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

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended **September 30, 2014**

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______________ to ______________

Commission File Number **1-3548**

ALLETE, Inc.

(Exact name of registrant as specified in its charter)

Minnesota	**41-0418150**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

30 West Superior Street
Duluth, Minnesota 55802-2093
(Address of principal executive offices)
(Zip Code)

(218) 279-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer ☐
Non-Accelerated Filer ☐	Smaller Reporting Company ☐

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

Common Stock, without par value,
44,499,229 shares outstanding
as of September 30, 2014

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Definitions

The following abbreviations or acronyms are used in the text. References in this report to “we,” “us” and “our” are to ALLETE, Inc., and its subsidiaries, collectively.

Abbreviation or Acronym	Term
AFUDC	Allowance for Funds Used During Construction – the cost of both debt and equity funds used to finance utility plant additions during construction periods
ALLETE	ALLETE, Inc.
ALLETE Clean Energy	ALLETE Clean Energy, Inc.
ALLETE Properties	ALLETE Properties, LLC, and its subsidiaries
ATC	American Transmission Company LLC
Bison Wind Energy Center	Bison 1, 2 & 3 Wind Facilities
Bison 4	Bison 4 Wind Project
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
CAIR	Clean Air Interstate Rule
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
GNTL	Great Northern Transmission Line
IBEW	International Brotherhood of Electrical Workers
Invest Direct	ALLETE’s Direct Stock Purchase and Dividend Reinvestment Plan
Item ___	Item ___ of this Form 10-Q
kV	Kilovolt(s)
kWh	Kilowatt-hour
Laskin	Laskin Energy Center
LIBOR	London Interbank Offered Rate
MACT	Maximum Achievable Control Technology
Manitoba Hydro	Manitoba Hydro-Electric Board
MATS	Mercury and Air Toxics Standards
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midcontinent Independent System Operator, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
NAAQS	National Ambient Air Quality Standards
NOL	Net Operating Loss
Non-residential	Retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional

Abbreviation or Acronym	Term
NO_2	Nitrogen Dioxide
NO_X	Nitrogen Oxides
Note ___	Note ___ to the consolidated financial statements in this Form 10-Q
NPDES	National Pollutant Discharge Elimination System
Oliver Wind I	Oliver Wind I Energy Center
Oliver Wind II	Oliver Wind II Energy Center
Palm Coast Park	Palm Coast Park development project in Florida
Palm Coast Park District	Palm Coast Park Community Development District
PolyMet	PolyMet Mining Corporation
PPA	Power Purchase Agreement
PPACA	Patient Protection and Affordable Care Act of 2010
PSCW	Public Service Commission of Wisconsin
Rainy River Energy	Rainy River Energy Corporation - Wisconsin
SEC	Securities and Exchange Commission
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
Thomson	Thomson Energy Center
Town Center	Town Center at Palm Coast development project in Florida
Town Center District	Town Center at Palm Coast Community Development District
U.S.	United States of America

Forward-Looking Statements

Statements in this report that are not statements of historical facts are considered "forward-looking" and, accordingly, involve risks and uncertainties that could cause actual results to differ materially from those discussed. Although such forward-looking statements have been made in good faith and are based on reasonable assumptions, there can be no assurance that the expected results will be achieved. Any statements that express, or involve discussions as to, future expectations, risks, beliefs, plans, objectives, assumptions, events, uncertainties, financial performance, or growth strategies (often, but not always, through the use of words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "likely," "will continue," "could," "may," "potential," "target," "outlook" or words of similar 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 providing this cautionary statement to identify important factors that could cause our actual results to differ materially from those indicated in forward-looking statements made by or on behalf of ALLETE in this Form 10-Q, in presentations, on our website, in response to questions or otherwise. These statements are qualified in their entirety by reference to, and are accompanied by, the following important factors, in addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements that could cause our actual results to differ materially from those indicated in the forward-looking statements:

- our ability to successfully implement our strategic objectives;
- global and domestic economic conditions affecting us or our customers;
- wholesale power market conditions;
- federal and state regulatory and legislative actions that impact regulated utility economics, including our allowed rates of return, capital structure, ability to secure financing, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities and utility infrastructure, recovery of purchased power, capital investments and other expenses, including present or prospective environmental matters;
- changes in and compliance with laws and regulations;
- effects of competition, including competition for retail and wholesale customers;
- effects of restructuring initiatives in the electric industry;
- changes in tax rates or policies or in rates of inflation;
- the impacts on our Regulated Operations segment of climate change and future regulation to restrict the emissions of greenhouse gases;
- the impacts of laws and regulations related to renewable and distributed generation;
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements;
- weather conditions, natural disasters and pandemic diseases;
- our ability to access capital markets and bank financing;
- changes in interest rates and the performance of the financial markets;
- project delays or changes in project costs;
- availability and management of construction materials and skilled construction labor for capital projects;
- changes in operating expenses and capital expenditures and our ability to recover these costs;
- pricing, availability and transportation of fuel and other commodities and the ability to recover the costs of such commodities;
- our ability to replace a mature workforce and retain qualified, skilled and experienced personnel;
- effects of emerging technology;
- war, acts of terrorism and cyber attacks;
- our ability to manage expansion and integrate acquisitions;
- our current and potential industrial and municipal customers' ability to execute announced expansion plans;
- population growth rates and demographic patterns; and
- zoning and permitting of land held for resale, real estate development or changes in the real estate market.

Additional disclosures regarding factors that could cause our results or performance to differ from those anticipated by this report are discussed in Item 1A under the heading "Risk Factors" beginning on page 28 of ALLETE's Annual Report on Form 10-K for the year ended December 31, 2013. 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 we assess the impact of each of these factors on our businesses 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 identify the risks and uncertainties that may affect our business.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions – Unaudited

	September 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash and Cash Equivalents	$150.5	$97.3
Accounts Receivable (Less Allowance of $1.0 and $1.1)	82.4	96.3
Inventories	71.6	59.3
Prepayments and Other	29.3	35.1
Deferred Income Taxes	24.0	19.0
Total Current Assets	357.8	307.0
Property, Plant and Equipment - Net	3,121.5	2,576.5
Regulatory Assets	277.1	263.8
Investment in ATC	120.7	114.6
Other Investments	116.4	146.3
Other Non-Current Assets	74.4	68.6
Total Assets	$4,067.9	$3,476.8
Liabilities and Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$92.7	$99.9
Accrued Taxes	30.9	34.8
Accrued Interest	14.8	15.7
Long-Term Debt Due Within One Year	85.3	27.2
Notes Payable	2.7	—
Other	60.4	52.6
Total Current Liabilities	286.8	230.2
Long-Term Debt	1,289.2	1,083.0
Deferred Income Taxes	509.7	479.1
Regulatory Liabilities	103.1	81.0
Defined Benefit Pension and Other Postretirement Benefit Plans	116.8	133.4
Other Non-Current Liabilities	231.6	127.2
Total Liabilities	2,537.2	2,133.9
Commitments, Guarantees and Contingencies (Note 15)		
Equity		
ALLETE's Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 44.5 and 41.4 Shares Outstanding	1,035.3	885.2
Unearned ESOP Shares	(8.6)	(14.3)
Accumulated Other Comprehensive Loss	(16.1)	(17.1)
Retained Earnings	518.6	489.1
Total ALLETE Equity	1,529.2	1,342.9
Non-Controlling Interest in Subsidiaries	1.5	—
Total Equity	1,530.7	1,342.9
Total Liabilities and Equity	$4,067.9	$3,476.8

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,	
	2014	2013	2014	2013
Operating Revenue	$288.9	$251.0	$846.1	$750.4
Operating Expenses				
Fuel and Purchased Power	88.9	80.5	268.7	245.7
Operating and Maintenance	105.7	102.7	340.6	311.2
Depreciation	33.5	29.4	99.5	86.3
Total Operating Expenses	228.1	212.6	708.8	643.2
Operating Income	60.8	38.4	137.3	107.2
Other Income (Expense)				
Interest Expense	(13.2)	(12.7)	(39.5)	(37.8)
Equity Earnings in ATC	5.3	4.9	15.6	15.1
Other	2.1	3.3	6.0	7.5
Total Other Expense	(5.8)	(4.5)	(17.9)	(15.2)
Income Before Non-Controlling Interest and Income Taxes	55.0	33.9	119.4	92.0
Income Tax Expense	13.4	8.7	27.1	20.3
Net Income	41.6	25.2	92.3	71.7
Less: Non-Controlling Interest in Subsidiaries	—	—	0.4	—
Net Income Attributable to ALLETE	$41.6	$25.2	$91.9	$71.7
Average Shares of Common Stock				
Basic	42.9	39.8	42.1	39.4
Diluted	42.9	39.9	42.3	39.5
Basic Earnings Per Share of Common Stock	$0.97	$0.63	$2.18	$1.82
Diluted Earnings Per Share of Common Stock	$0.97	$0.63	$2.17	$1.81
Dividends Per Share of Common Stock	$0.49	$0.475	$1.47	$1.425

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Millions – Unaudited

	Quarter Ended September 30,		Nine Months Ended September 30,	
Comprehensive Income	**2014**	**2013**	**2014**	**2013**
Net Income	$41.6	$25.2	$92.3	$71.7
Other Comprehensive Income (Loss)				
Unrealized Gain (Loss) on Securities				
Net of Income Taxes of $–, $(0.3), $0.1, and $(0.2)	(0.1)	(0.5)	0.1	(0.4)
Unrealized Gain (Loss) on Derivatives				
Net of Income Taxes of $–, $(0.1), $0.1, and $–	0.1	(0.1)	0.1	—
Defined Benefit Pension and Other Postretirement Benefit Plans				
Net of Income Taxes of $0.2, $0.3, $0.6, and $0.8	0.2	0.3	0.8	1.1
Total Other Comprehensive Income (Loss)	0.2	(0.3)	1.0	0.7
Total Comprehensive Income	41.8	24.9	93.3	72.4
Less: Non-Controlling Interest in Subsidiaries	—	—	0.4	—
Comprehensive Income Attributable to ALLETE	$41.8	$24.9	$92.9	$72.4

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions – Unaudited

	Nine Months Ended September 30,	
	2014	**2013**
Operating Activities		
Net Income	$92.3	$71.7
Allowance for Funds Used During Construction – Equity	(5.9)	(3.4)
Income from Equity Investments, Net of Dividends	(3.0)	(3.1)
Gains on Sale of Assets / Investments	(0.2)	(2.4)
Depreciation Expense	99.5	86.3
Amortization of Debt Issuance Costs	0.8	0.8
Amortization of Power Purchase Agreements	(9.0)	—
Deferred Income Tax Expense	25.2	20.4
Share-Based Compensation Expense	1.7	1.8
ESOP Compensation Expense	6.7	6.0
Defined Benefit Pension and Postretirement Benefit Expense	9.6	16.8
Bad Debt Expense	1.1	0.9
Changes in Operating Assets and Liabilities		
Accounts Receivable	16.9	8.2
Inventories	(9.2)	5.1
Prepayments and Other	8.8	4.4
Accounts Payable	(1.2)	3.9
Other Current Liabilities	(12.8)	(8.8)
Cash Contributions to Defined Benefit Pension and Other Postretirement Benefit Plans	—	(10.8)
Changes in Regulatory and Other Non-Current Assets	(13.0)	(13.5)
Changes in Regulatory and Other Non-Current Liabilities	3.8	4.6
Cash from Operating Activities	212.1	188.9
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	3.3	15.0
Payments for Purchase of Available-for-sale Securities	(4.3)	(2.8)
Investment in ATC	(3.1)	(2.3)
Changes to Other Investments	31.1	(10.5)
Additions to Property, Plant and Equipment	(467.8)	(195.3)
Acquisition – Net of Cash Acquired	(23.1)	—
Cash in Escrow for Acquisition	5.4	—
Proceeds from Sale of Assets	—	0.9
Cash for Investing Activities	(458.5)	(195.0)
Financing Activities		
Proceeds from Issuance of Common Stock	128.9	63.3
Proceeds from Issuance of Long-Term Debt	375.0	150.0
Changes in Restricted Cash	(1.4)	—
Changes in Notes Payable	2.7	1.2
Reductions of Long-Term Debt	(134.1)	(66.2)
Debt Issuance Costs	(3.1)	(1.3)
Acquisition of Non-Controlling Interest	(6.0)	—
Dividends on Common Stock	(62.4)	(57.2)
Cash from Financing Activities	299.6	89.8
Change in Cash and Cash Equivalents	53.2	83.7
Cash and Cash Equivalents at Beginning of Period	97.3	80.8
Cash and Cash Equivalents at End of Period	$150.5	$164.5

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, 2013, Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Operating results for the period ended September 30, 2014, are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and notes included in our 2013 Form 10-K.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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

Inventories	**September 30, 2014**	**December 31, 2013**
Millions		
Fuel	$16.8	$13.1
Materials and Supplies	54.8	46.2
Total Inventories	$71.6	$59.3

Prepayments and Other Current Assets	**September 30, 2014**	**December 31, 2013**
Millions		
Deferred Fuel Adjustment Clause	$18.5	$23.0
Restricted Cash *(a)*	2.4	—
Other	8.4	12.1
Total Prepayments and Other Current Assets	$29.3	$35.1

(a) Restricted Cash related to ALLETE Clean Energy's wind energy facilities operating expense and capital distribution reserve requirements.

Other Non-Current Assets. As of September 30, 2014, included in Other Non-Current Assets on the Consolidated Balance Sheet was restricted cash of $4.9 million related to ALLETE Clean Energy's wind energy facilities debt service and other requirements. As of December 31, 2013, the Company had restricted cash of $5.4 million related to cash held in escrow pending the closing of the wind energy facilities acquisition, which was completed on January 30, 2014. (See Note 4. Acquisition.)

Other Current Liabilities	**September 30, 2014**	**December 31, 2013**
Millions		
Customer Deposits	$21.2	$26.0
Power Purchase Agreements *(a)*	12.3	—
Other	26.9	26.6
Total Other Current Liabilities	$60.4	$52.6

(a) Power Purchase Agreements were acquired in conjunction with the ALLETE Clean Energy wind energy facilities acquisition on January 30, 2014. (See Note 4. Acquisition.)

Other Non-Current Liabilities	September 30, 2014	December 31, 2013
Millions		
Asset Retirement Obligation	$94.6	$81.8
Power Purchase Agreements *(a)*	90.5	—
Other	46.5	45.4
Total Other Non-Current Liabilities	$231.6	$127.2

(a) Power Purchase Agreements were acquired in conjunction with the ALLETE Clean Energy wind energy facilities acquisition on January 30, 2014. (See Note 4. Acquisition.)

Supplemental Statement of Cash Flows Information.

For the Nine Months Ended September 30,	2014	2013
Millions		
Cash Paid During the Period for Interest – Net of Amounts Capitalized	$39.4	$36.0
Cash Paid During the Period for Income Taxes	$2.8	$0.6
Noncash Investing and Financing Activities		
Decrease in Accounts Payable for Capital Additions to Property, Plant and Equipment	$(6.5)	$(10.0)
Capitalized Asset Retirement Costs	$0.6	$1.9
AFUDC – Equity	$5.9	$3.4
ALLETE Common Stock Contributed to the Pension Plan	$19.5	—

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

New Accounting Standards.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. In July 2013, the FASB issued an accounting standard update on the financial statement presentation of unrecognized tax benefits when an NOL carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for an NOL carryforward, a similar tax loss, or a tax credit carryforward. To the extent an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance was adopted in the first quarter of 2014, and did not have a material impact on our consolidated financial position, results of operations, or cash flows.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. In April 2014, the FASB issued an accounting standard update modifying the criteria for determining which disposals should be presented as discontinued operations and modifying the related disclosure requirements. Additionally, the new guidance requires that a business which qualifies as held for sale upon acquisition should be reported as discontinued operations. The new guidance will be effective beginning in the first quarter of 2015, and will apply prospectively to new disposals and new classifications of disposal groups as held for sale. This guidance is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

Revenue from Contracts with Customers. In May 2014, the FASB issued amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This accounting guidance is effective for the Company beginning in the first quarter of 2017 using one of two prescribed retrospective methods. Early adoption is not permitted for public companies. The Company is evaluating the impact of the amended revenue recognition guidance on the Company's consolidated financial statements.

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 regulated 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, ALLETE Clean Energy, our business which acquired three wind energy facilities in January 2014, and is aimed at developing or acquiring capital projects that create energy solutions via wind, solar, biomass, midstream gas and oil infrastructure, among other energy-related projects, and ALLETE Properties, our Florida real estate investment. Investments and Other also includes other business development and corporate expenditures, unallocated interest expense, a small amount of non-rate base generation, approximately 5,000 acres of land in Minnesota, and earnings on cash and investments.

	Consolidated	**Regulated Operations**	**Investments and Other**
Millions			
For the Quarter Ended September 30, 2014			
Operating Revenue	$288.9	$255.8	$33.1
Fuel and Purchased Power Expense	88.9	88.9	—
Operating and Maintenance Expense	105.7	79.4	26.3
Depreciation Expense	33.5	28.5	5.0
Operating Income	60.8	59.0	1.8
Interest Expense	(13.2)	(11.8)	(1.4)
Equity Earnings in ATC	5.3	5.3	—
Other Income	2.1	2.1	—
Income Before Non-Controlling Interest and Income Taxes	55.0	54.6	0.4
Income Tax Expense	13.4	13.4	—
Net Income	41.6	41.2	0.4
Less: Non-Controlling Interest in Subsidiaries	—	—	—
Net Income Attributable to ALLETE	$41.6	$41.2	$0.4

NOTE 2. BUSINESS SEGMENTS (Continued)

Millions	Consolidated	Regulated Operations	Investments and Other
For the Quarter Ended September 30, 2013			
Operating Revenue	$251.0	$226.4	$24.6
Fuel and Purchased Power Expense	80.5	80.5	—
Operating and Maintenance Expense	102.7	78.6	24.1
Depreciation Expense	29.4	27.9	1.5
Operating Income (Loss)	38.4	39.4	(1.0)
Interest Expense	(12.7)	(10.4)	(2.3)
Equity Earnings in ATC	4.9	4.9	—
Other Income	3.3	1.2	2.1
Income (Loss) Before Non-Controlling Interest and Income Taxes	33.9	35.1	(1.2)
Income Tax Expense (Benefit)	8.7	10.5	(1.8)
Net Income	25.2	24.6	0.6
Less: Non-Controlling Interest in Subsidiaries	—	—	—
Net Income Attributable to ALLETE	$25.2	$24.6	$0.6

Millions	Consolidated	Regulated Operations	Investments and Other
For the Nine Months Ended September 30, 2014			
Operating Revenue	$846.1	$749.6	$96.5
Fuel and Purchased Power Expense	268.7	268.7	—
Operating and Maintenance Expense	340.6	258.6	82.0
Depreciation Expense	99.5	86.9	12.6
Operating Income	137.3	135.4	1.9
Interest Expense	(39.5)	(34.7)	(4.8)
Equity Earnings in ATC	15.6	15.6	—
Other Income	6.0	5.9	0.1
Income (Loss) Before Non-Controlling Interest and Income Taxes	119.4	122.2	(2.8)
Income Tax Expense (Benefit)	27.1	29.6	(2.5)
Net Income (Loss)	92.3	92.6	(0.3)
Less: Non-Controlling Interest in Subsidiaries	0.4	—	0.4
Net Income (Loss) Attributable to ALLETE	$91.9	$92.6	$(0.7)
As of September 30, 2014			
Total Assets	$4,067.9	$3,519.9	$548.0
Property, Plant and Equipment – Net	$3,121.5	$2,888.5	$233.0
Accumulated Depreciation	$1,316.6	$1,244.7	$71.9
Capital Additions	$467.6	$452.9	$14.7

NOTE 2. BUSINESS SEGMENTS (Continued)

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Nine Months Ended September 30, 2013			
Operating Revenue	$750.4	$683.6	$66.8
Fuel and Purchased Power Expense	245.7	245.7	—
Operating and Maintenance Expense	311.2	243.6	67.6
Depreciation Expense	86.3	81.8	4.5
Operating Income (Loss)	107.2	112.5	(5.3)
Interest Expense	(37.8)	(31.5)	(6.3)
Equity Earnings in ATC	15.1	15.1	—
Other Income	7.5	3.4	4.1
Income (Loss) Before Non-Controlling Interest and Income Taxes	92.0	99.5	(7.5)
Income Tax Expense (Benefit)	20.3	26.5	(6.2)
Net Income (Loss)	71.7	73.0	(1.3)
Less: Non-Controlling Interest in Subsidiaries	—	—	—
Net Income (Loss) Attributable to ALLETE	$71.7	$73.0	$(1.3)
As of September 30, 2013			
Total Assets	$3,463.9	$3,086.3	$377.6
Property, Plant and Equipment – Net	$2,456.1	$2,384.1	$72.0
Accumulated Depreciation	$1,225.3	$1,165.8	$59.5
Capital Additions	$186.4	$177.6	$8.8

NOTE 3. INVESTMENTS

Investments. At September 30, 2014, our investment portfolio included the real estate assets of ALLETE Properties, debt and equity securities consisting primarily of securities held in other postretirement plans to fund employee benefits, the cash equivalents within these plans, and other assets consisting primarily of land in Minnesota.

Other Investments	September 30, 2014	December 31, 2013
Millions		
ALLETE Properties	$89.4	$89.9
Available-for-sale Securities *(a)*	19.0	17.7
Cash Equivalents *(b)*	3.7	34.2
Other	4.3	4.5
Total Other Investments	$116.4	$146.3

(a) As of September 30, 2014, the aggregate amount of available-for-sale corporate debt securities maturing in one year or less was $0.2 million, in one year to less than three years was $2.1 million, in three years to less than five years was $1.3 million, and in five or more years was $7.1 million.

(b) During the first quarter of 2014, cash included in Other Investments was transferred to Cash and Cash Equivalents.

NOTE 3. INVESTMENTS (Continued)

ALLETE Properties	September 30, 2014	December 31, 2013
Millions		
Land Inventory Beginning Balance	$85.4	$86.5
Cost of Sales	(1.1)	(1.5)
Other	0.5	0.4
Land Inventory Ending Balance	84.8	85.4
Long-Term Finance Receivables (net of allowances of $0.6 and $0.6)	1.4	1.4
Other	3.2	3.1
Total Real Estate Assets	$89.4	$89.9

Land Inventory. Land inventory is accounted for as held for use and is recorded at cost, unless the carrying value is determined not to be recoverable in accordance with the accounting standards for property, plant and equipment, in which case the land inventory is written down to fair value. Land values are reviewed for indicators of impairment on a quarterly basis and no impairments were recorded for the quarter and nine months ended September 30, 2014 (none for the year ended December 31, 2013).

Long-Term Finance Receivables. As of September 30, 2014, long-term finance receivables were $1.4 million net of an allowance ($1.4 million net of an allowance as of December 31, 2013). Long-term finance receivables are collateralized by property sold, accrue interest at market-based rates and are net of an allowance for doubtful accounts. As of September 30, 2014, we had an allowance for doubtful accounts of $0.6 million ($0.6 million as of December 31, 2013).

Available-For-Sale Securities	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Millions				
September 30, 2014	$19.1	$0.3	$0.4	$19.0
December 31, 2013	$18.3	—	$0.6	$17.7

Available-For-Sale Securities (Continued)	Net Proceeds	Gross Realized Gain	Gross Realized Loss
Millions			
Quarter Ended September 30,			
2014	$0.6	—	—
2013	$6.9	$1.4	—
Nine Months Ended September 30,			
2014	$3.3	$0.2	—
2013	$15.0	$2.2	—

NOTE 4. ACQUISITION

On January 30, 2014, ALLETE Clean Energy acquired wind energy facilities located in Lake Benton, Minnesota (Lake Benton), Storm Lake, Iowa (Storm Lake) and Condon, Oregon (Condon) from The AES Corporation (AES) for $26.9 million. ALLETE Clean Energy also has an option to acquire a fourth wind energy facility from AES in Armenia Mountain, Pennsylvania (Armenia Mountain), in June 2015. The acquisition supports ALLETE's strategy to pursue energy-centric initiatives through ALLETE Clean Energy that include less carbon intensive and more sustainable energy sources.

Lake Benton, Storm Lake and Condon have 104 MW, 77 MW and 50 MW of generating capability, respectively. Lake Benton and Storm Lake began commercial operations in 1998, while Condon began operations in 2002. All three wind energy facilities have PPAs in place for their entire output, which expire in various years between 2019 and 2032. Pursuant to the acquisition agreement, ALLETE Clean Energy has an option to acquire the 101 MW Armenia Mountain wind energy facility in June 2015. Armenia Mountain began operations in 2009.

NOTE 4. ACQUISITION (Continued)

ALLETE Clean Energy acquired a controlling interest in the limited liability company (LLC) which owns Lake Benton and Storm Lake, and a controlling interest in the LLC that owns Condon. The acquisition was accounted for as a business combination and the purchase price was allocated based on the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition. In connection with finalizing purchase price accounting, the Company recorded minor adjustments to certain assets and liabilities in the second quarter of 2014, which are reflected in the table below. These adjustments had no impact on the results of operations. Fair value measurements were valued primarily using the discounted cash flow method.

Millions	
Assets Acquired	
Cash and Cash Equivalents	$3.8
Other Current Assets	14.3
Property, Plant and Equipment – Net	156.9
Other Non-Current Assets *(a)*	7.5
Total Assets Acquired	$182.5
Liabilities Assumed	
Other Current Liabilities *(b)*	$15.2
Long-Term Debt Due Within One Year	2.2
Long-Term Debt	21.1
Power Purchase Agreements	99.4
Other Non-Current Liabilities	10.6
Non-Controlling Interest *(c)*	7.1
Total Liabilities and Non-Controlling Interest Assumed	155.6
Net Identifiable Assets Acquired	$26.9

(a) Included in Other Non-Current Assets was $0.3 million for the option to purchase Armenia Mountain in 2015, and goodwill of $2.9 million; for tax purposes, the purchase price allocation resulted in no allocation to goodwill.

(b) Other Current Liabilities included $12.4 million related to the current liabilities portion of the Power Purchase Agreements.

(c) The purchase price accounting valued the non-controlling interest relating to Lake Benton, Storm Lake and Condon at fair value using the discounted cash flow method. The non-controlling interest related to Lake Benton and Storm Lake was subsequently purchased by ALLETE Clean Energy.

ALLETE Clean Energy incurred $1.4 million after-tax of acquisition-related costs during the first quarter of 2014, which were expensed when incurred and were recorded in Other Expenses on the Consolidated Statement of Income. The results of operations of this business from its acquisition date are included in the Investments and Other segment. The pro forma impact of this acquisition was not significant to the results of the Company for the quarter and nine months ended September 30, 2014 or September 30, 2013.

On February 11, 2014, ALLETE Clean Energy purchased the non-controlling interest related to Lake Benton and Storm Lake for $6.0 million. This was accounted for as an equity transaction, and no gain or loss was recognized in net income or other comprehensive income.

NOTE 5. DERIVATIVES

We have one variable-to-fixed interest rate swap (Swap), designated as a cash flow hedge, in order to manage the interest rate risk associated with a $75.0 million Term Loan which represents approximately 5 percent of the Company's outstanding long-term debt, including long-term debt due within one year, as of September 30, 2014. (See Note 9. Short-Term and Long-Term Debt.) The Swap has an effective date of August 25, 2014, and matures on August 25, 2015. The Swap involves the receipt of the one-month LIBOR in exchange for fixed interest payments over the life of the agreement at 0.75 percent without an exchange of the underlying notional amount. Cash flows from the Swap are expected to be highly effective. If it is determined that the Swap ceases to be effective, we will prospectively discontinue hedge accounting. When applicable, we use the shortcut method to assess hedge effectiveness. If the shortcut method is not applicable, we assess effectiveness using the "change-in-variable-cash-flows" method. Our assessment of hedge effectiveness resulted in no ineffectiveness recorded for the quarter and nine months ended September 30, 2014. As of September 30, 2014, the fair value of the Swap was a $0.4 million liability which was included in Other Current Liabilities on the Consolidated Balance Sheet. The fair value as of December 31, 2013, included an additional variable to fixed interest rate swap that expired on August 26, 2014, with an aggregate fair value at December 31, 2013 of $0.6 million of which$0.3 million was included in Other Non-Current Liabilities and $0.3 million was included in Other Current Liabilities on the Consolidated Balance Sheet. Changes in the fair value of the Swap were recorded in Accumulated Other Comprehensive Loss on the Consolidated Balance Sheet. Cash flows from the Swap are presented in the same category as the hedged item on the Consolidated Statement of Cash Flows. Amounts recorded in Other Comprehensive Income related to the Swap will be recorded in earnings when the hedged transaction occurs or when it is probable it will not occur. Gains or losses on the interest rate hedging transaction are reflected as a component of Interest Expense on the Consolidated Statement of Income.

NOTE 6. FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs, which are used to measure fair value, are prioritized through the fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Descriptions of the three levels of the fair value hierarchy are discussed in Note 10. Fair Value to the consolidated financial statements in our 2013 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, 2014, and December 31, 2013. Each asset and liability is classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of these assets and liabilities and their placement within the fair value hierarchy levels. The estimated fair value of Cash and Cash Equivalents listed on the Consolidated Balance Sheet approximates the carrying amount and therefore is excluded from the recurring fair value measures in the tables below.

NOTE 6. FAIR VALUE (Continued)

Recurring Fair Value Measures	Fair Value as of September 30, 2014 Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Investments *(a)*				
Available-for-sale – Equity Securities	$8.3	—	—	$8.3
Available-for-sale – Corporate Debt Securities	—	$10.7	—	10.7
Cash Equivalents	3.7	—	—	3.7
Total Fair Value of Assets	$12.0	$10.7	—	$22.7
Liabilities:				
Deferred Compensation *(b)*	—	$16.2	—	$16.2
Derivatives – Interest Rate Swap *(c)*	—	0.4	—	0.4
Total Fair Value of Liabilities	—	$16.6	—	$16.6
Total Net Fair Value of Assets (Liabilities)	$12.0	$(5.9)	—	$6.1

(a) Included in Other Investments on the Consolidated Balance Sheet.
(b) Included in Other Non-Current Liabilities on the Consolidated Balance Sheet.
(c) Included in Current Liabilities - Other on the Consolidated Balance Sheet.

Recurring Fair Value Measures	Fair Value as of December 31, 2013 Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Investments *(a)*				
Available-for-sale – Equity Securities	$7.9	—	—	$7.9
Available-for-sale – Corporate Debt Securities	—	$9.8	—	9.8
Cash Equivalents	34.2	—	—	34.2
Total Fair Value of Assets	$42.1	$9.8	—	$51.9
Liabilities:				
Deferred Compensation *(b)*	—	$16.8	—	$16.8
Derivatives – Interest Rate Swap *(c)*	—	0.6	—	0.6
Total Fair Value of Liabilities	—	$17.4	—	$17.4
Total Net Fair Value of Assets (Liabilities)	$42.1	$(7.6)	—	$34.5

(a) Included in Other Investments on the Consolidated Balance Sheet.
(b) Included in Other Non-Current Liabilities on the Consolidated Balance Sheet.
(c) Included in Current Liabilities - Other and Other Non-Current Liabilities on the Consolidated Balance Sheet.

There was no activity in Level 3 during the quarters and nine months ended September 30, 2014 and 2013.

For the quarters and nine months ended September 30, 2014 and 2013, there were no transfers in or out of Levels 1, 2 or 3.

Fair Value of Financial Instruments. With the exception of the item listed in the table below, the estimated fair value of all financial instruments approximates the carrying amount. The fair value for the item listed below was based on quoted market prices for the same or similar instruments (Level 2).

Financial Instruments	Carrying Amount	Fair Value
Millions		
Long-Term Debt, Including Current Portion		
September 30, 2014	$1,374.5	$1,465.0
December 31, 2013	$1,110.2	$1,131.7

NOTE 7. REGULATORY MATTERS

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

2010 Minnesota Rate Case. Minnesota Power's current retail rates are based on a 2011 MPUC retail rate order, effective June 1, 2011, that allows for a 10.38 percent return on common equity and a 54.29 percent equity ratio.

FERC-Approved Wholesale Rates. Minnesota Power's non-affiliated municipal customers consist of 16 municipalities in Minnesota. SWL&P, a wholly-owned subsidiary of ALLETE, is a private utility in Wisconsin and also a customer of Minnesota Power. In April 2014, Minnesota Power amended its formula-based wholesale electric sales contract with the Nashwauk Public Utilities Commission, extending the term through June 30, 2026. The electric service agreements with the remaining 15 Minnesota municipal customers and SWL&P are effective through June 30, 2019. The rates included in these agreements are set each July 1 based on a cost-based formula methodology, using estimated costs and a rate of return that is equal to our authorized rate of return for Minnesota retail customers (currently 10.38 percent). The formula-based rate methodology also provides for a yearly true-up calculation for actual costs incurred. The contract terms include a termination clause requiring a three-year notice to terminate. Under the Nashwauk Public Utilities Commission agreement, no termination notice may be given prior to July 1, 2023. Under the agreements with the remaining 15 municipal customers and SWL&P, no termination notices may be given prior to June 30, 2016.

2012 Wisconsin Rate Case. SWL&P's current retail rates are based on a 2012 PSCW retail rate order, effective January 1, 2013, that allows for a 10.9 percent return on common equity.

Transmission Cost Recovery Rider. Minnesota Power has an approved cost recovery rider in place for certain transmission investments and expenditures. In November 2013, the MPUC approved Minnesota Power's updated billing factor which allows Minnesota Power to charge retail customers on a current basis for the costs of constructing certain transmission facilities plus a return on the capital invested. We filed a petition on April 24, 2014, to include additional transmission investments and expenditures in customer billing rates.

Renewable Cost Recovery Rider. The Bison Wind Energy Center in North Dakota currently consists of 292 MW of nameplate capacity and was completed in various phases through 2012. Customer billing rates for our Bison Wind Energy Center were approved by the MPUC in a December 2013 order. Construction of Bison 4, a 205 MW wind project in North Dakota, which is an addition to our Bison Wind Energy Center, commenced and is expected to be completed by the end of 2014. The total project investment for Bison 4 is estimated to be approximately $345 million, of which $288 million was spent through September 30, 2014. On January 17, 2014, the MPUC approved Minnesota Power's petition seeking cost recovery for investments and expenditures related to Bison 4. We included Bison 4 as part of our renewable resources rider factor filing along with the Company's other renewable projects in a filing on April 29, 2014, which, upon approval, will authorize updated rates to be included on customer bills.

Minnesota Power has also filed a petition on July 3, 2014 with the MPUC seeking cost recovery for investments and expenditures related to the restoration and repair of Thomson which was damaged during 2012. The total project investment for Thomson is estimated to be approximately $90 million, of which $80 million, net of insurance, was spent through September 30, 2014. (See Note 15. Commitments, Guarantees and Contingencies.)

Integrated Resource Plan. In a November 2013 order, the MPUC approved Minnesota Power's 2013 Integrated Resource Plan which details our "EnergyForward" strategic plan and includes an analysis of a variety of existing and future energy resource alternatives and a projection of customer cost impact by class. Significant elements of the "EnergyForward" plan include major wind investments in North Dakota, installation of emissions control technology at Boswell Unit 4, planning for the proposed GNTL, conversion of Laskin from coal to natural gas in the second quarter of 2015 and retiring Taconite Harbor Unit 3 in the second quarter of 2015.

NOTE 7. REGULATORY MATTERS (Continued)

Boswell Mercury Emissions Reduction Plan. Minnesota Power is implementing a mercury emissions reduction project for Boswell Unit 4 in order to comply with the Minnesota Mercury Emissions Reduction Act and the Federal MATS rule. In August 2012, Minnesota Power filed its mercury emissions reduction plan for Boswell Unit 4 with the MPUC and the MPCA. The plan proposes that Minnesota Power install pollution controls by early 2016 to address both the Minnesota Mercury Emissions Reduction Act requirements and the Federal MATS rule. Costs to implement the Boswell Unit 4 mercury emissions reduction plan are included in the estimated capital expenditures required for compliance with the MATS rule and are estimated to be approximately $250 million of which $120 million was spent through September 30, 2014. In November 2013, the MPUC issued an order approving the Boswell Unit 4 mercury emissions reduction plan and cost recovery, establishing an environmental improvement rider. Also in November 2013, environmental intervenors filed a petition for reconsideration with the MPUC which was subsequently denied in an order dated January 17, 2014. Intervenors have appealed this order and the Company has filed a response to the appeal. The Minnesota Court of Appeals heard oral argument in September 2014 with a decision expected before the end of 2014. In December 2013, Minnesota Power filed a petition with the MPUC to establish customer billing rates for the approved environmental improvement rider based on actual and estimated investments and expenditures, which was approved in an order dated July 2, 2014.

Great Northern Transmission Line (GNTL). Minnesota Power and Manitoba Hydro have proposed construction of the GNTL, an approximately 220-mile 500 kV transmission line, between Manitoba and Minnesota's Iron Range. The GNTL is subject to various federal and state regulatory approvals. In October 2013, a Certificate of Need application was filed with the MPUC with respect to the GNTL. In an order dated January 8, 2014, the MPUC determined that the Certificate of Need application was complete and referred the docket to an administrative law judge for a contested case proceeding. On April 15, 2014, Minnesota Power filed a route permit application with the MPUC and a request for a presidential permit to cross the U.S.-Canadian border with the U.S. Department of Energy. In an order dated July 2, 2014, the MPUC determined the route permit application to be complete. Manitoba Hydro must also obtain regulatory and governmental approvals related to new transmission line and hydroelectric generation development in Canada. Upon receipt of all applicable permits and approvals, construction of the GNTL is anticipated to begin in 2016, and to be completed in 2020.

Conservation Improvement Program (CIP). Minnesota has enacted legislation establishing an annual energy-savings goal for each utility of 1.5 percent of annual retail energy sales. On April 1, 2014, Minnesota Power submitted its 2013 CIP filing that requested a CIP financial incentive of $8.7 million based upon MPUC procedures. The requested CIP financial incentive was approved by the MPUC in a hearing held on July 24, 2014, and was recorded as revenue and as a regulatory asset. The approved financial incentive will be recovered through customer billing rates in 2014 and 2015. In 2013, the CIP financial incentive of $7.1 million was recognized in the fourth quarter. CIP financial incentives are recognized in the period in which the MPUC approves the filing.

Regulatory Assets and Liabilities. Our regulated utility operations are subject to the accounting guidance for Regulated Operations. We capitalize incurred costs which are probable of recovery in future utility rates as regulatory assets. Regulatory liabilities represent amounts expected to be refunded or credited to customers in rates. No regulatory assets or liabilities are currently earning a return. The recovery, refund or credit to rates for these regulatory assets and liabilities will occur over the periods either specified by the applicable regulatory authority or over the corresponding period related to the asset or liability.

NOTE 7. REGULATORY MATTERS (Continued)

Regulatory Assets and Liabilities	September 30, 2014	December 31, 2013
Millions		
Current Regulatory Assets *(a)*		
Deferred Fuel	$18.5	$23.0
Total Current Regulatory Assets	18.5	23.0
Non-Current Regulatory Assets		
Defined Benefit Pension and Other Postretirement Benefit Plans *(b)*	158.6	164.1
Cost Recovery Riders *(c)*	54.5	39.6
Income Taxes	37.9	35.3
Asset Retirement Obligations	17.2	16.0
PPACA Income Tax Deferral	5.0	5.0
Other	3.9	3.8
Total Non-Current Regulatory Assets	277.1	263.8
Total Regulatory Assets	$295.6	$286.8
Non-Current Regulatory Liabilities		
Plant Removal Obligations	$22.7	$19.7
Wholesale and Retail Contra AFUDC	37.6	19.7
Income Taxes	17.6	17.0
Defined Benefit Pension and Other Postretirement Benefit Plans *(b)*	15.1	16.3
Other	10.1	8.3
Total Non-Current Regulatory Liabilities	$103.1	$81.0

(a) *Current regulatory assets are included in Prepayments and Other on the Consolidated Balance Sheet.*

(b) *Defined benefit pension and other postretirement items included in our Regulated Operations, which are otherwise required to be recognized in accumulated other comprehensive income, are recognized as regulatory assets or regulatory liabilities on the Consolidated Balance Sheet. (See Note 14. Pension and Other Postretirement Benefit Plans.)*

(c) *The cost recovery rider regulatory asset is primarily due to capital expenditures related to our Bison Wind Energy Center and is recognized in accordance with the accounting standards for alternative revenue programs.*

NOTE 8. INVESTMENT IN ATC

Our wholly-owned subsidiary, Rainy River Energy, owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. ATC rates are based on a FERC-approved 12.2 percent return on common equity dedicated to utility plant. We account for our investment in ATC under the equity method of accounting. As of September 30, 2014, our equity investment in ATC was $120.7 million ($114.6 million at December 31, 2013). In the first nine months of 2014, we invested $3.1 million in ATC, and on October 30, 2014, we invested an additional $0.8 million. We do not expect to make any additional investments in 2014.

ALLETE's Investment in ATC	
Millions	
Equity Investment Balance as of December 31, 2013	$114.6
Cash Investments	3.1
Equity in ATC Earnings	15.6
Distributed ATC Earnings	(12.6)
Equity Investment Balance as of September 30, 2014	$120.7

NOTE 8. INVESTMENT IN ATC (Continued)

ATC’s summarized financial data for the quarter and nine months ended September 30, 2014 and 2013, is as follows:

ATC Summarized Financial Data Income Statement Data	Quarter Ended September 30, 2014	Quarter Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Millions				
Revenue	$163.6	$160.5	$487.0	$464.3
Operating Expense	76.6	77.6	229.6	217.2
Other Expense	21.4	20.2	65.1	62.6
Net Income	$65.6	$62.7	$192.3	$184.5
ALLETE’s Equity in Net Income	$5.3	$4.9	$15.6	$15.1

In November 2013, several customer groups located within the MISO service area filed a complaint with the FERC requesting, among other things, a reduction in the base return on equity used by MISO transmission owners, including ATC, to 9.15 percent. ATC's current authorized return on equity is 12.2 percent. Any change to ATC's return on equity and capital structure could result in lower equity earnings in ATC and dividends from ATC in the future. We own approximately 8 percent of ATC and estimate that for every 50 basis point reduction in ATC’s allowed return on equity our equity earnings in ATC would be impacted annually by approximately $0.5 million on an after-tax basis.

NOTE 9. SHORT-TERM AND LONG-TERM DEBT

Short-Term Debt. As of September 30, 2014, total short-term debt outstanding was $88.0 million ($27.2 million as of December 31, 2013) and consisted of long-term debt due within one year and notes payable.

Long-Term Debt. As of September 30, 2014, total long-term debt outstanding was $1,289.2 million ($1,083.0 million as of December 31, 2013). In conjunction with ALLETE Clean Energy’s January 30, 2014 wind energy facilities acquisition, ALLETE Clean Energy assumed $23.3 million of long-term debt, including $2.2 million due within one year. (See Note 4. Acquisition.)

During the first nine months of 2014, we issued $375.0 million of ALLETE first mortgage bonds (Bonds) in the private placement market as shown below:

Issue Date	Maturity Date	Principal Amount	Interest Rate
March 4, 2014	March 15, 2024	$60 Million	3.69%
March 4, 2014	March 15, 2044	$40 Million	4.95%
June 26, 2014	July 15, 2022	$75 Million	3.40%
June 26, 2014	July 15, 2044	$40 Million	5.05%
September 16, 2014	September 15, 2021	$60 Million	3.02%
September 16, 2014	September 15, 2029	$50 Million	3.74%
September 16, 2014	September 15, 2044	$50 Million	4.39%

The Company has the option to prepay all or a portion of the Bonds at its discretion, subject to a make-whole provision; however, each series of bonds is redeemable at par, including, in each case, accrued and unpaid interest, six months prior to the maturity date. The Bonds are subject to additional terms and conditions which are customary for these types of transactions. The Company intends to use the proceeds from the sale of the Bonds to refinance debt, fund utility capital expenditures and/or for general corporate purposes. The Bonds were sold in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, to institutional accredited investors.

NOTE 9. SHORT-TERM AND LONG-TERM DEBT (Continued)

Financial Covenants. Our long-term debt arrangements contain customary covenants. In addition, our lines of credit and letters of credit supporting certain long-term debt arrangements contain financial covenants. Our compliance with financial covenants is not dependent on debt ratings. The most restrictive financial covenant requires ALLETE to maintain a ratio of indebtedness to total capitalization (as the amounts are calculated in accordance with the respective long-term debt arrangements) of less than or equal to 0.65 to 1.00, measured quarterly. As of September 30, 2014, our ratio was approximately 0.47 to 1.00. Failure to meet this covenant would give rise to an event of default if not cured after notice from a lender, in which event ALLETE may need to pursue alternative sources of funding. Some of ALLETE's debt arrangements contain "cross-default" provisions that would result in an event of default if there is a failure under other financing arrangements to meet payment terms or to observe other covenants that would result in an acceleration of payments due. As of September 30, 2014, ALLETE was in compliance with its financial covenants.

NOTE 10. OTHER INCOME (EXPENSE)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Millions				
AFUDC – Equity	$2.1	$1.2	$5.9	$3.4
Gain on Sale of Available-for-sale Securities	—	1.4	0.2	2.2
Investments and Other Income (Expense)	—	0.7	(0.1)	1.9
Total Other Income	$2.1	$3.3	$6.0	$7.5

NOTE 11. INCOME TAX EXPENSE

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Millions				
Current Tax Expense (Benefit)				
Federal *(a)(c)*	—	—	—	—
State *(b)(c)*	$1.8	$(0.1)	$1.9	$(0.1)
Total Current Tax Expense (Benefit)	$1.8	$(0.1)	$1.9	$(0.1)
Deferred Tax Expense (Benefit)				
Federal	$11.2	$7.3	$20.4	$15.5
State	0.7	1.7	5.4	5.5
Investment Tax Credit Amortization	(0.3)	(0.2)	(0.6)	(0.6)
Total Deferred Tax Expense	11.6	8.8	25.2	20.4
Total Income Tax Expense	$13.4	$8.7	$27.1	$20.3

(a) For the quarter and nine months ended September 30, 2014, the federal current tax expense of zero reflected the utilization of NOL carryforwards from prior periods. The federal NOLs remaining after utilization in 2014 will be carried forward to offset future taxable income.

(b) For the quarter and nine months ended September 30, 2014, the state current tax expense reflected initiatives implemented on the 2013 federal and state tax returns to utilize tax carryforwards that may have expired due to NOL carryforwards from prior periods. State NOL and alternative minimum tax carryforwards remaining after utilization in 2014 will be carried forward to offset future income.

(c) For the quarter and nine months ended September 30, 2013, the state current tax benefit was due to federal and state NOLs which resulted from the bonus depreciation provision of the American Taxpayer Relief Act of 2012.

For the nine months ended September 30, 2014, the effective tax rate was 22.7 percent (22.1 percent for the nine months ended September 30, 2013). The effective tax rate deviated from the statutory rate of approximately 41 percent primarily due to deductions for AFUDC–Equity, investment tax credits, production tax credits and depletion.

NOTE 11. INCOME TAX EXPENSE (Continued)

Uncertain Tax Positions. As of September 30, 2014, we had gross unrecognized tax benefits of $2.0 million ($1.2 million as of December 31, 2013). Of the total gross unrecognized tax benefits, $0.3 million represents the amount of unrecognized tax benefits included in the Consolidated Balance Sheet that, if recognized, would favorably impact the effective income tax rate. The unrecognized tax benefit amounts have been presented as reductions to the tax benefits associated with NOL and tax credit carryforwards on the Consolidated Balance Sheet.

ALLETE and its subsidiaries file a consolidated federal income tax return as well as combined and separate state income tax returns in various jurisdictions. ALLETE is no longer subject to federal examination for years before 2011, or state examination for years before 2005.

In September 2013, the U.S. Treasury issued final regulations addressing the tax consequences associated with the acquisition, production and improvement of tangible property. The regulations are generally effective for tax years beginning January 1, 2014. As ALLETE has adopted certain utility-specific guidance for deductible repairs previously issued by the IRS, the final regulation did not have a material impact on our consolidated financial statements.

NOTE 12. RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive loss, net of tax, for the quarters ended September 30, 2014 and 2013, were as follows:

Millions	Unrealized Gains and Losses on Available-for-sale Securities	Defined Benefit Pension, Other Postretirement Items	Gains and Losses on Cash Flow Hedge	Total
For the Quarter Ended September 30, 2014				
Beginning Accumulated Other Comprehensive Income (Loss)	$0.1	$(16.1)	$(0.3)	$(16.3)
Other Comprehensive Income (Loss) Before Reclassifications	(0.1)	(0.1)	0.1	(0.1)
Amounts Reclassified From Accumulated Other Comprehensive Income	—	0.3	—	0.3
Net Other Comprehensive Income (Loss)	(0.1)	0.2	0.1	0.2
Ending Accumulated Other Comprehensive Loss	—	$(15.9)	$(0.2)	$(16.1)
For the Quarter Ended September 30, 2013				
Beginning Accumulated Other Comprehensive Loss	—	$(20.7)	$(0.3)	$(21.0)
Other Comprehensive Income (Loss) Before Reclassifications	$0.3	—	(0.1)	0.2
Amounts Reclassified From Accumulated Other Comprehensive Income (Loss)	(0.8)	0.3	—	(0.5)
Net Other Comprehensive Income (Loss)	(0.5)	0.3	(0.1)	(0.3)
Ending Accumulated Other Comprehensive Loss	$(0.5)	$(20.4)	$(0.4)	$(21.3)

NOTE 12. RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

Reclassifications from accumulated other comprehensive loss for the quarters ended September 30, 2014 and 2013, were as follows:

Amount Reclassified from Accumulated Other Comprehensive Loss	**Quarter Ended September 30, 2014**	**Quarter Ended September 30, 2013**
Millions		
Unrealized Gains on Available-for-sale Securities *(a)*	—	$1.4
Income Taxes *(b)*	—	(0.6)
Total, Net of Income Taxes	—	$0.8
Amortization of Defined Benefit Pension and Other Postretirement Items		
Prior Service Costs *(c)*	$0.1	$0.1
Actuarial Gains and Losses *(c)*	(0.6)	(0.7)
Total	(0.5)	(0.6)
Income Taxes *(b)*	0.2	0.3
Total, Net of Income Taxes	$(0.3)	$(0.3)
Total Reclassifications	$(0.3)	$0.5

(a) Included in Other Income (Expense) – Other on the Consolidated Statement of Income.
(b) Included in Income Tax Expense on the Consolidated Statement of Income.
(c) Defined benefit pension and other postretirement benefit items excluded from our Regulated Operations are recognized in accumulated other comprehensive loss and are subsequently reclassified out of accumulated other comprehensive loss as components of net periodic pension and other postretirement benefit expense. (See Note 14. Pension and Other Postretirement Benefit Plans.)

Changes in accumulated other comprehensive loss, net of tax, for the nine months ended September 30, 2014 and 2013, were as follows:

	Unrealized Gains and Losses on Available-for-sale Securities	**Defined Benefit Pension, Other Postretirement Items**	**Gains and Losses on Cash Flow Hedge**	**Total**
Millions				
For the Nine Months Ended September 30, 2014				
Beginning Accumulated Other Comprehensive Loss	$(0.1)	$(16.7)	$(0.3)	$(17.1)
Other Comprehensive Income Before Reclassifications	0.2	(0.1)	0.1	0.2
Amounts Reclassified From Accumulated Other Comprehensive Income (Loss)	(0.1)	0.9	—	0.8
Net Other Comprehensive Income	0.1	0.8	0.1	1.0
Ending Accumulated Other Comprehensive Loss	—	$(15.9)	$(0.2)	$(16.1)
For the Nine Months Ended September 30, 2013				
Beginning Accumulated Other Comprehensive Loss	$(0.1)	$(21.5)	$(0.4)	$(22.0)
Other Comprehensive Income Before Reclassifications	0.9	—	—	0.9
Amounts Reclassified From Accumulated Other Comprehensive Income (Loss)	(1.3)	1.1	—	(0.2)
Net Other Comprehensive Income (Loss)	(0.4)	1.1	—	0.7
Ending Accumulated Other Comprehensive Loss	$(0.5)	$(20.4)	$(0.4)	$(21.3)

NOTE 12. RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

Reclassifications from accumulated other comprehensive loss for the nine months ended September 30, 2014 and 2013, were as follows:

Amount Reclassified from Accumulated Other Comprehensive Loss	**Nine Months Ended September 30, 2014**	**Nine Months Ended September 30, 2013**
Millions		
Unrealized Gains on Available-for-sale Securities *(a)*	$0.2	$2.2
Income Taxes *(b)*	(0.1)	(0.9)
Total, Net of Income Taxes	$0.1	$1.3
Amortization of Defined Benefit Pension and Other Postretirement Items		
Prior Service Costs *(c)*	$0.3	$0.2
Actuarial Gains and Losses *(c)*	(1.8)	(2.1)
Total	(1.5)	(1.9)
Income Taxes *(b)*	0.6	0.8
Total, Net of Income Taxes	$(0.9)	$(1.1)
Total Reclassifications	$(0.8)	$0.2

(a) Included in Other Income (Expense) – Other on the Consolidated Statement of Income.
(b) Included in Income Tax Expense on the Consolidated Statement of Income.
(c) Defined benefit pension and other postretirement benefit items excluded from our Regulated Operations are recognized in accumulated other comprehensive loss and are subsequently reclassified out of accumulated other comprehensive loss as components of net periodic pension and other postretirement benefit expense. (See Note 14. Pension and Other Postretirement Benefit Plans.)

NOTE 13. EARNINGS PER SHARE AND COMMON STOCK

We compute basic earnings per share using the weighted average number of shares of common stock outstanding during each period. The difference between basic and diluted earnings per share, if any, arises from outstanding stock options, non-vested restricted stock units, performance share awards granted under our Executive Long-Term Incentive Compensation Plan and common shares under the forward sale agreement (described below). For the quarters and nine months ended September 30, 2014 and 2013, zero 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	**2014 Basic**	**2014 Dilutive Securities**	**2014 Diluted**	**2013 Basic**	**2013 Dilutive Securities**	**2013 Diluted**
Millions Except Per Share Amounts						
For the Quarter Ended September 30,						
Net Income Attributable to ALLETE	$41.6		$41.6	$25.2		$25.2
Average Common Shares	42.9	—	42.9	39.8	0.1	39.9
Earnings Per Share	$0.97		$0.97	$0.63		$0.63
For the Nine Months Ended September 30,						
Net Income Attributable to ALLETE	$91.9		$91.9	$71.7		$71.7
Average Common Shares	42.1	0.2	42.3	39.4	0.1	39.5
Earnings Per Share	$2.18		$2.17	$1.82		$1.81

NOTE 13. EARNINGS PER SHARE AND COMMON STOCK (Continued)

Forward Sale Agreement and Issuance of Common Stock. On February 26, 2014, ALLETE entered into a confirmation of forward sale agreement (Agreement) with a forward counterparty in connection with a public offering of 2.8 million shares of ALLETE common stock. The use of an equity forward transaction substantially eliminates future equity market price risk by fixing a common equity offering sales price under the then existing market conditions, while mitigating immediate share dilution resulting from the offering by postponing the actual issuance of common stock until funds are needed in accordance with our capital investment strategy.

Pursuant to the Agreement, the forward counterparty (or its affiliate) borrowed 2.8 million shares of ALLETE common stock (borrowed shares) from third parties and sold them to the underwriters. ALLETE has the right to elect physical, cash or net share settlement under the forward sales agreement, for all or a portion of its obligations under the Agreement. In the event that ALLETE elects physical settlement of the Agreement, it will deliver shares of its common stock in exchange for cash proceeds at the then-applicable forward sale price. The forward sale price is initially $48.01 per share, subject to adjustment as provided in the Agreement. The Agreement provides for settlement at any time on or prior to March 1, 2015. ALLETE expects to physically settle the Agreement in its entirety by delivering 2.8 million shares of its common stock. On September 5, 2014, ALLETE physically settled a portion of its obligations under the Agreement by having delivered approximately 1.4 million shares of common stock in exchange for cash proceeds of $65.0 million.

In connection with the public offering of the 2.8 million shares, ALLETE granted the underwriters an option to purchase up to an additional 0.4 million shares of ALLETE common stock (the option shares). The underwriters exercised the option in full and on March 4, 2014, the Company issued and sold the option shares to the underwriters at a price to ALLETE equal to the initial forward sale price for proceeds of $20.2 million.

The equity forward transaction was reflected in ALLETE’s diluted earnings per share using the treasury stock method, which resulted in no material dilutive impact to ALLETE’s diluted earnings per share for the quarter or nine months ended September 30, 2014. Prior to any settlement date, any dilutive effect of the Agreement on our earnings per share would only occur during periods when the average market price per share of our common stock is above the per share adjusted forward sales price described above.

The equity forward transaction is accounted for as an equity instrument in accordance with the accounting guidance for distinguishing liabilities from equity and the guidance for derivatives. Under the accounting guidance, the transaction qualifies for an exception from derivative accounting because the forward sale transaction is indexed to ALLETE’s stock.

Contributions to Pension. On January 10, 2014, ALLETE contributed 0.4 million shares of ALLETE common stock to its pension plan. These shares of ALLETE common stock were contributed in reliance upon an exemption available pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, and had an aggregate value of $19.5 million when contributed.

NOTE 14. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Components of Net Periodic Benefit Expense (Income)	Pension		Other Postretirement	
	2014	2013	2014	2013
Millions				
For the Quarter Ended September 30,				
Service Cost	$2.0	$2.4	$0.9	$0.9
Interest Cost	7.5	6.5	1.8	1.7
Expected Return on Plan Assets	(9.6)	(8.8)	(2.5)	(2.4)
Amortization of Prior Service Costs (Credits)	0.1	0.1	(0.7)	(0.6)
Amortization of Net Loss	3.6	5.4	0.1	0.4
Net Periodic Benefit Expense (Income)	$3.6	$5.6	$(0.4)	—
For the Nine Months Ended September 30,				
Service Cost	$6.2	$7.4	$2.6	$2.9
Interest Cost	22.4	19.5	5.5	5.1
Expected Return on Plan Assets	(28.7)	(26.4)	(7.7)	(7.3)
Amortization of Prior Service Costs (Credits)	0.2	0.2	(1.9)	(1.9)
Amortization of Net Loss	10.7	16.1	0.3	1.2
Net Periodic Benefit Expense (Income)	$10.8	$16.8	$(1.2)	—

Employer Contributions. On January 10, 2014, $19.5 million of ALLETE common stock was contributed to our defined benefit pension plan; we do not expect to make any additional contributions to our defined benefit pension plan in 2014 (no contributions for the nine months ended September 30, 2013). For the nine months ended September 30, 2014, we made no contributions to our other postretirement benefit plan; we do not expect to make any contributions to our other postretirement benefit plan in 2014 ($10.8 million for the nine months ended September 30, 2013).

NOTE 15. COMMITMENTS, GUARANTEES AND CONTINGENCIES

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

Square Butte PPA. Minnesota Power has a PPA with Square Butte that extends through 2026 (Agreement). It provides a long-term supply of energy to customers in our electric service territory and enables Minnesota Power to meet 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 described below. Minnesota Power's payment obligation will be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's costs consist primarily of debt service, operating and maintenance, depreciation and fuel expenses. As of September 30, 2014, Square Butte had total debt outstanding of $404.3 million. Annual debt service for Square Butte is expected to be approximately $44 million in each of the years 2014 through 2018, of which Minnesota Power's obligation is 50 percent. Fuel expenses are recoverable through our fuel adjustment clause and include the cost of coal purchased from BNI Coal, under a long-term contract.

Minnesota Power's cost of power purchased from Square Butte during the nine months ended September 30, 2014, was $51.8 million ($51.3 million for the nine months ended September 30, 2013). This reflects Minnesota Power's pro rata share of total Square Butte costs based on the 50 percent output entitlement. Included in this amount was Minnesota Power's pro rata share of interest expense of $7.9 million during the nine months ended September 30, 2014 ($7.9 million for the nine months ended September 30, 2013). Minnesota Power's payments to Square Butte are approved as a purchased power expense for ratemaking purposes by both the MPUC and the FERC.

Minnkota Power Sales Agreement. In December 2009, Minnesota Power entered into a power sales agreement with Minnkota Power. Under the power sales agreement, Minnesota Power will sell a portion of its output from Square Butte to Minnkota Power, resulting in Minnkota Power's net entitlement increasing and Minnesota Power's net entitlement decreasing until Minnesota Power's share is eliminated at the end of 2025. This sales agreement commenced June 1, 2014.

Minnkota Power PPA. In December 2012, Minnesota Power entered into a long-term PPA with Minnkota Power. Under this agreement, Minnesota Power will purchase 50 MW of capacity and the energy associated with that capacity over the term June 2016 through May 2020. The agreement includes a fixed capacity charge and energy pricing that escalates at a fixed rate annually over the term.

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

Manitoba Hydro PPAs. Minnesota Power has a long-term PPA with Manitoba Hydro that expires in May 2020. Under this agreement, Minnesota Power is purchasing 50 MW of capacity and the energy associated with that capacity. Both the capacity price and the energy price are adjusted annually by the change in a governmental inflationary index. In addition, Minnesota Power has a separate long-term PPA with Manitoba Hydro to purchase surplus energy through April 2022. This energy-only agreement primarily consists of surplus hydro energy on Manitoba Hydro's system that is delivered to Minnesota Power on a non-firm basis. The pricing is based on forward market prices. Under this agreement, Minnesota Power will purchase at least one million MWh of energy over the contract term.

In May 2011, Minnesota Power and Manitoba Hydro signed an additional long-term PPA. The PPA provides for Manitoba Hydro to sell 250 MW of capacity and energy to Minnesota Power for 15 years beginning in 2020. The agreement is subject to construction of additional transmission capacity between Manitoba and the U.S., along with construction of new hydroelectric generating capacity in Manitoba. The capacity price is adjusted annually until 2020 by a change in a governmental inflationary index. The energy price is based on a formula that includes an annual fixed price component adjusted for a change in a governmental inflationary index and a natural gas index, as well as market prices.

In July 2014, Minnesota Power and Manitoba Hydro signed a long-term PPA that provides for Manitoba Hydro to sell up to 133 MW of energy to Minnesota Power for 20 years beginning in 2020. The agreement is subject to MPUC approval and the construction of the GNTL.

North Dakota Wind Development. Minnesota Power uses the 465-mile, 250 kV DC transmission line that runs from Center, North Dakota, to Duluth, Minnesota to transport increasing amounts of wind energy from North Dakota while gradually phasing out coal-based electricity delivered to our system over this transmission line from Square Butte's lignite coal-fired generating unit.

Our 292 MW Bison Wind Energy Center, located in North Dakota, was completed in various phases through 2012. Customer billing rates for our Bison Wind Energy Center were approved by the MPUC in a December 2013 order.

Construction of Bison 4, a 205 MW wind project in North Dakota which is an addition to our Bison Wind Energy Center, has commenced and is expected to be completed by the end of 2014. The total project investment for Bison 4 is estimated to be approximately $345 million, of which $288 million was spent through September 30, 2014. On January 17, 2014, the MPUC approved Minnesota Power's petition seeking cost recovery for investments and expenditures related to Bison 4. We included Bison 4 as part of our renewable resources rider filing along with the Company's other renewable projects in a filing on April 29, 2014, which, upon approval, will authorize updated rates to be included on customer bills.

Hydro Operations. In June 2012, record rainfall and flooding occurred near Duluth, Minnesota and surrounding areas. The flooding impacted Minnesota Power's St. Louis River hydro system, particularly Thomson, which had damage to the forebay canal and flooding at the facility. Minnesota Power worked closely with the appropriate regulatory bodies which oversee the hydro system operations, including dams and reservoirs, to restore Thomson and to rebuild the forebay embankment. The forebay rebuild is complete and Minnesota Power commenced filling the forebay canal on October 9, 2014. Minnesota Power continues restoration and upgrade work at the Thomson facility and anticipates partial generation at Thomson in the fourth quarter of 2014. Work is ongoing towards returning to full generation early in 2015 and improving the spillway capacity at the Thomson dam in 2015. Total project costs are estimated to be approximately $90 million, of which $80 million, net of insurance, was spent through September 30, 2014. A request seeking cost recovery of investments and expenditures related to the restoration and repair of Thomson through our renewable resources rider was filed with the MPUC on July 3, 2014.

Coal, Rail and Shipping Contracts. We have coal supply agreements providing for the purchase of a significant portion of our coal requirements with expiration dates through December 2015. We also have coal transportation agreements in place for the delivery of a significant portion of our coal requirements with expiration dates through December 2015. Currently, Minnesota Power is in discussions regarding the extension of our coal supply and transportation contracts beyond 2015. Our minimum annual payment obligation under these supply and transportation agreements is $9.6 million for the remainder of 2014 and $4.4 million for 2015. 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.

Rail congestion has negatively impacted customers throughout the Upper Midwest, affecting agriculture, commodity and energy industries. We have experienced delays in coal deliveries resulting in lower coal inventory levels at our generating stations in Northeastern Minnesota. The Company has taken several proactive steps to conserve inventory, protect customers from increased costs and assure continued reliability. These actions have included temporarily curtailing operations at two smaller generating stations, redirecting coal deliveries to our larger generating stations and short-term energy purchases from regional power suppliers. We have filed a notice of fuel supply emergency with the Department of Energy and have notified the Surface Transportation Board of the need for additional deliveries, requesting their assistance. Minnesota Power's exposure to price risk for purchased power is significantly mitigated by the current ratemaking process and regulatory framework, which allows recovery of fuel costs in excess of those included in base rates.

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 also lease other properties and equipment under operating lease agreements with terms expiring through 2021. The aggregate amount of minimum lease payments for all operating leases is $12.1 million in 2014, $11.5 million in 2015, $9.5 million in 2016, $8.7 million in 2017, $7.4 million in 2018 and $29.2 million thereafter.

Transmission. We continue to make investments in transmission opportunities that strengthen or enhance the transmission grid or take advantage of our geographical location between sources of renewable energy and end users. These include the GNTL and the CapX2020 initiative, as well as investments to enhance our own transmission facilities, investments in other transmission assets (individually or in combination with others), and our investment in ATC.

Transmission Investments. Minnesota Power has an approved cost recovery rider in place for certain transmission investments and expenditures. In November 2013, the MPUC approved Minnesota Power's updated billing factor which allows Minnesota Power to charge retail customers on a current basis for the costs of constructing certain transmission facilities plus a return on the capital invested. We filed a petition on April 24, 2014, to include additional transmission investments and expenditures in customer billing rates.

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 and municipal 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.

Minnesota Power is currently participating in the construction of one CapX2020 transmission line project. Minnesota Power also participated in two CapX2020 projects which were previously completed and placed into service in 2011 and 2012. In June 2011, the MPUC approved the route permit for the Minnesota portion of the Fargo to St. Cloud project, which is currently under construction and expected to be in service by 2015. The North Dakota permitting process was completed in August 2012.

Based on projected costs of the three transmission line projects and the allocation agreements among participating utilities, in total Minnesota Power plans to invest between $100 million and $110 million in the CapX2020 initiative through 2015, of which $98 million was spent through September 30, 2014. As future CapX2020 projects are identified, Minnesota Power may elect to participate on a project-by-project basis.

Great Northern Transmission Line (GNTL). As a condition of the long-term PPA signed in May 2011 with Manitoba Hydro, construction of additional transmission capacity is required. As a result, Minnesota Power and Manitoba Hydro proposed construction of the GNTL, an approximately 220-mile 500 kV transmission line, between Manitoba and Minnesota's Iron Range in order to strengthen the electric grid, enhance regional reliability and promote a greater exchange of sustainable energy.

The GNTL is subject to various federal and state regulatory approvals. In October 2013, a Certificate of Need application was filed with the MPUC with respect to the GNTL. In an order dated January 8, 2014, the MPUC determined the Certificate of Need application was complete and referred the docket to an administrative law judge for a contested case proceeding. On April 15, 2014, Minnesota Power filed a route permit application with the MPUC and a request for a presidential permit to cross the U.S.-Canadian border with the U.S. Department of Energy. In an order dated July 2, 2014, the MPUC determined the route permit application to be complete. Manitoba Hydro must also obtain regulatory and governmental approvals related to new transmission lines and hydroelectric generation development in Canada. Upon receipt of all applicable permits and approvals, construction of the GNTL is anticipated to begin in 2016, and to be completed in 2020. Total project cost in the U.S., including substation work, is estimated to be between $560 million and $710 million, depending on the final route of the line. Minnesota Power is expected to have majority ownership of the transmission line.

Environmental Matters.

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

We consider our businesses to be in substantial compliance with currently applicable environmental regulations and believe all necessary permits to conduct such operations have been obtained. Due to expected future restrictive environmental requirements imposed through legislation and/or rulemaking, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. Minnesota Power has evaluated various environmental compliance scenarios using possible ranges of future environmental regulations to project power supply trends and impacts on customers.

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

Air. The electric utility industry is regulated both at the federal and state level to address air emissions. Minnesota Power's generating facilities mainly burn low-sulfur western sub-bituminous coal. All of Minnesota Power's coal-fired generating facilities are equipped with pollution control equipment such as scrubbers, baghouses and low NO_X technologies. Under currently applicable environmental regulations, these facilities are substantially compliant with applicable emission requirements.

New Source Review (NSR). In August 2008, Minnesota Power received a Notice of Violation (NOV) from the EPA asserting violations of the NSR requirements of the Clean Air Act at Boswell Units 1, 2, 3 and 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 Boswell Unit 4's Title V permit was violated. In April 2011, Minnesota Power received a NOV alleging that two projects undertaken at Rapids Energy Center in 2004 and 2005 should have been reviewed under the NSR requirements and that the Rapids Energy Center's Title V permit was violated.

Minnesota Power reached a settlement with the EPA regarding these NOVs and entered into a Consent Decree which was approved by the U.S. District Court for the District of Minnesota (Court) on September 29, 2014. The Consent Decree covers Minnesota Power's Boswell, Laskin, Taconite Harbor, and Rapids Energy Centers. The Consent Decree provides for more stringent emissions limits at all affected units, and the option of refueling, retrofits, or retirements at some units. It also includes the addition of 200 megawatts of wind energy. Minnesota Power will also be required to spend $4.2 million on environmental mitigation projects over the next five years. Under the terms of the Consent Decree, Minnesota Power also paid a $1.4 million civil penalty. In the second quarter of 2014, the Company recorded a liability and corresponding expense associated with the environmental mitigation projects. A liability for the civil penalty was recognized in 2013.

Since 2005, the Company has, and will, invest more than $600 million to reduce sulfur dioxide, nitrogen oxide, mercury and particulate matters emissions at its thermal generation facilities, and in 2012 placed in service over 200 MW of renewable wind energy, which fulfills certain obligations under the Consent Decree. In addition, Minnesota Power's EnergyForward plan also addresses many of the requirements included in the Consent Decree. Under the EnergyForward plan Minnesota Power intends to: 1) retire Taconite Harbor Unit 3, 2) convert Laskin from coal to natural gas, and 3) install emission controls at Boswell Unit 4.

The Consent Decree further requires that, by no later than December 31, 2018, Boswell Units 1 and 2 must be retired, refueled, repowered, or emissions rerouted to an existing Boswell scrubber. Minnesota Power estimates that if the Units are not retired, capital expenditures could range between $20 million to $40 million. We are evaluating our options with regard to the future course of action at our Boswell Units 1 and 2 facilities to comply with the Consent Decree, as well as future anticipated environmental regulations. We are required to notify the EPA no later than December 31, 2016 whether we will retire, refuel, repower or reroute Boswell Units 1 and 2. We believe that future capital expenditures or costs to retire would likely be eligible for recovery in rates over time subject to regulatory approval in a rate proceeding.

Cross-State Air Pollution Rule (CSAPR). In July 2011, the EPA issued the CSAPR, to address long-range transport of particulate matter and ozone by requiring reductions in SO_2 and NO_X from electric generating companies in the eastern half of the United States, including Minnesota. However, in August 2012, the U.S. Court of Appeals for the District of Columbia Circuit (Circuit Court of Appeals) vacated the CSAPR, ordering that the CAIR remain in effect while a CSAPR replacement rule was promulgated. That decision was appealed and, in April 2014, the U.S. Supreme Court reversed the decision, remanding the case to the Circuit Court of Appeals for further proceedings consistent with the U.S. Supreme Court decision. On June 25, 2014, the EPA made a motion to the Circuit Court of Appeals to have the court's stay of the CSAPR lifted and further asking the court to delay the CSAPR compliance deadlines by three years.

The CSAPR would not directly require the installation of controls. Instead, the rule would require facilities to have sufficient emission allowances to cover their emissions on an annual basis. These allowances would be allocated to facilities from each state's annual budget and could be bought and sold. The CSAPR requirements, if the stay is lifted and the EPA's motion to toll compliance deadlines is granted, would go into effect in 2015 (Phase I) and 2017 (Phase 2).

So long as the Circuit Court of Appeals' stay of the CSAPR remains in effect, the CAIR regulations continue to apply. Like the CSAPR, the CAIR regulations are intended to address long-range transport of particulate matter and ozone by means of an emissions trading program. Minnesota participation in the CAIR was stayed by EPA administrative action while the EPA promulgated a replacement rule. If the Circuit Court of Appeals lifts its stay of the CSAPR or otherwise upholds the CSAPR on remand, the CSAPR will likely become effective for Minnesota, but compliance deadlines may be extended to allow time for the State of Minnesota to develop its compliance plan.

Since 2006, we have significantly reduced emissions at our Laskin, Taconite Harbor and Boswell generating units. Based on our expected generation, these emission reductions would have satisfied Minnesota Power's SO_2 and NO_X emission compliance obligations with respect to the EPA-allocated CSAPR allowances for 2013. We are unable to predict any additional compliance costs we might incur as a result of the CSAPR.

Regional Haze. The federal Regional Haze Rule requires states to submit SIPs to the EPA to address regional haze visibility impairment in 156 federally-protected parks and wilderness areas. Under the first phase of the Regional Haze Rule, certain large stationary sources, built 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, subject to BART requirements.

The MPCA requested that companies with BART-eligible units complete and submit a BART emissions control retrofit study, which was completed for Taconite Harbor Unit 3 in November 2008. The retrofit work completed in 2009 at Boswell Unit 3 meets the BART requirements for that unit. In December 2009, the MPCA approved the Minnesota SIP for submittal to the EPA for its review and approval. The Minnesota SIP incorporates information from the BART emissions control retrofit studies that were completed as requested by the MPCA.

Due to legal challenges at both the state and federal levels, there is currently no applicable compliance deadline for the Regional Haze Rule. If additional regional haze related controls are ultimately required, Minnesota Power will have up to five years from the final rule promulgation date to bring Taconite Harbor Unit 3 into compliance. As part of our 2013 Integrated Resource Plan, which was approved by the MPUC in November 2013, we plan to retire Taconite Harbor Unit 3 in 2015. We believe that the Taconite Harbor Unit 3 retirement will be accomplished before any compliance deadline takes effect.

Mercury and Air Toxics Standards (MATS) Rule (formerly known as the Electric Generating Unit Maximum Achievable Control Technology (MACT) Rule). Under Section 112 of the Clean Air Act, the EPA is required to set emission standards for hazardous air pollutants (HAPs) for certain source categories. The EPA published the final MATS rule in the Federal Register in February 2012, addressing such emissions from coal-fired utility units greater than 25 MW. There are currently 187 listed HAPs that the EPA is required to evaluate for establishment of MACT standards. In the final MATS rule, the EPA established categories of HAPs, including mercury, trace metals other than mercury, acid gases, dioxin/furans, and organics other than dioxin/furans. The EPA also established emission limits for the first three categories of HAPs, and work practice standards for the remaining categories. Affected sources must be in compliance with the rule by April 2015. States have the authority to grant sources a one-year extension. Minnesota Power was notified by the MPCA that it has approved Minnesota Power's request for an additional year extending the date of compliance for the Boswell Unit 4 environmental upgrade to April 1, 2016. Compliance at Boswell Unit 4 to address the final MATS rule is expected to result in capital expenditures of approximately $250 million through 2016, of which $120 million was spent through September 30, 2014. Our minimum payment obligation for the environmental upgrade is $103 million for 2014 and $75 million for 2015. Our "EnergyForward" plan, which was approved as part of our 2013 Integrated Resource Plan by the MPUC in an order dated November 12, 2013, also includes the conversion of Laskin Units 1 and 2 to natural gas in 2015, to position the Company for MATS compliance. On January 9, 2014, the MPCA approved Minnesota Power's application to extend the deadline for Taconite Harbor Unit 3 to comply with MATS to June 1, 2015, in order to align the Unit 3 retirement with MISO's resource planning year.

EPA National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial and Institutional Boilers and Process Heaters. In March 2011, a final rule was published in the Federal Register for Industrial Boiler Maximum Achievable Control Technology (Industrial Boiler MACT). The rule was stayed by the EPA in May 2011, to allow the EPA time to consider additional comments received. The EPA re-proposed the rule in December 2011. In January 2012, the United States District Court for the District of Columbia ruled that the EPA stay of the Industrial Boiler MACT was unlawful, effectively reinstating the March 2011 rule and associated compliance deadlines. A final rule based on the December 2011 proposal, which supersedes the March 2011 rule, became effective in December 2012. Major existing sources have until January 31, 2016, to achieve compliance with the final rule. Minnesota Power's Hibbard Renewable Energy Center and Rapids Energy Center are subject to this rule. We expect compliance to consist largely of adjustments to our operating practices; therefore costs for complying with the final rule are not expected to be material at this time.

Minnesota Mercury Emissions Reduction Act. In order to comply with the 2006 Minnesota Mercury Emissions Reduction Act, Minnesota Power must implement a mercury emissions reduction project for Boswell Unit 4 by December 31, 2018. The Boswell Unit 4 environmental upgrade discussed above, which is required to be completed by April 1, 2016 (see Mercury and Air Toxics Standards (MATS) Rule), will fulfill the requirements of the Minnesota Mercury Emissions Reduction Act. Costs to implement the Boswell Unit 4 mercury emissions reduction plan are included in the estimated capital expenditures required for compliance with the MATS rule discussed above. (See Mercury and Air Toxics Standards (MATS) Rule.)

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

NOTE 15. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

Ozone NAAQS. The EPA has proposed to more stringently control emissions that result in ground level ozone. In January 2010, the EPA proposed to revise the 2008 eight-hour ozone standard and to adopt a secondary standard for the protection of sensitive vegetation from ozone-related damage. The EPA was scheduled to decide upon the 2008 eight-hour ozone standard in July 2011, but has since announced that it is deferring revision of this standard until late 2014 or beyond. Court ordered deadlines are in place mandating that the EPA promulgate a proposed rule by December 1, 2014, and a final rule by October 1, 2015. On August 29, 2014, an EPA Policy Assessment suggested lowering the ozone NAAQS from the existing standard of 75 parts per billion (ppb) to between 60 and 70 ppb; however, this has not been finalized and may be subject to change. Consequently, the costs for complying with the final ozone NAAQS cannot be estimated at this time.

Particulate Matter NAAQS. The EPA finalized the Particulate Matter NAAQS in September 2006. Since then, the EPA has established more stringent 24-hour average fine particulate matter ($PM_{2.5}$) and annual $PM_{2.5}$ standards; the 24-hour coarse particulate matter standard has remained unchanged. The District of Columbia Circuit Court of Appeals remanded the annual $PM_{2.5}$ standard to the EPA, requiring consideration of lower annual standard values. The EPA proposed new $PM_{2.5}$ standards in June 2012.

In December 2012, the EPA issued a final rule implementing a more stringent annual $PM_{2.5}$ standard, while retaining the current 24-hour $PM_{2.5}$ standard. To implement the new more stringent annual $PM_{2.5}$ standard, the EPA is also revising aspects of relevant monitoring, designation and permitting requirements. New projects and permits must comply with the new more stringent standard, and compliance with the NAAQS at the facility level is generally demonstrated by modeling.

Under the final rule, states will be responsible for additional $PM_{2.5}$ monitoring, which will likely be accomplished by relocating or repurposing existing monitors. The EPA asked states to submit attainment designations by December 2013, based on already available monitoring data. The EPA believes that most U.S. counties already meet the new standard and plans to finalize designations of attainment by December 2014. For those counties that the EPA does not designate as having already met the requirements of the new standard, specific dates for required attainment will depend on technology availability, state permitting goals, potential legal challenges and other factors. Minnesota is anticipating that it will retain attainment status; however, Minnesota sources may ultimately be required to reduce their emissions to assist with attainment in neighboring states. Accordingly, the costs for complying with the final Particulate Matter NAAQS cannot be estimated at this time.

SO_2 and NO_2 NAAQS. During 2010, the EPA finalized one-hour NAAQS for SO_2 and NO_2. Ambient monitoring data indicates that Minnesota will likely be in compliance with these new standards; however, the one-hour SO_2 NAAQS also may require the EPA to evaluate modeling data to determine attainment. The EPA notified states that their infrastructure SIPs for maintaining attainment of the standard were required to be submitted to the EPA for approval by June 2013. However, the State of Minnesota has delayed completing the documents pending receipt of EPA guidance to states for preparing the SIP submittal. Guidance was expected in 2013 and has been delayed.

In late 2011, the MPCA initiated modeling activities that included approximately 65 sources within Minnesota that emit greater than 100 tons of SO_2 per year. However, in April 2012, the MPCA notified Minnesota Power that such modeling had been suspended as a result of the EPA's announcement that the June 2013 SIP submittals would no longer require modeling demonstrations for states, such as Minnesota, where ambient monitors indicate compliance with the new standard. The MPCA is awaiting updated EPA guidance and will communicate with affected sources once the MPCA has more information on how the state will meet the EPA's SIP requirements. Currently, compliance with these new NAAQS is expected to be required as early as 2017. The costs for complying with the final standards cannot be estimated at this time.

In late July 2014, the Fond du Lac Band of Lake Superior Chippewa (Band) announced it petitioned the Environmental Protection Agency (EPA) to redesignate its reservation airshed from Class II to Class I air quality pursuant to Section 164(c) of the Clean Air Act. The Band does not currently possess authority to directly regulate air quality. Federal Class I air shed status, if granted, would allow the Band to exercise a higher threshold of Clean Air Act protections within the boundaries of the Fond du Lac reservation, including the reservation airshed, near Cloquet, Minnesota. Five other reservations across the U.S. have applied for and received Class I status. Public comment on this petition is scheduled to end on November 10, 2014, at which point it is anticipated the Band will formally submit the request to the EPA. The timeline for approval, denial, or modification of the request by the EPA is unknown. The Company has requested additional clarification from the Band and the MPCA on the final regulatory structure and authorities that may arise from a Class I redesignation. The Company cannot determine the effect of potential Class I status until the Band's application is granted and its regulations are established, and therefore cannot determine the financial impact, if any, on the Company's operations.

Climate Change. The scientific community generally accepts that emissions of GHG are linked to global climate change. Climate change creates physical and financial risks. Physical risks could include, but are not limited to: increased or decreased precipitation and water levels in lakes and rivers; increased temperatures; and changes in the intensity and frequency of extreme weather events. These all have the potential to affect the Company's business and operations. We are addressing climate change by taking the following steps that also ensure reliable and environmentally compliant generation resources to meet our customers' requirements:

- Expanding our renewable energy supply;
- Providing energy conservation initiatives for our customers and engaging in other demand side efforts;
- Improving efficiency of our energy generating facilities;
- Supporting research of technologies to reduce carbon emissions from generation facilities and carbon sequestration efforts; and
- Evaluating and developing less carbon intensive future generating assets such as efficient and flexible natural gas generating facilities.

President Obama's Climate Action Plan. In June 2013, President Obama announced a Climate Action Plan (CAP) that calls for implementation of measures that reduce GHG emissions in the U.S., emphasizing means such as expanded deployment of renewable energy resources, energy and resource conservation, energy efficiency improvements and a shift to fuel sources that have lower emissions. Certain portions of the CAP directly address electric utility GHG emissions.

EPA Regulation of GHG Emissions. In May 2010, the EPA issued the Prevention of Significant Deterioration (PSD) and Title V Greenhouse Gas Tailoring Rule (Tailoring Rule). The Tailoring Rule establishes permitting thresholds required to address GHG emissions for new facilities, existing facilities that undergo major modifications and other facilities characterized as major sources under the Clean Air Act's Title V program. For our existing facilities, the rule does not require amending our existing Title V operating permits to include GHG requirements. However, GHG requirements are likely to be added to our existing Title V operating permits by the MPCA as these permits are renewed or amended.

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

In June 2014, the U.S. Supreme Court invalidated the aspect of the Tailoring Rule that established lower permitting thresholds for GHG than for other pollutants subject to PSD. However, the court also upheld the EPA's power to require BACT for GHG from sources already subject to regulation under PSD. Minnesota Power's coal-fired generating facilities are already subject to regulation under PSD, so we anticipate that ultimately PSD for GHG will apply to our facilities, but the timing of the promulgation of a replacement for the Tailoring Rule is uncertain. The PSD applies to existing facilities only when they undertake a major modification that increases emissions. We are unable to predict the compliance costs that we might incur.

In March 2012, the EPA announced a proposed rule to apply CO_2 emission New Source Performance Standards (NSPS), under Section 111(b) of the Clean Air Act, to new fossil fuel-fired electric generating units. The proposed NSPS would have applied only to new or re-powered units. Based on the volume of comments received, the EPA announced its intent to re-propose the rule. In September 2013, the EPA retracted its March 2012 proposal and announced the release of a revised NSPS for new or re-powered utility CO_2 emissions.

In June 2014, the EPA announced a proposed rule under Section 111(d) of the Clean Air Act for existing power plants entitled "Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Generating Units" (Clean Power Plan or CPP). The EPA intends to finalize such rules by June 1, 2015. In the Clean Power Plan, the EPA proposes to set state-specific rate-based goals for CO_2 emissions from the power sector that the EPA maintains are achievable if a state undertakes a combination of measures across its power sector that constitute the EPA's guideline for a Best System of Emission Reductions (BSER).

The EPA proposed that BSER is comprised of four building blocks: 1) improved fossil fuel power plants efficiency, 2) increased reliance on low-emitting power sources by generating more electricity from existing natural gas combined cycle units, 3) building more or preserving existing zero- and low-emitting power sources, including renewables and nuclear energy and 4) more efficient electricity use by consumers.

The EPA then established state goals, expressed as a carbon intensity target in CO_2 tons per megawatt hour, by estimating the achievability of the building blocks in each state. Using 2012 emissions data, the EPA derived interim goals for states to be met over the years 2020-2029, as well as a final goal to be met in 2030 and thereafter. Under the CPP, each state would be required to develop a state implementation plan by June 30, 2016 intended to achieve the state carbon intensity goals.

Minnesota Power is currently evaluating the CPP as it relates to the State of Minnesota and its potential impact on the Company. Comments to the EPA on the CPP are due in December 2014.

Minnesota has already initiated several measures consistent with those called for under the CAP and CPP. Minnesota Power is implementing its “EnergyForward” strategic plan that provides for significant emission reductions and diversifying its electricity generation mix to include more renewable and natural gas energy. (See Regulated Operations - *EnergyForward.*)

We are unable to predict the GHG emission compliance costs we might incur; however, the costs could be material. We would seek recovery of any additional costs through cost recovery riders or in a general rate case.

Minnesota’s Next Generation Energy Act of 2007. On April 14, 2014, a U.S. District Court for the District of Minnesota ruled that part of Minnesota’s Next Generation Energy Act of 2007 violated the Commerce Clause of the U.S. Constitution. The portions of the law which were ruled unconstitutional prohibited the importation of power from a new CO_2-producing facility outside of Minnesota and prohibited the entry into new long-term power purchase agreements that would increase CO_2 emissions in Minnesota. State officials have appealed the decision.

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

Clean Water Act - Aquatic Organisms. In April 2011, the EPA announced proposed regulations under Section 316(b) of the Clean Water Act that set standards applicable to cooling water intake structures for the protection of aquatic organisms. The proposed regulations would require existing large power plants and manufacturing facilities that withdraw greater than 25 percent of water from adjacent water bodies for cooling purposes, and have a design intake flow of greater than 2 million gallons per day, to limit the number of aquatic organisms that are killed when they are pinned against the facility’s intake structure or that are drawn into the facility’s cooling system. The Section 316(b) rule was published in the Federal Register on August 15, 2014, with an effective date of October 14, 2014. As it stands, the Section 316(b) standards will be implemented through NPDES permits issued to the covered facilities with compliance timing dependent on individual NPDES renewal schedules. We are in the process of assessing the compliance costs and there remains the possibility they could be material. We would seek recovery of any additional costs through cost recovery riders or in a general rate case.

Steam Electric Power Generating Effluent Guidelines. In April 2013, the EPA announced proposed revisions to the federal effluent guidelines for steam electric power generating stations under the Clean Water Act. Instead of proposing a single rule, the EPA proposed eight “options,” of which four are “preferred”. The proposed revisions would set limits on the level of toxic materials in wastewater discharged from seven waste streams: flue gas desulfurization wastewater, fly ash transport water, bottom ash transport water, combustion residual leachate, non-chemical metal cleaning wastes, coal gasification wastewater, and wastewater from flue gas mercury control systems. As part of this proposed rulemaking, the EPA is considering imposing rules to address “legacy” wastewater currently residing in ponds as well as rules to impose stringent best management practices for discharges from active coal combustion residual surface impoundments. The EPA’s proposed rulemaking would base effluent limitations on what can be achieved by available technologies. The proposed rule was published in the Federal Register in June 2013, with public comments due in September 2013. The EPA has agreed to issue the final rule by September 30, 2015. Compliance with the final rule, as proposed, would be required no later than July 1, 2022. We are reviewing the proposed rule and evaluating its potential impacts on our operations. We are unable to predict the compliance costs we might incur related to these or other potential future water discharge regulations; however, the costs could be material, including costs associated with retrofits for bottom ash handling, pond dewatering, pond closure, and wastewater treatment and/or reuse. We would seek recovery of any additional costs through cost recovery riders or in a general rate case

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

NOTE 15. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

Coal Ash Management Facilities. Minnesota Power generates coal ash at all five of its coal-fired electric generating facilities. Two facilities store ash in onsite impoundments (ash ponds) with engineered liners and containment dikes. Another facility stores dry ash in a landfill with an engineered liner and leachate collection system. Two facilities generate a combined wood and coal ash that is either land applied as an approved beneficial use or trucked to state permitted landfills. In June 2010, the EPA proposed regulations for coal combustion residuals generated by the electric utility sector. The proposal sought comments on three general regulatory schemes for coal ash under Subtitle D of Resource Conservation and Recovery Act (RCRA) (non-hazardous) or Subtitle C of RCRA (hazardous). The EPA is expected to issue a final rule by December 19, 2014. We are unable to predict the compliance costs we might incur; however, the costs could be material. We would seek recovery of any additional costs through cost recovery riders or in a general rate case.

Other Matters.

BNI Coal. As of September 30, 2014, BNI Coal had surety bonds outstanding of $49.5 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, additional assurance is required by federal and state regulations. In addition to the surety bonds, BNI Coal has secured a letter of credit for an additional $0.6 million to provide for BNI Coal's total reclamation liability, which is currently estimated at $49.3 million. BNI Coal does not believe it is likely that any of these outstanding surety bonds or the letter of credit will be drawn upon.

ALLETE Clean Energy. In January 2014, ALLETE Clean Energy acquired three wind energy facilities–Lake Benton, Storm Lake and Condon–from AES. All three wind energy facilities have PPAs in place for their entire output, which expire in various years between 2019 and 2032. (See Note 4. Acquisition.)

ALLETE Properties. As of September 30, 2014, ALLETE Properties, through its subsidiaries, had surety bonds outstanding and letters of credit to governmental entities totaling $10.2 million primarily related to development and maintenance obligations for various projects. The estimated cost of the remaining development work is approximately $7.4 million. ALLETE Properties does not believe it is likely that any of these outstanding surety bonds or letters of credit 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 and in May 2006, the Palm Coast Park District issued $31.8 million of tax-exempt, 5.7 percent special assessment bonds. The capital improvement revenue bonds and the special assessment bonds are payable over 31 years (by May 1, 2036 and 2037, respectively) and are secured by special assessments on the benefited land. The bond proceeds were used to pay for the construction of a portion of the major infrastructure improvements in each district and to mitigate traffic and environmental impacts. The assessments were billed to the landowners beginning in November 2006 for Town Center and November 2007 for Palm Coast Park. To the extent that we still own land at the time of the assessment, we will incur the cost of our portion of these assessments, based upon our ownership of benefited property. At September 30, 2014, we owned 72 percent of the assessable land in the Town Center District (73 percent at December 31, 2013) and 93 percent of the assessable land in the Palm Coast Park District (93 percent at December 31, 2013). At these ownership levels, our annual assessments are approximately $1.4 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. In accordance with accounting guidance, these bonds are not reflected as debt on our Consolidated Balance Sheet.

Legal Proceedings.

United Taconite Lawsuit. In January 2011, the Company was named as a defendant in a lawsuit in the Sixth Judicial District for the State of Minnesota by one of our customer's (United Taconite, LLC) property and business interruption insurers. In October 2006, United Taconite experienced a fire as a result of the failure of certain electrical protective equipment. The equipment at issue in the incident was not owned, designed, or installed by Minnesota Power, but Minnesota Power had provided testing and calibration services related to the equipment. The lawsuit alleged approximately $20 million in damages related to the fire. In response to a Motion for Summary Judgment by Minnesota Power, the Sixth Judicial District for the State of Minnesota dismissed all of plaintiffs' claims in an August 2013 order. The District Court's decision was affirmed by the Minnesota Court of Appeals on August 4, 2014. On October 14, 2014, the Minnesota Supreme Court denied further review.

Notice of Potential Clean Air Act Citizen Lawsuit. In July 2013, the Sierra Club submitted to Minnesota Power a notice of intent to file a citizen suit under the Clean Air Act, which it supplemented in March 2014. This notice of intent alleged violations of opacity and other permit requirements at our Boswell, Laskin, and Taconite Harbor energy centers. Minnesota Power intends to vigorously defend any lawsuit that may be filed by the Sierra Club. We are unable to predict the outcome of this matter. Accordingly, an accrual related to any damages that may result from the notice of intent has not been recorded as of September 30, 2014, because a potential loss is not currently probable or reasonably estimable.

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, and compliance with regulations, rate base and cost of service issues, among other things. We do not expect the outcome of these matters to have a material effect on our financial position, results of operations or cash flows.

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

OVERVIEW

The following discussion should be read in conjunction with our consolidated financial statements and notes to those statements, Management’s Discussion and Analysis of Financial Condition and Results of Operations from the 2013 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 headings: “Forward-Looking Statements” located on page 6 and “Risk Factors” located in Part I, Item 1A, beginning on page 28 of our 2013 Form 10-K. The risks and uncertainties described in this Form 10-Q and our 2013 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 risks are realized.

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 approximately 144,000 retail customers. Minnesota Power’s non-affiliated municipal customers consist of 16 municipalities in Minnesota. SWL&P is a Wisconsin utility and a customer of Minnesota Power. SWL&P provides regulated electric, natural gas and water service in northwestern Wisconsin to approximately 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, ALLETE Clean Energy, our business which acquired three wind energy facilities in January 2014, and is aimed at developing or acquiring capital projects that create energy solutions via wind, solar, biomass, midstream gas and oil infrastructure, among other energy-related projects, and ALLETE Properties, our Florida real estate investment. This segment also includes other business development and corporate expenditures, unallocated interest expense, a small amount of non-rate base generation, approximately 5,000 acres of land 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, 2014, unless otherwise indicated. All subsidiaries are wholly-owned unless otherwise specifically indicated. References in this report to “we,” “us” and “our” are to ALLETE and its subsidiaries, collectively.

Financial Overview

The following net income discussion summarizes a comparison of the nine months ended September 30, 2014, to the nine months ended September 30, 2013.

Net income attributable to ALLETE for the nine months ended September 30, 2014, was $91.9 million, or $2.17 per diluted share, compared to $71.7 million, or $1.81 per diluted share, for the same period of 2013. Net income for 2014 reflected $1.4 million after-tax expense, or $0.03 per share, of acquisition costs for ALLETE Clean Energy's wind energy facilities acquisition which closed on January 30, 2014. (See Note 4. Acquisition.) In addition, net income for 2014 reflected a $2.5 million after-tax expense, or $0.06 per share, reflecting a liability associated with environmental mitigation projects required as part of the EPA NOV Consent Decree settlement. (See Note 15. Commitments, Guarantees and Contingencies.) Net income for 2014 reflected higher net income at Minnesota Power. Earnings were also higher due to ALLETE Clean Energy's wind energy facilities, which were acquired in January 2014. Earnings per share dilution was $0.16 due to additional shares of common stock outstanding as of September 30, 2014.

Regulated Operations net income attributable to ALLETE was $92.6 million for the nine months ended September 30, 2014, compared to $73.0 million for the same period of 2013. Net income for 2014 reflected a $2.5 million after-tax expense, or $0.06 per share, reflecting a liability associated with environmental mitigation projects required as part of the EPA NOV Consent Decree settlement. Net income for 2014 reflected higher net income at Minnesota Power primarily due to higher cost recovery rider revenue and production tax credits, recognition of a $5.1 million after-tax Minnesota Conservation Improvement Program financial incentive in the third quarter of 2014 ($4.2 million after-tax recognized in the fourth quarter of 2013), and higher power marketing sales as the Square Butte resale agreement to Minnkota Power commenced June 1, 2014. These increases were partially offset by higher depreciation and interest expenses.

Investments and Other net loss attributable to ALLETE was $0.7 million for the nine months ended September 30, 2014, compared to a net loss of $1.3 million for the same period of 2013. The net loss for 2014 reflected $1.4 million after-tax expense, or $0.03 per share, of acquisition costs for ALLETE Clean Energy's wind energy facilities acquisition. Earnings from ALLETE Clean Energy's wind energy facilities acquisition were partially offset by gains on sales of investments in 2013. BNI Coal recorded net income of $4.2 million for the nine months ended September 30, 2014 ($4.6 million for the nine months ended September 30, 2013). ALLETE Properties recorded a net loss of $2.2 million for the nine months ended September 30, 2014 (net loss of $3.0 million for the nine months ended September 30, 2013).

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2014 AND 2013

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

Regulated Operations

Operating revenue increased $29.4 million, or 13 percent, from 2013 primarily due to higher cost recovery rider revenue, recognition of financial incentives under the Minnesota Conservation Improvement Program, and a 4.7 percent increase in kWh sales.

Cost recovery rider revenue increased $11.4 million primarily due to higher capital expenditures related to our Bison projects and our Boswell Unit 4 environmental upgrade.

The Conservation Improvement Program financial incentive of $8.7 million was recognized in the third quarter of 2014 upon approval by the MPUC on July 24, 2014. In 2013, the Conservation Improvement Program financial incentive of $7.1 million was approved by the MPUC on October 15, 2013 and was recognized in the fourth quarter of 2013.

Revenue from Regulated Operations increased $7.1 million due to a 4.7 percent increase in kWh sales. Sales to our residential and commercial customers decreased 5.8 percent and 2.6 percent, respectively, primarily due to cooler summer temperatures during the third quarter of 2014. Cooling degree days in Duluth, Minnesota were approximately 60 percent lower in the third quarter of 2014 compared to 2013. The decrease in sales to our municipal customers reflects a wholesale customer contract expiration effective December 31, 2013. 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, and increased 37.3 percent in 2014 due to the commencement of the Minnkota Power sales agreement on June 1, 2014. (See Note 15. Commitments, Guarantees and Contingencies.)

Kilowatt-hours Sold **Quarter Ended September 30,**	**2014**	**2013**	**Quantity Variance**	**% Variance**
Millions				
Regulated Utility				
Retail and Municipals				
Residential	244	259	(15)	(5.8)%
Commercial	369	379	(10)	(2.6)%
Industrial	1,911	1,894	17	0.9 %
Municipals	203	242	(39)	(16.1)%
Total Retail and Municipals	2,727	2,774	(47)	(1.7)%
Other Power Suppliers	751	547	204	37.3 %
Total Regulated Utility Kilowatt-hours Sold	3,478	3,321	157	4.7 %

Revenue from electric sales to taconite/iron concentrate customers accounted for 23 percent of consolidated operating revenue in 2014 (25 percent in 2013). Revenue from electric sales to paper and pulp mills accounted for 7 percent of consolidated operating revenue in 2014 (8 percent in 2013). Revenue from electric sales to pipelines and other industrials accounted for 6 percent of consolidated operating revenue in 2014 (7 percent in 2013).

Operating expenses increased $9.8 million, or 5 percent, from 2013.

Fuel and Purchased Power Expense increased $8.4 million, or 10 percent, from 2013 primarily due to increased purchased power related to a 4.7 percent increase in kWh sales. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause.

Operating and Maintenance Expense increased $0.8 million, or 1 percent, from 2013 due to higher transmission expense offset by lower benefit expense. Transmission expense increased primarily due to higher MISO related expenses. Benefit expense was lower due to higher discount rates in 2014 attributable to our defined benefit pension and other postretirement benefit plans.

Depreciation Expense increased $0.6 million, or 2 percent, from 2013 reflecting additional property, plant and equipment in service.

Interest expense increased $1.4 million, or 13 percent, from 2013 primarily due to higher average long-term debt balances.

Investments and Other

Operating revenue increased $8.5 million, or 35 percent, from 2013 primarily due to a $6.8 million increase in revenue generated at ALLETE Clean Energy due to the acquisition of three wind energy facilities in the first quarter of 2014. Also contributing to the increase was a $2.2 million increase in revenue at ALLETE Properties due to wetland mitigation bank credit and land sales. These increases were partially offset by a decrease in revenue at BNI Coal, which operates under a cost-plus fixed fee contract, as a result of lower expenses in 2014. (See *Operating Expense*.)

Investments and Other (Continued)

Operating expenses increased $5.7 million, or 22 percent, from 2013 primarily due to higher operating and depreciation expenses of $4.4 million as a result of the ALLETE Clean Energy wind energy facilities acquisition in the first quarter of 2014. Also contributing to the increase were higher expenses of $1.1 million at ALLETE Properties primarily due to increased wetland mitigation bank credit and land sales. These increases were partially offset by decreased expenses at BNI Coal primarily due to lower fuel costs and repair expenses, which are recovered through the cost-plus fixed fee contract. (See *Operating Revenue*.)

Income Taxes – Consolidated

For the quarter ended September 30, 2014, the effective tax rate was 24.4 percent (25.7 percent for the quarter ended September 30, 2013). The effective tax rate deviated from the statutory rate of approximately 41 percent primarily due to deductions for AFUDC-Equity, investment tax credits, production tax credits and depletion. (See Note 11. Income Tax Expense.)

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

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

Regulated Operations

Operating revenue increased $66.0 million, or 10 percent, from 2013 primarily due to higher cost recovery rider revenue, a 2.8 percent increase in kWh sales, recognition of financial incentives under the Minnesota Conservation Improvement Program, fuel adjustment clause recoveries, transmission revenues, and gas sales.

Cost recovery rider revenue increased $19.8 million primarily due to higher capital expenditures related to our Bison projects and our Boswell Unit 4 environmental upgrade.

Revenue from Regulated Operations increased $19.7 million from 2013 due to a 2.8 percent increase in total kWh sales. The increase was due primarily to a 19.1 percent increase in kWh sales to Other Power Suppliers. Sales to Other Power Suppliers are sold at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations, and increased primarily due to the commencement of the Minnkota Power sales agreement on June 1, 2014. (See Note 15. Commitments, Guarantees and Contingencies.) Also contributing to the increase were higher sales to residential and commercial customers primarily due to unseasonably cold temperatures during the first four months of 2014 compared to the same period in 2013. In the first four months of 2014, heating degree days in Duluth, Minnesota were approximately 11 percent higher than the same period in 2013. The decrease in sales to our municipal customers reflects a wholesale customer contract expiration effective December 31, 2013.

Kilowatt-hours Sold Nine Months Ended September 30,	2014	2013	Quantity Variance	% Variance
Millions				
Regulated Utility				
Retail and Municipals				
Residential	891	864	27	3.1 %
Commercial	1,097	1,091	6	0.5 %
Industrial	5,515	5,508	7	0.1 %
Municipals	643	741	(98)	(13.2)%
Total Retail and Municipals	8,146	8,204	(58)	(0.7)%
Other Power Suppliers	2,082	1,748	334	19.1 %
Total Regulated Utility Kilowatt-hours Sold	10,228	9,952	276	2.8 %

Revenue from electric sales to taconite/iron concentrate customers accounted for 23 percent of consolidated operating revenue in 2014 (25 percent percent in 2013). Revenue from electric sales to paper and pulp mills accounted for 7 percent of consolidated operating revenue in 2014 (8 percent in 2013). Revenue from electric sales to pipelines and other industrials accounted for 6 percent of consolidated operating revenue in 2014 (7 percent in 2013).

The Conservation Improvement Program financial incentive of $8.7 million was recognized in the third quarter of 2014 upon approval by the MPUC on July 24, 2014. In 2013, the Conservation Improvement Program financial incentive of $7.1 million was approved by the MPUC on October 15, 2013, and was recognized in the fourth quarter of 2013.

Fuel adjustment clause recoveries increased $6.6 million due to higher purchased power expense attributable to our retail and municipal customers. (*See Operating Expenses - Fuel and Purchased Power Expense.)*

Transmission revenue increased $5.9 million from 2013 primarily due to the commencement of recovery of our transmission investment related to the 230 kV transmission system upgrade that was placed into service in March 2013 (See *Outlook – Industrial Customers – Nashwauk Public Utilities Commission.*) and higher MISO related revenues.

Revenue from gas sales at SWL&P increased $5.5 million as a result of the unseasonably cold weather during the first four months of 2014. (See *Operating Expenses - Operating and Maintenance Expense.*)

Operating expenses increased $43.1 million, or 8 percent, from 2013.

Fuel and Purchased Power Expense increased $23.0 million, or 9 percent, from 2013 due to an increase in purchased power resulting from higher kWh sales and higher wholesale prices. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause. *(*See *Operating Revenue.)*

Operating and Maintenance Expense increased $15.0 million, or 6 percent, from 2013. In the second quarter of 2014, a $4.2 million expense was recorded to reflect a liability associated with environmental mitigation projects required as part of the EPA NOV Consent Decree settlement. Operating and maintenance expense was also higher due to higher purchased gas, transmission expense, and property taxes partially offset by lower benefit expense. Purchased gas expense increased due to higher gas sales in 2014; purchased gas expenses are recovered from our customers through a purchased gas adjustment clause. (See *Operating Revenue.*) Transmission expense increased primarily due to higher MISO related expense. Property tax expense increased as a result of higher taxable plant and rates. Benefit expense was lower due to higher discount rates in 2014 attributable to our defined benefit pension and other postretirement benefit plans.

Depreciation Expense increased $5.1 million, or 6 percent, from 2013 reflecting additional property, plant and equipment in service.

Interest expense increased $3.2 million, or 10 percent, from 2013 primarily due to higher average long-term debt balances.

Other income increased $2.5 million, or 74 percent, from 2013 primarily due to higher AFUDC - Equity.

Investments and Other

Operating revenue increased $29.7 million, or 44 percent, from 2013 primarily due to a $22.6 million increase in revenue generated at ALLETE Clean Energy due to the acquisition of three wind energy facilities in the first quarter of 2014. Also contributing to the increase was a $2.8 million increase in revenue at ALLETE Properties due to wetland mitigation bank credit and land sales. BNI Coal, which operates under a cost-plus fixed fee contract, recorded higher revenue of $2.5 million primarily as a result of higher expenses in 2014. (See *Operating Expense*.)

Operating expenses increased $22.5 million, or 31 percent, from 2013 primarily due to higher operating and depreciation expenses of $16.1 million as a result of the ALLETE Clean Energy wind energy facilities acquisition in the first quarter of 2014. Also contributing to the increase were higher expenses of $2.6 million at BNI Coal primarily due to higher salaries and repair expenses, which are recovered through the cost-plus fixed fee contract (See *Operating Revenue*.) and higher expenses at ALLETE Properties relating primarily to increased land sales and wetland mitigation bank credit sales.

Other income decreased $4.0 million from 2013 primarily due to gains on sales of investments in 2013.

Income Taxes – Consolidated

For the nine months ended September 30, 2014, the effective tax rate was 22.7 percent (22.1 percent for the nine months ended September 30, 2013). The effective tax rate deviated from the statutory rate of approximately 41 percent primarily due to deductions for AFUDC-Equity, investment tax credits, production tax credits and depletion. (See Note 11. Income Tax Expense.)

CRITICAL ACCOUNTING POLICIES

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, pension and postretirement health and life actuarial assumptions, impairment of long-lived assets 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 2013 Form 10-K.

OUTLOOK

For additional information see our 2013 Form 10-K.

ALLETE is an energy company committed to earning a financial return that rewards our shareholders, allows for reinvestment in our businesses and sustains growth. The Company has a key long-term objective of achieving minimum average earnings per share growth of 5 percent per year (using 2013 as a base year) and maintaining a competitive dividend payout. To accomplish this, Minnesota Power will continue to pursue customer growth opportunities and cost recovery rider approval for environmental, renewable and transmission investments, as well as work with legislators and regulators to earn a fair rate of return. In addition, ALLETE expects to pursue new energy-centric initiatives that provide long-term earnings growth potential and balance our exposure to global business cycles and changing demand. The new energy-centric pursuits will be in renewable energy, energy transmission and other energy-related infrastructure or infrastructure services.

We believe that, over the long-term, less carbon intensive and more sustainable energy sources will play an increasingly important role in our nation's energy mix. Minnesota Power has developed renewable resources which will be used to meet regulated renewable supply requirements and is adding another 205 MW at the Bison Wind Energy Center. (See Regulated Operations – *Renewable Energy.*) In addition, in 2011, we established ALLETE Clean Energy, a wholly-owned subsidiary of ALLETE. ALLETE Clean Energy operates independently of Minnesota Power to develop or acquire capital projects aimed at creating energy solutions via wind, solar, biomass, midstream gas and oil infrastructure, among other energy-related projects. In January 2014, ALLETE Clean Energy acquired three wind energy facilities with existing long-term PPAs. ALLETE Clean Energy intends to transact business with electric utilities, cooperatives, municipalities, independent power marketers and large end-users across North America through long-term contracts or other sale arrangements, and will be subject to applicable state and federal regulatory approvals.

We plan to make investments in transmission opportunities that strengthen or enhance the transmission grid or take advantage of our geographical location between sources of renewable energy and end users. This includes the GNTL, the CapX2020 initiative, investments to enhance our own transmission facilities, investments in other transmission assets (individually or in combination with others), and our investment in ATC. Transmission investments could be made by Minnesota Power or a subsidiary of ALLETE. (See Regulated Operations – *Transmission*.)

North American energy trends continue to evolve, and may be impacted by emerging technological, environmental, and demand changes. We believe this may create opportunity, and we are exploring investing in other energy-centric businesses related to energy infrastructure and infrastructure services. Our investment criteria focuses on investments with recurring or contractual revenues, differentiated offerings and reasonable barriers to entry. In addition, investments would typically support ALLETE's investment grade credit metrics and dividend policy.

Regulated Operations. Minnesota Power's long-term strategy is to be the leading electric energy provider in northeastern Minnesota by providing safe, reliable and cost-competitive electric energy, while complying with environmental permit conditions and renewable requirements. Keeping the cost of energy production competitive enables Minnesota Power to effectively compete in the wholesale power markets and minimizes retail rate increases to help maintain customer viability. 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. (See Regulated Operations – *EnergyForward.*) We will monitor and review proposed environmental regulations and may challenge those that add considerable cost with limited environmental benefit. Minnesota Power will continue to pursue customer growth opportunities and cost recovery rider approval for environmental, renewable and transmission investments, as well as work with legislators and regulators to earn a fair rate of return. We project that Minnesota Power will not earn its allowed rate of return in 2014.

Regulatory Matters. Entities within our Regulated Operations segment are under the jurisdiction of the MPUC, the FERC, or the PSCW. See Note 7. Regulatory Matters for discussion of regulatory matters within our Minnesota, FERC, and Wisconsin jurisdictions.

Industrial Customers. Electric power is one of several key inputs in the taconite mining, iron concentrate, paper, pulp and wood products, and pipeline industries. Approximately 54 percent of our Regulated Utility kWh sales in the nine months ended September 30, 2014 (55 percent in the nine months ended September 30, 2013) were made to our industrial customers in these industries.

Minnesota Power provides electric service to five taconite customers capable of producing up to approximately 41 million tons of taconite pellets annually. Taconite pellets produced in Minnesota are primarily shipped to North American steel making facilities that are part of the integrated steel industry. Steel produced from these North American facilities is used primarily in the manufacture of automobiles, appliances, pipe and tube products for the gas and oil industry, and in the construction industry. Historically, less than five percent of Minnesota taconite production is exported outside of North America.

There has been a general historical correlation between U.S. steel production and Minnesota taconite production. The World Steel Association, an association of approximately 170 steel producers, national and regional steel industry associations, and steel research institutes representing around 85 percent of world steel production, projected U.S. steel consumption in 2014 will be similar to 2013. The American Iron and Steel Institute (AISI), an association of North American steel producers, reported that U.S. raw steel production operated at approximately 77 percent of capacity during the first nine months of 2014 and 2013. Based on these projections, 2014 taconite production levels in Minnesota are expected to be similar to 2013.

Prospective Additional Load. Minnesota Power is pursuing new wholesale and retail loads in and around its service territory. Currently, several companies in northeastern Minnesota continue to progress in the development of natural resource based projects that represent long-term growth potential and load diversity for Minnesota Power. These potential projects are in the ferrous and non-ferrous mining and pipelines and include Essar Steel Minnesota LLC (Essar), PolyMet, Magnetation, LLC, and Enbridge, Inc. We cannot predict the outcome of these projects.

Nashwauk Public Utilities Commission. In April 2014, the Company amended its formula-based wholesale electric sales agreement with the Nashwauk Public Utilities Commission for all of its electric service requirements, extending the term through June 30, 2026. A new Essar taconite facility is currently under construction in the City of Nashwauk, and the Nashwauk Public Utilities Commission also amended and extended its electric service agreement with Essar. Upon completion, this facility would result in approximately 110 MW of additional load for Minnesota Power. In October 2014, Essar announced the completion of project financing and stated that initial pellet production would commence in the second half of 2015. Expansions for additional pellet production, production of direct reduced iron and production of steel slabs are also being considered by Essar for future years.

PolyMet. Minnesota Power has executed a long-term contract with PolyMet, which is planning to start a new copper-nickel and precious metal (non-ferrous) mining operation in northeastern Minnesota. PolyMet began work on a Supplemental Draft Environmental Impact Statement (SDEIS) in 2010. The SDEIS addressed environmental issues, including those dealing with the land exchange between PolyMet and the U.S. Forest Service (USFS), which is critical to the mine site development. In December 2013, the Minnesota DNR released PolyMet's SDEIS. The Minnesota Department of Natural Resources has estimated that the SDEIS process could be completed in the first half of 2015. Minnesota Power could begin to supply between 45 MW and 50 MW of load through a 10-year power supply contract period that would begin upon start-up of the mining operations.

Magnetation. Magnetation produces iron ore concentrate from low-grade natural ore tailing basins, already mined stockpiles and newly mined iron formations. Magnetation's facility near Taconite, Minnesota is fully operational. Construction is underway at their newest concentrate facility near Coleraine, Minnesota, with production expected to commence during the first quarter of 2015. On January 27, 2014, Minnesota Power and Magnetation entered into a new ten-year electric service agreement, which was approved by the MPUC on May 1, 2014, for its facility near Coleraine, Minnesota. This agreement is effective through at least December 31, 2025. In addition, a transmission service extension is required to be constructed by Minnesota Power and is expected to be complete in the fourth quarter of 2014. On June 19, 2014, Minnesota Power received MPUC approval of a transmission route for the service extension, and permits were received on July 2, 2014. Minnesota Power expects to supply approximately 20 MW of power to this new facility, making it a Large Power Customer of Minnesota Power. The new facility is expected to supply iron ore concentrate to Magnetation's new pellet plant in Reynolds, Indiana, which is designed to produce about 3 million tons of taconite pellets annually for AK Steel. On September 29, 2014, Magnetation announced the Reynolds pellet plant commenced production.

EnergyForward. In January 2013, Minnesota Power announced "EnergyForward", a strategic plan for assuring reliability, protecting affordability and further improving environmental performance. The plan includes completed and planned investments in wind and hydroelectric power, the addition of natural gas as a generation fuel source, and the installation of emissions control technology. Significant elements of the "EnergyForward" plan include:

- Major wind investments in North Dakota. Our Bison Wind Energy Center has 292 MW of nameplate capacity with an additional 205 MW under construction. (See *Renewable Energy.*)
- Planned installation of approximately $300 million in emissions control technology at our Boswell Unit 4 to further reduce emissions of SO_2, particulates and mercury. (See *Boswell Mercury Emission Reduction Plan.*)
- Planning for the proposed GNTL to deliver hydroelectric power from northern Manitoba by 2020. (See *Transmission.*)
- The conversion of Laskin from coal to natural gas in the second quarter of 2015.
- Retiring Taconite Harbor Unit 3, one of three coal-fired units at Taconite Harbor, in the second quarter of 2015.

Our "EnergyForward" initiatives were included in Minnesota Power's 2013 Integrated Resource Plan, which was approved by the MPUC in a November 2013 order. (See *Integrated Resource Plan.*)

Boswell Mercury Emissions Reduction Plan. Minnesota Power is implementing a mercury emissions reduction project for Boswell Unit 4 in order to comply with the Minnesota Mercury Emissions Reduction Act and the Federal MATS rule. In August 2012, Minnesota Power filed its mercury emissions reduction plan for Boswell Unit 4 with the MPUC and the MPCA. The plan proposes that Minnesota Power install pollution controls by early 2016 to address both the Minnesota Mercury Emissions Reduction Act requirements and the Federal MATS rule. Costs to implement the Boswell Unit 4 mercury emissions reduction plan are included in the estimated capital expenditures required for compliance with the MATS rule and are estimated to be approximately $250 million, of which $120 million was spent through September 30, 2014. In November 2013, the MPUC issued an order approving the Boswell Unit 4 mercury emissions reduction plan and cost recovery, establishing an environmental improvement rider. Also in November 2013, environmental intervenors filed a petition for reconsideration with the MPUC which was subsequently denied in an order dated January 17, 2014. Intervenors have appealed this order and the Company has filed a response to the appeal. The Minnesota Court of Appeals heard oral argument in September 2014 with a decision expected before the end of 2014. In December 2013, Minnesota Power filed a petition with the MPUC to establish customer billing rates for the approved environmental improvement rider based on actual and estimated investments and expenditures, which was approved in an order dated July 2, 2014.

Renewable Energy. In February 2007, Minnesota enacted a law requiring 25 percent of Minnesota Power's total retail and municipal energy sales in Minnesota to be 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. 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. Minnesota Power met the 2012 milestone and has developed a plan to meet the future renewable milestones which is included in its 2013 Integrated Resource Plan. Minnesota Power's 2013 Integrated Resource Plan, which was approved by the MPUC in a November 2013 order, included an update on its plans and progress in meeting the Minnesota renewable energy milestones through 2025. (See *EnergyForward*.)

Minnesota Power continues to execute its renewable energy strategy through key renewable projects that will ensure we meet the identified state mandate at the lowest cost for customers. We expect 18 percent of the Company's total retail and municipal energy sales will be supplied by renewable energy sources in 2014.

Wind Energy. Our wind energy facilities consist of the 292 MW Bison Wind Energy Center located in North Dakota and the 25 MW Taconite Ridge Energy Center located in northeastern Minnesota. We also have two long-term wind PPAs with an affiliate of NextEra Energy, Inc. to purchase the output from Oliver Wind I (50 MW) and Oliver Wind II (48 MW) located in North Dakota. We have also commenced construction of Bison 4, a 205 MW wind project in North Dakota, which is an addition to our Bison Wind Energy Center. The total project investment for Bison 4 is estimated to be approximately $345 million, of which $288 million was spent through September 30, 2014. The Bison 4 wind project is expected to be completed by the end of 2014.

Customer billing rates for our Bison Wind Energy Center were approved by the MPUC in a December 2013 order. On January 17, 2014, the MPUC approved Minnesota Power's petition seeking cost recovery for investments and expenditures related to Bison 4. We included Bison 4 as part of our renewable resources rider factor filing along with the Company's other renewable projects in a filing on April 29, 2014, which, upon approval, will authorize updated rates to be included on customer bills.

Minnesota Power uses the 465-mile, 250 kV DC transmission line that runs from Center, North Dakota, to Duluth, Minnesota to transport increasing amounts of wind energy from North Dakota while gradually phasing out coal-based electricity delivered to our system over this transmission line from Square Butte's lignite coal-fired generating unit. The DC transmission line capacity can be increased if renewable energy or transmission needs justify investments to upgrade the line.

Manitoba Hydro. Minnesota Power has a long-term PPA with Manitoba Hydro that expires in May 2020. Under this agreement, Minnesota Power is purchasing 50 MW of capacity and the energy associated with that capacity. Both the capacity price and the energy price are adjusted annually by the change in a governmental inflationary index. In addition, Minnesota Power has a separate long-term PPA with Manitoba Hydro to purchase surplus energy through April 2022. This energy-only agreement primarily consists of surplus hydro energy on Manitoba Hydro's system that is delivered to Minnesota Power on a non-firm basis. The pricing is based on forward market prices. Under this agreement, Minnesota Power will purchase at least one million MWh of energy over the contract term.

In May 2011, Minnesota Power and Manitoba Hydro signed an additional long-term PPA. The PPA provides for Manitoba Hydro to sell 250 MW of capacity and energy to Minnesota Power for 15 years beginning in 2020. The agreement is subject to construction of additional transmission capacity between Manitoba and the U.S., along with construction of new hydroelectric generating capacity in Manitoba. The capacity price is adjusted annually until 2020 by a change in a governmental inflationary index. The energy price is based on a formula that includes an annual fixed price component adjusted for a change in a governmental inflationary index and a natural gas index, as well as market prices. (See *Transmission*.)

In July 2014, Minnesota Power and Manitoba Hydro signed a long-term PPA that provides for Manitoba Hydro to sell up to 133 MW of energy to Minnesota Power for 20 years beginning in 2020. The agreement is subject to MPUC approval and the construction of the GNTL.

Hydro Operations. In June 2012, record rainfall and flooding occurred near Duluth, Minnesota and surrounding areas. The flooding impacted Minnesota Power's St. Louis River hydro system, particularly Thomson, which had damage to the forebay canal and flooding at the facility. Minnesota Power worked closely with the appropriate regulatory bodies which oversee the hydro system operations, including dams and reservoirs, to restore Thomson and to rebuild the forebay embankment. The forebay rebuild is complete and Minnesota Power commenced filing the forebay canal on October 9, 2014. Minnesota Power continues restoration and upgrade work at the Thomson facility and anticipates partial generation at Thomson in the fourth quarter of 2014. Work is ongoing towards returning to full generation early in 2015 and improving the spillway capacity at the Thomson dam in 2015. Total project costs are estimated to be approximately $90 million, of which $80 million, net of insurance, was spent through September 30, 2014. A request seeking cost recovery of investments and expenditures related to the restoration and repair of Thomson through a renewable resources rider was filed with the MPUC on July 3, 2014.

Minnesota Solar Energy Standard. In May 2013, legislation was enacted by the state of Minnesota requiring at least 1.5 percent of total retail electric sales, excluding sales to certain industrial customers, to be generated by solar energy by the end of 2020. At least 10 percent of the 1.5 percent mandate must be met by solar energy generated by or procured from solar photovoltaic devices with a nameplate capacity of 20 kilowatts or less. Minnesota Power is in the process of evaluating the potential impact of this legislation on our operations; however, any costs are expected to be recovered in customer rates.

Integrated Resource Plan. In a November 2013 order, the MPUC approved Minnesota Power's 2013 Integrated Resource Plan which details our "EnergyForward" strategic plan (see *EnergyForward*) and includes an analysis of a variety of existing and future energy resource alternatives and a projection of customer cost impact by class.

Transmission. We plan to make investments in transmission opportunities that strengthen or enhance the transmission grid or take advantage of our geographical location between sources of renewable energy and end users. These include the GNTL and the CapX2020 initiative, as well as investments to enhance our own transmission facilities, investments in other transmission assets (individually or in combination with others), 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, municipal 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.

Minnesota Power is currently participating in the construction of one CapX2020 transmission line project. Minnesota Power also participated in two CapX2020 projects which were previously completed and placed into service in 2011 and 2012. In June 2011, the MPUC approved the route permit for the Minnesota portion of the Fargo to St. Cloud project, which is currently under construction and expected to be in service by 2015. The North Dakota permitting process was completed in August 2012.

Based on projected costs of the three transmission line projects and the allocation agreements among participating utilities, in total, Minnesota Power plans to invest between $100 million and $110 million in the CapX2020 initiative through 2015, of which $98.0 million was spent through September 30, 2014. As future CapX2020 projects are identified, Minnesota Power may elect to participate on a project-by-project basis.

Great Northern Transmission Line (GNTL). As a condition of the long-term PPA signed in May 2011 with Manitoba Hydro, construction of additional transmission capacity is required. As a result, Minnesota Power and Manitoba Hydro proposed construction of the GNTL, an approximately 220-mile 500 kV transmission line, between Manitoba and Minnesota's Iron Range in order to strengthen the electric grid, enhance regional reliability and promote a greater exchange of sustainable energy.

The GNTL is subject to various federal and state regulatory approvals. In October 2013, a Certificate of Need application was filed with the MPUC with respect to the GNTL. In an order dated January 8, 2014, the MPUC determined the Certificate of Need application was complete and referred the docket to an administrative law judge for a contested case proceeding. On April 15, 2014, Minnesota Power filed a route permit application with the MPUC and a request for a presidential permit to cross the U.S.-Canadian border with the U.S. Department of Energy. In an order dated July 2, 2014, the MPUC determined the route permit application to be complete. Manitoba Hydro must also obtain regulatory and governmental approvals related to new transmission lines and hydroelectric generation development in Canada. Upon receipt of all applicable permits and approvals, construction is anticipated to begin in 2016, and to be completed in 2020. Total project cost in the U.S., including substation work, is estimated to be between $560 million and $710 million, depending on the final route of the line. Minnesota Power is expected to have majority ownership of the transmission line.

OUTLOOK (Continued)
Regulated Operations (Continued)

Investment in ATC. As of September 30, 2014, our equity investment in ATC was $120.7 million, representing an approximate 8 percent ownership interest. ATC rates are based on a FERC approved 12.2 percent return on common equity dedicated to utility plant. ATC’s 10-year transmission assessment, which covers the years 2014 through 2023, identifies a need for between $3.3 and $3.9 billion in transmission system investments. These investments by ATC are expected to be funded through a combination of internally generated cash, debt and investor contributions. As opportunities arise, we plan to make additional investments in ATC through general capital calls based upon our pro rata ownership interest in ATC. In the first nine months of 2014, we invested $3.1 million in ATC, and on October 30, 2014, we invested an additional $0.8 million. We do not expect to make any additional investments in 2014. (See Note 8. Investment in ATC.)

In November 2013, several customer groups located within the MISO service area filed a complaint with the FERC requesting, among other things, a reduction in the base return on equity used by MISO transmission owners, including ATC, to 9.15 percent. ATC's current authorized return on equity is 12.2 percent. Any change to ATC's return on equity and capital structure could result in lower equity earnings in ATC and dividends from ATC in the future. We own approximately 8 percent of ATC and estimate that for every 50 basis point reduction in ATC’s allowed return on equity our equity earnings in ATC would be impacted annually by approximately $0.5 million on an after-tax basis.

Investments and Other.

BNI Coal. BNI Coal anticipates selling approximately 4.0 million tons of coal in 2014 (3.7 million tons were sold in 2013) and has sold 2.8 million tons through September 30, 2014 (2.9 million tons were sold as of September 30, 2013). BNI Coal operates under cost-plus fixed fee agreements. On April 22, 2014, BNI Coal extended these agreements through December 31, 2037.

ALLETE Clean Energy. ALLETE Clean Energy aims to develop or acquire capital projects that create energy solutions via wind, solar, biomass, midstream gas and oil infrastructure, among other energy-related projects. On January 30, 2014, ALLETE Clean Energy acquired wind energy facilities located in Lake Benton, Minnesota (Lake Benton), Storm Lake, Iowa (Storm Lake) and Condon, Oregon (Condon) from The AES Corporation (AES) for $26.9 million. ALLETE Clean Energy also has an option to acquire a fourth wind energy facility from AES in Armenia Mountain, Pennsylvania (Armenia Mountain), in June 2015. The acquisition supports ALLETE’s strategy to pursue energy-centric initiatives through ALLETE Clean Energy, that include less carbon intensive and more sustainable energy sources.

Lake Benton, Storm Lake and Condon have 104 MW, 77 MW and 50 MW of generating capability, respectively. Lake Benton and Storm Lake began commercial operations in 1999, while Condon began operations in 2002. All three wind energy facilities have PPAs in place for their entire output, which expire in various years between 2019 and 2032. Pursuant to the acquisition agreement, ALLETE Clean Energy has an option to acquire the 101 MW Armenia Mountain wind energy facility in June 2015. Armenia Mountain began operations in 2009. (See Note 4. Acquisition.)

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, sell the portfolio when opportunities arise and reinvest the proceeds in our growth initiatives. Market conditions can impact land sales and could result in our inability to cover our operating expenses and fixed carrying costs such as community development district assessments and property taxes. ALLETE does not intend to acquire additional Florida real estate.

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

Summary of Development Projects (100% Owned)	Acres *(a)*	Residential Units *(b)*	Non-residential Sq. Ft. *(b, c)*
Current Development Projects			
Town Center	958	2,412	2,236,700
Palm Coast Park	3,777	3,554	3,096,800
Total Current Development Projects	4,735	5,966	5,333,500
Planned Development Project			
Ormond Crossings	2,914	2,950	3,215,000
Other			
Lake Swamp Wetland Mitigation Project	3,044	*(d)*	*(d)*
Total of Development Projects	**10,693**	**8,916**	**8,548,500**

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

In addition to the three development projects and the mitigation bank, ALLETE Properties has 1,710 acres of other land available-for-sale.

Income Taxes. ALLETE's aggregate federal and multi-state statutory tax rate is approximately 41 percent for 2014. On an ongoing basis, ALLETE has tax credits and other tax adjustments that reduce the statutory rate to the effective tax rate. These tax credits and adjustments historically have included items such as investment tax credits, renewable tax credits, AFUDC-Equity, depletion, as well as other items. The annual effective rate can also be impacted by such items as changes in income from operations 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. Due primarily to increased federal production tax credits as a result of wind generation, we expect our effective tax rate to be approximately 23 percent for 2014. We also expect that our effective tax rate will be lower than the statutory rate over the next ten years due to production tax credits attributable to our wind generation. (See Note 11. Income Tax Expense.)

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Position. ALLETE is well-positioned to meet the Company's liquidity needs. As of September 30, 2014, we had cash and cash equivalents of $150.5 million, $400 million in available consolidated lines of credit and a debt-to-capital ratio of 47 percent.

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

	September 30, 2014	%	December 31, 2013	%
Millions				
ALLETE Equity	$1,529.2	53	$1,342.9	55
Non-Controlling Interest	1.5	—	—	—
Long-Term Debt (Including Current Maturities)	1,374.5	47	1,110.2	45
Short-Term Debt	2.7	—	—	—
	$2,907.9	100	$2,453.1	100

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

For the Nine Months Ended September 30,	2014	2013
Millions		
Cash and Cash Equivalents at Beginning of Period	$97.3	$80.8
Cash Flows from (used for)		
Operating Activities	212.1	188.9
Investing Activities	(458.5)	(195.0)
Financing Activities	299.6	89.8
Change in Cash and Cash Equivalents	53.2	83.7
Cash and Cash Equivalents at End of Period	$150.5	$164.5

Operating Activities. Cash from operating activities was $212.1 million for the nine months ended September 30, 2014 ($188.9 million for the nine months ended September 30, 2013). Cash from operating activities was higher in 2014 primarily due to cash contributions of $10.8 million in 2013 to other postretirement benefit plans and higher receipts on accounts receivable, which were partially offset by increased fuel inventory purchases.

Investing Activities. Cash used for investing activities was $458.5 million for the nine months ended September 30, 2014 ($195.0 million for the nine months ended September 30, 2013). The increase in cash used for investing activities was primarily due to higher capital expenditures in 2014, and the ALLETE Clean Energy wind energy facilities acquisition in January 2014, partially offset by a transfer of cash included in Other Investments to Cash and Cash Equivalents.

Financing Activities. Cash from financing activities was $299.6 million for the nine months ended September 30, 2014 ($89.8 million for the nine months ended September 30, 2013). The increase in cash from financing activities was primarily due to proceeds from the issuance of long-term debt throughout 2014 and the issuance of common stock in 2014, partially offset by the redemption of $111.0 million pollution control bonds in July 2014.

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, 2014, we had available consolidated bank lines of credit aggregating $400.3 million ($399.5 million available as of September 30, 2013), the majority of which expire in November 2018. In addition, as of September 30, 2014, we had 2.2 million original issue shares of our common stock available for issuance through Invest Direct, our direct stock purchase and dividend reinvestment plan, 2.6 million original issue shares of common stock available for issuance through a distribution agreement with Lampert Capital Markets, Inc. and 1.4 million original issue shares of common stock available for issuance under a forward sale agreement. (See *Securities.*) The amount and timing of future sales of our securities will depend upon market conditions and our specific needs.

Securities. We entered into a distribution agreement with Lampert Capital Markets, Inc., in February 2008, as amended most recently in May 2014, with respect to the issuance and sale of up to an aggregate of 9.6 million shares of our common stock, without par value, of which 2.6 million remain available for issuance. For the nine months ended September 30, 2014, 0.6 million shares of common stock were issued under this agreement, resulting in net proceeds of $26.9 million (0.7 million shares were issued for the nine months ended September 30, 2013, resulting in net proceeds of $35.6 million). The shares sold in 2013 through August 1, 2013, were offered and sold pursuant to Registration Statement No. 333-170289. On August 2, 2013, we filed Registration Statement No. 333-190335, pursuant to which the remaining shares will continue to be offered for sale, from time to time.

During the nine months ended September 30, 2014, we issued 0.3 million shares of common stock through Invest Direct, the Employee Stock Purchase Plan, and the Retirement Savings and Stock Ownership Plan, resulting in net proceeds of $16.8 million (0.6 million shares were issued for net proceeds of $27.7 million during the nine months ended September 30, 2013). These shares of common stock were registered under Registration Statement Nos. 333-188315, 333-183051 and 333-162890.

On January 10, 2014, ALLETE contributed 0.4 million shares of ALLETE common stock to its pension plan. These shares of ALLETE common stock were contributed in reliance upon an exemption available pursuant to Section 4(a)(2) of the Securities Act of 1933 and had an aggregate value of $19.5 million when contributed.

On February 26, 2014, ALLETE entered into a confirmation of forward sale agreement (Agreement) with a forward counterparty in connection with a public offering of 2.8 million shares of ALLETE common stock. Pursuant to the Agreement, the forward counterparty (or its affiliate) borrowed 2.8 million shares of ALLETE common stock from third parties and sold them to the underwriters. ALLETE has right to elect physical, cash or net share settlement under the forward sales agreement, for all or a portion of its obligations under the Agreement. In the event that ALLETE elects physical settlement of the Agreement, it will deliver shares of its common stock in exchange for cash proceeds at the then-applicable forward sale price. The forward sale price is initially $48.01 per share, subject to adjustment as provided in the Agreement. The Agreement provides for settlement at any time on or prior to March 1, 2015. ALLETE expects to physically settle the Agreement in its entirety by delivering 2.8 million shares of its common stock. As of September 30, 2014, ALLETE has physically settled a portion of its obligations under the Agreement by having delivered approximately 1.4 million shares of common stock on September 5, 2014 in exchange for cash proceeds of $65.0 million.

In connection with the public offering of the 2.8 million shares, ALLETE granted the underwriters an option to purchase up to an additional 0.4 million shares of ALLETE common stock (the option shares). The underwriters exercised the option in full and on March 4, 2014, the Company issued and sold the option shares to the underwriters at a price to ALLETE equal to the initial forward sale price for proceeds of $20.2 million.

During the first nine months of 2014, we issued $375.0 million of ALLETE first mortgage bonds (Bonds) in the private placement market in seven series. The Company intends to use the proceeds from the sale of the Bonds to refinance debt, fund utility capital expenditures and/or for general corporate purposes. (See Note 9. Short-Term and Long-Term Debt.)

On July 1, 2014, we redeemed $111.0 million of pollution control bonds, at par, which were due on July 1, 2022.

Financial Covenants. See Note 9. Short-Term and Long-Term Debt for information regarding our financial covenants.

Pension and Other Postretirement Benefit Plans. Management considers various factors when making funding decisions, such as regulatory requirements, actuarially determined minimum contribution requirements and contributions required to avoid benefit restrictions for the defined benefit pension plans. On January 10, 2014, we contributed $19.5 million to our defined benefit pension plan, all of which was contributed in shares of ALLETE common stock. We do not expect to make any additional contributions to our defined benefit pension plan in 2014, and we do not expect to make any contributions to our other postretirement benefit plan in 2014. (See Note 14. Pension and Other Postretirement Benefit Plans.)

Off-Balance Sheet Arrangements.

Off-balance sheet arrangements are summarized in our 2013 Form 10-K, with additional disclosure in Note 15. Commitments, Guarantees and Contingencies.

Capital Requirements.

Our capital expenditures for 2014 are expected to be approximately $640 million. For the nine months ended September 30, 2014, capital expenditures totaled $467.6 million ($186.4 million for the nine months ended September 30, 2013). The expenditures were primarily made in the Regulated Operations segment.

Our 2014 projected capital expenditures include significant investments in environmental upgrades (see Outlook – Boswell Mercury Emissions Reduction Plan) and renewable energy. (See Outlook – Renewable Energy – Wind Energy.) Our 2014 capital expenditures are expected to be incurred ratably over the four quarters of 2014. We are well positioned to meet our financing needs due to adequate operating cash flows, available additional working capital, and access to capital markets. We will finance capital expenditures from a combination of internally generated funds and debt and equity issuance proceeds. We intend to maintain a capital structure with capital ratios near current levels. (See Liquidity and Capital Resources – Capital Structure.)

OTHER

Environmental Matters.

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. 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. Environmental Matters are summarized in our 2013 Form 10-K, with additional disclosure in Note 15. Commitments, Guarantees and Contingencies.

Employees.

Minnesota Power and SWL&P have an aggregate of 597 employees who are members of the International Brotherhood of Electrical Workers (IBEW) Local 31. The current labor agreements with IBEW Local 31 expire on January 31, 2018.

BNI Coal has 172 employees, of which 126 are members of IBEW Local 1593. The current labor agreement with IBEW Local 1593 expires on March 31, 2019.

NEW ACCOUNTING STANDARDS

New accounting standards are discussed in Note 1. Operations and Significant Accounting Policies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SECURITIES INVESTMENTS

Available-for-Sale Securities. At September 30, 2014, our available-for-sale securities portfolio consisted primarily of securities established to fund certain employee benefits. (See Note 3. Investments.)

COMMODITY PRICE RISK

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

POWER MARKETING

Our power marketing activities consist of: (1) purchasing energy in the wholesale market to serve our regulated service territory when 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 municipal customers in our regulated service territory. We actively sell any excess energy to the wholesale market to optimize the value of our generating facilities.

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

INTEREST RATE RISK

We are exposed to risks resulting from changes in interest rates as a result of our issuance of variable rate debt. We manage our interest rate risk by varying the issuance and maturity dates of our fixed rate debt, limiting the amount of variable rate debt, and continually monitoring the effects of market changes in interest rates. We may also enter into derivative financial instruments, such as interest rate swaps, to mitigate interest rate exposure. Interest rates on variable rate long-term debt are reset on a periodic basis reflecting prevailing market conditions. Based on the variable rate debt outstanding at September 30, 2014, and assuming no other changes to our financial structure, an increase of 100 basis points in interest rates would impact the amount of pretax interest expense by $0.6 million. This amount was determined by considering the impact of a hypothetical 100 basis point increase to the average variable interest rate on the variable rate debt outstanding as of September 30, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of September 30, 2014, evaluations were performed, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of ALLETE's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (Exchange Act)). Based upon those evaluations, our principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are effective to provide assurance that information required to be disclosed in ALLETE's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls. There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The Company is undergoing a project with the objective of improving customer information systems. The focus of the project is the upgrade and addition of certain customer information applications; these changes are not the result of any identified deficiencies in our internal control over financial reporting. The Company expects the project to result in greater efficiencies and enhance the processes used by employees to track power consumption, invoice customers, process payments, and analyze data. Implementation is expected in the first half of 2015.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding material legal and regulatory proceedings, see Note 5. Regulatory Matters and Note 12. Commitments, Guarantees and Contingencies to our Consolidated Financial Statements in the 2013 Form 10-K and Note 7. Regulatory Matters and Note 15. Commitments, Guarantees and Contingencies herein. Such information is incorporated herein by reference.

United Taconite Lawsuit. In January 2011, the Company was named as a defendant in a lawsuit in the Sixth Judicial District for the State of Minnesota by one of our customer's (United Taconite, LLC) property and business interruption insurers. In October 2006, United Taconite experienced a fire as a result of the failure of certain electrical protective equipment. The equipment at issue in the incident was not owned, designed, or installed by Minnesota Power, but Minnesota Power had provided testing and calibration services related to the equipment. The lawsuit alleged approximately $20 million in damages related to the fire. In response to a Motion for Summary Judgment by Minnesota Power, the Sixth Judicial District for the State of Minnesota dismissed all of plaintiffs' claims in an August 2013 order. The District Court's decision was affirmed by the Minnesota Court of Appeals on August 4, 2014. On October 14, 2014, the Minnesota Supreme Court denied further review.

Notice of Potential Clean Air Act Citizen Lawsuit. In July 2013, the Sierra Club submitted to Minnesota Power a notice of intent to file a citizen suit under the Clean Air Act, which it supplemented in March 2014. This notice of intent alleged violations of opacity and other permit requirements at our Boswell, Laskin, and Taconite Harbor energy centers. Minnesota Power intends to vigorously defend any lawsuit that may be filed by the Sierra Club. We are unable to predict the outcome of this matter. Accordingly, an accrual related to any damages that may result from the notice of intent has not been recorded as of September 30, 2014, because a potential loss is not currently probable or reasonably estimable.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part 1, Item 1A Risk Factors of our 2013 Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires issuers to include in periodic reports filed with the SEC certain information relating to citations or orders for violations of standards under the Federal Mine Safety and Health Act of 1977 (Mine Safety Act). Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Act and this Item are included in Exhibit 95 to this Form 10-Q.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	
4	Thirty-seventh Supplemental Indenture, dated as of September 1, 2014, between ALLETE, Inc. and The Bank of New York Mellon, as corporate trustee, and Philip L. Watson, as co-trustee.
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 the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
95	Mine Safety
99	ALLETE News Release dated November 3, 2014, announcing 2014 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
101.SCH	XBRL Schema
101.CAL	XBRL Calculation
101.DEF	XBRL Definition
101.LAB	XBRL Label
101.PRE	XBRL Presentation

SIGNATURES

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

ALLETE, INC.

November 3, 2014

/s/ Steven Q. DeVinck

Steven Q. DeVinck
Senior Vice President and Chief Financial Officer

November 3, 2014

/s/ Steven W. Morris

Steven W. Morris
Controller

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

PHILIP L. WATSON
(successor to Richard H. West, J. A. Austin, E. J. McCabe,

D. W. May, J. A. Vaughan, W. T. Cunningham, Douglas J. MacInnes and Ming Ryan)

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

Thirty-seventh Supplemental Indenture

Providing, among other things, for

First Mortgage Bonds, 3.02% Series due September 15, 2021

(Fifty-second Series),

First Mortgage Bonds, 3.74% Series due September 15, 2029

(Fifty-third Series)

and

First Mortgage Bonds, 4.39% Series due September 15, 2044
(Fifty-fourth Series)

Dated as of September 1, 2014

THIRTY-SEVENTH SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of September 1, 2014, 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 PHILIP L. WATSON (successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May, J. A. Vaughan, W. T. Cunningham, Douglas J. MacInnes and Ming Ryan), whose post office address is c/o The Bank of New York Mellon, 101 Barclay Street, New York, New York 10286 (said Philip L. Watson 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, 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-seventh 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, under the Thirty-second Supplemental Indenture, dated as of August 1, 2010, to which reference is hereinafter made, Ming Ryan in turn succeeded Douglas J. MacInnes as Co-Trustee under the Mortgage; and

WHEREAS, an instrument, dated as of August 1, 2012, was executed and delivered under which Philip L. Watson in turn succeeded Ming Ryan as Co-Trustee under the Mortgage effective at the close of business on August 6, 2012, and such instrument was filed and recorded in various official records in the State of Minnesota; and

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

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

Designation	**Dated as of**
First Supplemental Indenture	March 1, 1949
Second Supplemental Indenture	July 1, 1951
Third Supplemental Indenture	March 1, 1957
Fourth Supplemental Indenture	January 1, 1968
Fifth Supplemental Indenture	April 1, 1971
Sixth Supplemental Indenture	August 1, 1975
Seventh Supplemental Indenture	September 1, 1976
Eighth Supplemental Indenture	September 1, 1977
Ninth Supplemental Indenture	April 1, 1978
Tenth Supplemental Indenture	August 1, 1978
Eleventh Supplemental Indenture	December 1, 1982
Twelfth Supplemental Indenture	April 1, 1987
Thirteenth Supplemental Indenture	March 1, 1992
Fourteenth Supplemental Indenture	June 1, 1992
Fifteenth Supplemental Indenture	July 1, 1992
Sixteenth Supplemental Indenture	July 1, 1992
Seventeenth Supplemental Indenture	February 1, 1993
Eighteenth Supplemental Indenture	July 1, 1993
Nineteenth Supplemental Indenture	February 1, 1997
Twentieth Supplemental Indenture	November 1, 1997
Twenty-first Supplemental Indenture	October 1, 2000
Twenty-second Supplemental Indenture	July 1, 2003
Twenty-third Supplemental Indenture	August 1, 2004
Twenty-fourth Supplemental Indenture	March 1, 2005
Twenty-fifth Supplemental Indenture	December 1, 2005
Twenty-sixth Supplemental Indenture	October 1, 2006
Twenty-seventh Supplemental Indenture	February 1, 2008
Twenty-eighth Supplemental Indenture	May 1, 2008
Twenty-ninth Supplemental Indenture	November 1, 2008
Thirtieth Supplemental Indenture	January 1, 2009
Thirty-first Supplemental Indenture	February 1, 2010
Thirty-second Supplemental Indenture	August 1, 2010
Thirty-third Supplemental Indenture	July 1, 2012
Thirty-fourth Supplemental Indenture	April 1, 2013
Thirty-fifth Supplemental Indenture	March 1, 2014
Thirty-sixth Supplemental Indenture	June 1, 2014

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

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

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

Series	Principal Amount Issued	Principal Amount Outstanding
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
4.90% Series due October 15, 2025	30,000,000	30,000,000
5.82% Series due April 15, 2040	45,000,000	45,000,000
3.20% Series due July 15, 2026	75,000,000	75,000,000
4.08% Series due July 15, 2042	85,000,000	85,000,000
1.83% Series due April 15, 2018	50,000,000	50,000,000
3.30% Series due October 15, 2028	40,000,000	40,000,000
4.21% Series due October 15, 2043	60,000,000	60,000,000
3.69% Series due March 15, 2024	60,000,000	60,000,000
4.95% Series due March 15, 2044	40,000,000	40,000,000
3.40% Series due July 15, 2022	75,000,000	75,000,000
5.05% Series due July 15, 2044	40,000,000	40,000,000

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

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

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

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

WHEREAS, the execution and delivery by the Company of this Thirty-seventh Supplemental Indenture, and the terms of the bonds of the Fifty-second Series, the Fifty-third Series and the Fifty-fourth Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That the Company, in consideration of the premises and of One Dollar to it duly paid by the Trustees at or before the ensealing 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 Philip L. Watson, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all property, real, personal and mixed, of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind or nature acquired by the Company after the date of the execution and delivery of the Mortgage, as heretofore supplemented (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or, subject to the provisions of subsection (I) of Section 87 of the Mortgage, hereafter acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Thirty-seventh Supplemental Indenture) all lands, power sites, flowage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants for the generation of electricity by steam, water and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water works, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, electric, gas and other machines, regulators, meters, transformers, generators, motors, electrical, gas and mechanical appliances, conduits, cables, water, steam heat, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture and chattels; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of electric current, gas, steam heat or water for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

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

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

PROVIDED that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, hypothecated, affected, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this Thirty-seventh Supplemental Indenture and from the lien and operation of the Mortgage, namely: (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the Mortgage or covenanted so to be; (2) merchandise, equipment, apparatus, materials or supplies held for the purpose of sale or other disposition in the usual course of business; fuel, oil and similar materials and supplies consumable in the operation of any of the properties of the Company; all aircraft, rolling stock, trolley coaches, buses, motor coaches, automobiles and other vehicles and materials and supplies held for the purpose of repairing or replacing (in whole or part) any of the same; all timber, minerals, mineral rights and royalties; (3) bills, notes and accounts receivable, judgments, demands and choses in action, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the Company's contractual rights or other interest in or with respect to tires not owned by the Company; (4) the last day of the term of any lease or leasehold which may hereafter become subject to the lien of the Mortgage; (5) electric energy, gas, steam, ice, and other materials or products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; and (6) the Company's franchise to be a corporation; provided, however, that the property and rights expressly excepted from the lien and operation of this Thirty-seventh 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-seventh 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
Fifty-second Series of Bonds

SECTION 1. There shall be a series of bonds designated “3.02% Series due September 15, 2021” (herein sometimes referred to as the “Fifty-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 Fifty-second Series shall be dated as in Section 10 of the Mortgage provided, mature on September 15, 2021 (the “Fifty-second Series Stated Maturity”), 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 September 16, 2014 (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 3.02% per annum, payable semi-annually on March 15 and September 15 of each year, commencing March 15, 2015, 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 Fifty-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 Fifty-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.

(I) **Optional Prepayment.** At any time prior to March 15, 2021 (six months prior to the Fifty-second Series Stated Maturity) 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 Fifty-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 Fifty-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 (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 Fifty-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 Fifty-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.

At any time on or after March 15, 2021, the bonds of the Fifty-second series will be redeemable at the option of the Company, in whole or in part, on not less than 30 nor more than 60 days’ notice prior to the Settlement Date, at a redemption price equal to 100% of the principal amount of the bonds of the Fifty-second Series to be redeemed, plus accrued and unpaid interest thereon to the Settlement Date. The bonds of the Fifty-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 Fifty-second Series, the principal amount of the bonds of the Fifty-second Series to be prepaid shall be allocated by the Company among all of the bonds of the Fifty-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 Fifty-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 Fifty-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 Fifty-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 Fifty-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 Fifty-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 Fifty-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 Fifty-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 Fifty-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 Fifty-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 Fifty-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 Fifty-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 (I) of this section.

“Settlement Date” means, with respect to the Called Principal of any Bond of the Fifty-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 Fifty-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 unpaid principal amount of bonds of the same series of other authorized denominations.

Bonds of the Fifty-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 Fifty-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 Fifty-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 Fifty-second Series.

After the delivery of this Thirty-seventh 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 Fifty-second Series for the aggregate principal amount of $60,000,000.

ARTICLE II
Fifty-third Series of Bonds

SECTION 1. There shall be a series of bonds designated “3.74% Series due September 15, 2029” (herein sometimes referred to as the “Fifty-third 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 Fifty-third Series shall be dated as in Section 10 of the Mortgage provided, mature on September 15, 2029 (the “Fifty-third Series Stated Maturity”), 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 September 16, 2014 (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 3.74% per annum, payable semi-annually on March 15 and September 15 of each year, commencing March 15, 2015, 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 Fifty-third 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 Fifty-third 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.** At any time prior to March 15, 2029 (six months prior to the Fifty-third Series Stated Maturity) 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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.

At any time on or after March 15, 2029, the bonds of the Fifty-third series will be redeemable at the option of the Company, in whole or in part, on not less than 30 nor more than 60 days' notice prior to the Settlement Date, at a redemption price equal to 100% of the principal amount of the bonds of the Fifty-third Series to be redeemed, plus accrued and unpaid interest thereon to the Settlement Date. The bonds of the Fifty-third 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 Fifty-third Series, the principal amount of the bonds of the Fifty-third Series to be prepaid shall be allocated by the Company among all of the bonds of the Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third 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 unpaid principal amount of bonds of the same series of other authorized denominations.

Bonds of the Fifty-third 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 Fifty-third 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 Fifty-third 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 Fifty-third Series.

After the delivery of this Thirty-seventh 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 Fifty-third Series for the aggregate principal amount of $50,000,000.

ARTICLE III
Fifty-fourth Series of Bonds

SECTION 1. There shall be a series of bonds designated “4.39% Series due September 15, 2044” (herein sometimes referred to as the “Fifty-fourth 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 Fifty-fourth Series shall be dated as in Section 10 of the Mortgage provided, mature on September 15, 2044 (the “Fifty-fourth Series Stated Maturity”), 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 September 16, 2014 (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 4.39% per annum, payable semi-annually on March 15 and September 15 of each year, commencing March 15, 2015, 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 Fifty-fourth 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 Fifty-fourth 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.** At any time prior to March 15, 2044 (six months prior to the Fifty-fourth Series Stated Maturity) 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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.

At any time on or after March 15, 2044, the bonds of the Fifty-fourth series will be redeemable at the option of the Company, in whole or in part, on not less than 30 nor more than 60 days' notice prior to the Settlement Date, at a redemption price equal to 100% of the principal amount of the bonds of the Fifty-fourth Series to be redeemed, plus accrued and unpaid interest thereon to the Settlement Date. The bonds of the Fifty-fourth 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 Fifty-fourth Series, the principal amount of the bonds of the Fifty-fourth Series to be prepaid shall be allocated by the Company among all of the bonds of the Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 unpaid principal amount of bonds of the same series of other authorized denominations.

Bonds of the Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth 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 Fifty-fourth Series.

After the delivery of this Thirty-seventh 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 Fifty-fourth Series for the aggregate principal amount of $50,000,000.

ARTICLE IV
Consent to Amendments

SECTION 1. Consent to Amendments Each initial and future holder of bonds of the Fifty-second Series, the Fifty-third Series and the Fifty-fourth Series, by its acquisition of an interest in such bonds, irrevocably (a) consents to the amendments set forth in Article IV of the Thirty-first Supplemental Indenture, dated as of February 1, 2010, 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 Fifty-second Series, the Fifty-third Series, the Fifty-fourth 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 VI
Miscellaneous Provisions

SECTION 1. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words "and September 15, 2021, September 15, 2029 and September 15, 2044" after the words "and July 15, 2022 and July 15, 2044."

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

SECTION 3. The holders of bonds of the Fifty-second Series, the Fifty-third Series and the Fifty-fourth 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 Fifty-second Series, the Fifty-third Series and the Fifty-fourth 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-seventh 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-seventh 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-seventh Supplemental Indenture.

SECTION 5. Whenever in this Thirty-seventh 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-seventh 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-seventh 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-seventh Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Thirty-seventh 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-seventh 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-seventh 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 Philip L. Watson has hereunto set his hand and affixed his seal, all in The City of New York, as of the day and year first above written.

ALLETE, Inc.

By /s/ Steven Q. DeVinck
Steven Q. DeVinck
Chief Financial Officer and
Senior Vice President-Business Support

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

Trustees' Signature Page Follows

The Bank of New York Mellon,
as Trustee

By /s/ Laurence J. O'Brien
Laurence J. O'Brien
Vice President

Attest: /s/ Thomas Hacker
Thomas Hacker
Vice President

/s/ Philip L. Watson L.S.
Philip L. Watson

Executed, sealed and delivered by The Bank of New York Mellon and Philip L. Watson in the presence of:

/s/ Arsala Kidwal

/s/ Glenn G. McKeever

Thirty-seventh Supplemental Indenture dated as of September 1, 2014
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 5th day of September, 2014, the foregoing instrument was acknowledged before me by Steven Q. DeVinck, Chief Financial Officer and Senior Vice President-Business Support of ALLETE, Inc., a Minnesota corporation, on behalf of the Company.

NOTARIAL STAMP OR SEAL

/s/ Jodi M. Nash
Jodi M. Nash
Notary Public - Minnesota
My Commission Expires Jan. 31, 2020

STATE OF MINNESOTA)
) SS
COUNTY OF ST. LOUIS)

On this 5th day of September, 2014, the foregoing instrument was acknowledged before me by Deborah A. Amberg, Senior Vice President, General Counsel and Secretary of ALLETE, Inc., a Minnesota corporation, on behalf of the Company.

NOTARIAL STAMP OR SEAL

/s/ Jodi M. Nash
Jodi M. Nash
Notary Public - Minnesota
My Commission Expires Jan. 31, 2020

State of New York)
) SS:
County of New York)

On this 4th day of September, 2014, the foregoing instrument was acknowledged before me by Laurance O'Brien and Thomas Hacker, the Vice President and Vice President, respectively, of The Bank of New York Mellon, the corporation named in the foregoing instrument.

Given under my hand and notarial seal this 4th day of September, 2014.

/s/ Danny Lee
Danny Lee, Notary Public
State of New York, NO. 01LE6161129
Qualified in New York County
Commission Expires February 20, 2015

State of New York)
) SS:
County of New York)

On this 4th day of September, 2014, the foregoing instrument was acknowledged before me by Philip L. Watson, the person described in and who executed the foregoing instrument.

Given under my hand and notarial seal this 4th day of September, 2014.

/s/ Danny Lee
Danny Lee, Notary Public
State of New York, NO. 01LE6161129
Qualified in New York County
Commission Expires February 20, 2015

Exhibit 31(a)

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

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

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2014, 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: November 3, 2014

/s/ Alan R. Hodnik

Alan R. Hodnik
Chairman, President and Chief Executive Officer

Exhibit 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

I, Steven Q. DeVinck, of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2014, 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: November 3, 2014	/s/ Steven Q. DeVinck
	Steven Q. DeVinck
	Senior Vice President and Chief Financial Officer

Exhibit 32

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

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

1. The Quarterly Report on Form 10-Q of ALLETE for the period ended September 30, 2014, (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: November 3, 2014

/s/ Alan R. Hodnik

Alan R. Hodnik
Chairman, President and Chief Executive Officer

Date: November 3, 2014

/s/ Steven Q. DeVinck

Steven Q. DeVinck
Senior Vice President and Chief Financial Officer

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

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

Exhibit 95

Mine Safety Disclosure

Mine or Operating Name/MSHA Identification Number	Section 104 S&S Citations (#)	Section 104(b) Orders (#)	Section 104(d) Citations and Orders (#)	Section 110(b)(2) Violations (#)	Section 107(a) Orders (#)	Total Dollar Value of MSHA Assessments Proposed ($)	Total Number of Mining Related Fatalities (#)	Received Notice of Pattern of Violation Under Section 104(e) (yes/no)	Received Notice of Potential to Have Pattern Under Section 104(e) (yes/no)	Legal Actions Pending as of Last Day of Period (#)	Legal Actions Initiated During Period (#)	Legal Actions Resolved During Period (#)
Center Mine / 3200218	—	—	—	—	—	$434	—	No	No	—	—	—

For the quarter ended September 30, 2014, BNI Coal, owner of Center Mine, received no significant and substantial (S&S) citations under Section 104(a) of the Mine Safety Act. It received $434 in penalties related to non-S&S violations that occurred in the second quarter of 2014, but had not been assessed prior to filing ALLETE's second quarter 10-Q. In 2013, BNI Coal had a S&S citation under Section 104(a) of the Mine and Safety Act for which the Mine Safety and Health Administration proposed a penalty of $52,500; a hearing case has been filed in relation to this penalty. For the quarter ended September 30, 2014, there were no citations, orders, violations or notices received under Sections 104(b), 104(d), 107(a), 104(e) or 110(b)(2) of the Mine Safety Act and there were no fatalities.

Exhibit 99

For Release: November 3, 2014
Investor Contact: Tim Thorp
218-723-3953
tthorp@allete.com

NEWS

ALLETE, Inc. reports third quarter earnings of 97 cents per share

Company projects year-end earnings to be in the upper end of its guidance range

DULUTH, Minn. - ALLETE, Inc. (NYSE:ALE) today reported third quarter 2014 earnings of 97 cents per share on net income of $41.6 million and revenue of $288.9 million, compared to earnings of 63 cents, net income of $25.2 million and revenue of $251 million in the third quarter a year ago.

Compared with a year ago, earnings increased due to cost recovery revenue related to a major wind energy expansion and an environmental retrofit to Minnesota Power's largest electric generating unit, and also because of a change in the quarterly timing of a conservation improvement incentive. An $8.7 million state Conservation Improvement Program (CIP) financial incentive recorded in the third quarter increased from $7.1 million in 2013, when the incentive was booked in the fourth quarter.

"These strong financial results are a direct result of our capital investments in renewable energy, environmental improvements and conservation," said ALLETE Chairman, President and Chief Executive Officer Alan R. Hodnik. "Our Bison Wind Energy expansion in North Dakota and the Boswell Energy Center retrofit now underway make up a significant share of an annual capital expenditure budget that's the largest in our company's history."

Quarterly revenue for the **Regulated Operations** segment rose by $29.4 million due to higher cost recovery revenue, the CIP incentive, and higher electricity sales. Electric sales increased almost five percent in the quarter compared to last year, with sales to industrial customers increasing by about one percent. Sales to other power suppliers increased over 37 percent compared to last year, reflecting Minnesota Power selling a portion of its output from the Square Butte plant to Minnkota Power. Partially offsetting the higher revenue were higher operating expenses. Net income for the segment increased $16.6 million from the same period in 2013.

The **Investments and Other** segment includes solid financial performance from ALLETE Clean Energy, which acquired three wind farms earlier this year. The third quarter of 2013 included gains on sales of securities.
Quarterly earnings were diluted by seven cents per share due to the increased issuance of common shares needed to fund major capital improvements.

Hodnik said the company now expects its year-end 2014 earnings to be in the upper end of its stated guidance range of $2.75 to $2.95. He noted that the earnings guidance excludes 3 cents per share of costs recorded in the first quarter related to the ALLETE Clean Energy acquisition, and a second quarter non-recurring 6 cents per share charge associated with an EPA settlement.

ALLETE will host a conference call and webcast at 10 a.m. Eastern Time this morning to discuss details of its quarterly financial performance. Interested parties may listen live by calling (877) 303-5852, or by accessing the webcast at www.allete.com. A replay of the call will be available through November 5, 2014 by calling
(855) 859-2056, pass code 16959429.

ALLETE is an energy company headquartered in Duluth, Minn. In addition to its electric utilities, Minnesota Power and Superior Water, Light and Power of Wisconsin, ALLETE owns BNI Coal in Center, N.D., ALLETE Clean Energy, based in Duluth, and has an eight percent equity interest in the American Transmission Co. More information about ALLETE is available 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
Millions Except Per Share Amounts - Unaudited

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenue	$288.9	$251.0	$846.1	$750.4
Operating Expenses				
Fuel and Purchased Power	88.9	80.5	268.7	245.7
Operating and Maintenance	105.7	102.7	340.6	311.2
Depreciation	33.5	29.4	99.5	86.3
Total Operating Expenses	228.1	212.6	708.8	643.2
Operating Income	60.8	38.4	137.3	107.2
Other Income (Expense)				
Interest Expense	(13.2)	(12.7)	(39.5)	(37.8)
Equity Earnings in ATC	5.3	4.9	15.6	15.1
Other	2.1	3.3	6.0	7.5
Total Other Expense	(5.8)	(4.5)	(17.9)	(15.2)
Income Before Non-Controlling Interest and Income Taxes	55.0	33.9	119.4	92.0
Income Tax Expense	13.4	8.7	27.1	20.3
Net Income	41.6	25.2	92.3	71.7
Less: Non-Controlling Interest in Subsidiaries	—	—	0.4	—
Net Income Attributable to ALLETE	$41.6	$25.2	$91.9	$71.7
Average Shares of Common Stock				
Basic	42.9	39.8	42.1	39.4
Diluted	42.9	39.9	42.3	39.5
Basic Earnings Per Share of Common Stock	$0.97	$0.63	$2.18	$1.82
Diluted Earnings Per Share of Common Stock	$0.97	$0.63	$2.17	$1.81
Dividends Per Share of Common Stock	$0.49	$0.475	$1.47	$1.425

Consolidated Balance Sheet
Millions - Unaudited

	Sept. 30, 2014	Dec. 31, 2013		Sept. 30, 2014	Dec. 31, 2013
Assets			**Liabilities and Shareholders' Equity**		
Cash and Cash Equivalents	$150.5	$97.3	Current Liabilities	$286.8	$230.2
Other Current Assets	207.3	209.7	Long-Term Debt	1,289.2	1,083.0
Property, Plant and Equipment - Net	3,121.5	2,576.5	Deferred Income Taxes	509.7	479.1
Regulatory Assets	277.1	263.8	Regulatory Liabilities	103.1	81.0
Investment in ATC	120.7	114.6	Defined Benefit Pension & Other Postretirement Benefit Plans	116.8	133.4
Other Investments	116.4	146.3	Other Non-Current Liabilities	231.6	127.2
Other Non-Current Assets	74.4	68.6	Shareholders' Equity	1,530.7	1,342.9
Total Assets	$4,067.9	$3,476.8	**Total Liabilities and Shareholders' Equity**	$4,067.9	$3,476.8

ALLETE, Inc. Income (Loss)	Quarter Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Millions				
Regulated Operations	$41.2	$24.6	$92.6	$73.0
Investments and Other	0.4	0.6	(0.7)	(1.3)
Net Income Attributable to ALLETE	$41.6	$25.2	$91.9	$71.7
Diluted Earnings Per Share	$0.97	$0.63	$2.17	$1.81

Statistical Data				
Corporate				
Common Stock				
High	$51.56	$54.14	$52.73	$54.14
Low	$44.39	$45.78	$44.39	$41.39
Close	$44.39	$48.30	$44.39	$48.30
Book Value	$34.37	$31.60	$34.37	$31.60

Kilowatt-hours Sold				
Millions				
Regulated Utility				
Retail and Municipals				
Residential	244	259	891	864
Commercial	369	379	1,097	1,091
Municipals	203	242	643	741
Industrial	1,911	1,894	5,515	5,508
Total Retail and Municipal	2,727	2,774	8,146	8,204
Other Power Suppliers	751	547	2,082	1,748
Total Regulated Utility	3,478	3,321	10,228	9,952
Non-regulated Energy Operations	28	26	92	90
Total Kilowatt-hours Sold	3,506	3,347	10,320	10,042

Regulated Utility Revenue				
Millions				
Regulated Utility Revenue				
Retail and Municipals				
Residential	$26.4	$26.1	$92.4	$86.0
Commercial	34.9	33.4	100.8	95.9
Municipals	14.6	17.7	45.6	50.0
Industrial	117.8	107.8	337.7	317.9
Total Retail and Municipals	193.7	185.0	576.5	549.8
Other Power Suppliers	31.2	21.1	84.9	65.8
Other	30.9	20.3	88.2	68.0
Total Regulated Utility Revenue	$255.8	$226.4	$749.6	$683.6

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.