

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 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. 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
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 No
Common Stock, no par value,
35,799,762 shares outstanding
as of September 30, 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
Bison I	Bison I Wind Project
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
CO ₂	Carbon Dioxide
Company	ALLETE, Inc. and its subsidiaries
DC	Direct Current
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Form 10-K	ALLETE Annual Report on Form 10-K
Form 10-Q	ALLETE Quarterly Report on Form 10-Q
GAAP	United States Generally Accepted Accounting Principles
GHG	Greenhouse Gases
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 ₂	Nitrogen Dioxide
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
PPA	Power Purchase Agreement(s)
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

	September 30, 2010	December 31, 2009
Assets		
Current Assets		
Cash and Cash Equivalents	\$92.3	\$25.7
Accounts Receivable (Less Allowance of \$0.9 at September 30, 2010 and December 31, 2009)	112.1	118.5
Inventories	62.9	57.0
Prepayments and Other	26.7	24.3
Total Current Assets	294.0	225.5
Property, Plant and Equipment - Net	1,742.6	1,622.7
Regulatory Assets	282.5	293.2
Investment in ATC	92.0	88.4
Other Investments	134.4	130.5
Other Non-Current Assets	33.6	32.8
Total Assets	\$2,579.1	\$2,393.1
Liabilities and Equity		
Liabilities		
Current Liabilities		
Accounts Payable	\$66.5	\$62.1
Accrued Taxes	18.0	20.6
Accrued Interest	12.3	11.1
Long-Term Debt Due Within One Year	1.6	5.2
Notes Payable	1.0	1.9
Other	31.6	32.2
Total Current Liabilities	131.0	133.1
Long-Term Debt	784.2	695.8
Deferred Income Taxes	321.0	253.1
Regulatory Liabilities	46.0	47.1
Other Non-Current Liabilities	312.8	325.0
Total Liabilities	1,595.0	1,454.1
Commitments and Contingencies (Note 13)		
Equity		
ALLETE's Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 35.8 and 35.2 Shares Outstanding	634.1	613.4
Unearned ESOP Shares	(38.2)	(45.3)
Accumulated Other Comprehensive Loss	(23.2)	(24.0)
Retained Earnings	402.2	385.4
Total ALLETE Equity	974.9	929.5
Non-Controlling Interest in Subsidiaries	9.2	9.5
Total Equity	984.1	939.0
Total Liabilities and Equity	\$2,579.1	\$2,393.1

The accompanying notes are an integral part of these statements.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Operating Revenue				
Operating Revenue	\$224.1	\$178.8	\$668.9	\$550.7
Prior Year Rate Refunds	–	–	–	(7.6)
Total Operating Revenue	224.1	178.8	668.9	543.1
Operating Expenses				
Fuel and Purchased Power	79.0	69.8	233.1	199.4
Operating and Maintenance	89.8	67.5	262.9	224.7
Depreciation	20.0	16.1	59.8	46.8
Total Operating Expenses	188.8	153.4	555.8	470.9
Operating Income	35.3	25.4	113.1	72.2
Other Income (Expense)				
Interest Expense	(9.7)	(8.3)	(28.1)	(25.4)
Equity Earnings in ATC	4.5	4.4	13.4	12.9
Other	0.6	0.8	3.8	3.8
Total Other Expense	(4.6)	(3.1)	(10.9)	(8.7)
Income Before Non-Controlling Interest and Income Taxes	30.7	22.3	102.2	63.5
Income Tax Expense	11.2	6.5	40.5	21.5
Net Income	19.5	15.8	61.7	42.0
Less: Non-Controlling Interest in Subsidiaries	(0.1)	(0.2)	(0.3)	(0.3)
Net Income Attributable to ALLETE	\$19.6	\$16.0	\$62.0	\$42.3
Average Shares of Common Stock				
Basic	34.4	32.8	34.1	31.8
Diluted	34.5	32.9	34.2	31.9
Basic Earnings Per Share of Common Stock	\$0.57	\$0.49	\$1.82	\$1.33
Diluted Earnings Per Share of Common Stock	\$0.56	\$0.49	\$1.81	\$1.33
Dividends Per Share of Common Stock	\$0.44	\$0.44	\$1.32	\$1.32

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions – Unaudited

	Nine Months Ended	
	September 30,	
	2010	2009
Operating Activities		
Net Income	\$61.7	\$42.0
Allowance for Funds Used During Construction	(3.4)	(4.5)
Income from Equity Investments, Net of Dividends	(2.2)	(0.2)
Gain on Real Estate Foreclosure	(0.7)	–
Gain on Sale of Assets	–	(0.1)
Depreciation Expense	59.8	46.8
Amortization of Debt Issuance Costs	0.7	0.7
Deferred Income Tax Expense	65.0	38.9
Stock Compensation Expense	1.6	1.6
Bad Debt Expense	0.8	1.2
Changes in Operating Assets and Liabilities		
Accounts Receivable	5.6	(4.1)
Inventories	(5.8)	(4.7)
Prepayments and Other	(2.4)	(0.3)
Accounts Payable	3.7	(4.4)
Other Current Liabilities	(2.0)	11.4
Changes in Regulatory and Other Non-Current Assets	10.6	(7.0)
Changes in Regulatory and Other Non-Current Liabilities	(5.0)	(11.0)
Cash from Operating Activities	188.0	106.3
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	0.6	1.0
Payments for Purchase of Available-for-sale Securities	(1.8)	(1.8)
Investment in ATC	(1.2)	(5.4)
Changes to Other Investments	(2.6)	(0.5)
Additions to Property, Plant and Equipment	(172.7)	(200.1)
Proceeds from Sale of Assets	–	0.3
Cash for Investing Activities	(177.7)	(206.5)
Financing Activities		
Proceeds from Issuance of Common Stock	19.0	53.7
Proceeds from Issuance of Long-Term Debt	155.0	44.7
Reductions of Long-Term Debt	(70.2)	(3.0)
Debt Issuance Costs	(1.4)	(0.5)
Dividends on Common Stock	(45.2)	(41.7)
Changes in Notes Payable	(0.9)	(0.7)
Cash from Financing Activities	56.3	52.5
Change in Cash and Cash Equivalents	66.6	(47.7)
Cash and Cash Equivalents at Beginning of Period	25.7	102.0
Cash and Cash Equivalents at End of Period	\$92.3	\$54.3

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all of the information and notes required by GAAP for complete financial statements. Similarly, the December 31, 2009, consolidated balance sheet presented in this Form 10-Q was derived from audited financial statements but does not include all disclosures required by GAAP for complete financial statements. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Operating results for the period ended September 30, 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.

	September 30, 2010	December 31, 2009
Inventories		
Millions		
Fuel	\$24.5	\$23.0
Materials and Supplies	38.4	34.0
Total Inventories	\$62.9	\$57.0

	September 30, 2010	December 31, 2009
Prepayments and Other Current Assets		
Millions		
Deferred Fuel Adjustment Clause	\$19.5	\$15.5
Other	7.2	8.8
Total Prepayments and Other Current Assets	\$26.7	\$24.3

	September 30, 2010	December 31, 2009
Other Non-Current Liabilities		
Millions		
Future Benefit Obligation Under Defined Benefit Pension and Other Postretirement Benefit Plans	\$220.2	\$231.2
Asset Retirement Obligation	49.4	44.6
Other	43.2	49.2
Total Other Non-Current Liabilities	\$312.8	\$325.0

Supplemental Statement of Cash Flows Information.

	2010	2009
For the Nine Months Ended September 30,		
Millions		
Cash Paid (Received) During the Period for		
Interest – Net of Amounts Capitalized	\$26.1	\$23.7
Income Taxes (Net of refunds received of \$32.1 and \$5.3) (a)	\$(29.4)	\$(4.2)
Noncash Investing and Financing Activities		
Increase (Decrease) in Accounts Payable for Capital Additions to Property, Plant and Equipment	\$0.7	\$(16.5)
AFUDC – Equity	\$3.4	\$4.5
ALLETE Common Stock contributed to the Defined Benefit Pension Plan	–	\$(12.0)

(a) Due to bonus depreciation provisions in the Small Business Jobs Act of 2010 and the American Recovery and Reinvestment Act of 2009, lower estimated tax payments were made in 2010 and 2009. Refunds received in 2010 resulted from a 2009 net operating loss which was utilized by carrying it back against prior years' taxable income and the completion of a state income tax audit.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards.

Receivables. In July 2010, the FASB issued an accounting standards update requiring expanded disclosures on allowances for credit losses and the credit quality of the financing receivables of an entity. This guidance also requires a roll forward schedule of the allowance for credit losses for each reporting period. The guidance for greater transparency is effective for annual reporting periods ending after December 15, 2010, and the roll forward requirement is effective January 1, 2011. As the amended guidance provides only disclosure requirements, the adoption of this standard will not have an impact on our consolidated financial position, results of operations or cash flows.

Recently Adopted Accounting Standards.

Derivative Instruments and Hedging Activities. In March 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 eliminated the scope exception for embedded credit derivatives and provided new guidance on the evaluation to be performed. This guidance was effective June 15, 2010. As of September 30, 2010, we did not have any embedded credit derivatives.

Subsequent Events. In February 2010, the FASB issued an accounting standards update 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.

Fair Value. In January 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 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 is not expected to 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 (VIEs). In June 2009, the FASB issued authoritative guidance changing the approach to determine a VIE's primary beneficiary and requiring ongoing assessments of whether an enterprise is the primary beneficiary of a VIE. This guidance also requires additional disclosures about a company's involvement with VIEs and any significant changes in risk exposure due to that involvement. This guidance was adopted January 1, 2010, and 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 held-for-sale in Minnesota, and earnings on cash and investments.

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Quarter Ended September 30, 2010			
Operating Revenue	\$224.1	\$204.8	\$19.3
Fuel and Purchased Power	79.0	79.0	-
Operating and Maintenance	89.8	70.2	19.6
Depreciation Expense	20.0	18.9	1.1
Operating Income (Loss)	35.3	36.7	(1.4)
Interest Expense	(9.7)	(8.0)	(1.7)
Equity Earnings in ATC	4.5	4.5	-
Other Income (Expense)	0.6	1.3	(0.7)
Income (Loss) Before Non-Controlling Interest and Income Taxes	30.7	34.5	(3.8)
Income Tax Expense (Benefit)	11.2	12.4	(1.2)
Net Income (Loss)	19.5	22.1	(2.6)
Less: Non-Controlling Interest in Subsidiaries	(0.1)	-	(0.1)
Net Income (Loss) Attributable to ALLETE	\$19.6	\$22.1	\$(2.5)

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Quarter Ended September 30, 2009			
Operating Revenue	\$178.8	\$160.1	\$18.7
Fuel and Purchased Power	69.8	69.8	-
Operating and Maintenance	67.5	50.1	17.4
Depreciation Expense	16.1	15.0	1.1
Operating Income	25.4	25.2	0.2
Interest Expense	(8.3)	(7.0)	(1.3)
Equity Earnings in ATC	4.4	4.4	-
Other Income (Expense)	0.8	1.6	(0.8)
Income (Loss) Before Non-Controlling Interest and Income Taxes	22.3	24.2	(1.9)
Income Tax Expense (Benefit)	6.5	7.6	(1.1)
Net Income (Loss)	15.8	16.6	(0.8)
Less: Non-Controlling Interest in Subsidiaries	(0.2)	-	(0.2)
Net Income (Loss) Attributable to ALLETE	\$16.0	\$16.6	\$(0.6)

NOTE 2. BUSINESS SEGMENTS (Continued)

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Nine Months Ended September 30, 2010			
Operating Revenue	\$668.9	\$615.0	\$53.9
Fuel and Purchased Power	233.1	233.1	-
Operating and Maintenance	262.9	209.3	53.6
Depreciation Expense	59.8	56.6	3.2
Operating Income (Loss)	113.1	116.0	(2.9)
Interest Expense	(28.1)	(23.3)	(4.8)
Equity Earnings in ATC	13.4	13.4	-
Other Income	3.8	3.6	0.2
Income (Loss) Before Non-Controlling Interest and Income Taxes	102.2	109.7	(7.5)
Income Tax Expense (Benefit)	40.5	44.5	(4.0)
Net Income (Loss)	61.7	65.2	(3.5)
Less: Non-Controlling Interest in Subsidiaries	(0.3)	-	(0.3)
Net Income (Loss) Attributable to ALLETE	\$62.0	\$65.2	\$(3.2)

As of September 30, 2010			
Total Assets	\$2,579.1	\$2,299.7	\$279.4
Property, Plant and Equipment – Net	\$1,742.6	\$1,698.1	\$44.5
Accumulated Depreciation	\$1,022.2	\$973.2	\$49.0
Capital Additions	\$175.5	\$174.3	\$1.2

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Nine Months Ended September 30, 2009			
Operating Revenue	\$550.7	\$493.9	\$56.8
Prior Year Rate Refunds	(7.6)	(7.6)	-
Total Operating Revenue	543.1	486.3	56.8
Fuel and Purchased Power	199.4	199.4	-
Operating and Maintenance	224.7	169.8	54.9
Depreciation Expense	46.8	43.4	3.4
Operating Income (Loss)	72.2	73.7	(1.5)
Interest Expense	(25.4)	(20.9)	(4.5)
Equity Earnings in ATC	12.9	12.9	-
Other Income (Expense)	3.8	4.5	(0.7)
Income (Loss) Before Non-Controlling Interest and Income Taxes	63.5	70.2	(6.7)
Income Tax Expense (Benefit)	21.5	25.2	(3.7)
Net Income (Loss)	42.0	45.0	(3.0)
Less: Non-Controlling Interest in Subsidiaries	(0.3)	-	(0.3)
Net Income (Loss) Attributable to ALLETE	\$42.3	\$45.0	\$(2.7)

As of September 30, 2009			
Total Assets	\$2,255.1	\$2,005.3	\$249.8
Property, Plant and Equipment – Net	\$1,530.5	\$1,478.9	\$51.6
Accumulated Depreciation	\$937.0	\$885.4	\$51.6
Capital Additions	\$186.7	\$185.0	\$1.7

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.

	September 30, 2010	December 31, 2009
Other Investments		
Millions		
ALLETE Properties	\$94.5	\$93.1
Available-for-sale Securities	30.0	29.5
Other	9.9	7.9
Total Other Investments	\$134.4	\$130.5

	September 30, 2010	December 31, 2009
ALLETE Properties		
Millions		
Land Held-for-sale Beginning Balance	\$74.9	\$71.2
Additions during period:		
Collateralized Property Reacquired (a)	9.9	-
Capitalized Improvements and Other	0.8	5.6
Deductions during period: Cost of Real Estate Sold	-	(1.9)
Land Held-for-sale Ending Balance	85.6	74.9
Long-Term Finance Receivables	4.5	12.9
Other	4.4	5.3
Total Real Estate Assets	\$94.5	\$93.1

(a) Collateralized property reacquired resulted primarily from a purchaser which filed for voluntary Chapter 11 bankruptcy and is recorded net of estimated selling costs.

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 were recorded for the nine months ended September 30, 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. There was no allowance for doubtful accounts as of September 30, 2010 (\$0.4 million as of December 31, 2009). The receivables have maturities up to three years and no impairment was recorded during the nine months ended September 30, 2010 (\$0.1 million during the nine months ended September 30, 2009).

In June 2010, ALLETE Properties received deeds in lieu of foreclosure to properties which had been sold in multiple transactions over various years to one purchaser. The properties were sold with seller financing, of which \$7.0 million remained due and owing from the purchaser that filed for voluntary Chapter 11 bankruptcy protection in June 2009. The bankruptcy trustee approved the transfer of the properties back to ALLETE Properties in satisfaction of the amount owed. The fair value of the properties received net of selling expenses was \$8.8 million. The receipt of properties resulted in a pretax gain of \$0.7 million after reflecting other liabilities assumed and non-controlling interest.

Auction Rate Securities. Included in Available-for-sale Securities as of September 30, 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. 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 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 at par within the next year; however, the investment remains classified as long-term.

NOTE 4. FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs, which are used to measure fair value, are prioritized through the fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Descriptions of the three levels of the fair value hierarchy are included 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 September 30, 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, which 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 September 30, 2010			
	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Equity Securities – Mutual Funds	\$17.5	–	–	\$17.5
Available-for-sale Securities				
Corporate Debt Securities	–	\$7.4	–	7.4
Debt Securities Issued by States of the United States (ARS)	–	–	\$6.7	6.7
Total Available-for-sale Securities	–	7.4	6.7	14.1
Money Market Funds	2.8	–	–	2.8
Total Fair Value of Assets	\$20.3	\$7.4	\$6.7	\$34.4
Liabilities:				
Deferred Compensation	–	\$13.1	–	\$13.1
Total Fair Value of Liabilities	–	\$13.1	–	\$13.1
Total Net Fair Value of Assets (Liabilities)	\$20.3	\$(5.7)	\$6.7	\$21.3

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 4. FAIR VALUE (Continued)

Recurring Fair Value Measures Activity in Level 3	Derivatives		Debt Securities Issued by States of the United States (ARS)	
Millions				
Balance as of December 31, 2009 and December 31, 2008, respectively	\$0.7	–	\$6.7	\$15.2
Purchases, Sales, Issuances and Settlements, Net	(0.7)	\$1.1	–	(0.9)
Balance as of September 30, 2010 and September 30, 2009, respectively	–	\$1.1	\$6.7	\$14.3

The Company's policy is to recognize transfers in or out of Levels 1, 2 or 3 as of the actual date of the event or change in circumstances that caused the transfer. For the nine months ended September 30, 2010 and 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		
September 30, 2010	\$785.8	\$828.8
December 31, 2009	\$701.0	\$734.8

NOTE 5. REGULATORY MATTERS

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

2010 Rate Case. On November 2, 2009, Minnesota Power filed an \$81 million retail rate increase request 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. Interim rates were put into effect on January 1, 2010, and were originally estimated to increase revenues by \$48.5 million in 2010. In April 2010, we adjusted our initial filing for events that had occurred since November 2009 – primarily increased sales to our industrial customers – resulting in a retail rate increase request of \$72 million, a return on equity request of 11.25 percent, and a capital structure consisting of 54.29 percent equity and 45.71 percent debt. As a result of these increased sales, interim rates are estimated to be approximately \$53 million during 2010.

On September 29, 2010, the MPUC addressed the retail rate increase request and approved a 10.38 percent return on common equity and a 54.29 percent equity ratio. We estimate that the MPUC will order an overall retail electric rate increase of approximately \$54 million when it issues its written order on the rate request, which is expected by November 2, 2010. Once the written order has been issued, any party may request reconsideration by the MPUC. Any party who seeks reconsideration may thereafter appeal to the Minnesota Court of Appeals. We will continue collecting interim rates from our customers until the new rates go into effect, which will be after the reconsideration period has expired, any appeals are addressed, and after all compliance filings are completed and accepted. Reconsideration, or appeal, of the written order, or modifications during the compliance period, could affect the final rate increase estimate. A final order, after reconsideration, is expected no later than the first quarter of 2011. Final rates are expected to be near the amount collected under interim rates, therefore, we expect little or no interim rate refunds to be issued.

2008 Rate Case – Fuel and Purchase Power. In the final 2008 retail 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.

NOTE 5. REGULATORY MATTERS (Continued)

FERC-Approved Wholesale Rates. Minnesota Power's non-affiliated municipal customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. SWL&P, a wholly-owned subsidiary of ALLETE, is also a private utility in Wisconsin and a customer of Minnesota Power. In 2008, Minnesota Power entered into new formula based rate contracts with these customers 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 of approximately \$6 million and \$7 million annually were implemented on February 1, 2009, and January 1, 2010, respectively. The 2009 true-up calculation resulted in additional revenue accruals of \$6.0 million at the end of 2009. The majority of these additional revenue accruals have been collected as of September 30, 2010.

Wisconsin Rates. SWL&P's current retail rates are based on a 2008 PSCW retail rate order, effective January 1, 2009. On May 17, 2010, SWL&P filed a rate increase request with the PSCW seeking an average overall increase of 3.6 percent for retail customers (a 1.4 percent increase in electric rates, a 3.0 percent increase in natural gas rates, and a 17.9 percent increase in water rates). The rate filing seeks an overall return on equity of 11.3 percent, and a capital structure consisting of 56.9 percent equity and 43.1 percent debt. On an annualized basis, the requested rate increase would generate approximately \$3 million in additional revenue. Evidentiary and public hearings were held on September 22, 2010. The Company anticipates new rates will take effect during the first quarter of 2011. We cannot predict the level of rates that may be approved by the PSCW.

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

Regulatory Assets and Liabilities	September 30,	December 31,
Millions	2010	2009
Regulatory Assets		
Future Benefit Obligations Under		
Defined Benefit Pension and Other Postretirement Benefit Plans	\$226.7	\$235.8
Boswell Unit 3 Environmental Rider (a)	20.5	20.9
Deferred Fuel (b)	24.9	20.8
Income Taxes	15.5	15.7
Asset Retirement Obligation	7.4	6.3
Deferred MISO Costs	1.3	2.4
Premium on Reacquired Debt	1.9	2.0
Rate Case Expenses	1.4	1.4
Other	2.4	3.4
Total Regulatory Assets	\$302.0	\$308.7
Regulatory Liabilities		
Income Taxes	\$24.0	\$25.9
Plant Removal Obligations	17.9	16.9
Other	4.1	4.3
Total Regulatory Liabilities	\$46.0	\$47.1

(a) MPUC-approved current cost recovery rider related to environmental improvements that were placed in service in November 2009. As part of our 2010 rate case, on September 29, 2010, the MPUC approved a proposal to move the rider balance to plant to recover in rate base, which will be effective upon a final rate order.

(b) As of September 30, 2010 and December 31, 2009, approximately \$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 5. REGULATORY MATTERS (Continued)

Current and Non-Current Regulatory Assets and Liabilities	September 30, 2010	December 31, 2009
Millions		
Total Current Regulatory Assets (a)	\$19.5	\$15.5
Total Non-Current Regulatory Assets	282.5	293.2
Total Regulatory Assets	\$302.0	\$308.7
Total Non-Current Regulatory Liabilities	\$46.0	\$47.1
Total Regulatory Liabilities	\$46.0	\$47.1

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

NOTE 6. INVESTMENT IN ATC

Our wholly-owned subsidiary, Rainy River Energy, owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota, and Illinois. ATC provides transmission service under rates regulated by the FERC that are set in accordance with the FERC's policy of encouraging 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 September 30, 2010, our equity investment balance in ATC was \$92.0 million (\$88.4 million as of December 31, 2009). On October 29, 2010, we invested an additional \$0.4 million in ATC for a total investment of \$1.6 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	13.4
Distributed ATC Earnings	(11.0)
Equity Investment Balance as of September 30, 2010	\$92.0

ATC's summarized financial data for the quarter and nine months ended September 30, 2010 and 2009, is as follows:

ATC Summarized Financial Data	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
Income Statement Data	2010	2009	2010	2009
Millions				
Revenue	\$136.9	\$132.3	\$414.1	\$387.5
Operating Expense	59.8	58.7	185.1	172.3
Other Expense	22.1	19.8	64.8	57.8
Net Income	\$55.0	\$53.8	\$164.2	\$157.4
ALLETE's Equity in Net Income	\$4.5	\$4.4	\$13.4	\$12.9

NOTE 7. SHORT-TERM AND LONG-TERM DEBT

Short-Term Debt. Total short-term debt outstanding as of September 30, 2010, was \$2.6 million (\$7.1 million at December 31, 2009) and consisted of notes payable and long-term debt due within one year.

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

Issue Date	Maturity	Principal Amount	Interest Rate
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%

We used the proceeds from the sale of the bonds to pay off an outstanding draw of \$65 million on our syndicated revolving credit facility, to fund utility capital investments and for general corporate purposes.

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

In August 2010, we issued \$75.0 million in principal amount of unregistered First Mortgage Bonds in the private placement market in two series as follows:

Issue Date	Maturity	Principal Amount	Interest Rate
August 17, 2010	October 15, 2025	\$30 Million	4.90%
August 17, 2010	April 15, 2040	\$45 Million	5.82%

We used the proceeds to fund utility capital investments and for general corporate purposes.

For the February and August 2010 bond issuances (the Bonds), 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 September 30, 2010, our ratio was approximately 0.43 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 September 30, 2010, ALLETE was in compliance with its financial covenants.

NOTE 8. OTHER INCOME

The components of other income were as follows:

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Millions				
AFUDC – Equity	\$1.4	\$1.6	\$3.4	\$4.5
Investment and Other Income (Expense)	(0.8)	(0.8)	0.4	(0.7)
Total Other Income	\$0.6	\$0.8	\$3.8	\$3.8

NOTE 9. 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 were 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. On October 8, 2010, we submitted a filing with the MPUC to request deferral of the retail impact of Medicare Part D of this legislation. We are unable to predict the outcome at this time.

NOTE 9. INCOME TAX EXPENSE (Continued)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
Millions	2010	2009	2010	2009
Current Tax Expense (Benefit)				
Federal (a)	\$(31.7)	\$(7.9)	\$(24.5)	\$(16.7)
State	1.0	(0.5)	–	(0.7)
Total Current Tax Expense (Benefit)	(30.7)	(8.4)	(24.5)	(17.4)
Deferred Tax Expense				
Federal (b)	41.0	12.6	59.0	33.5
State	1.2	2.5	6.7	6.1
Deferred Tax Credits	(0.3)	(0.2)	(0.7)	(0.7)
Total Deferred Tax Expense	41.9	14.9	65.0	38.9
Total Income Tax Expense	\$11.2	\$6.5	\$40.5	\$21.5

- (a) The federal current tax benefit in 2010 primarily resulted from the implementation of tax planning initiatives and bonus depreciation provisions in the Small Business Jobs Act of 2010, resulting in a projected net operating loss for 2010. The 2010 projected net operating loss will be partially utilized by carrying it back against prior years' income with the remainder carried forward to offset future years' income. The federal current tax benefit in 2009 primarily resulted from the bonus depreciation provisions of the American Recovery and Reinvestment Act of 2009. The 2009 net operating loss has been utilized by carrying it back against prior years' taxable income.
- (b) Federal deferred tax expense for 2010 is higher due to tax planning initiatives and bonus depreciation provisions of the Small Business Jobs Act of 2010. Due to the bonus depreciation provisions, we expect to be in a net operating loss position for 2010. We expect to fully utilize the projected net operating loss carryforward; therefore a deferred tax asset has been recorded to recognize the resulting tax benefit. Included in the nine month period ending September 30, 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. The federal deferred tax expense for 2009 primarily resulted from the bonus depreciation provisions of the American Recovery and Reinvestment Act of 2009.

For the nine months ended September 30, 2010, the effective tax rate was 39.6 percent (33.8 percent for the nine months ended September 30, 2009). Excluding additional tax expense recorded as a result of the Patient Protection and Affordable Care Act, the 2010 effective tax rate was 35.7 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. The 2010 effective tax rate was also favorably impacted by \$0.8 million for the completion of a state income tax audit.

Uncertain Tax Positions. As of September 30, 2010, we have gross unrecognized tax benefits of \$13.5 million. Of this total, \$0.7 million represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate.

We expect that the total amount of unrecognized tax benefits as of September 30, 2010, will change by an immaterial amount in the next 12 months.

NOTE 10. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income were as follows:

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
Other Comprehensive Income (Loss)	2010	2009	2010	2009
Millions				
Net Income	\$19.5	\$15.8	\$61.7	\$42.0
Other Comprehensive Income				
Unrealized Gain (Loss) on Securities				
Net of income taxes of \$0.3, \$0.7, \$(0.1), and \$1.3	0.4	1.0	(0.1)	1.9
Unrealized Loss on Derivatives				
Net of income taxes of \$-, \$-, \$-, and \$-	-	0.1	-	-
Defined Benefit Pension and Other Postretirement Plans				
Net of income taxes of \$0.2, \$0.1, \$0.7, and \$0.5	0.3	0.1	0.9	0.7
Total Other Comprehensive Income	0.7	1.2	0.8	2.6
Total Comprehensive Income	\$20.2	\$17.0	\$62.5	\$44.6
Less: Non-Controlling Interest in Subsidiaries	(0.1)	(0.2)	(0.3)	(0.3)
Comprehensive Income Attributable to ALLETE	\$20.3	\$17.2	\$62.8	\$44.9

NOTE 11. EARNINGS PER SHARE AND COMMON STOCK

The difference between basic and diluted earnings per share, if any, arises from outstanding stock options and performance share awards granted under our Executive and Director Long-Term Incentive Compensation Plans. For the quarter and nine months ended September 30, 2010, 0.5 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. For the quarter and nine months ended September 30, 2009, 0.6 million options to purchase shares of common stock were excluded from the computation of diluted earnings per share.

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 September 30,						
Net Income Attributable to ALLETE	\$19.6		\$19.6	\$16.0		\$16.0
Common Shares	34.4	0.1	34.5	32.8	0.1	32.9
Earnings Per Share	\$0.57		\$0.56	\$0.49		\$0.49
For the Nine Months Ended September 30,						
Net Income Attributable to ALLETE	\$62.0		\$62.0	\$42.3		\$42.3
Common Shares	34.1	0.1	34.2	31.8	0.1	31.9
Earnings Per Share	\$1.82		\$1.81	\$1.33		\$1.33

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Components of Net Periodic Benefit Expense	Pension		Other Postretirement	
	2010	2009	2010	2009
Millions				
For the Quarter Ended September 30,				
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)	(2.0)
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	0.6
Net Periodic Benefit Expense	\$1.4	\$0.5	\$3.3	\$2.7

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

Components of Net Periodic Benefit Expense	Pension		Other	
	2010	2009	2010	2009
Millions				
For the Nine Months Ended September 30,				
Service Cost	\$4.6	\$4.3	\$3.6	\$3.1
Interest Cost	19.7	19.6	8.2	7.5
Expected Return on Plan Assets	(25.2)	(25.3)	(7.2)	(6.2)
Amortization of Prior Service Costs	0.3	0.4	–	–
Amortization of Net Loss	4.9	2.6	3.6	1.8
Amortization of Transition Obligation	–	–	1.8	1.9
Net Periodic Benefit Expense	\$4.3	\$1.6	\$10.0	\$8.1

Employer Contributions. For the nine months ended September 30, 2010, \$1.5 million was contributed to our defined benefit pension plan. (For the nine months ended September 30, 2009, \$32.9 million was contributed of which \$12.0 million was contributed through the issuance of 463,000 shares of ALLETE common stock.) For the nine months ended September 30, 2010, we contributed \$12.4 million to our other postretirement benefit plan (\$9.3 million for the nine months ended September 30, 2009). We do not expect to make any additional contributions to our defined benefit pension plan in 2010; however, we expect to make additional contributions of approximately \$1 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 nine months ended September 30, 2010, we have not received any prescription drug reimbursements.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Power Purchase Agreements (PPA). Our long-term 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 PPA is limited to our fixed capacity and energy payments.

Square Butte PPA. 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, subject to the provisions of the Minnkota power sales agreement discussed on page 22. Minnesota Power's payment obligation will be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's costs consist primarily of debt service, operating and maintenance, depreciation and fuel expenses. We expect debt service, operating and maintenance and depreciation expenses to increase in 2011 due to environmental compliance obligations. As of September 30, 2010, Square Butte had total debt outstanding of \$321.3 million. Fuel expenses are recoverable through our fuel adjustment clause and include the cost of coal purchased from BNI Coal, our subsidiary, under a long-term contract.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Power Purchase Agreements (Continued)

Minnkota Power Sales Agreement. In conjunction with the purchase of the existing 250 kV DC transmission line from Square Butte on December 31, 2009, Minnesota Power entered into a contingent power sales agreement with Minnkota Power. Under the power sales agreement, Minnesota Power will sell a portion of its output from Square Butte to Minnkota, 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.

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

Wind PPA. In 2006 and 2007, we entered into two long-term wind PPA with an affiliate of NextEra Energy, Inc. 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 at fixed prices.

Hydro PPA. We have a PPA with Manitoba Hydro that began in May 2009 and expires in April 2015. Under the agreement with Manitoba Hydro, Minnesota Power purchases 50 MWs 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.

On April 30, 2010, Minnesota Power signed a definitive agreement with Manitoba Hydro, subject to MPUC approval, to purchase surplus energy beginning in May 2011 through April 2022. This energy-only transaction primarily consists of surplus hydro energy on Manitoba Hydro's system that is delivered to Minnesota Power on a non-firm basis. The pricing is based on forward market prices. Under this agreement with Manitoba Hydro, Minnesota Power will be purchasing at least one million MWh of energy over the contract term. On September 1, 2010, we filed a petition with the MPUC to approve our PPA with Manitoba Hydro.

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.

Bison I, with a nameplate capacity of approximately 76 MWs, 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. In 2009, the NDPSA authorized site construction for Bison I and on March 10, 2010, approved the 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. In 2009, the MPUC approved Minnesota Power's petition seeking current cost recovery eligibility for investments and expenditures related to Bison I and associated transmission upgrades. On July 21, 2010, the MPUC approved our petition establishing rates effective August 1, 2010.

Bison I, including the associated transmission upgrades to the DC Line, will have a total capital cost of approximately \$177 million. As of September 30, 2010, total costs incurred were approximately \$101 million. The 22-mile, 230 kV transmission line has been completed and 16 wind turbines have been installed and will be phased into service through the end of 2010. The remaining turbines will be installed in 2011.

Leasing Agreements. BNI Coal is obligated to make lease payments for a dragline totaling \$2.8 million annually for the lease term which expires in 2027. BNI Coal has the option at the end of the lease term to renew the lease at fair market value, 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.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Coal, Rail and Shipping Contracts. We have coal supply agreements and transportation agreements providing for the purchase and delivery of a significant portion of our coal requirements. These coal and transportation agreements, including option terms, expire in various years between 2010 and 2015. Our remaining minimum payment obligation as of September 30, 2010, under these coal, rail and shipping agreements is \$7.6 million for 2010. Our minimum annual payment obligation for 2011 is \$7.4 million, 2012 is \$1.6 million, and 2013 is \$1.3 million. Our minimum annual payment obligation 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.

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

Minnesota Power initially plans to participate in three CapX2020 projects: the Fargo to St. Cloud project, the Monticello to St. Cloud project, which together total a 238-mile, 345 kV line from Fargo to Monticello, and the 70-mile, 230 kV line between Bemidji and Minnesota Power's Boswell Energy Center near Grand Rapids, Minnesota. Based on projected costs of the three transmission lines and the percentage agreements among participating utilities, Minnesota Power plans to invest between \$100 million and \$125 million in the CapX2020 initiative through 2015. As CapX2020 project costs are eligible for current cost recovery, the Company has petitioned the MPUC to recover those costs under a transmission cost recovery tariff rider.

In July 2010, the MPUC granted a route permit for the 28-mile 345 kV transmission line between Monticello and St. Cloud. Construction of the project is expected to be complete in late 2011. The 210-mile 345 kV transmission line from St. Cloud to Fargo is expected to be complete by 2015.

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 been a focus of 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.

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

New Source Review. In August 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 emissions at Laskin and Boswell, 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 Transport Rule. On July 6, 2010, the EPA proposed a rule known as the Transport Rule (TR) requiring 31 states, including Minnesota and the District of Columbia, to reduce power plant SO₂ and NO_x emissions that can significantly contribute to ozone and fine particle pollution problems in other states. If adopted, the TR will replace the Clean Air Interstate Rule (CAIR) that was issued by the EPA in March 2005. CAIR 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 original 28 CAIR states but, following Minnesota Power's successful challenge to CAIR, the EPA granted an administrative stay of the CAIR requirements in Minnesota while it prepared the TR. The proposed TR responds to the United States Court of Appeals for the District of Columbia Circuit's remand of CAIR by replacing and reforming questionable provisions to address updated air quality standards, improved emissions data and reformed emissions transport modeling.

The EPA took public comments on the proposed rule through October 1, 2010, and plans to finalize the rule in June 2011. Emissions reductions are proposed to take effect in 2012, within one year of projected finalization of the rule.

The EPA has not yet determined whether trading of emission allowances between regulated generating units or states may be implemented. Since 2005, we have made substantial investments in pollution control equipment at our Laskin, Taconite Harbor and Boswell generating units which have significantly reduced emissions. These reductions may satisfy Minnesota Power's obligations with respect to these requirements. We are unable to predict any additional compliance costs we might incur at this time.

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

Pursuant to the regional haze rule, Minnesota was required to develop its SIP by December 2007. As a mechanism for demonstrating progress towards meeting the long-term regional haze goal, in April 2007 the MPCA advanced a draft conceptual SIP which relied on the implementation of CAIR. However, a formal SIP was not filed at that time due to the United States Court of Appeals for the District of Columbia Circuit's remand of CAIR. Subsequently, the MPCA requested that companies with BART eligible units complete and submit a BART emissions control retrofit study, which was completed for Taconite Harbor Unit 3 in November 2008. The retrofit work completed in 2009 at Boswell Unit 3 meets the BART requirement for that unit. In December 2009, the MPCA approved the SIP for submittal to the EPA for its review and approval. The EPA is expected to make a decision on whether to approve the Minnesota SIP by January 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.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters (Continued)

EPA National Emission Standards for Hazardous Air Pollutants (NESHAPs) for Electric Utility Units. Under Section 112 of the Clean Air Act, the EPA is required to set emission standards for hazardous air pollutants for certain source categories. In December 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 a database upon which to base future regulations. On March 30, 2010, Minnesota Power responded to the Information Collection Request. Stack testing was completed during the third quarter of 2010 and the results were submitted to the EPA. The EPA is subject to a consent decree which requires the EPA to propose a utility NESHAPs rule by March 2011, with the final rule by November 2011. As part of the NESHAPs rulemaking, EPA will develop Maximum Achievable Control Technology standards for utilities. 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. Under Minnesota law, a mercury emissions reduction plan for Boswell Unit 4 is required to be submitted by July 1, 2015, with implementation no later than December 31, 2018. The statute also calls for an evaluation of a mercury control alternative which provides for environmental and public health benefits without imposing excessive costs on the utility's customers. Costs for the Boswell Unit 4 emission reduction plan cannot be estimated at this time.

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

Ozone NAAQS. The EPA is attempting to more stringently control emissions that result in ground level ozone. In January 2010, the EPA proposed to reduce the eight-hour ozone standard and to adopt a secondary standard for the protection of sensitive vegetation from ozone-related damage. The EPA expects to issue final standards by 2011. As proposed, states have until December 2013 to submit plans outlining how they will meet the standards.

Particulate Matter NAAQS. The EPA finalized the NAAQS Particulate Matter standards in September 2006, by establishing a more stringent 24-hour average fine particulate (PM_{2.5}) standard and keeping the annual average fine particulate matter standard and the 24-hour coarse particulate matter standard unchanged. The District of Columbia Circuit Court of Appeals has remanded the PM_{2.5} standard to the EPA, requiring consideration of lower annual average standard values. The EPA has indicated that air quality monitoring for 2008 through 2010 will be used as a basis for states to characterize their attainment status. The EPA plans to finalize the new PM_{2.5} standards in 2011, and state attainment status determination will likely not occur prior to 2013.

SO₂ and NO₂ NAAQS. The EPA recently finalized a new one-hour NAAQS for SO₂ and NO₂. Monitor data indicates that Minnesota will likely be in compliance with these new standards; however, the SO₂ NAAQS also requires the EPA to evaluate modeling data to determine attainment. It is unclear what the outcome of this evaluation will be. These NAAQS could result in more stringent emission limits on our steam generating facilities. The final compliance status for SO₂ is expected in 2012, with compliance required by August 2017. The compliance status for NO₂ is not expected until 2016 or 2017, following the installation of additional air quality monitors and the collection and analysis of additional air quality data.

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

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

Climate Change. Minnesota Power is addressing climate change by taking the following steps that also ensure reliable and environmentally compliant generation resources to meet our 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 engage in 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. In June 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.

In September 2009, the Senate introduced S. 1733, the Senate version of H.R. 2454. This proposed legislation features a more stringent, near-term greenhouse emissions reduction target in 2020, of 20 percent below 2005 levels, as compared to the 17 percent reduction proposed by H.R. 2454. Another cap and trade proposal introduced in the Senate on May 12, 2010, referred to as the American Power Act, carries similar emission reduction targets to S. 1733 while modifying allowance distribution mechanisms. The Senate is also considering a national renewable energy standard that may serve as a step in addressing climate and energy policy.

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.

Minnesota Greenhouse Gas Reduction and Emissions Reporting. 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. 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.

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.

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

EPA Greenhouse Gas Reporting Rule. In September 2009, the EPA issued a final rule mandating that certain GHG emission sources, including electric generating units and gas distribution companies (such as SWL&P), are required to report GHG emissions. 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 beginning March 31, 2011. We have the equipment and data tools necessary to report our 2010 emissions to comply with this rule.

EPA Regulation of GHG Emissions. In December 2009, the EPA issued an "Endangerment Finding" with respect to emissions of GHGs. The Endangerment Finding was the EPA's published determination that six GHGs endanger human health or welfare, and that emissions from motor vehicles contribute to that endangerment. The EPA's exercise of authority over GHG emissions through the Endangerment Finding triggered the EPA's regulation of stationary sources for GHGs under the Clean Air Act.

On May 13, 2010, the EPA issued the final Prevention of Significant Deterioration (PSD) and Title V Greenhouse Gas Tailoring Rule. The PSD/Title V Greenhouse Gas Tailoring Rule establishes thresholds for when permits will be required to address GHG emissions for new facilities, at existing facilities that undergo major modifications, and at other facilities that are characterized as major sources under the Clean Air Act's Title V program. Under the new rule, existing sources of emissions that already have a Title V permit would have GHG provisions added to their permits upon renewal. The rule requires large industrial facilities, including power plants, that undergo major modifications resulting in a significant increase in GHG emissions to obtain PSD permits that demonstrate that Best Available Control Technology (BACT) is being used at the facility to control GHG emissions. The EPA has defined significant emissions increase for existing sources as a GHG increase of 75,000 tons per year or more of total GHG on a CO₂ equivalent basis. The EPA is expected to propose BACT standards for GHG emissions from stationary sources in late 2010.

For our existing facilities, the rule does not require amending our existing Title V operating permits to include GHGs requirements. Implementation of that requirement to add GHG provisions will be completed at the state level in Minnesota by the MPCA when the Title V permits are renewed. However, installation of new units or modification of existing units resulting in a significant increase in GHG emissions will require obtaining PSD permits and amending our operating permits to incorporate BACT to control GHG emissions. Minnesota Power's existing facilities become subject to the BACT requirements if they undergo major modifications that result in a significant emissions increase. Legal challenges to the EPA's regulation of GHG emissions, including the Tailoring Rule, have been filed and are awaiting judicial determination.

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.

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. On June 18, 2010, the EPA proposed regulations for coal combustion residuals generated by the electric utility sector. The proposal seeks comments on two general regulatory schemes for coal ash. Comments are due to the EPA by November 18, 2010. We are unable to predict the compliance costs we might incur; however, there is the possibility they could have a material impact.

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 September 30, 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.

Other Matters

BNI Coal. As of September 30, 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 September 30, 2010, ALLETE Properties, through its subsidiaries, had surety bonds outstanding of \$12.9 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 \$9.0 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 2005, the Town Center District issued \$26.4 million of tax-exempt, 6 percent Capital Improvement Revenue Bonds, Series 2005; and in May 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 are being billed annually to the landowners. To the extent that we own land at the time of the annual assessment, we will incur the cost of our portion of these assessments, based upon our ownership of benefited property. As of September 30, 2010, we owned 69 percent of the assessable land in the Town Center District (69 percent as of December 31, 2009) and 93 percent of the assessable land in the Palm Coast Park District (86 percent as of December 31, 2009). At these ownership levels our annual assessments are approximately \$1.5 million for Town Center and \$2.1 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.

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 146,000 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 held-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 September 30, 2010, unless otherwise indicated. All subsidiaries of ALLETE 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 nine months ended September 30, 2010, to the nine months ended September 30, 2009.

Net income attributable to ALLETE for the nine months ended September 30, 2010, was \$62.0 million, or \$1.81 per diluted share, compared to \$42.3 million, or \$1.33 per diluted share, for the same period of 2009. Net income for the first nine months of 2010 was reduced by \$4.0 million, or \$0.12 per share, due to the elimination of the deduction for expenses reimbursed under Medicare Part D of the Patient Protection and Affordable Care Act of 2010. Net income for the first nine months of 2009 was reduced by a \$4.9 million, or \$0.15 per share, after-tax charge for the accrual of retail rate refunds related to 2008.

Regulated Operations net income attributable to ALLETE was \$65.2 million for the first nine months of 2010, compared to \$45.0 million for the same period of 2009; the first nine months of 2009 was reduced by a \$4.9 million after-tax charge for the accrual of retail rate refunds related to 2008. The period-over-period increase is attributable to higher MPUC-approved retail rates (subject to reconsideration and final order), increased sales to our large power customers, higher FERC-approved wholesale rates, and increased transmission-related margins. These increases were significantly offset by higher operating and maintenance, depreciation, interest 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 an increase of \$0.3 million in after-tax earnings from our investment in ATC over 2009.

Investments and Other reflected a net loss attributable to ALLETE of \$3.2 million in the first nine months of 2010, compared to a net loss of \$2.7 million in 2009. The increase in net loss was primarily due to the transfer of a small generating facility to our Regulated Operations in November 2009, and higher operating and maintenance expenses. These items were partially offset by lower equity losses on investments, lower losses at ALLETE Properties and a tax benefit (including interest) resulting from the completion of a state income tax audit of \$1.1 million. Income tax expense also included a \$0.4 million charge resulting from the Patient Protection and Affordable Care Act of 2010 that eliminated the deduction for expenses reimbursed under Medicare Part D.

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2010 AND 2009

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

Regulated Operations

Operating revenue increased \$44.7 million, or 28 percent, from 2009 due to higher MPUC-approved retail rates, higher FERC-approved wholesale rates, higher transmission revenues, higher fuel and purchased power recoveries, and increased sales to our retail and municipal customers. These increases were partially offset by lower sales to Other Power Suppliers.

Interim retail rates authorized by the MPUC in December 2009, and effective January 1, 2010, resulted in an increase of approximately \$13.5 million. (See Note 5. Regulatory Matters.)

Higher rates from the January 1, 2010, FERC-approved wholesale rate increases for our municipal customers increased revenue by \$2.5 million. (See Note 5. Regulatory Matters.)

Transmission revenues increased \$6.1 million from 2009 primarily due to revenues related to the 250 kV DC transmission line purchased from Square Butte on December 31, 2009.

Higher fuel and purchased power recoveries, along with an increase in retail and municipal kilowatt-hour sales, combined for a total revenue increase of \$40.8 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 47.8 percent from 2009 primarily due to increased sales to our taconite customers.

The increase in kilowatt-hour sales to retail and municipal customers was partially offset by decreased revenue from marketing power to Other Power Suppliers, which decreased \$19.8 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.

Total kilowatt-hour sales to retail and municipal customers increased 47.8 percent from 2009 primarily due to an increase in sales to our taconite customers. Increased revenue from our industrial sales was partially offset by a 40.2 percent decrease in kilowatt-hour sales to Other Power Suppliers.

Kilowatt-hours Sold			Quantity	%
Quarter Ended September 30,	2010	2009	Variance	Variance
Millions				
Regulated Utility				
Retail and Municipals				
Residential	262	240	22	9.2 %
Commercial	374	352	22	6.3 %
Industrial	1,799	984	815	82.8 %
Municipals	253	243	10	4.1 %
Total Retail and Municipals	2,688	1,819	869	47.8 %
Other Power Suppliers	629	1,051	(422)	(40.2) %
Total Regulated Utility Kilowatt-hours Sold	3,317	2,870	447	15.6 %

Revenue from electric sales to taconite customers accounted for 25 percent of consolidated operating revenue in 2010 (13 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 11 percent of consolidated operating revenue in 2010 (24 percent in 2009). Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in 2010 (10 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 \$33.2 million, or 25 percent, from 2009.

Fuel and Purchased Power Expense increased \$9.2 million, or 13 percent, from 2009. The increase was due to higher fuel costs of \$5.9 million resulting from a 13 percent increase in coal generation at our facilities and higher coal prices and related transportation. Purchased power expense also increased \$4.5 million reflecting higher kilowatt-hour purchases, partially offset by lower market prices.

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2010 AND 2009 (Continued)
Regulated Operations (Continued)

Operating and Maintenance Expense increased \$20.1 million, or 40 percent, from 2009 reflecting higher plant outages and reagent expenses of \$4.4 million, increased labor and employee benefit costs of \$4.5 million and additional MISO expenses of \$3.1 million relating to the 250 kV DC transmission line purchased from Square Butte on December 31, 2009.

Depreciation Expense increased \$3.9 million, or 26 percent, from 2009 reflecting higher property, plant, and equipment in service in 2010.

Interest expense increased \$1.0 million, or 14 percent, from 2009 primarily due to additional long-term debt issued to fund new capital investments and for general corporate purposes.

Income tax expense increased \$4.8 million, or 63 percent, from 2009 primarily due to higher pretax income.

Investments and Other

Operating revenue increased \$0.6 million, or 3 percent, from 2009. This increase was primarily attributable to BNI Coal, which operates under a cost-plus contract and recorded \$1.4 million more in sales revenue as a result of higher expenses in 2010 (See Operating Expense). This increase was partially offset by a \$1.2 million decrease in revenue from non-regulated generation due to the transfer of a small generating facility to Regulated Operations in November 2009. No land sales were made during the third quarter of 2010 or 2009 at ALLETE Properties due to the continued lack of demand for our properties as a result of poor real estate market conditions in Florida.

Operating expenses increased \$2.2 million, or 12 percent, from 2009 reflecting higher expenses at BNI Coal of \$1.4 million primarily due to higher dragline repairs in 2010 which were recovered through the cost-plus contract. (See Operating Revenue.) Also contributing to this increase was higher employee benefit expense of \$0.6 million. These increases were partially offset by lower non-regulated generation expenses of \$0.4 million as a result of the transfer of a small generating facility to Regulated Operations in November 2009.

Income Taxes – Consolidated

For the quarter ended September 30, 2010, the effective tax rate was 36.5 percent (29.0 percent for the quarter ended September 30, 2009). The effective tax rate in both years 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, the 2009 effective tax rate was impacted by lower pretax income and the benefit of 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 9. Income Tax Expense.)

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

Regulated Operations

Operating revenue increased \$128.7 million, or 26 percent, from 2009 due to higher MPUC-approved retail rates, 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 were higher transmission revenues, higher fuel and purchased power recoveries, and increased sales to retail and municipal customers. These increases were partially offset by lower sales to Other Power Suppliers.

Interim retail rates authorized by the MPUC in December 2009, and effective January 1, 2010, resulted in an increase of approximately \$38.5 million. (See Note 5. Regulatory Matters.)

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (Continued)
Regulated Operations (Continued)

Higher rates from the January 1, 2010, FERC-approved wholesale rate increases for municipal customers increased revenue by \$7.3 million. (See Note 5. 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 \$7.6 million.

Transmission revenues increased \$17.1 million from 2009 primarily due to revenues related to the 250 kV DC transmission line purchased from Square Butte on December 31, 2009.

Higher fuel and purchased power recoveries, along with an increase in retail and municipal kilowatt-hour sales, combined for a total revenue increase of \$89.4 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 30.8 percent from 2009 primarily due to increased sales to our taconite customers.

The increase in kilowatt-hour sales to retail and municipal customers has been partially offset by decreased revenue from marketing power to Other Power Suppliers, which decreased \$32.9 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.

Total kilowatt-hour sales to retail and municipal customers increased 30.8 percent from 2009 primarily due to an increase in sales to our taconite customers. Increased revenue from industrial sales was partially offset by a 29.5 percent decrease in kilowatt-hour sales to Other Power Suppliers.

Kilowatt-hours Sold			Quantity	%
Nine Months Ended September 30,	2010	2009	Variance	Variance
Millions				
Regulated Utility				
Retail and Municipals				
Residential	847	857	(10)	(1.2) %
Commercial	1,074	1,061	13	1.2 %
Industrial	4,956	3,182	1,774	55.8 %
Municipals	746	729	17	2.3 %
Total Retail and Municipals	7,623	5,829	1,794	30.8 %
Other Power Suppliers	2,168	3,075	(907)	(29.5) %
Total Regulated Utility Kilowatt-hours Sold	9,791	8,904	887	10.0 %

Revenue from electric sales to taconite customers accounted for 24 percent of consolidated operating revenue in 2010 (15 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 13 percent of consolidated operating revenue in 2010 (21 percent in 2009). Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in 2010 (9 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 \$86.4 million, or 21 percent, from 2009.

Fuel and Purchased Power Expense increased \$33.7 million, or 17 percent, from 2009. The increase is primarily due to higher fuel costs of \$18.9 million resulting from a 13 percent increase in coal generation at our facilities and higher coal prices and related transportation. Purchased power expense also increased \$13.2 million reflecting higher kilowatt-hour purchases and higher market prices.

Operating and Maintenance Expense increased \$39.5 million, or 23 percent, from 2009 reflecting higher plant outage and reagent expenses of \$10.4 million, DC transmission line maintenance expenses of \$0.9 million, additional MISO expenses of \$11.8 million relating to the 250 kV DC transmission line purchased from Square Butte on December 31, 2009, and increased labor and employee benefit costs of \$9.2 million.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (Continued)
Regulated Operations (Continued)

Depreciation Expense increased \$13.2 million, or 30 percent, from 2009 reflecting higher property, plant, and equipment placed in service.

Interest Expense increased \$2.4 million, or 11 percent, from 2009 primarily due to additional long-term debt issued to fund new capital investments and for general corporate purposes.

Income tax expense increased \$19.3 million, or 77 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 \$2.9 million, or 5 percent, from 2009 primarily due to a \$3.6 million decrease in revenue from non-regulated generation reflecting the transfer of a small generating facility to Regulated Operations in November 2009. This decrease was partially offset by a \$1.4 million increase in revenue at BNI Coal, which operates under a cost-plus contract and recorded higher sales revenue as a result of higher expenses in 2010 (See Operating Expense).

Revenue at ALLETE Properties was down \$0.2 million from 2009 primarily due to no land sales during the first nine months of 2010. This was due to the continued lack of demand for our properties as a result of poor real estate market conditions in Florida. During the first nine months of 2009, ALLETE Properties sold approximately 19 acres of property located outside of its three main development projects for \$2.2 million for net revenue of \$1.9 million; in 2010 ALLETE Properties recorded other revenue of \$1.7 million.

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 (c)		\$1.7		0.3
Total ALLETE Properties Revenue		\$1.7		\$1.9

(a)Acres 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.

(c)Other Revenue primarily includes a \$0.7 million pretax gain for the nine months ended September 30, 2010, due to the receipt of property from an entity which filed for voluntary Chapter 11 bankruptcy in June 2009.

Operating expenses decreased \$1.5 million, or 3 percent, from 2009 reflecting lower non-regulated generation expenses of \$2.4 million primarily due to the transfer of a small generating facility to Regulated Operations in November 2009, and decreased expenses at ALLETE Properties of \$1.3 million due to reductions in the cost of land sold and general and administrative expenses. These decreases were partially offset by higher expenses at BNI Coal of \$1.4 million primarily due to higher dragline repairs in 2010 which were recovered through the cost-plus contract. (See Operating Revenue.)

Other income (expense) increased \$0.9 million from 2009 primarily due to lower equity losses on investments of \$1.3 million in 2010.

Income Taxes – Consolidated

For the nine months ended September 30, 2010, the effective tax rate was 39.6 percent (33.8 percent for the nine months ended September 30, 2009). Excluding additional tax expense recorded as a result of the Patient Protection and Affordable Care Act of 2010 that eliminated the deduction for expenses reimbursed under Medicare Part D, the 2010 effective tax rate was 35.7 percent. The effective tax rate in each period deviated from the statutory rate (approximately 41 percent) primarily due to deductions for AFUDC-Equity, investment tax credits, wind production tax credits, and depletion. The 2010 effective tax rate was also favorably impacted by the completion of a state income tax audit. The 2009 effective tax rate included the effect of deductions for Medicare prescription drug subsidies. 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 9. Income Tax Expense.)

CRITICAL ACCOUNTING ESTIMATES

Certain accounting measurements under GAAP involve management's judgment about subjective factors and estimates, the effects of which are inherently uncertain. Accounting measurements that we believe are most critical to our reported results of operations and financial condition include: regulatory accounting, valuation of investments, pension and postretirement health and life actuarial assumptions, and taxation. These policies are reviewed with the Audit Committee of our Board of Directors on a regular basis and summarized in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of our 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 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 Bison I. Through BNI Coal we have a long-term business presence and established landowner relationships in North Dakota. See page 36 for more discussion on the DC line acquisition and Bison I. 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 37.

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.

OUTLOOK (Continued)

Regulated Operations. Minnesota Power's long-term strategy is to maintain its competitively priced production of energy, reduce customer concentration exposure, comply with environmental permits 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 an \$81 million 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. Interim rates were put into effect on January 1, 2010, and were originally estimated to increase revenues by \$48.5 million in 2010. In April 2010, we adjusted our initial filing for events that had occurred since November 2009 – primarily increased sales to our industrial customers – resulting in a retail rate increase request of \$72 million, a return on equity request of 11.25 percent, and a capital structure consisting of 54.29 percent equity and 45.71 percent debt. As a result of these increased sales, interim rates are estimated to be approximately \$53 million during 2010.

On September 29, 2010, the MPUC addressed the retail rate increase request and approved a 10.38 percent return on common equity and a 54.29 percent equity ratio. We estimate that the MPUC will order an overall retail electric rate increase of approximately \$54 million when it issues its written order on the rate request, which is expected by November 2, 2010. Once the written order has been issued, any party may request reconsideration by the MPUC. Any party who seeks reconsideration may thereafter appeal to the Minnesota Court of Appeals. We will continue collecting interim rates from our customers until the new rates go into effect, which will be after the reconsideration period has expired, any appeals are addressed, and after all compliance filings are completed and accepted. Reconsideration, or appeal, of the written order, or modifications during the compliance period, could affect the final rate increase estimate. A final order, after reconsideration, is expected no later than the first quarter of 2011. Final rates are expected to be near the amount collected under interim rates, therefore, we expect little or no interim rate refunds to be issued.

2008 Rate Case – Fuel and Purchase Power. In the final 2008 retail 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 formula-based rate contracts with these customers 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 implemented on January 1, 2010, are expected to generate approximately \$7 million in revenues on an annualized basis.

OUTLOOK (Continued)
Rates (Continued)

Wisconsin Rates. SWL&P's current retail rates are based on a 2008 PSCW retail rate order, effective January 1, 2009. On May 17, 2010, SWL&P filed a rate increase request with the PSCW seeking an average overall increase of 3.6 percent for retail customers (a 1.4 percent increase in electric rates, a 3.0 percent increase in natural gas rates, and a 17.9 percent increase in water rates). The rate filing seeks an overall return on equity of 11.3 percent, and a capital structure consisting of 56.9 percent equity and 43.1 percent debt. On an annualized basis, the requested rate increase would generate approximately \$3 million in additional revenue. Evidentiary and public hearings were held on September 22, 2010. The Company anticipates new rates will take effect during the first quarter of 2011. We cannot predict the level of rates that may be approved by the PSCW.

Industrial Customers. Electric power is one of several key inputs in the taconite mining, paper production, and pipeline industries. Approximately 54 percent of our Regulated Utility kilowatt-hour sales in the quarter ended September 30, 2010 (34 percent in the quarter ended September 30, 2009), were made to our industrial customers, which include the taconite, paper and pulp, and pipeline industries.

According to the American Iron and Steel Institute, domestic raw steel production for the first nine months of 2010, was approximately 71 percent of capacity, compared to 49 percent of capacity for the first nine months of 2009. As a result, Minnesota Power is experiencing an increase in kilowatt-hour sales as a result of increased taconite production for 2010 compared to 2009 (approximately 18 million tons in 2009), although production will still be less than previous 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 developed a plan to meet the renewable goals set by Minnesota and has included this plan in its 2010 Integrated Resource Plan, filed October 5, 2009 with the MPUC. The law allows the MPUC to modify or delay meeting a milestone if implementation will cause significant ratepayer cost or technical reliability issues. If a utility is not in compliance with a milestone, the MPUC may order the utility to construct facilities, purchase renewable energy or purchase renewable energy credits.

We are 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.

Bison I, with a nameplate capacity of approximately 76 MWs, 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. In 2009, the NDPSA authorized site construction for Bison I and on March 10, 2010, approved the 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. In 2009, the MPUC approved Minnesota Power's petition seeking current cost recovery eligibility for investments and expenditures related to Bison I and associated transmission upgrades. On July 21, 2010, the MPUC approved our petition establishing rates effective August 1, 2010.

OUTLOOK (Continued)
Renewable Energy (Continued)

Bison I, including the associated transmission upgrades to the DC Line, will have a total capital cost of approximately \$177 million. As of September 30, 2010, total costs incurred were approximately \$101 million. Currently 16 wind turbines have been installed and will be phased into service through the end of 2010. The remaining turbines will be installed in 2011.

Manitoba Hydro. On April 30, 2010, Minnesota Power signed a definitive agreement with Manitoba Hydro, subject to MPUC approval, to purchase surplus energy beginning in May 2011 through April 2022. This energy-only transaction primarily consists of surplus hydro energy on Manitoba Hydro's system that is delivered to Minnesota Power on a non-firm basis. The pricing is based on forward market prices. Under this agreement with Manitoba Hydro, Minnesota Power will be purchasing at least one million MWh of energy over the contract term. On September 1, 2010, we filed a petition with the MPUC to approve our PPA with Manitoba Hydro.

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 through 2025, and plans to meet estimated future customer demand while achieving:

- Increased system flexibility to adapt to volatile business cycles and varied future industrial load scenarios;
- Reductions in the emission of GHGs (primarily 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. Bison I 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 through 2025. We will also focus on conservation and demand side management to meet the energy savings goals established in Minnesota legislation.

Transmission. We plan to make investments in upper Midwest transmission opportunities that strengthen or enhance the regional transmission grid. These investments include the CapX2020 initiative, investments in our transmission assets, and our investment in ATC.

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

Minnesota Power plans to initially participate in three CapX2020 projects: the Fargo to St. Cloud project, the Monticello to St. Cloud project, which together total a 238-mile, 345 kV line from Fargo to Monticello, and the 70-mile, 230 kV line between Bemidji and Minnesota Power's Boswell Energy Center near Grand Rapids, Minnesota. Based on projected costs of the three transmission lines and the percentage agreements among participating utilities, Minnesota Power plans to invest between \$100 million and \$125 million in the CapX2020 initiative through 2015. As CapX2020 project costs are eligible for current cost recovery, the Company has petitioned the MPUC to recover project costs under a transmission cost recovery tariff rider.

In July 2010, the MPUC granted a route permit for the 28-mile 345 kV transmission line between Monticello and St. Cloud. Construction of the project is expected to be complete in late 2011. The 210-mile 345 kV transmission line from St. Cloud to Fargo is expected to be complete by 2015.

OUTLOOK (Continued)

Transmission Investments. 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 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. In our 2010 rate case we moved completed transmission projects from the current cost recovery rider to base rates. In July 2010, we filed for an updated billing factor that includes additional transmission projects and expenses which we expect to be approved in early 2011.

Investment in ATC. As of September 30, 2010, our equity investment in ATC was \$92.0 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 \$3.4 billion in future projects needed over the next 10 years to improve the adequacy and reliability of the electric transmission system as well as to meet regional needs based on economic benefits and public policy initiatives for renewable energy. This investment is expected to be funded through a combination of internally generated cash, debt, and investor contributions. As additional opportunities arise, we plan to make additional investments in ATC through general capital calls based upon our pro-rata ownership interest in ATC. On October 29, 2010, we invested an additional \$0.4 million in ATC for a total investment of \$1.6 million in 2010. (See Note 6. 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 3 million tons through September 30, 2010 (3.3 million tons sold as of September 30, 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 Properties does not intend to acquire additional 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, Florida, 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%	862	2,089	2,215,200
Palm Coast Park	100%	3,842	3,554	3,056,800
Total Current Development Projects		4,704	5,643	5,272,000
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		10,677	8,593	8,487,000

(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 1,980 acres of other land available-for-sale outside of the three development projects.

OUTLOOK (Continued)
Investments and Other (Continued)

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. As of September 30, 2010, we had a cash balance of \$92.3 million, \$154.0 million in available consolidated lines of credit which included a committed, syndicated, unsecured revolving line of credit of \$150.0 million, and a debt-to-capital ratio of 44 percent. As of September 30, 2010, we project sufficient capital availability.

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

	September 30,		December 31,	
	2010	%	2009	%
Millions				
ALLETE Equity	\$974.9	55	\$929.5	57
Non-Controlling Interest	9.2	1	9.5	—
Long-Term Debt (Including Long-Term Debt Due within One Year)	785.8	44	701.0	43
Short-Term Debt (Notes Payable)	1.0	—	1.9	—
Total Capital Structure	\$1,770.9	100	\$1,641.9	100

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

For the Nine Months Ended September 30,	2010	2009
Millions		
Cash and Cash Equivalents at Beginning of Period	\$25.7	\$102.0
Cash Flows from (used for)		
Operating Activities	188.0	106.3
Investing Activities	(177.7)	(206.5)
Financing Activities	56.3	52.5
Change in Cash and Cash Equivalents	66.6	(47.7)
Cash and Cash Equivalents at End of Period	\$92.3	\$54.3

Operating Activities. Cash from operating activities was \$188.0 million for the nine months ended September 30, 2010 (\$106.3 million for the nine months ended September 30, 2009). Cash from operating activities was higher in 2010 primarily due to higher net income, higher depreciation expense related to increased plant in service in 2010, lower contributions to the defined benefit pension plan in 2010, lower increases in the current cost recovery rider receivable balance in 2010 and increased deferred tax expenses related to higher tax depreciation and tax planning initiatives in 2010.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Investing Activities. Cash used for investing activities was \$177.7 million for the nine months ended September 30, 2010 (\$206.5 million for the nine months ended September 30, 2009). Cash used for investing activities was lower than 2009 reflecting decreased capital additions to property, plant and equipment, and lower investments in ATC. Capital additions in 2009 included the environmental retrofit projects.

Financing Activities. Cash from financing activities was \$56.3 million for the nine months ended September 30, 2010 (\$52.5 million for the nine months ended September 30, 2009). Cash from financing activities was higher in 2010 due to new debt issuances of \$155 million compared to \$44.7 million in 2009. In 2010, \$65 million of proceeds from the \$80 million First Mortgage Bonds issued in February were used to pay off the syndicated revolving credit facility that was drawn in late 2009. In 2010, our common stock issuance decreased due to higher internally generated cash and lower capital expenditures.

Working Capital. Additional working capital, if and when needed, generally is provided by consolidated bank lines of credit or the sale of securities or commercial paper. As of September 30, 2010, we had available consolidated bank lines of credit aggregating \$154.0 million, the majority of which expire in January 2012. In addition, we had 2.0 million original issue shares of our common stock available for issuance through *Invest Direct*, our direct stock purchase and dividend reinvestment plan, and 3.1 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. We used the proceeds from the sale of Bonds to pay down \$65 million on our syndicated revolving credit facility, to fund utility capital investments and for general corporate purposes.

In August 2010, we issued \$75.0 million in principal amount of unregistered First Mortgage Bonds in the private placement market in two series. We used the proceeds to fund utility capital expenditures and for general corporate purposes.

For the February and August 2010 bond issuances 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. (See Note 7. Short-Term and Long-Term Debt.)

We entered into a Distribution Agreement with KCCI, Inc., in February 2008, which was 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 have been offered for sale, from time to time, in accordance with the terms of the agreement pursuant to Registration Statement No. 333-147965. For the nine months ended September 30, 2010, 0.2 million shares of common stock were issued under this agreement resulting in net proceeds of \$6.0 million.

For the nine months ended September 30, 2010, we issued 0.4 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 \$13.0 million. These shares of common stock were registered under Registration Statement Nos. 333-150681, 333-105225, and 333-124455, respectively.

Financial Covenants. See Note 7. 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. (See Note 12. Pension and Other Postretirement Benefit Plans for 2010 contributions made to date.) 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 13. Commitments, Guarantees and Contingencies of this Form 10-Q.

Capital Requirements

Our capital expenditures for 2010 are expected to be approximately \$250 million as disclosed in our 2009 Form 10-K. For the nine months ended September 30, 2010, capital expenditures totaled \$175.5 million (\$186.7 million at September 30, 2009). The expenditures were primarily made in the Regulated Operations segment. Internally generated funds and issuances of long-term debt and equity 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 13. 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 618 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 contracts for Minnesota Power and SWL&P occurred in January and March 2010, respectively. 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 September 30, 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 territory 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 natural gas (in Wisconsin).

POWER MARKETING

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

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

INTEREST RATE RISK

We are 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 September 30, 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 September 30, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of September 30, 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

(a) Pursuant to a Bond Purchase Agreement, dated August 17, 2010, by and among the Company and certain institutional buyers in the private placement market named therein, the Company issued and sold \$75 million of ALLETE First Mortgage Bonds (Bonds). The Bonds were issued in two series as follows:

Issue Date	Maturity	Principal Amount	Interest Rate
August 17, 2010	October 15, 2025	\$30 Million	4.90%
August 17, 2010	April 15, 2040	\$45 Million	5.82%

The Bonds were issued pursuant to a Supplemental Indenture, dated August 1, 2010, between ALLETE and The Bank of New York Mellon, as corporate trustee, Ming Ryan as succeeding co-trustee and Douglas J. MacInnes as resigning co-trustee. Interest on the Bonds is payable semi-annually in arrears on April 15 and October 15 of each year, commencing on April 15, 2011. The Company has the option to prepay all or a portion of the Bonds at its discretion, subject to a make-whole provision. The Bonds are subject to additional terms and conditions of our utility mortgage. The Company used the proceeds to fund utility capital investments and for general corporate purposes. The Bonds were sold in reliance upon an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended, to institutional accredited investors.

The description set forth above is qualified in its entirety by reference to the Supplemental Indenture which is attached hereto as Exhibit 4 and is incorporated by reference herein.

ALLETE Third Quarter Form 10-Q

ITEM 6. EXHIBITS

**Exhibit
Number**

- 4 Thirty-second Supplemental Indenture, dated as of August 1, 2010, between ALLETE and The Bank of New York Mellon, as corporate trustee, Ming Ryan as succeeding co-trustee and Douglas J. MacInnes as resigning co-trustee.
- 10 Amendment to the ALLETE Director Stock Plan, effective October 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 October 29, 2010, announcing 2010 third 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.)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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)

MING RYAN
(herein becoming successor to Douglas J. MacInnes)

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

Thirty-second Supplemental Indenture
Providing, among other things, for
First Mortgage Bonds, 4.90% Series due October 15, 2025
(Forty-first Series),
and
First Mortgage Bonds, 5.82% Series due April 15, 2040
(Forty-second Series)

Dated as of August 1, 2010

THIRTY-SECOND SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of August 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 Ming Ryan (successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May, J. A. Vaughan, W. T. Cunningham and Douglas J. MacInnes), whose post office address is c/o The Bank of New York Mellon, 101 Barclay Street, New York, New York 10286 (said Ming Ryan 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 (Ming Ryan, 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-second 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:

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

<u>Designation</u>	<u>Dated as of</u>
Twenty-eighth Supplemental Indenture	May 1, 2008
Twenty-ninth Supplemental Indenture	November 1, 2008
Thirtieth Supplemental Indenture	January 1, 2009
Thirty-first Supplemental Indenture	February 1, 2010

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:

<u>Series</u>	<u>Principal Amount Issued</u>	<u>Principal Amount Outstanding</u>
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

<u>Series</u>	<u>Principal Amount Issued</u>	<u>Principal Amount Outstanding</u>
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
4.85% Series due April 15, 2021	15,000,000	15,000,000
5.10% Series due April 15, 2025	30,000,000	30,000,000
6.00% Series due April 15, 2040	35,000,000	35,000,000

which bonds are also hereinafter sometimes called bonds of the First through Fortieth 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 two 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-second Supplemental Indenture, and the terms of the bonds of the Forty-first Series and the Forty-second 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 undersigned Douglas J. MacInnes hereby gives written notice to the Company that he hereby resigns as Co-Trustee under the Mortgage, such resignation to take effect at the close of business on July 31, 2010, unless previously a successor Co-Trustee shall have been appointed as provided in the Mortgage, in which event such resignation shall take effect immediately on the appointment of such successor Co-Trustee.

That pursuant to Section 102 of the Mortgage, and by order of its Board of Directors, the undersigned ALLETE, Inc. hereby appoints Ming Ryan as successor Co-Trustee under the Mortgage, subject to the conditions in Article XVII thereof expressed, effective at the close of business on July 31, 2010.

That the undersigned Ming Ryan, a citizen of the United States of America, hereby accepts her said appointment by ALLETE, Inc. as successor Co-Trustee under the Mortgage.

That the undersigned Douglas J. MacInnes hereby acknowledges receipt of an executed counterpart of this instrument.

That the undersigned ALLETE, Inc. will proceed with the publication of the notice of resignation and notice of appointment as provided respectively in Sections 101 and 102 of the Mortgage, in substantially the forms provided in Exhibit A hereto annexed.

That the Company, in consideration of the premises and of One Dollar to it duly paid by the Trustees at or before the sealing 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 MING RYAN, 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 (f) 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-second 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 (1) 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-second 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 be come 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-second 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-second 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
Forty-first Series of Bonds

SECTION 1. There shall be a series of bonds designated "4.90% Series due October 15, 2025" (herein sometimes referred to as the "Forty-first 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 Forty-first Series shall be dated as in Section 10 of the Mortgage provided, mature on October 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 August 17, 2010 (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 4.90% per annum, payable semi-annually on April 15 and October 15 of each year, commencing April 15, 2011, 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first Series, the principal amount of the Bonds of the Forty-first Series to be prepaid shall be allocated by the Company among all of the Bonds of the Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first Series, the principal of such bond that is to be prepaid pursuant to subsection (f) of this section.

“Discounted Value” means, with respect to the Called Principal of any bond of the Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first 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 Forty-first Series.

After the delivery of this Thirty-second 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 Forty-first Series for the aggregate principal amount of \$30,000,000.

ARTICLE II

Forty-second Series of Bonds

SECTION 1. There shall be a series of bonds designated “5.82% Series due April 15, 2040” (herein sometimes referred to as the “Forth-second 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 Forty-second 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 August 17, 2010 (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 5.82% per annum, payable semi-annually on April 15 and October 15 of each year, commencing April 15, 2011, 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 Forty-second 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 Forty-second 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.

(l) **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 Forty-second 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 Forty-second 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 (l) 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second Series, the principal amount of the Bonds of the Forty-second Series to be prepaid shall be allocated by the Company among all of the Bonds of the Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 (f) of this section.

“Settlement Date” means, with respect to the Called Principal of any Bond of the Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second 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 Forty-second Series.

After the delivery of this Thirty-second 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 Forty-second Series for the aggregate principal amount of \$45,000,000.

ARTICLE III **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 Forty-first Series, the Forty-second 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

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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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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,

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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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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

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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 Forty-first Series, the Forty-second 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 (i) 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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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 Forty-first Series, the Forty-second 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 depositories 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 a 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 IV
Consent to Amendments

SECTION 1. Consent to Amendments Each initial and future holder of bonds of the Forty-first Series and the Forty-second Series, by its acquisition of an interest in such bonds, irrevocably (a) consents to the amendments set forth in Article III of this Thirty-second 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 V
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 Forty-first Series, the Forty-second 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 VII
Miscellaneous Provisions

SECTION 1. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words “and October 15, 2025 and April 15, 2040” after the words “and April 15, 2040.”

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

SECTION 3. The holders of bonds of the Forty-first Series and the Forty-second 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 Forty-first Series and the Forty-second 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-second 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-second 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-second Supplemental Indenture.

SECTION 5. Whenever in this Thirty-second 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-second 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-second 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-second Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Thirty-second 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-second 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-second 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 Ming Ryan and Douglas J. MacInnes have hereunto set their hands and affixed their seals, 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/ Dawn M. LaPointe

/s/ Jodi M. Nash

Trustees' Signature Page Follows

THE BANK OF NEW YORK MELLON,
as Trustee

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

Attest:

/s/ Francine Kincaid
Francine Kincaid
Vice President

/s/ Douglas J. MacInnes & #160; L.S.
DOUGLAS J. MACINNES

Executed, sealed and delivered by THE BANK OF NEW YORK MELLON and DOUGLAS J. MACINNES and MING RYAN in the presence of: /s/ Ming Ryan □ 60; L.S.
MING RYAN

/s/ Beata Harvin

/s/ Laurence O'Brien

Thirty-second Supplemental Indenture dated as of August 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 9th day of August, 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 9th day of August, 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 9th day of August, 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 9th day of August, 2010.

/s/ Jodi M. Nash □ 60

Notary Public

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

On this 9th day of August, 2010, before me, a Notary Public within and for said County, personally appeared Scott I. Klein and Francine Kincaid, 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 Scott I. Klein and Francine Kincaid acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 9th day of August, 2010, Scott I. Klein, to me known to be a Vice President, and Francine Kincaid, 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 Scott I. Klein and Francine Kincaid 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 9th day of August, 2010, before me personally came Scott I. Klein and Francine Kincaid, 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 9th day of August, 2010.

/s/ Danial C. Marcel □

Q; _____

Notary Public, State of New York

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

On this 9th day of August, 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 9th day of August, 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 9th day of August, 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 9th day of August, 2010.

/s/ Daniel C. Marcel
Notary Public, State of New York

EXHIBIT A

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

Mortgage and Deed of Trust dated as of September 1, 1945,
as supplemented

NOTICE OF RESIGNATION OF CO-TRUSTEE

NOTICE IS HEREBY GIVEN, pursuant to Section 101 of the above-mentioned Mortgage, of the resignation of Douglas J. MacInnes as Co-Trustee under the Mortgage, such resignation to take effect at the close of business on July 31, 2010.

Douglas J. MacInnes

NOTICE OF APPOINTMENT OF SUCCESSOR CO-TRUSTEE

NOTICE IS HEREBY GIVEN, pursuant to Section 102 of the above-mentioned Mortgage, that by authority of the Board of Directors Ming Ryan has been appointed successor Co-Trustee under the Mortgage and has accepted such appointment, effective at the close of business on July 31, 2010.

ALLETE, Inc.

July 31, 2010

Drafted by:

Lyssa Supinski
Minnesota Power
30 West Superior Street
Duluth, MN 55802
(218) 723-3982

**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 October 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. Any Director joining the Board during a Service Period after the first business day in June will receive his or her Stock Payment, valued using the same general methodology described above and prorated to reflect the number of months included in the Director's initial Service Period, as soon as practicable after the first business day following the effective date of his or her 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 19th day October, 2010.

ALLETE, Inc.

By: /s/ Alan R. Hodnik

Alan R. Hodnik
President and Chief Executive Officer

ATTEST:

By: /s/ Deborah A. Amberg

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

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

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 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: October 29, 2010

Alan R. Hodnik

Alan R. Hodnik
President and Chief Executive Officer

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

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

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 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: October 29, 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 September 30, 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: October 29, 2010

Alan R. Hodnik

Alan R. Hodnik
President and Chief Executive Officer

Date: October 29, 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.



NEWS

For Release:
Investor Contact:

Exhibit 99
October 29, 2010
Tim Thorp
218-723-3953
tthorp@allete.com

ALLETE, Inc. reports third quarter earnings of 56 cents per share

ALLETE (NYSE: ALE) today reported third quarter 2010 earnings of 56 cents per share on net income of \$19.6 million and revenue of \$224.1 million.

In the third quarter of 2009, company earnings were 49 cents per share and net income was \$16 million on revenue of \$178.8 million. Higher industrial sales were a primary reason for the 23 percent year-over-year increase in net income.

"We're pleased with these financial results," said ALLETE CEO and President Alan R. Hodnik. "And we are particularly pleased that economic improvement was seen by customers in our service territory compared to what was experienced a year ago."

Quarterly net income in ALLETE's **Regulated Operations** segment improved from \$16.6 million in 2009 to \$22.1 million in 2010, due to a number of factors. The combination of higher rates and electric sales were partially offset by significant increases in operating, interest and depreciation expenses.

The **Investments and Other** segment recorded a quarterly net loss of \$2.5 million versus a net loss of \$600,000 in the same period a year ago. Higher operating expenses were a primary contributor to the period over period decrease. An increase in the average number of common shares outstanding, with issuance proceeds used to fund the capital expenditure program, had a dilutive impact of four cents per share for the quarter.

Hodnik said he expects ALLETE to finish 2010 by recording earnings in a range between \$2.25 and \$2.35 per share, excluding the first quarter 12 cent per share non-recurring charge as a result of the Patient Protection and Affordable Care Act.

ALLETE's corporate headquarters are located in Duluth, Minnesota. In addition to its electric utilities, Minnesota Power in northeast Minnesota and Superior Water, Light & Power Co. in northwest Wisconsin, ALLETE owns BNI Coal in Center, N. D. and has an 8 percent equity interest in the American Transmission Co. In late 2009, it purchased a 465-mile direct current transmission line between Duluth, Minn. and Center, N.D. to transport renewable wind energy from its Bison I Wind Energy Center, which is currently under construction near New Salem, N.D. 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.

ALLETE, Inc.

Consolidated Statement of Income
For the Periods Ended September 30, 2010 and 2009
Millions Except Per Share Amounts – Unaudited

	Quarter Ended		Year to Date	
	2010	2009	2010	2009
Operating Revenue				
Operating Revenue	\$224.1	\$178.8	\$668.9	\$550.7
Prior Year Rate Refunds	–	–	–	(7.6)
Total Operating Revenue	224.1	178.8	668.9	543.1
Operating Expenses				
Fuel and Purchased Power	79.0	69.8	233.1	199.4
Operating and Maintenance	89.8	67.5	262.9	224.7
Depreciation	20.0	16.1	59.8	46.8
Total Operating Expenses	188.8	153.4	555.8	470.9
Operating Income	35.3	25.4	113.1	72.2
Other Income (Expense)				
Interest Expense	(9.7)	(8.3)	(28.1)	(25.4)
Equity Earnings in ATC	4.5	4.4	13.4	12.9
Other	0.6	0.8	3.8	3.8
Total Other Income (Expense)	(4.6)	(3.1)	(10.9)	(8.7)
Income Before Non-Controlling Interest and Income Taxes	30.7	22.3	102.2	63.5
Income Tax Expense	11.2	6.5	40.5	21.5
Net Income	19.5	15.8	61.7	42.0
Less: Non-Controlling Interest in Subsidiaries	(0.1)	(0.2)	(0.3)	(0.3)
Net Income Attributable to ALLETE	\$19.6	\$16.0	\$62.0	\$42.3
Average Shares of Common Stock				
Basic	34.4	32.8	34.1	31.8
Diluted	34.5	32.9	34.2	31.9
Basic Earnings Per Share of Common Stock	\$0.57	\$0.49	\$1.82	\$1.33
Diluted Earnings Per Share of Common Stock	\$0.56	\$0.49	\$1.81	\$1.33
Dividends Per Share of Common Stock	\$0.44	\$0.44	\$1.32	\$1.32

Consolidated Balance Sheet

Millions – Unaudited

	Sep. 30, 2010	Dec. 31, 2009	Sep. 30, 2010	Dec. 31, 2009
Assets				
Cash and Short-Term Investments	\$92.3	\$25.7	\$131.0	\$133.1
Other Current Assets	201.7	199.8	784.2	695.8
Property, Plant and Equipment	1,742.6	1,622.7	312.8	325.0
Regulatory Assets	282.5	293.2	46.0	47.1
Investment in ATC	92.0	88.4	321.0	253.1
Investments	134.4	130.5	984.1	939.0
Other	33.6	32.8		
Total Assets	\$2,579.1	\$2,393.1	\$2,579.1	\$2,393.1
Liabilities and Equity				
Current Liabilities			\$131.0	\$133.1
Long-Term Debt			784.2	695.8
Other Liabilities			312.8	325.0
Regulatory Liabilities			46.0	47.1
Deferred Income Taxes			321.0	253.1
Equity			984.1	939.0
Total Liabilities and Equity			\$2,579.1	\$2,393.1

	Quarter Ended		Year to Date	
	September 30,		September 30,	
ALLETE, Inc.	2010	2009	2010	2009
Income (Loss)				
Millions				
Regulated Operations	\$22.1	\$16.6	\$65.2	\$45.0
Investments and Other	(2.5)	(0.6)	(3.2)	(2.7)
Net Income Attributable to ALLETE	\$19.6	\$16.0	\$62.0	\$42.3
Diluted Earnings Per Share	\$0.56	\$0.49	\$1.81	\$1.33
Statistical Data				
Corporate				
Common Stock				
High	\$37.75	\$34.57	\$37.87	\$34.57
Low	\$33.16	\$27.75	\$29.99	\$23.35
Close	\$36.43	\$33.57	\$36.43	\$33.57
Book Value	\$27.23	\$25.95	\$27.23	\$25.95
Kilowatt-hours Sold				
Millions				
Regulated Utility				
Retail and Municipals				
Residential	262	240	847	857
Commercial	374	352	1,074	1,061
Municipals	253	243	746	729
Industrial	1,799	984	4,956	3,182
Total Retail and Municipal	2,688	1,819	7,623	5,829
Other Power Suppliers	629	1,051	2,168	3,075
Total Regulated Utility	3,317	2,870	9,791	8,904
Non-regulated Energy Operations	27	56	87	162
Total Kilowatt-hours Sold	3,344	2,926	9,878	9,066

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.

