Dividends Per Share of Common Stock	\$0.44	\$0.44

Consolidated Balance Sheet
Millions - Unaudited

	Mar. 31, Dec. 31,		Mar. 31, Dec. 31,	
	2010	2009	2010	2009
Assets			Liabilities and Shareholders' Equity	
Cash and Short-Term Investments	\$32.5	\$25.7	Current Liabilities	108.6
Other Current Assets	190.1	199.8	Long-Term Debt	710.1
Property, Plant and Equipment	1,649.1	1,622.7	Other Liabilities	373.6
Investment in ATC	90.3	88.4	Deferred Income Taxes & Investment Tax Credits	266.5
Investments	132.6	130.5	Shareholders' Equity	957.2
Other	321.4	326.0		939.0
Total Assets	\$2,416.0	\$2,393.1	Total Liabilities and Shareholders' Equity	\$2,416.0
				\$2,393.1

		Quarter Ended	
		March 31,	
ALLETE, Inc.		2010 2009	
Income (Loss)			
Millions			
	Regulated Operations	\$24.9	\$17.7
	Investments and Other	(1.9)	(0.8)
	Net Income Attributable to ALLETE	\$23.0	\$16.9
Diluted Earnings Per Share		\$0.68	\$0.55
Statistical Data			
Corporate			
	Common Stock		
	High	\$34.00	\$33.27
	Low	\$29.99	\$23.35
	Close	\$33.48	\$26.69
	Book Value	\$26.74	\$25.59
Kilowatt-hours Sold			
Millions			
	Regulated Utility		
	Retail and Municipals		
	Residential	357	375
	Commercial	372	379
	Municipals	265	265
	Industrial	1,429	1,323
	Total Retail and Municipal	2,423	2,342
	Other Power Suppliers	803	916
	Total Regulated Utility	3,226	3,258
	Non-regulated Energy Operations	33	57
	Total Kilowatt-hours Sold	3,259	3,315

This exhibit has been furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

