

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended **September 30, 2017**

or

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

Commission File Number **1-3548**

ALLETE, Inc.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0418150

(IRS Employer Identification No.)

30 West Superior Street

Duluth, Minnesota 55802-2093

(Address of principal executive offices)

(Zip Code)

(218) 279-5000

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Common Stock, without par value,
51,039,658 shares outstanding
as of September 30, 2017

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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.

| <u>Abbreviation or Acronym</u> | <u>Term</u> |
|---------------------------------------|---|
| AFUDC | Allowance for Funds Used During Construction – the cost of both debt and equity funds used to finance regulated utility plant additions during construction periods |
| ALLETE | ALLETE, Inc. |
| ALLETE Clean Energy | ALLETE Clean Energy, Inc. and its subsidiaries |
| ALLETE Properties | ALLETE Properties, LLC and its subsidiaries |
| ALLETE Transmission Holdings | ALLETE Transmission Holdings, Inc. |
| ASC | Accounting Standards Codification |
| ATC | American Transmission Company LLC |
| Bison | Bison Wind Energy Center |
| BNI Energy | BNI Energy, Inc. and its subsidiary |
| Boswell | Boswell Energy Center |
| Camp Ripley | Camp Ripley Solar Array |
| CO ₂ | Carbon Dioxide |
| Company | ALLETE, Inc. and its subsidiaries |
| CIP | Conservation Improvement Program |
| Cliffs | Cleveland-Cliffs Inc. |
| CSAPR | Cross-State Air Pollution Rule |
| DC | Direct Current |
| EIS | Environmental Impact Statement |
| EPA | United States Environmental Protection Agency |
| ERP Iron Ore | ERP Iron Ore, LLC |
| 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 | Generally Accepted Accounting Principles in the United States of America |
| GHG | Greenhouse Gases |
| GNTL | Great Northern Transmission Line |
| Invest Direct | ALLETE’s Direct Stock Purchase and Dividend Reinvestment Plan |
| IRP | Integrated Resource Plan |
| Item ____ | Item ____ of this Form 10-Q |
| kV | Kilovolt(s) |
| kW / kWh | Kilowatt(s) / Kilowatt-hour(s) |
| Laskin | Laskin Energy Center |
| MACT | Maximum Achievable Control Technology |
| Magnetation | Magnetation, LLC |
| Manitoba Hydro | Manitoba Hydro-Electric Board |
| MATS | Mercury and Air Toxics Standards |
| Mesabi Metallics | Mesabi Metallics Company, LLC (formerly Essar Steel Minnesota, LLC) |
| Minnesota Power | An operating division of ALLETE, Inc. |
| Minnkota Power | Minnkota Power Cooperative, Inc. |

| <u>Abbreviation or Acronym</u> | <u>Term</u> |
|---------------------------------------|---|
| MISO | Midcontinent Independent System Operator, Inc. |
| Montana-Dakota Utilities | Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc. |
| MPCA | Minnesota Pollution Control Agency |
| MPUC | Minnesota Public Utilities Commission |
| MW / MWh | Megawatt(s) / Megawatt-hour(s) |
| NAAQS | National Ambient Air Quality Standards |
| NDPSC | North Dakota Public Service Commission |
| NOL | Net Operating Loss |
| NO ₂ | Nitrogen Dioxide |
| NO _x | Nitrogen Oxides |
| Northern States Power | Northern States Power Company, a subsidiary of Xcel Energy Inc. |
| Northshore Mining | Northshore Mining Company, a wholly-owned subsidiary of Cleveland-Cliffs Inc. |
| 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 District | Palm Coast Park Community Development District in Florida |
| PolyMet | PolyMet Mining Corp. |
| PPA / PSA | Power Purchase Agreement / Power Sales Agreement |
| PPACA | Patient Protection and Affordable Care Act of 2010 |
| PSCW | Public Service Commission of Wisconsin |
| SEC | Securities and Exchange Commission |
| Silver Bay Power | Silver Bay Power Company, a wholly-owned subsidiary of Cleveland-Cliffs Inc. |
| SIP | State Implementation Plan |
| SO ₂ | Sulfur Dioxide |
| Square Butte | Square Butte Electric Cooperative, a North Dakota cooperative corporation |
| SWL&P | Superior Water, Light and Power Company |
| Taconite Harbor | Taconite Harbor Energy Center |
| Tenaska | Tenaska Energy, Inc. and Tenaska Energy Holdings, LLC |
| Thomson | Thomson Energy Center |
| Tonka Water | Tonka Equipment Company |
| Town Center District | Town Center at Palm Coast Community Development District in Florida |
| UPM Blandin | UPM, Blandin Paper Mill owned by UPM-Kymmene Corporation |
| U.S. | United States of America |
| U.S. Water Services | U.S. Water Services Holding Company and its subsidiaries |
| USS Corporation | United States Steel Corporation |

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;
- changes in and compliance with laws and regulations;
- changes in tax rates or policies or in rates of inflation;
- 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;
- changes in operating expenses and capital expenditures and our ability to raise revenues from our customers in regulated rates or sales price increases at our Energy Infrastructure and Related Services businesses;
- the impacts of commodity prices on ALLETE and our customers;
- our ability to attract 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;
- population growth rates and demographic patterns;
- 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;
- effects of competition, including competition for retail and wholesale customers;
- effects of restructuring initiatives in the electric industry;
- the impacts on our Regulated Operations segment of climate change and future regulation to restrict the emissions of greenhouse gases;
- effects of increased deployment of distributed low-carbon electricity generation resources;
- the impacts of laws and regulations related to renewable and distributed generation;
- pricing, availability and transportation of fuel and other commodities and the ability to recover the costs of such commodities;
- our current and potential industrial and municipal customers’ ability to execute announced expansion plans;
- real estate market conditions where our legacy Florida real estate investment is located may not improve;
- the success of efforts to realize value from, invest in, and develop new opportunities in, our Energy Infrastructure and Related Services businesses; and
- factors affecting our Energy Infrastructure and Related Services businesses, including fluctuations in the volume of customer orders, unanticipated cost increases, changes in legislation and regulations impacting the industries in which the customers served operate, the effects of weather, creditworthiness of customers, ability to obtain materials required to perform services, and changing market conditions.

Forward-Looking Statements (Continued)

Additional disclosures regarding factors that could cause our results or performance to differ from those anticipated by this report are discussed in Part 1, Item 1A under the heading “Risk Factors” beginning on page 25 of ALLETE’s 2016 Form 10-K. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by ALLETE in this Form 10-Q and in other reports filed with the SEC that attempt to identify the risks and uncertainties that may affect ALLETE’s business.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Unaudited

| | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| Millions | | |
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$104.4 | \$27.5 |
| Accounts Receivable (Less Allowance of \$2.1 and \$3.1) | 136.7 | 122.5 |
| Inventories – Net | 102.6 | 104.2 |
| Prepayments and Other | 44.2 | 40.3 |
| Total Current Assets | 387.9 | 294.5 |
| Property, Plant and Equipment – Net | 3,746.3 | 3,741.2 |
| Regulatory Assets | 310.6 | 330.1 |
| Investment in ATC | 146.0 | 135.6 |
| Other Investments | 55.8 | 55.6 |
| Goodwill and Intangible Assets – Net | 228.9 | 213.4 |
| Other Non-Current Assets | 103.0 | 106.5 |
| Total Assets | \$4,978.5 | \$4,876.9 |
| Liabilities and Shareholders' Equity | | |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable | \$75.3 | \$74.0 |
| Accrued Taxes | 51.8 | 46.5 |
| Accrued Interest | 14.6 | 17.6 |
| Long-Term Debt Due Within One Year | 64.1 | 187.7 |
| Other | 84.7 | 73.7 |
| Total Current Liabilities | 290.5 | 399.5 |
| Long-Term Debt | 1,444.6 | 1,370.4 |
| Deferred Income Taxes | 592.9 | 554.6 |
| Regulatory Liabilities | 111.5 | 125.8 |
| Defined Benefit Pension and Other Postretirement Benefit Plans | 195.2 | 210.9 |
| Other Non-Current Liabilities | 301.1 | 322.7 |
| Total Liabilities | 2,935.8 | 2,983.9 |
| Commitments, Guarantees and Contingencies (Note 13) | | |
| Shareholders' Equity | | |
| Common Stock Without Par Value, 80.0 Shares Authorized, 51.0 and 49.6 Shares Issued and Outstanding | 1,394.3 | 1,295.3 |
| Accumulated Other Comprehensive Loss | (26.9) | (28.2) |
| Retained Earnings | 675.3 | 625.9 |
| Total Shareholders' Equity | 2,042.7 | 1,893.0 |
| Total Liabilities and Shareholders' Equity | \$4,978.5 | \$4,876.9 |

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF INCOME
Unaudited

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|---------------|------------------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Millions Except Per Share Amounts | | | | |
| Operating Revenue | | | | |
| Utility | \$277.6 | \$253.3 | \$824.1 | \$740.5 |
| Non-utility | 84.9 | 96.3 | 257.3 | 257.7 |
| Total Operating Revenue | 362.5 | 349.6 | 1,081.4 | 998.2 |
| Operating Expenses | | | | |
| Fuel, Purchased Power and Gas – Utility | 93.5 | 91.7 | 283.2 | 250.6 |
| Transmission Services – Utility | 18.9 | 16.6 | 53.1 | 49.5 |
| Cost of Sales – Non-utility | 36.1 | 45.7 | 106.1 | 108.5 |
| Operating and Maintenance | 80.0 | 80.8 | 248.2 | 240.9 |
| Depreciation and Amortization | 50.9 | 48.9 | 151.5 | 145.7 |
| Taxes Other than Income Taxes | 14.1 | 12.5 | 42.7 | 40.6 |
| Total Operating Expenses | 293.5 | 296.2 | 884.8 | 835.8 |
| Operating Income | 69.0 | 53.4 | 196.6 | 162.4 |
| Other Income (Expense) | | | | |
| Interest Expense | (16.6) | (18.7) | (50.5) | (53.0) |
| Equity Earnings in ATC | 5.9 | 6.1 | 17.3 | 15.0 |
| Other | 0.8 | 1.2 | 2.0 | 2.8 |
| Total Other Expense | (9.9) | (11.4) | (31.2) | (35.2) |
| Income Before Non-Controlling Interest and Income Taxes | 59.1 | 42.0 | 165.4 | 127.2 |
| Income Tax Expense | 14.2 | 1.7 | 34.6 | 15.7 |
| Net Income | 44.9 | 40.3 | 130.8 | 111.5 |
| Less: Non-Controlling Interest in Subsidiaries | — | — | — | 0.5 |
| Net Income Attributable to ALLETE | \$44.9 | \$40.3 | \$130.8 | \$111.0 |
| Average Shares of Common Stock | | | | |
| Basic | 51.0 | 49.4 | 50.7 | 49.3 |
| Diluted | 51.2 | 49.5 | 50.9 | 49.4 |
| Basic Earnings Per Share of Common Stock | \$0.88 | \$0.82 | \$2.58 | \$2.25 |
| Diluted Earnings Per Share of Common Stock | \$0.88 | \$0.81 | \$2.57 | \$2.25 |
| Dividends Per Share of Common Stock | \$0.535 | \$0.52 | \$1.605 | \$1.56 |

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

| | Quarter Ended | | Nine Months Ended | |
|--|---------------|--------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Millions | | | | |
| Net Income | \$44.9 | \$40.3 | \$130.8 | \$111.5 |
| Other Comprehensive Income (Loss) | | | | |
| Currency Translation Adjustments | 0.1 | — | (0.1) | — |
| Unrealized Gain on Securities | | | | |
| Net of Income Tax Expense of \$0.1, \$0.2, \$0.6, and \$0.2 | 0.1 | 0.3 | 0.8 | 0.3 |
| Defined Benefit Pension and Other Postretirement Benefit Plans | | | | |
| Net of Income Tax Expense of \$0.1, \$0.1, \$0.4, and \$0.3 | 0.2 | 0.2 | 0.6 | 0.5 |
| Total Other Comprehensive Income | 0.4 | 0.5 | 1.3 | 0.8 |
| Total Comprehensive Income | 45.3 | 40.8 | 132.1 | 112.3 |
| Less: Non-Controlling Interest in Subsidiaries | — | — | — | 0.5 |
| Total Comprehensive Income Attributable to ALLETE | \$45.3 | \$40.8 | \$132.1 | \$111.8 |

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

Nine Months Ended
September 30,
2017 **2016**

| Millions | | |
|--|----------------|----------------|
| Operating Activities | | |
| Net Income | \$130.8 | \$111.5 |
| AFUDC – Equity | (0.7) | (1.7) |
| Income from Equity Investments – Net of Dividends | (3.8) | (5.8) |
| Change in Fair Value of Contingent Consideration | (0.4) | — |
| Gain on Sales of Investments and Property, Plant and Equipment | (0.2) | (5.3) |
| Depreciation Expense | 147.4 | 141.8 |
| Amortization of PSAs | (17.7) | (16.7) |
| Amortization of Other Intangible Assets and Other Assets | 7.6 | 8.1 |
| Deferred Income Tax Expense | 34.3 | 15.5 |
| Share-Based and ESOP Compensation Expense | 5.0 | 3.6 |
| Defined Benefit Pension and Postretirement Benefit Expense | 7.6 | 3.9 |
| Bad Debt Expense | 0.5 | 2.5 |
| Changes in Operating Assets and Liabilities | | |
| Accounts Receivable | (9.6) | 10.6 |
| Inventories | 5.3 | 9.7 |
| Prepayments and Other | 2.1 | (0.7) |
| Accounts Payable | (2.6) | 0.6 |
| Other Current Liabilities | 2.7 | (23.0) |
| Cash Contributions to Defined Benefit Pension Plans | (1.7) | (6.3) |
| Changes in Regulatory and Other Non-Current Assets | 24.1 | (18.3) |
| Changes in Regulatory and Other Non-Current Liabilities | (23.5) | 7.8 |
| Cash from Operating Activities | 307.2 | 237.8 |
| Investing Activities | | |
| Proceeds from Sale of Available-for-sale Securities | 5.2 | 6.8 |
| Payments for Purchase of Available-for-sale Securities | (5.9) | (7.2) |
| Acquisitions of Subsidiaries – Net of Cash Acquired | (17.4) | — |
| Investment in ATC | (6.6) | (3.5) |
| Changes to Other Investments | 2.1 | 2.5 |
| Additions to Property, Plant and Equipment | (130.3) | (119.5) |
| Proceeds from Sale of Property, Plant and Equipment | 1.2 | 0.2 |
| Cash for Investing Activities | (151.7) | (120.7) |
| Financing Activities | | |
| Proceeds from Issuance of Common Stock | 80.5 | 27.0 |
| Proceeds from Issuance of Long-Term Debt | 131.5 | 2.2 |
| Changes in Restricted Cash | (4.3) | 2.1 |
| Changes in Notes Payable | — | (1.6) |
| Repayments of Long-Term Debt | (183.6) | (50.7) |
| Acquisition of Non-Controlling Interest | — | (8.0) |
| Acquisition-Related Contingent Consideration Payments | (19.7) | (0.8) |
| Dividends on Common Stock | (81.4) | (77.0) |
| Other Financing Activities | (1.6) | (0.1) |
| Cash for Financing Activities | (78.6) | (106.9) |
| Change in Cash and Cash Equivalents | 76.9 | 10.2 |
| Cash and Cash Equivalents at Beginning of Period | 27.5 | 97.0 |
| Cash and Cash Equivalents at End of Period | \$104.4 | \$107.2 |

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Unaudited

| | Total Shareholders' Equity | Retained Earnings | Accumulated Other Comprehensive Loss | Common Stock |
|--|----------------------------------|----------------------|---|-----------------|
| Millions | | | | |
| Balance as of December 31, 2016 | \$1,893.0 | \$625.9 | \$(28.2) | \$1,295.3 |
| Comprehensive Income | | | | |
| Net Income | 130.8 | 130.8 | — | — |
| Other Comprehensive Income – Net of Tax | | | | |
| Currency Translation Adjustments | (0.1) | — | (0.1) | — |
| Unrealized Gain on Securities | 0.8 | — | 0.8 | — |
| Defined Benefit Pension and Other Postretirement Plans | 0.6 | — | 0.6 | — |
| Total Comprehensive Income | 132.1 | | | |
| Common Stock Issued | 99.0 | — | — | 99.0 |
| Dividends Declared | (81.4) | (81.4) | — | — |
| Balance as of September 30, 2017 | \$2,042.7 | \$675.3 | \$(26.9) | \$1,394.3 |

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

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, 2016, Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, these unaudited financial statements include all adjustments necessary for a fair statement of financial results. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Operating results for the nine months ended September 30, 2017, are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2017. For further information, refer to the Consolidated Financial Statements and notes included in our 2016 Form 10-K.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Inventories – Net. Inventories are stated at the lower of cost or net realizable value. Inventories in our Regulated Operations and ALLETE Clean Energy segments are carried at an average cost or first-in, first-out basis. Inventories in our U.S. Water Services segment and Corporate and Other operations are carried at an average cost, first-in, first-out or specific identification basis.

| Inventories – Net | September 30, 2017 | December 31, 2016 |
|--------------------------------|-------------------------------|------------------------------|
| Millions | | |
| Fuel (a) | \$39.6 | \$43.9 |
| Materials and Supplies | 48.2 | 48.7 |
| Raw Materials | 2.9 | 2.9 |
| Work in Progress | 3.5 | 1.0 |
| Finished Goods | 9.4 | 8.6 |
| Reserve for Obsolescence | (1.0) | (0.9) |
| Total Inventories – Net | \$102.6 | \$104.2 |

(a) Fuel consists primarily of coal inventory at Minnesota Power.

| Prepayments and Other Current Assets | September 30, 2017 | December 31, 2016 |
|---|-------------------------------|------------------------------|
| Millions | | |
| Deferred Fuel Adjustment Clause | \$20.2 | \$18.6 |
| Restricted Cash | 6.5 | 2.2 |
| Other | 17.5 | 19.5 |
| Total Prepayments and Other Current Assets | \$44.2 | \$40.3 |

| Other Non-Current Assets | September 30, 2017 | December 31, 2016 |
|---------------------------------------|-------------------------------|------------------------------|
| Millions | | |
| Contract Payment | \$28.0 | \$29.6 |
| Finance Receivable | 11.0 | 11.5 |
| Restricted Cash | 8.6 | 8.6 |
| Other | 55.4 | 56.8 |
| Total Other Non-Current Assets | \$103.0 | \$106.5 |

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

| Other Current Liabilities | September 30, 2017 | December 31, 2016 |
|--|-------------------------------|------------------------------|
| Millions | | |
| PSAs | \$24.8 | \$24.6 |
| Other | 59.9 | 49.1 |
| Total Other Current Liabilities | \$84.7 | \$73.7 |

| Other Non-Current Liabilities | September 30, 2017 | December 31, 2016 |
|--|-------------------------------|------------------------------|
| Millions | | |
| Asset Retirement Obligation | \$157.4 | \$136.6 |
| PSAs | 95.3 | 113.8 |
| Contingent Consideration (a) | 5.6 | 25.0 |
| Other | 42.8 | 47.3 |
| Total Other Non-Current Liabilities | \$301.1 | \$322.7 |

(a) Contingent Consideration relates to the estimated fair value of the earnings-based payment resulting from the U.S. Water Services acquisition. (See Note 5. Fair Value.)

Supplemental Statement of Cash Flows Information.

| Nine Months Ended September 30, | 2017 | 2016 |
|--|-------------|-------------|
| Millions | | |
| Cash Paid During the Period for Interest – Net of Amounts Capitalized | \$51.4 | \$54.9 |
| Cash Paid During the Period for Income Taxes | \$0.4 | \$0.5 |
| Noncash Investing and Financing Activities | | |
| Increase (Decrease) in Accounts Payable for Capital Additions to Property, Plant and Equipment | \$1.2 | \$(19.5) |
| Capitalized Asset Retirement Costs | \$19.7 | \$3.7 |
| AFUDC–Equity | \$0.7 | \$1.7 |
| ALLETE Common Stock Contributed to the Pension Plans | \$13.5 | — |
| ALLETE Common Stock Received for Land Inventory | — | \$8.0 |
| Long-Term Finance Receivable for Land Inventory | — | \$12.0 |

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

New Accounting Pronouncements.

Recently Adopted Pronouncements

Simplifying the Measurement of Inventory. In 2015, the FASB issued an accounting standards update which requires entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost or net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This accounting guidance was adopted in the first quarter of 2017 and did not have a material impact on our Consolidated Financial Statements.

Improvements to Employee Share-Based Payment Accounting. In March 2016, the FASB issued guidance to simplify the accounting for share-based payment transactions by requiring all excess tax benefits and deficiencies to be recognized in income tax expense or benefit in earnings, thus eliminating the requirement to classify the excess tax benefit and deficiencies as additional paid-in capital. Under the new guidance, an entity makes an accounting policy election to either estimate the expected forfeiture awards or account for forfeitures as they occur. This accounting guidance was adopted in the first quarter of 2017. The adoption of this guidance is expected to result in a less than \$1 million impact to income tax expense (benefit) annually.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

Clarifying the Definition of a Business. In January 2017, the FASB issued clarifying guidance on the definition of a business and provided additional guidance to assist with evaluating whether transactions are to be accounted for as an acquisition or disposal of a group of assets or a business. The clarifying guidance will also impact other areas including the accounting for goodwill and consolidation. This accounting guidance was adopted in the first quarter of 2017 and did not have an impact on our Consolidated Financial Statements.

Stock Compensation: Scope of Modification Accounting. In May 2017, the FASB issued additional clarifying guidance regarding circumstances where changes to the terms or conditions of share-based payment awards require an entity to apply modification accounting under ASC 718. The guidance provides specific situations that would be excluded from effects of a modification including if the fair value, vesting conditions, and classification are the same before and after modification. The amendments in this update will be applied prospectively to awards modified on or after adoption. This accounting guidance was adopted by the Company in the second quarter of 2017 and did not have an impact on our Consolidated Financial Statements.

Recently Issued Pronouncements

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued updated guidance which simplifies the measurement of goodwill impairment by removing step two of the goodwill impairment test that requires the determination of the fair value of individual assets and liabilities of a reporting unit. The updated guidance requires goodwill impairment to be measured as the amount by which a reporting unit's carrying value exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for the Company beginning in the first quarter of 2020, with early adoption permitted on a prospective basis.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. In March 2017, the FASB issued guidance to improve the presentation of net periodic pension and postretirement benefit costs. Under the revised guidance of ASC 715, an entity shall present the service cost component of the net periodic benefit cost in the same income statement line as other employee compensation costs arising from services rendered during the period. The guidance also allows only the service cost component of the periodic cost to be eligible for capitalization. The standard will be applied retrospectively for income statement presentation, and prospectively for capitalization of service cost components. We do not expect there to be a material impact on the Consolidated Financial Statements with the adoption of the updated guidance which is effective for the Company beginning in the first quarter of 2018.

Revenue from Contracts with Customers. In 2014, the FASB issued amended revenue recognition guidance that clarifies the principles for recognizing revenue from contracts with customers by providing a single comprehensive model to determine the measurement of revenue and timing of recognition. The guidance requires an entity to recognize revenue in a manner that depicts 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. As of September 30, 2017, the Company has reviewed all of its revenue streams and contracts for its regulated businesses, completing the preliminary evaluations of the impact of this guidance. Based on this review, the Company does not expect the guidance to materially affect the results of its regulated operations, which represent the majority of revenue. Our review and analysis of the Company's energy infrastructure and related services and corporate and other businesses is in progress and we similarly do not expect the guidance to impact the results of these businesses. Management continues to evaluate the need for additional disclosures to meet the requirements of the new standard following adoption. The Company will adopt and implement the new guidance on a modified retrospective basis which requires application of standards to all contracts with customers effective January 1, 2018, with the cumulative impact on contracts with performance obligations not yet satisfied as of December 31, 2017, recognized as an adjustment to retained earnings on the Consolidated Balance Sheet.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

Leases. In February 2016, the FASB issued an accounting standard update which revises the existing guidance for leases. Under the revised guidance, lessees will be required to recognize a “right-of-use” asset and a lease liability for all leases with a term greater than 12 months. The new standard also requires additional quantitative and qualitative disclosures by lessees and lessors to enable users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The accounting for leases by lessors and the recognition, measurement and presentation of expenses and cash flows from leases are not expected to significantly change as a result of the updated guidance. The revised guidance is effective for the Company beginning in the first quarter of 2019 with early adoption permitted. We are currently evaluating the impact of the revised lease guidance on our Consolidated Financial Statements.

Financial Instruments. In January 2016, the FASB issued an accounting standard update which requires entities to measure their investments at fair value and recognize any changes in fair value in net income unless the investments qualify for the practicability exception. The practicability exception will be available for equity investments that do not have readily determinable fair values. The updated guidance is effective for the Company beginning in the first quarter of 2018 and will result in a cumulative-effect adjustment to retained earnings on the Consolidated Balance Sheet in the fiscal year of adoption. We have performed a preliminary evaluation of the impact of this update, and based on that evaluation, we do not expect the adoption of the update to have a material impact on our Consolidated Financial Statements.

Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued an accounting standard update which addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This accounting guidance is effective for the Company beginning in the first quarter of 2018. We do not expect the adoption of the update to have a material impact on our Consolidated Statement of Cash Flows.

Statement of Cash Flows: Restricted Cash. In November 2016, the FASB issued an accounting standard update related to the presentation of restricted cash in the Company’s Consolidated Statement of Cash Flows. The update requires that the Consolidated Statement of Cash Flows explain the change during the period in cash, cash equivalents and restricted cash. Restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statement of Cash Flows. This accounting guidance is effective for the Company beginning in the first quarter of 2018 and will be applied retrospectively to all periods presented. The guidance will result in changes to the Company’s Consolidated Statement of Cash Flows such that restricted cash amounts will be included in the beginning-of-period and end-of-period cash and cash equivalents totals when adopted for our fiscal year beginning January 1, 2018. We do not expect the adoption of the update to have a material impact on our Consolidated Statement of Cash Flows.

Revision of Prior Balance Sheet. During the first quarter of 2017, the Company identified an error related to the deferred income tax treatment associated with its Wholesale and Retail Contra AFUDC Regulatory Liability. The Company evaluated the materiality of the error and concluded that it was not material to any previously issued historical financial statements. The Company has revised its Consolidated Balance Sheet as of December 31, 2016, by decreasing Regulatory Assets and Deferred Income Taxes by \$29.5 million. The correction had no impact on our Consolidated Statement of Income.

Reclassification of Prior Income Statement. Beginning with the second quarter of 2017, the Company enhanced its presentation of Operating Revenue and certain Operating Expenses on the Consolidated Statement of Income by presenting the caption Operating Revenue separately as Operating Revenue – Utility and Operating Revenue – Non-utility. In conformity with the current presentation, we now present \$253.3 million and \$740.5 million of Operating Revenue as Operating Revenue – Utility for the quarter and nine months ended September 30, 2016, respectively, as it is generated from our regulated utility operations. Non-utility revenue of \$96.3 million and \$257.7 million for the quarter and nine months ended September 30, 2016, respectively, is now presented as Operating Revenue – Non-utility. In addition, the captions Fuel and Purchased Power and Cost of Sales have been updated to Fuel, Purchased Power and Gas – Utility and Cost of Sales – Non-utility. As a result, we have reclassified \$0.7 million relating to the cost of gas sales at SWL&P from the historic caption Cost of Sales to Fuel, Purchased Power and Gas – Utility for the quarter ended September 30, 2016, and \$4.6 million for the nine months ended September 30, 2016.

NOTE 2. INVESTMENTS

Investments. As of September 30, 2017, the investment portfolio included the legacy 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, 2017 | December 31, 2016 |
|-----------------------------------|-------------------------------|------------------------------|
| Millions | | |
| ALLETE Properties | \$28.8 | \$31.7 |
| Available-for-sale Securities (a) | 21.0 | 18.8 |
| Cash Equivalents | 2.2 | 1.3 |
| Other | 3.8 | 3.8 |
| Total Other Investments | \$55.8 | \$55.6 |

(a) As of September 30, 2017, the aggregate amount of available-for-sale corporate and governmental debt securities maturing in one year or less was \$1.1 million, in one year to less than three years was \$3.2 million, in three years to less than five years was \$4.2 million and in five or more years was \$1.6 million.

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 estimated fair value. Land values are reviewed for indicators of impairment on a quarterly basis and no impairment was recorded for the quarter and nine months ended September 30, 2017, and 2016.

Available-for-Sale Securities. We account for our available-for-sale securities portfolio in accordance with the guidance for certain investments in debt and equity securities. Our available-for-sale securities portfolio consisted primarily of securities held in other postretirement plans to fund employee benefits.

Gross realized and unrealized gains and losses on our available-for-sale securities were immaterial for the quarter and nine months ended September 30, 2017, and 2016.

NOTE 3. ACQUISITIONS

The following acquisitions are consistent with ALLETE's stated strategy of investing in energy infrastructure and related services businesses to complement its regulated businesses, balance exposure to business cycles and changing demand, and provide potential long-term earnings growth. The pro forma impact of the following acquisitions was not significant, either individually or in the aggregate, to the results of the Company for the nine months ended September 30, 2017, and 2016.

2017 Activity.

Tonka Water. On September 1, 2017, U.S. Water Services acquired 100 percent of Tonka Water. Total consideration for the transaction was \$19.4 million, including a preliminary working capital adjustment. Consideration of \$19.0 million was paid in cash on the acquisition date with an estimated payment of \$0.4 million to be made in the fourth quarter of 2017 with the finalization of the working capital adjustment. Tonka Water is a supplier of municipal and industrial water treatment systems and will expand U.S. Water Services' geographic and customer markets.

The acquisition was accounted for as a business combination and the purchase price was allocated based on the preliminary estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition, as shown in the following table. The allocation of the purchase price is subject to judgment and the preliminary estimated fair value of the assets acquired and the liabilities assumed may be adjusted when the valuation analysis is complete in subsequent periods. Preliminary estimates subject to adjustment in subsequent periods relate primarily to working capital; subsequent adjustments could impact the amount of goodwill recorded. Fair value measurements were valued primarily using the discounted cash flow method and replacement cost basis.

NOTE 3. ACQUISITIONS (Continued)
2017 Activity (Continued)

| Millions | |
|---|---------------|
| Assets Acquired | |
| Cash and Cash Equivalents | \$1.6 |
| Accounts Receivable | 5.1 |
| Other Current Assets | 4.4 |
| Trade Names (a) | 0.9 |
| Goodwill (a)(b) | 18.5 |
| Other Non-Current Assets | 0.2 |
| Total Assets Acquired | \$30.7 |
| Liabilities Assumed | |
| Current Liabilities | \$10.6 |
| Non-Current Liabilities | 0.7 |
| Total Liabilities Assumed | \$11.3 |
| Net Identifiable Assets Acquired | \$19.4 |

(a) Presented within Goodwill and Intangible Assets – Net on the Consolidated Balance Sheet. (See Note 4. Goodwill and Intangible Assets.)

(b) Recognized goodwill is attributable to the assembled workforce and anticipated synergies. For tax purposes, the purchase price allocation resulted in \$4.1 million of deductible goodwill.

Acquisition-related costs were immaterial, expensed as incurred during 2017 and recorded in Operating and Maintenance on the Consolidated Statement of Income.

2016 Activity.

Acquisition of Non-Controlling Interest. In April 2016, ALLETE Clean Energy acquired the non-controlling interest in the limited liability company that owns the Condon wind energy facility for \$8.0 million. This transaction was accounted for as an equity transaction, and no gain or loss was recognized in net income or other comprehensive income. As a result of the acquisition, the Condon wind energy facility became a wholly-owned subsidiary of ALLETE Clean Energy.

WEST. In October 2016, U.S. Water Services acquired 100 percent of Water & Energy Systems Technology of Nevada, Inc. (WEST). Total consideration for the transaction was \$6.7 million. Consideration of \$5.9 million was paid in cash on the acquisition date, working capital adjustments of \$0.2 million were paid in the first six months of 2017 and a \$0.6 million payment is due in April 2018. WEST is an integrated water management company and was acquired to expand U.S. Water Services' regional footprint in the Southwestern United States.

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. The purchase price accounting, which was finalized in the second quarter of 2017, is shown in the following table. Fair value measurements were valued primarily using the discounted cash flow method and replacement cost basis.

NOTE 3. ACQUISITIONS (Continued)
2016 Activity (Continued)

| Millions | |
|---|--------------|
| Assets Acquired | |
| Cash and Cash Equivalents | \$0.1 |
| Other Current Assets | 1.0 |
| Customer Relationships (a) | 2.8 |
| Goodwill (a)(b) | 4.2 |
| Other Non-Current Assets | 0.1 |
| Total Assets Acquired | \$8.2 |
| Liabilities Assumed | |
| Current Liabilities | \$0.3 |
| Non-Current Liabilities | 1.2 |
| Total Liabilities Assumed | \$1.5 |
| Net Identifiable Assets Acquired | \$6.7 |

(a) Presented within Goodwill and Intangible Assets – Net on the Consolidated Balance Sheet. (See Note 4. Goodwill and Intangible Assets.)

(b) For tax purposes, the purchase price allocation resulted in no allocation to goodwill.

Acquisition-related costs were immaterial, expensed as incurred during 2016 and recorded in Operating and Maintenance on the Consolidated Statement of Income.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

The aggregate carrying amount of goodwill was \$149.9 million as of September 30, 2017 (\$131.2 million as of December 31, 2016). Changes to goodwill for the nine months ended September 30, 2017, relate to U.S. Water Services' acquisition of Tonka Water and the finalization of purchase price accounting for U.S. Water Services' acquisition of WEST.

Balances of intangible assets, net, excluding goodwill as of September 30, 2017, are as follows:

| | December 31, 2016 | Additions (a) | Amortization | September 30, 2017 |
|---|------------------------------|----------------------|---------------------|-------------------------------|
| Millions | | | | |
| Intangible Assets | | | | |
| Definite-Lived Intangible Assets | | | | |
| Customer Relationships | \$59.3 | — | \$(3.4) | \$55.9 |
| Developed Technology and Other (b) | 6.3 | \$0.9 | (0.7) | 6.5 |
| Total Definite-Lived Intangible Assets | 65.6 | 0.9 | (4.1) | 62.4 |
| Indefinite-Lived Intangible Assets | | | | |
| Trademarks and Trade Names | 16.6 | — | n/a | 16.6 |
| Total Intangible Assets | \$82.2 | \$0.9 | \$(4.1) | \$79.0 |

(a) Additions resulting from the September 1, 2017, acquisition of Tonka Water. (See Note 3. Acquisitions.)

(b) Developed Technology and Other includes patents, non-compete agreements, land easements and trade names.

Customer relationships have a remaining useful life of approximately 20 years, and developed technology and other have remaining useful lives ranging from approximately 1 year to approximately 11 years (weighted average of approximately 7 years). The weighted average remaining useful life of all definite-lived intangible assets as of September 30, 2017, is approximately 19 years.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS (Continued)

Amortization expense for intangible assets was \$1.3 million and \$4.1 million for the quarter and nine months ended September 30, 2017, respectively (\$1.3 million and \$3.8 million for the quarter and nine months ended September 30, 2016, respectively). Accumulated amortization was \$13.4 million as of September 30, 2017 (\$9.3 million as of December 31, 2016). The estimated amortization expense for definite-lived intangible assets for the remainder of 2017 is \$1.5 million. Estimated annual amortization expense for definite-lived intangible assets is \$5.3 million in 2018, \$4.9 million in 2019, \$4.7 million in 2020, \$4.6 million in 2021 and \$41.4 million thereafter.

NOTE 5. FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs, which are used to measure fair value, are prioritized through the fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Descriptions of the three levels of the fair value hierarchy are discussed in Note 9. Fair Value to the Consolidated Financial Statements in our 2016 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, 2017, and December 31, 2016. Each asset and liability is classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, which may affect the valuation of 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 following tables.

| Recurring Fair Value Measures | Fair Value as of September 30, 2017 | | | Total |
|---|-------------------------------------|----------------|----------------|----------------|
| | Level 1 | Level 2 | Level 3 | |
| Millions | | | | |
| Assets | | | | |
| Investments (a) | | | | |
| Available-for-sale – Equity Securities | \$10.9 | — | — | \$10.9 |
| Available-for-sale – Corporate and Governmental Debt Securities | — | \$10.1 | — | 10.1 |
| Cash Equivalents | 2.2 | — | — | 2.2 |
| Total Fair Value of Assets | \$13.1 | \$10.1 | — | \$23.2 |
| Liabilities (b) | | | | |
| Deferred Compensation | — | \$18.7 | — | \$18.7 |
| U.S. Water Services Contingent Consideration | — | — | \$5.6 | 5.6 |
| Total Fair Value of Liabilities | — | \$18.7 | \$5.6 | \$24.3 |
| Total Net Fair Value of Assets (Liabilities) | \$13.1 | \$(8.6) | \$(5.6) | \$(1.1) |

(a) Included in Other Investments on the Consolidated Balance Sheet.

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

NOTE 5. FAIR VALUE (Continued)

| Recurring Fair Value Measures | Fair Value as of December 31, 2016 | | | |
|---|------------------------------------|----------------|-----------------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Millions | | | | |
| Assets | | | | |
| Investments (a) | | | | |
| Available-for-sale – Equity Securities | \$7.1 | — | — | \$7.1 |
| Available-for-sale – Corporate and Governmental Debt Securities | — | \$11.7 | — | 11.7 |
| Cash Equivalents | 1.3 | — | — | 1.3 |
| Total Fair Value of Assets | \$8.4 | \$11.7 | — | \$20.1 |
| Liabilities (b) | | | | |
| Deferred Compensation | — | \$16.0 | — | \$16.0 |
| U.S. Water Services Contingent Consideration | — | — | \$25.0 | 25.0 |
| Total Fair Value of Liabilities | — | \$16.0 | \$25.0 | \$41.0 |
| Total Net Fair Value of Assets (Liabilities) | \$8.4 | \$(4.3) | \$(25.0) | \$(20.9) |

(a) Included in Other Investments on the Consolidated Balance Sheet.

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

The Level 3 liability in the preceding tables is the result of the 2015 acquisition of U.S. Water Services. Changes in the U.S. Water Services Contingent Consideration can result from modifications to the shareholder agreement, changes in discount rates, timing of milestones that trigger payment, or the timing and amount of earnings estimates. The following table provides a reconciliation of the beginning and ending balances of the U.S. Water Services Contingent Consideration measured at fair value using Level 3 measurements as of September 30, 2017. Management analyzes the fair value of the contingent liability on a quarterly basis and makes adjustments as appropriate.

Recurring Fair Value Measures

Activity in Level 3

| Millions | |
|---|--------------|
| Balance as of December 31, 2016 | \$25.0 |
| Accretion | 0.7 |
| Payments (a) | (19.7) |
| Changes in Cash Flow Projections (a) | (0.4) |
| Balance as of September 30, 2017 | \$5.6 |

(a) Payments and changes in cash flow projections reflect the impact of a modification to the shareholder agreement in the first quarter of 2017 which provided participants a one-time election to sell shares at a determined price. Participants representing approximately half of the outstanding contingent consideration shares made the election, and were paid in the first half of 2017.

For the nine months ended September 30, 2017, and the year ended December 31, 2016, 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 following table, the estimated fair value of all financial instruments approximates the carrying amount. The fair value for the item listed in the following table 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 Long-Term Debt Due Within One Year | | |
| September 30, 2017 | \$1,519.0 | \$1,627.9 |
| December 31, 2016 | \$1,569.1 | \$1,653.8 |

NOTE 5. FAIR VALUE (Continued)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. Non-financial assets such as equity method investments, goodwill, intangible assets, and property, plant and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment is recognized. For the quarter and nine months ended September 30, 2017, and the year ended December 31, 2016, there were no triggering events or indicators of impairment for these non-financial assets.

NOTE 6. REGULATORY MATTERS

Regulatory matters are summarized in Note 4. Regulatory Matters to our Consolidated Financial Statements in our 2016 Form 10-K, with additional disclosure provided in the following paragraphs.

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

2010 Minnesota General Rate Case. Minnesota Power's current retail rates are based on a 2011 MPUC retail rate order that allows for a 10.38 percent return on common equity and a 54.29 percent equity ratio. As authorized by the MPUC, Minnesota Power also recognizes revenue under cost recovery riders for transmission, renewable, and environmental investments and expenditures. (See *Transmission Cost Recovery Rider, Renewable Cost Recovery Rider and Environmental Improvement Rider.*) Revenue from cost recovery riders was \$23.1 million and \$71.7 million for the quarter and nine months ended September 30, 2017, respectively (\$25.1 million and \$73.9 million for the quarter and nine months ended September 30, 2016, respectively).

2016 Minnesota General Rate Case. In November 2016, Minnesota Power filed a retail rate increase request with the MPUC seeking an average increase of approximately 9 percent for retail customers. The rate filing seeks a return on equity of 10.25 percent and a 53.81 percent equity ratio. On an annualized basis, the requested final rate increase would have generated approximately \$55 million in additional revenue. In December 2016, Minnesota Power filed a request to modify its original interim rate proposal reducing its requested interim rate increase to \$34.7 million from the original request of approximately \$49 million due to a change in its electric sales forecast. In December 2016 orders, the MPUC accepted the November 2016 filing as complete and authorized an annual interim rate increase of \$34.7 million beginning January 1, 2017.

On February 23, 2017, Minnesota Power filed an additional request to further reduce its requested interim rate increase. In an order dated April 13, 2017, the MPUC approved Minnesota Power's updated retail rate request resulting in a reduction in the annual interim rate increase to \$32.2 million beginning May 1, 2017. As a result of working with intervenors and further developments as the rate review has progressed, Minnesota Power's final rate request is approximately \$49 million on an annualized basis. A report and recommendation from the administrative law judge is scheduled to be issued in November 2017, with a final decision from the MPUC expected in January 2018. Management has evaluated the need for a reserve for interim rate refunds and concluded that a reserve is not necessary as of September 30, 2017. Management evaluates the need for reserves for interim rates each reporting period.

As part of its 2016 general rate case and through its 2017 remaining life depreciation petition filed on February 1, 2017, Minnesota Power is seeking an extension of the recovery period for Boswell to better reflect recent environmental investments at the facility and mitigate rate increases for our customers. If the requested recovery period extension is approved, annual depreciation expense will be reduced by approximately \$25 million. If not approved, we would expect final rates to be increased by a similar amount, subject to regulatory approval. We cannot predict the level of final rates that may be authorized by the MPUC.

Energy-Intensive Trade-Exposed (EITE) Customer Rates. The Minnesota Legislature enacted EITE customer ratemaking law in 2015 which established that it is the energy policy of the state to have competitive rates for certain industries such as mining and forest products. In 2015, Minnesota Power filed a rate schedule petition with the MPUC for EITE customers and a corresponding rider for EITE cost recovery. In a March 2016 order, the MPUC dismissed the petition without prejudice, providing Minnesota Power the option to refile the petition with additional information or file a new petition. In June 2016, Minnesota Power filed a revised EITE petition with the MPUC which included additional information on the net benefits analysis, limits on eligible customers and term lengths for the EITE discount. The rate adjustments are intended to be revenue and cash flow neutral to Minnesota Power. The MPUC approved a reduction in rates for EITE customers in a December 2016 order and subsequently approved cost recovery in an order dated April 20, 2017; collection of the discount was subject to the MPUC's review of Minnesota Power's compliance filing implementing approval of a recovery mechanism. On September 29, 2017, Minnesota Power informed its EITE customers that it has suspended the EITE discount due to a concern it is not revenue and cash flow neutral to Minnesota Power based on an MPUC decision at a hearing on September 7, 2017, as well as the interim rate reduction and upcoming decisions in its 2016 general rate case.

NOTE 6. REGULATORY MATTERS (Continued)
Electric Rates (Continued)

FERC-Approved Wholesale Rates. Minnesota Power has 16 non-affiliated municipal customers in Minnesota. SWL&P is a Wisconsin utility and a wholesale customer of Minnesota Power. All wholesale electric contracts include a termination clause requiring a three-year notice to terminate.

Minnesota Power's wholesale electric contract with the Nashwauk Public Utilities Commission is effective through December 31, 2032, subject to bankruptcy court approval. No termination notice may be given for this contract prior to June 30, 2025. The wholesale electric service contracts with SWL&P and another municipal customer are effective through October 31, 2020, and June 30, 2019, respectively. Under the agreement with SWL&P, no termination notice may be given prior to October 31, 2017. The other municipal customer provided termination notice for its contract in June 2016. Minnesota Power currently provides approximately 29 MW of average monthly demand to this customer. The rates included in these three contracts are set each July 1 based on a cost-based formula methodology, using estimated costs and a rate of return that is equal to Minnesota Power's 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.

Minnesota Power's wholesale electric contracts with 14 municipal customers are effective through December 31, 2024. No termination notices may be given prior to December 31, 2021. These contracts include fixed capacity charges through 2018; beginning in 2019, the capacity charge will not increase by more than two percent or decrease by more than one percent from the previous year's capacity charge and will be determined using a cost-based formula methodology. The base energy charge for each year of the contract term will be set each January 1, subject to monthly adjustment, and will also be determined using a cost-based formula methodology.

Transmission Cost Recovery Rider. Minnesota Power has an approved cost recovery rider in place for certain transmission investments and expenditures. In a February 2016 order, the MPUC approved Minnesota Power's updated customer billing rates 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. As a result of the MPUC approval of the certificate of need for the GNTL in 2015, the project is eligible for cost recovery under the existing transmission cost recovery rider. Minnesota Power is funding the construction of the GNTL with a subsidiary of Manitoba Hydro (see *Great Northern Transmission Line*), and anticipates including its portion of the investments and expenditures for the GNTL in future transmission cost recovery filings.

Renewable Cost Recovery Rider. Minnesota Power has an approved cost recovery rider in place for investments and expenditures related to Bison and the restoration and repair of Thomson. The cost recovery rider allows Minnesota Power to charge retail customers on a current basis for the costs of constructing certain renewable investments plus a return on the capital invested. Updated customer billing rates for the renewable cost recovery rider were approved by the MPUC at a hearing on September 28, 2017.

In a November 2016 order, the MPUC directed Minnesota Power to attribute all North Dakota investment tax credits realized from Bison to Minnesota Power regulated retail customers. As a result of the adverse regulatory outcome, Minnesota Power recorded a regulatory liability and a reduction in operating revenue of approximately \$15 million in the third quarter of 2016. The North Dakota investment tax credits previously recognized as income tax credits in Corporate and Other were reversed in 2016 resulting in an approximately \$9 million charge to net income in the third quarter of 2016. In December 2016, Minnesota Power submitted a request for reconsideration with the MPUC. In an order dated February 14, 2017, the MPUC decided to reconsider its November 2016 order.

At a hearing on September 28, 2017, the MPUC modified its November 2016 order to allow Minnesota Power to account for North Dakota investment tax credits based on the long-standing regulatory precedents of stand-alone allocation methodology of accounting for income taxes. As a result of the favorable regulatory outcome, Minnesota Power recorded a reduction in its regulatory liability and an increase in operating revenue of approximately \$14 million in the third quarter of 2017. The North Dakota investment tax credits were reestablished as income tax credits in Corporate and Other, resulting in an approximately \$8 million increase to net income in the third quarter of 2017.

The stand-alone method provides that income taxes (and credits) are calculated as if Minnesota Power was the only entity included in ALLETE's consolidated federal and unitary state income tax returns. Minnesota Power has recorded a regulatory liability for North Dakota investment tax credits generated by its jurisdictional activity and expected to be realized in the future. North Dakota investment tax credits attributable to ALLETE's apportionment and income of ALLETE's other subsidiaries are included in Corporate and Other operations.

NOTE 6. REGULATORY MATTERS (Continued)
Electric Rates (Continued)

Minnesota Power also has approval for current cost recovery of investments and expenditures related to compliance with the Minnesota Solar Energy Standard. (See *Minnesota Solar Energy Standard*.) Currently, there is no approved customer billing rate for solar costs.

Environmental Improvement Rider. Minnesota Power has an approved environmental improvement rider in place for investments and expenditures related to the implementation of the Boswell Unit 4 mercury emissions reduction plan completed in 2015. Updated customer billing rates for the environmental improvement rider were approved by the MPUC in a December 2016 order; however, in an order dated March 22, 2017, the MPUC approved a request by Minnesota Power to delay implementation of the updated rates until resolution of its 2016 general rate case. (See 2016 Minnesota General Rate Case.)

Fuel Adjustment Clause Reform Pilot. At a hearing on October 19, 2017, the MPUC adopted a three-year pilot program to implement certain procedural reforms to the Minnesota utilities' automatic fuel adjustment clause (FAC) for fuel and purchased power. The decision, subject to an MPUC order, would change the method of accounting for all Minnesota electric utilities to a monthly budgeted, forward-looking FAC with a subsequent prudence review and true-up to actual allowed costs on an annual basis. The annual budget projection filing would also include an adjustment to the base cost of fuel. The MPUC will seek input from the utilities and other stakeholders on the detailed implementation steps and transition accounting needed to adopt the change in regulatory accounting method from the current FAC. Transition considerations would need to include the recovery of the current regulatory asset for deferred fuel costs consistent with other regulatory accounting transition precedents for similar matters. Other details of the transition including budgeting methodology and approval, tracker accounting for the differences between actual costs and the budgeted amounts, and the annual true-up and collection or refund process to customers will be determined by the MPUC upon consideration of each utility's compliance filings. Based on the discussion at the October 19, 2017 hearing, this pilot is not expected to start until mid-2019.

2016 Wisconsin General Rate Case. In June 2016, SWL&P filed a rate increase request with the PSCW requesting an average increase of 3.1 percent for retail customers. The filing sought an overall return on equity of 10.9 percent and a 55 percent equity ratio. In an order dated August 9, 2017, the PSCW approved SWL&P's rate increase request allowing for a 10.5 percent return on common equity and a 55 percent equity ratio. The order authorizes SWL&P to collect on average a 2.9 percent increase in rates for retail customers (3.8 percent increase in electric rates; 4.8 percent decrease in natural gas rates; and 9.8 percent increase in water rates). Final rates became effective on August 14, 2017. On an annualized basis, SWL&P will collect additional revenue of approximately \$2.5 million.

Integrated Resource Plan. In 2015, Minnesota Power filed its 2015 IRP with the MPUC which included an analysis of a variety of existing and future energy resource alternatives and a projection of customer cost impact by class. The 2015 IRP also contained steps in Minnesota Power's *EnergyForward* strategic plan including the economic idling of Taconite Harbor Units 1 and 2 which occurred in September 2016, the ceasing of coal-fired operations at Taconite Harbor in 2020, and the addition of between 200 MW and 300 MW of natural gas-fired generation in the next decade. In a July 2016 order, the MPUC approved Minnesota Power's 2015 IRP with modifications. The order accepted Minnesota Power's plans for Taconite Harbor, directed Minnesota Power to retire Boswell Units 1 and 2 no later than 2022, required an analysis of generation and demand response alternatives to be filed with a natural gas resource proposal, and required Minnesota Power to conduct request for proposals for additional wind, solar and demand response resource additions subject to further MPUC approvals. In October 2016, Minnesota Power announced Boswell Units 1 and 2 will be retired in 2018.

On July 28, 2017, Minnesota Power submitted a resource package to the MPUC requesting approval of PPAs for the output of a 250 MW wind energy facility and a 10 MW solar energy facility as well as approval of a 250 MW natural gas energy PPA. These agreements will be subject to MPUC approval of the construction of a 525 MW to 550 MW combined-cycle natural gas-fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE. Minnesota Power would purchase approximately 50 percent of the facility's output starting in 2025. In an order dated September 19, 2017, the MPUC approved Minnesota Power's request to extend the next IRP filing deadline until October 1, 2019, and Minnesota Power's request that approval for the natural gas energy PPA be decided through an administrative law judge process. The administrative law judge is expected to provide a recommendation by July 2018, and the Company anticipates a MPUC decision in the second half of 2018. The MPUC did not take any action regarding the wind and solar energy PPAs which will be refiled separately from the natural gas energy PPA.

NOTE 6. REGULATORY MATTERS (Continued)

Great Northern Transmission Line. 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. In 2015, a certificate of need was approved by the MPUC. Based on this approval, Minnesota Power's portion of the investments and expenditures for the project are eligible for cost recovery under its existing transmission cost recovery rider and are anticipated to be included in future transmission cost recovery filings. (See *Transmission Cost Recovery Rider*.) Also in 2015, the FERC approved our request to recover on construction work in progress related to the GNTL from Minnesota Power's wholesale customers. In an April 2016 order, the MPUC approved the route permit for the GNTL which largely follows Minnesota Power's preferred route, including the international border crossing, and in November 2016, the U.S. Department of Energy issued a presidential permit to cross the U.S.-Canadian border, which was the final major regulatory approval needed before construction in the U.S. could begin. Site clearing and pre-construction activities commenced in the first quarter of 2017 with construction expected 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, of which Minnesota Power's portion is expected to be between \$300 million and \$350 million; the difference will be recovered from a subsidiary of Manitoba Hydro as contributions in aid of construction. Total project costs of \$66.9 million have been incurred through September 30, 2017, of which \$36.8 million has been recovered from a subsidiary of Manitoba Hydro.

Manitoba Hydro must obtain regulatory and governmental approvals related to a new transmission line in Canada. In 2015, Manitoba Hydro submitted the final preferred route and EIS for the transmission line in Canada to the Manitoba Conservation and Water Stewardship for regulatory approval. Construction of Manitoba Hydro's hydroelectric generation facility commenced in 2014.

Conservation Improvement Program. Minnesota requires electric utilities to spend a minimum of 1.5 percent of gross operating revenues from service provided in the state on energy CIPs each year. On April 3, 2017, Minnesota Power submitted its 2016 CIP consolidated filing, which detailed Minnesota Power's CIP program results and requested a CIP financial incentive of \$5.5 million based upon MPUC procedures. In an order dated June 22, 2017, the MPUC approved Minnesota Power's CIP consolidated filing, including the requested CIP financial incentive which was recorded as revenue and as a regulatory asset in the second quarter of 2017. The approved financial incentive will be recovered through customer billing rates in 2017 and 2018. In 2016, the CIP financial incentive of \$7.5 million was recognized in the third quarter. CIP financial incentives are recognized in the period in which the MPUC approves the filing.

MISO Return on Equity Complaints. In 2013, several customer groups located within the MISO service area filed complaints with the FERC requesting, among other things, a reduction in the base return on equity used by MISO transmission owners, including ALLETE and ATC, to 9.15 percent. In 2015, a federal administrative law judge ruled on the complaint proposing a reduction in the base return on equity to 10.32 percent, or 10.82 percent including an incentive adder for participation in a regional transmission organization. In September 2016, the FERC issued an order affirming the administrative law judge's recommendation.

In 2015, an additional complaint was filed with the FERC seeking an order to further reduce the base return on equity to 8.67 percent. In June 2016, a federal administrative law judge ruled on the additional complaint proposing a further reduction in the base return on equity to 9.70 percent, or 10.20 percent including an incentive adder for participation in a regional transmission organization, subject to approval or adjustment by the FERC. A final decision from the FERC on the administrative law judge's recommendation is pending, which is not expected to have a material impact on our Consolidated Financial Statements.

Minnesota Solar Energy Standard. In 2013, legislation was enacted by the state of Minnesota requiring at least 1.5 percent of total retail electric sales, excluding sales to certain 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 40 kW or less. In a February 2016 order finalized in December 2016, the MPUC approved Camp Ripley, a 10 MW utility scale solar project at the Camp Ripley Minnesota Army National Guard base and training facility near Little Falls, Minnesota, as eligible to meet the solar energy standard and for current cost recovery. Camp Ripley was completed in the fourth quarter of 2016. In a July 2016 order, the MPUC approved a community solar garden project in northeastern Minnesota, which is comprised of a 1 MW solar array to be owned and operated by a third party with the output purchased by Minnesota Power and a 40 kW solar array that is owned and operated by Minnesota Power. Minnesota Power believes Camp Ripley and the community solar garden project will meet approximately one-third of the overall mandate. Additionally, in an order dated February 10, 2017, the MPUC approved Minnesota Power's proposal to increase the amount of solar rebates available for customer-sited solar installations and recover costs of the program through Minnesota Power's renewable cost recovery rider. This proposal to incentivize customer-sited solar installations is expected to meet a portion of the required mandate related to solar photovoltaic devices with a nameplate capacity of 40 kW or less.

NOTE 6. REGULATORY MATTERS (Continued)

Regulatory Assets and Liabilities. Our regulated utility operations are subject to accounting guidance for the effect of certain types of regulation. Regulatory assets represent incurred costs that have been deferred as they are probable for recovery in customer rates. Regulatory liabilities represent obligations to make refunds to customers and amounts collected in rates for which the related costs have not yet been incurred. The Company assesses quarterly whether regulatory assets and liabilities meet the criteria for probability of future recovery or deferral. 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.

| Regulatory Assets and Liabilities | September 30, 2017 | December 31, 2016 |
|--|-------------------------------|------------------------------|
| Millions | | |
| Current Regulatory Assets | | |
| Deferred Fuel Adjustment Clause | \$20.2 | \$18.6 |
| Total Current Regulatory Assets | 20.2 | 18.6 |
| Non-Current Regulatory Assets | | |
| Defined Benefit Pension and Other Postretirement Benefit Plans | 221.4 | 226.1 |
| Income Taxes (a) | 35.7 | 33.8 |
| Asset Retirement Obligations | 29.8 | 26.0 |
| Cost Recovery Riders | 5.2 | 30.5 |
| PPACA Income Tax Deferral | 5.0 | 5.0 |
| Conservation Improvement Program | 4.9 | 4.0 |
| Other | 8.6 | 4.7 |
| Total Non-Current Regulatory Assets | 310.6 | 330.1 |
| Total Regulatory Assets | \$330.8 | \$348.7 |
| Non-Current Regulatory Liabilities | | |
| Wholesale and Retail Contra AFUDC | \$57.0 | \$56.8 |
| Plant Removal Obligations | 19.2 | 19.1 |
| Income Taxes | 18.6 | 19.1 |
| North Dakota Investment Tax Credits | 13.9 | 28.2 |
| Other | 2.8 | 2.6 |
| Total Non-Current Regulatory Liabilities | \$111.5 | \$125.8 |

(a) See Note 1. Operations and Significant Accounting Policies – Revision of Prior Balance Sheet.

NOTE 7. INVESTMENT IN ATC

Our wholly-owned subsidiary, ALLETE Transmission Holdings, 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. We account for our investment in ATC under the equity method of accounting. As of September 30, 2017, our equity investment in ATC was \$146.0 million (\$135.6 million at December 31, 2016). In the first nine months of 2017, we invested \$6.6 million in ATC, and on October 31, 2017, we invested an additional \$1.2 million. We do not expect to make any additional investments in 2017.

ALLETE's Investment in ATC

| | |
|--|---------|
| Millions | |
| Equity Investment Balance as of December 31, 2016 | \$135.6 |
| Cash Investments | 6.6 |
| Equity in ATC Earnings | 17.3 |
| Distributed ATC Earnings | (13.5) |
| Equity Investment Balance as of September 30, 2017 | \$146.0 |

In September 2016, the FERC issued an order reducing ATC's authorized return on equity to 10.32 percent, or 10.82 percent including an incentive adder for participation in a regional transmission organization. Prior to this order, ATC had been allowed a return on equity of 12.2 percent which had been impacted by reductions for estimated refunds related to complaints filed with the FERC by several customers located within the MISO service area.

NOTE 7. INVESTMENT IN ATC (Continued)

In June 2016, a federal administrative law judge ruled on an additional complaint proposing a further reduction in the base return on equity to 9.70 percent, or 10.20 percent including an incentive adder for participation in a regional transmission organization, subject to approval or adjustment by the FERC. A final decision from the FERC on the administrative law judge's recommendation is pending. (See Note 6. Regulatory Matters.) 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 after-tax.

NOTE 8. SHORT-TERM AND LONG-TERM DEBT

The following tables present the Company's short-term and long-term debt as of September 30, 2017, and December 31, 2016:

| September 30, 2017 | Principal | Unamortized Debt Issuance Costs | Total |
|---------------------------|------------------|--|------------------|
| Millions | | | |
| Short-Term Debt | \$64.6 | \$(0.5) | \$64.1 |
| Long-Term Debt | 1,454.4 | (9.8) | 1,444.6 |
| Total Debt | \$1,519.0 | \$(10.3) | \$1,508.7 |

| December 31, 2016 | Principal | Unamortized Debt Issuance Costs | Total |
|--------------------------|------------------|--|------------------|
| Millions | | | |
| Short-Term Debt | \$188.3 | \$(0.6) | \$187.7 |
| Long-Term Debt | 1,380.8 | (10.4) | 1,370.4 |
| Total Debt | \$1,569.1 | \$(11.0) | \$1,558.1 |

On June 1, 2017, ALLETE issued \$80.0 million of its senior unsecured notes (the Notes) to certain institutional buyers in the private placement market. The Notes were issued in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, to institutional accredited investors. The Notes bear interest at 3.11 percent and mature on June 1, 2027. Interest on the Notes is payable semi-annually on June 1 and December 1 of each year, commencing on December 1, 2017. ALLETE has the option to prepay all or a portion of the Notes at its discretion, subject to a make-whole provision. The Notes are subject to additional terms and conditions which are customary for these types of transactions. Proceeds from the sale of the Notes may be used to redeem debt, fund corporate growth opportunities and for general corporate purposes.

On August 25, 2017, ALLETE entered into a \$40.0 million term loan agreement (Term Loan). The Term Loan is an unsecured, single draw loan that is due on August 25, 2020, and may be prepaid at any time subject to a make-whole provision. The interest rate on the Term Loan is equal to LIBOR plus 1.025 percent. Proceeds from the Term Loan will be used for general corporate purposes.

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, 2017, our ratio was approximately 0.42 to 1.00. Failure to meet this covenant would give rise to an event of default if not cured after notice from the lender, in which event ALLETE may need to pursue alternative sources of funding. Some of ALLETE's debt arrangements contain "cross-default" provisions that would result in an event of default if there is a failure under other financing arrangements to meet payment terms or to observe other covenants that would result in an acceleration of payments due. As of September 30, 2017, ALLETE was in compliance with its financial covenants.

NOTE 9. INCOME TAX EXPENSE

| | Quarter Ended | | Nine Months Ended | |
|---------------------------------------|----------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Millions | | | | |
| Current Income Tax Expense (a) | | | | |
| Federal | — | — | — | — |
| State | \$0.1 | — | \$0.3 | \$0.2 |
| Total Current Income Tax Expense | \$0.1 | — | \$0.3 | \$0.2 |
| Deferred Income Tax Expense | | | | |
| Federal | \$9.2 | \$0.4 | \$20.3 | \$7.1 |
| State | 5.0 | 1.4 | 14.5 | 8.9 |
| Investment Tax Credit Amortization | (0.1) | (0.1) | (0.5) | (0.5) |
| Total Deferred Income Tax Expense | \$14.1 | \$1.7 | \$34.3 | \$15.5 |
| Total Income Tax Expense | \$14.2 | \$1.7 | \$34.6 | \$15.7 |

(a) For the quarter and nine months ended September 30, 2017, and 2016, the federal and state current tax expense was minimal due to NOLs which resulted from the bonus depreciation provisions of the Protecting Americans from Tax Hikes Act of 2015, the Tax Increase Prevention Act of 2014 and the American Taxpayer Relief Act of 2012.

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual effective tax rate changes, the Company would make a cumulative adjustment in that quarter.

| Reconciliation of Taxes from Federal Statutory Rate to Total Income Tax Expense | Quarter Ended | | Nine Months Ended | |
|--|----------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Millions | | | | |
| Income Before Non-Controlling Interest and Income Taxes | \$59.1 | \$42.0 | \$165.4 | \$127.2 |
| Statutory Federal Income Tax Rate | 35% | 35% | 35% | 35% |
| Income Taxes Computed at 35 percent Statutory Federal Rate | \$20.7 | \$14.7 | \$57.9 | \$44.5 |
| Increase (Decrease) in Income Tax Due to: | | | | |
| State Income Taxes – Net of Federal Income Tax Benefit | 3.3 | 0.9 | 9.6 | 5.9 |
| Production Tax Credits | (10.4) | (14.0) | (33.4) | (34.5) |
| Other | 0.6 | 0.1 | 0.5 | (0.2) |
| Total Income Tax Expense | \$14.2 | \$1.7 | \$34.6 | \$15.7 |

For the nine months ended September 30, 2017, the effective tax rate was 20.9 percent (12.3 percent for the nine months ended September 30, 2016).

Uncertain Tax Positions. As of September 30, 2017, we had gross unrecognized tax benefits of \$1.9 million (\$2.0 million as of December 31, 2016). Of the total gross unrecognized tax benefits, \$0.7 million represents the amount of unrecognized tax benefits included on 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 has no open federal or state audits, and is no longer subject to federal examination for years before 2013, or state examination for years before 2012.

NOTE 10. RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in Accumulated Other Comprehensive Loss. Comprehensive income (loss) is the change in shareholders' equity during a period from transactions and events from non-owner sources, including net income. The amounts recorded to accumulated other comprehensive loss include currency translation adjustments, unrealized gains and losses on available-for-sale securities and defined benefit pension and other postretirement items, consisting of deferred actuarial gains or losses and prior service costs or credits.

For the quarter and nine months ended September 30, 2017, and 2016, reclassifications out of accumulated other comprehensive loss for the Company were not material. Changes in accumulated other comprehensive loss for the nine months ended September 30, 2017, are presented on the Consolidated Statement of Shareholders' Equity.

NOTE 11. 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 and performance share awards granted under our Executive Long-Term Incentive Compensation Plan. For the nine months ended September 30, 2017, and 2016, no options to purchase shares of ALLETE common stock were excluded from the computation of diluted earnings per share.

| Reconciliation of Basic and Diluted Earnings Per Share | 2017 | | | 2016 | | |
|--|---------|---------------------|---------|---------|---------------------|---------|
| | Basic | Dilutive Securities | Diluted | Basic | Dilutive Securities | Diluted |
| Millions Except Per Share Amounts | | | | | | |
| Quarter ended September 30, | | | | | | |
| Net Income Attributable to ALLETE | \$44.9 | | \$44.9 | \$40.3 | | \$40.3 |
| Average Common Shares | 51.0 | 0.2 | 51.2 | 49.4 | 0.1 | 49.5 |
| Earnings Per Share | \$0.88 | | \$0.88 | \$0.82 | | \$0.81 |
| Nine Months Ended September 30, | | | | | | |
| Net Income Attributable to ALLETE | \$130.8 | | \$130.8 | \$111.0 | | \$111.0 |
| Average Common Shares | 50.7 | 0.2 | 50.9 | 49.3 | 0.1 | 49.4 |
| Earnings Per Share | \$2.58 | | \$2.57 | \$2.25 | | \$2.25 |

Contributions to Pension. For the nine months ended September 30, 2017, we contributed 0.2 million shares of ALLETE common stock to our defined benefit pension plans, which had an aggregate value of \$13.5 million when contributed (no shares were contributed to the defined benefit pension plans for the nine months ended September 30, 2016). 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.

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

| Components of Net Periodic Benefit Cost (Income) | Pension | | Other Postretirement | |
|--|---------|--------|----------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Millions | | | | |
| Quarter Ended September 30, | | | | |
| Service Cost | \$2.6 | \$2.0 | \$1.1 | \$1.0 |
| Interest Cost | 8.1 | 8.2 | 2.0 | 1.9 |
| Expected Return on Plan Assets | (10.6) | (10.7) | (2.6) | (2.8) |
| Amortization of Prior Service Credits | — | — | (0.5) | (0.7) |
| Amortization of Net Loss | 2.5 | 2.4 | — | — |
| Net Periodic Benefit Cost (Income) | \$2.6 | \$1.9 | — | \$(0.6) |
| Nine Months Ended September 30, | | | | |
| Service Cost | \$7.7 | \$6.1 | \$3.3 | \$3.0 |
| Interest Cost | 24.4 | 24.4 | 5.8 | 5.6 |
| Expected Return on Plan Assets | (31.8) | (32.0) | (7.9) | (8.4) |
| Amortization of Prior Service Credits | — | — | (1.5) | (2.2) |
| Amortization of Net Loss | 7.4 | 7.3 | 0.2 | 0.1 |
| Net Periodic Benefit Cost (Income) | \$7.7 | \$5.8 | \$(0.1) | \$(1.9) |

Employer Contributions. For the nine months ended September 30, 2017, we contributed \$1.7 million in cash and \$13.5 million in ALLETE common stock to the defined benefit pension plans (\$6.3 million in cash for the nine months ended September 30, 2016); we do not expect to make additional contributions to our defined benefit pension plans in 2017. For the nine months ended September 30, 2017, and 2016, we made no contributions to our other postretirement benefit plans; we do not expect to make any contributions to our other postretirement benefit plans in 2017.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Power Purchase Agreements. Our long-term PPAs have been evaluated under the accounting guidance for variable interest entities. We have determined that either we have no variable interest in the 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.

Our PPAs are summarized in Note 11. Commitments, Guarantees and Contingencies to our Consolidated Financial Statements in our 2016 Form 10-K, with additional disclosure provided in the following paragraphs.

Square Butte PPA. Minnesota Power has a PPA with Square Butte that extends through 2026 (Agreement). Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on its entitlement to the output of Square Butte's 455 MW coal-fired generating unit. Minnesota Power's output entitlement under the Agreement is 50 percent for the remainder of the Agreement, subject to the provisions of the Minnkota Power PSA. (See *Minnkota Power PSA*.) Square Butte's costs consist primarily of debt service, operating and maintenance, depreciation and fuel expenses. As of September 30, 2017, Square Butte had total debt outstanding of \$309.3 million. Fuel expenses are recoverable through Minnesota Power's fuel adjustment clause and include the cost of coal purchased from BNI Energy under a long-term contract.

Minnesota Power's cost of power purchased from Square Butte during the nine months ended September 30, 2017, was \$60.6 million (\$56.8 million for the nine months ended September 30, 2016). 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 \$7.1 million (\$7.2 million for the same period in 2016). 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 PSA. Minnesota Power has a PSA with Minnkota Power, which commenced in 2014. Under the PSA, Minnesota Power is selling a portion of its entitlement 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. Of Minnesota Power's 50 percent output entitlement, it sold to Minnkota Power approximately 28 percent in 2017 and in 2016.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Power Purchase Agreements (Continued)

Tenaska PPA. On May 10, 2017, Minnesota Power and an affiliate of Tenaska signed a long-term PPA that provides for Minnesota Power to purchase the energy and associated capacity from a 250 MW wind energy facility in southwest Minnesota for a 20-year period beginning in 2020. This agreement is subject to MPUC approval of the construction of a 525 MW to 550 MW combined-cycle natural gas-fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE, and a wind energy facility. (See Note 6. Regulatory Matters.) The agreement provides for the purchase of output from the facility at fixed energy prices. There are no fixed capacity charges, and Minnesota Power will only pay for energy as it is delivered.

Coal, Rail and Shipping Contracts. Minnesota Power has coal supply agreements providing for the purchase of a significant portion of its coal requirements through December 2018 and a portion of its coal requirements through December 2021. Minnesota Power also has coal transportation agreements in place for the delivery of a significant portion of its coal requirements through December 2018. The minimum annual payment obligation under these supply and transportation agreements is \$7.2 million for the remainder of 2017, \$29.0 million in 2018, \$1.8 million in 2019 and none thereafter. The delivered costs of fuel for Minnesota Power's generation are recoverable from Minnesota Power's utility customers through the fuel adjustment clause.

Leasing Agreements. BNI Energy is obligated to make lease payments for a dragline totaling \$2.8 million annually during the lease term, which expires in 2027. BNI Energy 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 2023. The aggregate amount of minimum lease payments for all operating leases is \$3.4 million for the remainder of 2017, \$12.0 million in 2018, \$10.7 million in 2019, \$7.5 million in 2020, \$5.9 million in 2021 and \$18.3 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, investments to enhance our own transmission facilities, investments in other transmission assets (individually or in combination with others) and our investment in ATC.

Great Northern Transmission Line. As a condition of the 250-MW long-term PPA entered into 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.

In 2015, a certificate of need was approved by the MPUC. Based on this approval, Minnesota Power's portion of the investments and expenditures for the project are eligible for cost recovery under its existing transmission cost recovery rider and are anticipated to be included in future transmission cost recovery filings. (See Note 6. Regulatory Matters.) Also in 2015, the FERC approved our request to recover on construction work in progress related to the GNTL from Minnesota Power's wholesale customers. In an April 2016 order, the MPUC approved the route permit for the GNTL which largely follows Minnesota Power's preferred route, including the international border crossing, and in November 2016, the U.S. Department of Energy issued a presidential permit to cross the U.S.-Canadian border, which was the final major regulatory approval needed before construction in the U.S. could begin. Site clearing and pre-construction activities commenced in the first quarter of 2017 with construction expected 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, of which Minnesota Power's portion is expected to be between \$300 million and \$350 million; the difference will be recovered from a subsidiary of Manitoba Hydro as contributions in aid of construction. Total project costs of \$66.9 million have been incurred through September 30, 2017, of which \$36.8 million has been recovered from a subsidiary of Manitoba Hydro.

Manitoba Hydro must obtain regulatory and governmental approvals related to a new transmission line in Canada. In 2015, Manitoba Hydro submitted the final preferred route and EIS for the transmission line in Canada to the Manitoba Conservation and Water Stewardship for regulatory approval. Construction of Manitoba Hydro's hydroelectric generation facility commenced in 2014.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters.

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. A number of regulatory changes to the Clean Air Act, the Clean Water Act and various waste management requirements have recently been promulgated by both the EPA and state authorities. Minnesota Power's facilities are subject to additional regulation under many of these regulations. In response to these regulations, Minnesota Power is reshaping its generation portfolio over time to reduce its reliance on coal, has installed cost-effective emission control technology, and advocates for sound science and policy during rulemaking implementation.

We consider our businesses to be in substantial compliance with currently applicable environmental regulations and believe all necessary permits have been obtained. We anticipate that with many state and federal environmental regulations finalized, or to be finalized in the near future, potential expenditures for future environmental matters may be material and may require significant capital investments. Minnesota Power has evaluated various environmental compliance scenarios using possible outcomes of 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 becomes 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 expensed 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 emission requirements.

New Source Review (NSR). In 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 and Laskin Unit 2 between the years of 1981 and 2001. Minnesota Power received an additional NOV in 2011 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 in 2014. The Consent Decree provided for, among other requirements, more stringent emissions limits at all affected units, the option of refueling, retrofits or retirements at certain small coal units, and the addition of 200 MW of wind energy. Provisions of the Consent Decree require that, by no later than December 31, 2018, Boswell Units 1 and 2 must be retired, refueled, repowered, or emissions rerouted through existing emission control technology at Boswell. In October 2016, Minnesota Power announced that Boswell Units 1 and 2 will be retired in 2018 as part of its *EnergyForward* strategic plan. We believe that costs to retire Boswell Units 1 and 2 will be eligible for recovery in rates over time, subject to regulatory approval in a rate proceeding.

Cross-State Air Pollution Rule (CSAPR). The CSAPR requires certain states in the eastern half of the U.S., including Minnesota, to reduce power plant emissions that contribute to ozone or fine particulate pollution in other states. The CSAPR does not require installation of controls; rather it requires facilities have sufficient allowances to cover their emissions on an annual basis. These allowances are allocated to facilities from each state's annual budget, and can be bought and sold.

Minnesota Power's generation levels and emission rates in 2015 and 2016 were below its allowances. Allowances for 2017 and 2018 were distributed in June 2016. Based on our review of the NO_x and SO₂ allowances issued and pending issuance, we currently expect generation levels and emission rates will result in compliance with the CSAPR.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters (Continued)

Mercury and Air Toxics Standards (MATS) 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 2012, addressing such emissions from coal-fired utility units greater than 25 MW. 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 were required to be in compliance with the rule by April 2015, or April 2016 if granted an extension. Construction on the project to implement the Boswell Unit 4 mercury emissions reduction plan was completed in 2015. Investments and compliance work previously completed at Boswell Unit 3, including emission reduction investments completed in 2009, meet the requirements of the MATS rule. The conversion of Laskin Units 1 and 2 to natural gas in 2015 positioned those units for MATS compliance.

In 2015, the U.S. Supreme Court reversed and remanded an earlier U.S. Court of Appeals for the D.C. Circuit decision on the MATS rule. The U.S. Supreme Court ruled that it was unreasonable for the EPA to deem cost of compliance irrelevant in determining that regulation of emissions of hazardous air pollutants from power plants was “appropriate and necessary” under Section 112 of the Clean Air Act. The MATS rule remains in effect until the U.S. Court of Appeals for the D.C. Circuit acts on the remand. In 2015, the U.S. Court of Appeals for the D.C. Circuit rejected a motion by utilities and states to vacate the MATS rule, instead ordering the rule to remain in effect while the EPA completes its review. In April 2016, the EPA announced its determination that the MATS rule is appropriate and necessary, when also considering cost of compliance. The outcome of these proceedings is not expected to have a material impact on Minnesota Power generation due to emission reduction obligations under the Minnesota Mercury Emissions Reduction Act and the Consent Decree. (See *New Source Review*.)

Minnesota Mercury Emissions Reduction Act/Rule. In order to comply with the Minnesota Mercury Emissions Reduction Act, which was incorporated into rules promulgated by the MPCA in September 2014, Minnesota Power was required to implement a mercury emissions reduction project for Boswell Unit 4 by December 31, 2018. The Boswell Unit 4 environmental upgrade discussed above (see *Mercury and Air Toxics Standards (MATS) Rule*) fulfills the requirements of the Minnesota Mercury Emissions Reduction Act.

EPA National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial and Institutional Boilers and Process Heaters. A final rule issued by the EPA for Industrial Boiler MACT became effective in 2012. Major existing sources had until January 2016, to achieve compliance with the final rule and July 2016, to perform initial compliance demonstrations. Minnesota Power’s Hibbard Renewable Energy Center and Rapids Energy Center are subject to this rule and are currently in compliance. Compliance consisted largely of adjustments to our operating practices; therefore, the costs for complying with the final rule were not material.

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 the 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.

Ozone NAAQS. The EPA has proposed more stringent control related to emissions that result in ground level ozone. In 2010, the EPA proposed to revise the 2008 eight-hour ozone standard of 75 parts per billion (ppb) and to adopt a secondary standard for the protection of sensitive vegetation from ozone-related damage. In 2015, the EPA published the final rule in the Federal Register revising the eight-hour ozone standard to 70 ppb with a secondary standard also set at 70 ppb. All areas of Minnesota currently meet the new standard based on the most recent available ambient monitoring data; however, some areas in the metropolitan Twin Cities and southwest portion of the state are close to exceeding the standard. As a result, voluntary efforts to reduce ozone continue in the state. No additional costs for compliance are anticipated at this time.

Particulate Matter NAAQS. The EPA finalized the Particulate Matter NAAQS in 2006. Since then, the EPA has established more stringent 24-hour and annual average fine particulate matter (PM_{2.5}) standards; the 24-hour coarse particulate matter standard has remained unchanged. In 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 annual PM_{2.5} standard, the EPA is revising aspects of relevant monitoring, designation and permitting requirements. New projects and permits must comply with the new standard, which is generally demonstrated by modeling at the facility level.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters (Continued)

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 2013, based on already available monitoring data, and issued designations of the 2012 revised primary annual fine particulate attainment status in 2014. The EPA designated the entire state of Minnesota as unclassifiable/attainment; however, Minnesota sources may ultimately be required to reduce their emissions to assist with attainment in neighboring states. In September 2016, environmental groups filed a lawsuit against the EPA in the U.S. District Court for the Northern District of California alleging the EPA had failed to fully implement the PM_{2.5} standards in certain states, including Minnesota, by not enforcing states' submittals of required infrastructure SIPs for the 2012 PM_{2.5} NAAQS. The outcome of this litigation is uncertain, and as such, any costs for complying with the final Particulate Matter NAAQS cannot be estimated at this time.

SO₂ and NO₂ NAAQS. During 2010, the EPA finalized one-hour NAAQS for SO₂ and NO₂. Ambient monitoring data indicates that Minnesota is likely in compliance with these standards; however, the one-hour SO₂ NAAQS also requires the EPA to evaluate additional modeling and monitoring considerations to determine attainment. In 2012, the MPCA notified Minnesota Power that modeling had been suspended as a result of the EPA's announcement that the SIP submittals would not require modeling demonstrations for states, such as Minnesota, where ambient monitors indicate compliance with the standard.

In 2013, the EPA provided guidance to states regarding implementation of the one-hour NO₂ NAAQS and in 2014, as clarified in 2015, the MPCA submitted a SIP revision to the EPA addressing the infrastructure requirements of Sections 110(a)(1) and 110(a)(2) of the Clean Air Act in regards to the one-hour NO₂ and SO₂ NAAQS, among other standards. In 2015, the EPA published in the Federal Register an approval and partial disapproval of the 2014 SIP revision. According to the MPCA, the partial disapproval is regarding state delegation of a program unrelated to the one-hour NAAQS for SO₂ and NO₂, and is not expected to require further action. On July 16, 2017, the EPA proposed retaining the current one-hour and annual NO₂ NAAQS. Additional compliance costs for the one-hour NO₂ NAAQS are not expected at this time.

In 2015, the EPA finalized the SO₂ data requirements rule (DRR) for the 2010 one-hour NAAQS to assist the states in implementing the standard. The rule sets emissions thresholds and exemptions for facilities that trigger modeling requirements. In January 2016, the MPCA informed the EPA of the Minnesota sources subject to the rule, confirming that Boswell and Taconite Harbor are the only Minnesota Power generating facilities subject to the DRR. Compliance options include ambient monitoring, modeling existing enforceable emission limits, or modeling actual emissions. The MPCA initially informed Minnesota Power that compliant SO₂ modeling recently completed at these facilities would satisfy the DRR obligations and no further modeling would be required; however, the DRR also requires facilities have federally-enforceable permit limits at which the one-hour SO₂ NAAQS compliance was modeled by January 13, 2017. Taconite Harbor was issued an amended air permit in September 2016, containing the new modeling limits at that facility. The MPCA did not meet the January 13, 2017, deadline to amend the Boswell permit. The MPCA is in discussions with the EPA on alternate compliance pathways to use existing completed modeling at current limits. On August 21, 2017, the EPA proposed retaining the current primary SO₂ one-hour NAAQS. Compliance costs for the one-hour SO₂ NAAQS are not expected to be material.

Class I Air Quality Petitions and Requests. In 2014, the Fond du Lac Band of Lake Superior Chippewa (Fond du Lac Band) announced its intent to petition the EPA to redesignate its reservation air shed from Class II to Class I air quality pursuant to Section 164(c) of the Clean Air Act. The Fond du Lac Band does not currently possess authority to directly regulate air quality. Class I air shed status, if granted, would allow the Fond du Lac Band to impose more stringent Clean Air Act protections within the boundaries of the Fond du Lac reservation, including the reservation air shed, near Cloquet, Minnesota. A public hearing was held by the Fond du Lac Band and the public comment period on the petition expired in 2014.

In 2013, the Bad River Band of Lake Superior Chippewa (Bad River Band) announced its intent to petition the EPA to redesignate its reservation air shed from Class II to Class I air quality pursuant to Section 164(c) of the Clean Air Act. The Class I analysis report was issued by the Bad River Band followed by public hearings and a public comment period ending in 2015.

The next step for the Fond du Lac Band and the Bad River Band would be to make a formal submittal request to the EPA. There is no deadline for the approval, denial, or modification of these requests by the EPA. We are unable to determine the impact of potential Class I status on the Company's operations at this time.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters (Continued)

Climate Change. The scientific community generally accepts that emissions of GHG are linked to global climate change which 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 generating facilities;
- Supporting research of technologies to reduce carbon emissions from generating facilities and carbon sequestration efforts; and
- Evaluating and developing less carbon intensive future generating assets such as efficient and flexible natural gas-fired generating facilities.

Climate Action Plan (CAP). In 2015, the Federal government announced an updated 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. On March 28, 2017, President Trump signed an Executive Order titled Promoting Energy Independence and Economic Growth that rescinded the CAP.

EPA Regulation of GHG Emissions. In 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 may 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 2014, the U.S. Supreme Court invalidated the aspect of the Tailoring Rule that established higher permitting thresholds for GHG than for other pollutants subject to PSD; however, the court also upheld the EPA's ability 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. At this time, we are unable to predict the compliance costs that we might incur.

In October 2016, the EPA published a proposed rule in the Federal Register to revise its PSD and Title V regulatory provisions concerning GHG emissions. In this proposed rule, the EPA proposes to amend its regulations to clarify that a source's obligation to obtain a PSD or Title V permit is triggered only by non-GHG pollutants. If the PSD or Title V permitting requirements are triggered by non-GHG, NSR pollutants, then these programs will also apply to the source's GHG emissions. The proposed rule, as currently written, is not expected to have a material impact on the Title V permitting for current operations. It is uncertain how the Title V permitting requirements will be affected by the March 28, 2017, Executive Order titled Promoting Energy Independence and Economic Growth.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters (Continued)

In 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”, also referred to as the Clean Power Plan (CPP). The EPA issued the final CPP in 2015, together with a proposed federal implementation plan and a model rule for emissions trading. Petitions for review of the rule were filed with the U.S. Court of Appeals for the District of Columbia Circuit. In February 2016, the U.S. Supreme Court issued an order staying the effectiveness of the rule until after the appellate court process is complete. In September 2016, the U.S. Court of Appeals for the District of Columbia heard oral arguments and is currently deliberating. The EPA is precluded from enforcing the CPP while the U.S. Supreme Court stay is in force; however, the MPCA has been holding a series of meetings on the CPP for educational and planning purposes in the interim. Minnesota Power has been actively involved in these MPCA meetings, and is closely monitoring the appeals process.

If upheld, the CPP would establish uniform CO₂ emission performance rates for existing fossil fuel-fired and natural gas-fired combined cycle generating units, setting state-specific goals for CO₂ emissions from the power sector. State goals were determined based on CPP source-specific performance emission rates and each state’s mix of power plants. The EPA maintains such goals are achievable if a state undertakes a combination of measures across its power sector that constitutes the EPA’s guideline for a Best System of Emission Reductions (BSER). BSER is comprised of three building blocks: 1) improved fossil fuel power plant efficiency, 2) increased reliance on low-emitting power sources by generating more electricity from existing natural gas combined-cycle units, and 3) building more zero- and low-emitting power sources, including renewable energy. States may also choose to include avoided CO₂ emissions from customer energy efficiency measures for credit towards meeting state goals. The regulatory review initiated by the March 28, 2017, Executive Order titled Promoting Energy Independence and Economic Growth is directed to include Section 111(b) and 111(d) CPP provisions. In addition, the EPA has filed a motion with the U.S. Court of Appeals for the District of Columbia Circuit to hold CPP-related litigation in abeyance while the EPA is reviewing the rule. On October 10, 2017, the EPA issued a notice of proposed rulemaking, proposing to repeal the CPP. Minnesota Power continues to monitor the status of the CPP and related matters.

State goals under the CPP are expressed as both mass-based and rate-based, and include interim goals to be met over the years 2022 through 2029, as well as a final goal to be met in 2030 and thereafter. Under the original schedule for the CPP, each state would have been required to develop a SIP by September 2016, or by September 6, 2018, if granted an extension. Due to the U.S. Supreme Court order staying the effectiveness of the CPP, those SIP submittal dates are not currently in effect. If the CPP is upheld at the completion of the appellate court process, all of the CPP regulatory deadlines are expected to be reset based on the length of time that the appeals process takes.

In developing its plan, a state may choose to meet either the mass-based or the rate-based goals. Minnesota Power is currently evaluating the CPP as it relates to the State of Minnesota as well as its potential impact on the Company and is actively discussing potential compliance scenarios with regulatory agencies and in public stakeholder meetings. 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 Note 6. Regulatory Matters.)

We are unable to predict the GHG emission compliance costs we might incur; however, the costs could be material. Minnesota Power would seek recovery of additional costs through a rate proceeding.

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 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 impacted by the facility’s intake structure or cooling system. The Section 316(b) rule was effective in 2014. 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. No NPDES permits for Minnesota Power generating facilities have been re-issued containing Section 316(b) requirements since the final rule was published, so at this time we are unable to determine the final cost of compliance. Should the MPCA require significant modifications to Minnesota Power’s intake structures, a preliminary assessment indicates costs of compliance up to \$15 million over the next five years. Minnesota Power would seek recovery of additional costs through a rate proceeding.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters (Continued)

Steam Electric Power Generating Effluent Guidelines. In 2015, the EPA issued revised federal effluent limit guidelines (ELG) for steam electric power generating stations under the Clean Water Act. It sets effluent limits and prescribes BACT for several wastewater streams, including flue gas desulphurization (FGD) water and coal combustion landfill leachate. On April 12, 2017, the EPA published in the Federal Register the postponement of certain compliance deadlines and formally announced that it would reconsider the final ELG rule. Under the ELG rule schedule, required compliance activity deadlines could have been in place as soon as November 1, 2018. These deadlines could have included prescriptive wastewater treatment technology installation, as well as a ban on bottom ash contact water discharges. If the EPA's reconsideration results in the rule being revised or rescinded, the authority to regulate bottom ash transport water and FGD wastewater would fall under existing Effluent Guidelines Limits and state resource agency purview. On September 13, 2017, the EPA formally announced a two-year postponement of the ELG compliance date to November 1, 2020, while the agency reconsiders bottom ash transport water and FGD wastewater provisions.

We are evaluating the final ELG rule's potential impact on Minnesota Power's operations, primarily at Boswell. Boswell currently discharges bottom ash contact water through its NPDES permit, and also has a closed-loop FGD system that does not currently discharge, but may do so in the future. Under the final ELG rule, bottom ash discharge would not be allowed and bottom ash contact water would either need to be re-used in a closed-loop process, routed to a FGD scrubber, or the bottom ash handling system would need to be converted to a dry process. If the FGD wastewater is discharged in the future, it would require additional wastewater treatment. Efforts have been underway at Boswell for several years to reduce the amount of water discharged and evaluate potential re-use options in its plant processes. Additional efforts are underway to determine if land application of certain wastewater streams under a state disposal system may be feasible.

At this time, we cannot estimate what 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 reuse. Minnesota Power would seek recovery of additional costs through a rate proceeding.

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

Coal Ash Management Facilities. Minnesota Power stores or disposes coal ash at four of its electric generating facilities by the following methods: storing ash in lined onsite impoundments (ash ponds), disposing of dry ash in a lined dry ash landfill which has been idled and has a temporary landfill cover in place, applying ash to land as an approved beneficial use and trucking ash to state permitted landfills.

The EPA issued the final coal combustion residuals (CCR) rule in 2014 under Subtitle D (non-hazardous) of RCRA and it was published in the Federal Register in 2015. The rule includes additional requirements for new landfill and impoundment construction as well as closure activities related to certain existing impoundments. Costs of compliance for Boswell and Laskin are expected to occur primarily over the next 10 years and be between approximately \$65 million and \$100 million. Recently, the EPA has indicated to Minnesota Power that the Taconite Harbor landfill is a CCR unit, based on the EPA's interpretation of the CCR rule language. Minnesota Power has agreed to post the required CCR information for the Taconite Harbor landfill on Minnesota Power's website while the CCR issue is resolved. Minnesota Power continues to work on minimizing costs through evaluation of beneficial re-use and recycling of CCR and CCR-related waters. On September 13, 2017, the EPA announced its intention to formally reconsider the CCR rule. Compliance costs, if any, for CCR at Taconite Harbor cannot be estimated at this time. Minnesota Power would seek recovery of additional costs through a rate proceeding.

Other Matters.

ALLETE Clean Energy. ALLETE Clean Energy's wind energy facilities have PSAs in place for their entire output and expire in various years between 2018 and 2032. As of September 30, 2017, ALLETE Clean Energy has \$15.4 million outstanding in standby letters of credit.

U.S. Water Services. As of September 30, 2017, U.S. Water Services has \$0.8 million outstanding in standby letters of credit.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Other Matters (Continued)

BNI Energy. As of September 30, 2017, BNI Energy had surety bonds outstanding of \$49.9 million and a letter of credit for an additional \$0.6 million related to the reclamation liability for closing costs associated with its mine and mine facilities. Although its coal supply agreements obligate the customers to provide for the closing costs, additional assurance is required by federal and state regulations. BNI Energy's total reclamation liability is currently estimated at \$47.5 million. BNI Energy does not believe it is likely that any of these outstanding surety bonds or the letter of credit will be drawn upon.

ALLETE Properties. As of September 30, 2017, ALLETE Properties had surety bonds outstanding and letters of credit to governmental entities totaling \$8.6 million primarily related to development and maintenance obligations for various projects. The estimated cost of the remaining development work is approximately \$6.1 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. At September 30, 2017, we owned 70 percent of the assessable land in the Town Center District (72 percent at December 31, 2016) and 58 percent of the assessable land in the Palm Coast Park District (92 percent at December 31, 2016). At September 30, 2017, ownership levels, our annual assessments related to capital improvement and special assessment bonds for the ALLETE Properties projects within these districts are approximately \$1.4 million for Town Center at Palm Coast and \$2.0 million for Palm Coast Park. As we sell property at these projects, 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.

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.

NOTE 14. BUSINESS SEGMENTS

We present three reportable segments: Regulated Operations, ALLETE Clean Energy and U.S. Water Services. We measure performance of our operations through budgeting and monitoring of contributions to consolidated net income by each business segment.

Regulated Operations includes three operating segments which consist of our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC. ALLETE Clean Energy is our business focused on developing, acquiring and operating clean and renewable energy projects. U.S. Water Services is our integrated water management company. The ALLETE Clean Energy and U.S. Water Services reportable segments comprise our Energy Infrastructure and Related Services businesses. We also present Corporate and Other which includes two operating segments, BNI Energy, our coal mining operations in North Dakota, and ALLETE Properties, our legacy Florida real estate investment, along with 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.

NOTE 14. BUSINESS SEGMENTS (Continued)

| | Quarter Ended | | Nine Months Ended | |
|---|----------------|----------------|-------------------|----------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Millions | | | | |
| Operating Revenue | | | | |
| Regulated Operations | \$277.6 | \$253.3 | \$824.1 | \$740.5 |
| Energy Infrastructure and Related Services | | | | |
| ALLETE Clean Energy | 13.5 | 14.7 | 56.8 | 57.1 |
| U.S. Water Services | 40.2 | 37.8 | 110.7 | 104.5 |
| Corporate and Other | 31.2 | 43.8 | 89.8 | 96.1 |
| Total Operating Revenue | \$362.5 | \$349.6 | \$1,081.4 | \$998.2 |
| Net Income (Loss) Attributable to ALLETE | | | | |
| Regulated Operations | \$34.2 | \$45.0 | \$110.1 | \$110.0 |
| Energy Infrastructure and Related Services | | | | |
| ALLETE Clean Energy | 0.6 | 1.0 | 11.1 | 9.7 |
| U.S. Water Services | 1.3 | 1.5 | 1.6 | 2.0 |
| Corporate and Other | 8.8 | (7.2) | 8.0 | (10.7) |
| Total Net Income Attributable to ALLETE | \$44.9 | \$40.3 | \$130.8 | \$111.0 |

| | September 30, | December 31, |
|--|------------------|------------------|
| | 2017 | 2016 |
| Millions | | |
| Assets | | |
| Regulated Operations | \$3,811.7 | \$3,823.9 |
| Energy Infrastructure and Related Services | | |
| ALLETE Clean Energy | 560.3 | 566.0 |
| U.S. Water Services | 293.3 | 264.1 |
| Corporate and Other | 313.2 | 222.9 |
| Total Assets | \$4,978.5 | \$4,876.9 |

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 2016 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 and our 2016 Form 10-K under the headings: "Forward-Looking Statements" located on page 6 and "Risk Factors" located in Part I, Item 1A, beginning on page 25 of our 2016 Form 10-K. The risks and uncertainties described in this Form 10-Q and our 2016 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 145,000 retail customers. Minnesota Power also has 16 non-affiliated municipal customers in Minnesota. SWL&P is a Wisconsin utility and a wholesale customer of Minnesota Power. SWL&P provides regulated utility electric, natural gas and water service in northwestern Wisconsin to approximately 15,000 electric customers, 13,000 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. (See Note 6. Regulatory Matters.)

ALLETE Clean Energy focuses on developing, acquiring, and operating clean and renewable energy projects. ALLETE Clean Energy currently owns and operates, in four states, approximately 535 MW of nameplate capacity wind energy generation that is from PSAs of various durations. In addition, ALLETE Clean Energy constructed and sold a 107 MW wind energy facility in 2015. On January 3, 2017, ALLETE Clean Energy announced that it will develop another wind energy facility of up to 50 MW after securing a 25-year PSA with Montana-Dakota Utilities. The PSA includes an option for Montana-Dakota Utilities to purchase the facility upon completion; construction is expected to begin in 2018. On March 16, 2017, ALLETE Clean Energy announced it will build, own and operate a separate 100 MW wind energy facility pursuant to a 20-year PSA with Northern States Power; construction is expected to begin in late 2018, subject to regulatory approval.

U.S. Water Services provides integrated water management for industry by combining chemical, equipment, engineering and service for customized solutions to reduce water and energy usage, and improve efficiency.

Corporate and Other is comprised of BNI Energy, our coal mining operations in North Dakota, ALLETE Properties, our legacy Florida real estate investment, 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, 2017, 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, 2017, to the nine months ended September 30, 2016.

Net income attributable to ALLETE for the nine months ended September 30, 2017, was \$130.8 million, or \$2.57 per diluted share, compared to \$111.0 million, or \$2.25 per diluted share, for the same period in 2016. Net income in 2017 included a favorable impact of approximately \$8 million after-tax, or \$0.16 per share, for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits. Net income in 2016 included an adverse impact of approximately \$9 million after-tax, or \$0.18 per share, for the regulatory outcome of the November 2016 MPUC order. Net income in 2016 also included an approximately \$3 million after-tax, or \$0.07 per share, gain for the sale of ALLETE Properties' Ormond Crossings project and Lake Swamp wetland mitigation bank. Earnings per share dilution was \$0.08 due to additional shares of common stock outstanding as of September 30, 2017.

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)**

Regulated Operations net income attributable to ALLETE was \$110.1 million for the nine months ended September 30, 2017, compared to \$110.0 million for the same period in 2016. Net income at Minnesota Power decreased \$1.1 million after-tax primarily due to higher depreciation, interest, and taxes other than income taxes, lower FERC formula-based rates, lower financial incentives under the Minnesota conservation improvement program, lower sales to other power suppliers as a result of higher industrial sales and lower market prices, and lower kWh sales to residential, commercial and municipal customers due to milder temperatures in 2017. These decreases were mostly offset by the implementation of interim retail rates on January 1, 2017, and higher industrial kWh sales. Our equity earnings in ATC for the nine months ended September 30, 2017, increased \$1.4 million after-tax primarily due to a higher investment balance and period over period changes in ATC’s estimate of a refund liability related to MISO return on equity complaints.

ALLETE Clean Energy net income attributable to ALLETE was \$11.1 million for the nine months ended September 30, 2017, compared to \$9.7 million for the same period in 2016. Net income increased primarily due to lower operating and maintenance expenses, and lower interest expense. Net income in 2016 included an allocation of earnings to a non-controlling interest in the limited liability company that owns the Condon wind energy facility, which was acquired by ALLETE Clean Energy in April 2016. (See Note 3. Acquisitions.)

U.S. Water Services net income attributable to ALLETE was \$1.6 million for the nine months ended September 30, 2017, compared to \$2.0 million for the same period in 2016. The decrease in net income is primarily due to increased operating expenses as a result of investments for future growth in waste treatment and water safety applications, partially offset by higher operating revenue.

Corporate and Other net income attributable to ALLETE was \$8.0 million for the nine months ended September 30, 2017, compared to a net loss of \$10.7 million for the same period in 2016. Net income in 2017 included a favorable impact of approximately \$8 million after-tax for the regulatory outcome of the MPUC’s modification of its November 2016 order on the allocation of North Dakota investment tax credits. Net income in 2017 also included lower accretion expense relating to the contingent consideration liability and lower interest expense. Net income in 2016 included an adverse impact of approximately \$9 million after-tax for the regulatory outcome of the November 2016 MPUC order. Net income in 2016 also included an approximately \$3 million after-tax gain for the sale of ALLETE Properties’ Ormond Crossings project and Lake Swamp wetland mitigation bank.

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2017 AND 2016

(See Note 14. Business Segments for financial results by segment.)

Regulated Operations

| Quarter Ended September 30, | 2017 | 2016 |
|---|-------------|-------------|
| Millions | | |
| Operating Revenue – Utility | \$277.6 | \$253.3 |
| Fuel, Purchased Power and Gas – Utility | 93.5 | 91.7 |
| Transmission Services – Utility | 18.9 | 16.6 |
| Operating and Maintenance | 50.9 | 52.9 |
| Depreciation and Amortization | 39.6 | 38.5 |
| Taxes Other than Income Taxes | 12.8 | 11.3 |
| Operating Income | 61.9 | 42.3 |
| Interest Expense | (14.1) | (13.0) |
| Equity Earnings in ATC | 5.9 | 6.1 |
| Other Income | 0.4 | 0.6 |
| Income Before Income Taxes | 54.1 | 36.0 |
| Income Tax Expense (Benefit) | 19.9 | (9.0) |
| Net Income Attributable to ALLETE | \$34.2 | \$45.0 |

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2017 AND 2016 (Continued)

Regulated Operations (Continued)

Operating Revenue – Utility increased \$24.3 million, or 10 percent, from 2016 primarily due to the period over period impact of the regulatory outcomes related to the allocation of North Dakota investment tax credits, interim retail rates, and higher fuel adjustment clause recoveries, partially offset by lower revenue from kWh sales, financial incentives under the Minnesota conservation improvement program and transmission revenue.

Revenue increased \$29.3 million due to the period over period impact of the regulatory outcomes related to the allocation of North Dakota investment tax credits. As a result of the favorable impact for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits, Regulated Operations increased operating revenue approximately \$14 million in 2017. As a result of the adverse impact for the regulatory outcome of the November 2016 MPUC order, Regulated Operations reduced operating revenue approximately \$15 million in 2016. (See Note 6. Regulatory Matters.)

Interim retail rates for Minnesota Power, subject to refund, were approved by the MPUC and became effective January 1, 2017, resulting in revenue of \$7.7 million. (See Note 6. Regulatory Matters.)

Fuel adjustment clause recoveries increased \$3.0 million due to higher fuel and purchased power costs attributable to retail and municipal customers. (See *Operating Expenses - Fuel, Purchased Power and Gas – Utility*.)

Revenue from kWh sales decreased \$8.0 million from 2016 primarily due to lower sales to Residential, Commercial and Municipal customers. Sales to Residential, Commercial and Municipal customers decreased primarily due to cooler temperatures in 2017. Cooling degree days in Duluth, Minnesota, were approximately 50 percent lower in 2017 compared to the same period in 2016. Sales to Industrial customers increased 13.8 percent primarily due to increased taconite production. Sales to Other Power Suppliers decreased 14.4 percent from 2016 as a result of increased sales to Industrial customers. Sales to Other Power Suppliers are sold at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations.

| Kilowatt-hours Sold | | | Quantity | % |
|--|--------------|--------------|-----------------|-----------------|
| Quarter Ended September 30, | 2017 | 2016 | Variance | Variance |
| Millions | | | | |
| Regulated Utility | | | | |
| Retail and Municipal | | | | |
| Residential | 239 | 250 | (11) | (4.4)% |
| Commercial | 364 | 383 | (19) | (5.0)% |
| Industrial | 1,859 | 1,633 | 226 | 13.8 % |
| Municipal | 195 | 205 | (10) | (4.9)% |
| Total Retail and Municipal | 2,657 | 2,471 | 186 | 7.5 % |
| Other Power Suppliers | 977 | 1,141 | (164) | (14.4)% |
| Total Regulated Utility Kilowatt-hours Sold | 3,634 | 3,612 | 22 | 0.6 % |

Revenue from electric sales to taconite and iron concentrate customers accounted for 22 percent of consolidated operating revenue in 2017 (17 percent in 2016). Revenue from electric sales to paper, pulp and secondary wood product customers accounted for 5 percent of consolidated operating revenue in 2017 (5 percent in 2016). Revenue from electric sales to pipelines and other industrial customers accounted for 7 percent of consolidated operating revenue in 2017 (7 percent in 2016).

Financial incentives under the Minnesota conservation improvement program decreased \$7.5 million from 2016 due to the timing of MPUC approval. In 2017, the conservation improvement program financial incentive of \$5.5 million was recognized in the second quarter upon approval by the MPUC in an order dated June 22, 2017. In 2016, the financial incentive of \$7.5 million was recognized in the third quarter.

Transmission revenue decreased \$1.8 million primarily due to lower MISO-related revenue. (See *Operating Expenses - Transmission Services – Utility*.)

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2017 AND 2016 (Continued)

Regulated Operations (Continued)

Operating Expenses increased \$4.7 million, or 2 percent, from 2016.

Fuel, Purchased Power and Gas – Utility expense increased \$1.8 million, or 2 percent, from 2016 primarily due to increased kWh sales and higher fuel costs, partially offset by lower purchased power prices. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause. (See *Operating Revenue – Utility*.)

Transmission Services – Utility expense increased \$2.3 million, or 14 percent, from 2016 primarily due to higher MISO-related expense. (See *Operating Revenue – Utility*.)

Operating and Maintenance expense decreased \$2.0 million, or 4 percent, from 2016 primarily due to lower materials purchased for generation facilities.

Depreciation and Amortization expense increased \$1.1 million, or 3 percent, from 2016 primarily due to additional property, plant and equipment in service.

Taxes Other than Income Taxes increased \$1.5 million, or 13 percent, from 2016 primarily due to higher property tax expenses resulting from higher taxable plant.

Interest Expense increased \$1.1 million, or 8 percent, from 2016 primarily due to higher average interest rates. We record interest expense for Regulated Operations primarily based on rate base and authorized capital structure, and allocate the balance to Corporate and Other.

Income Tax Expense increased \$28.9 million from 2016 due to the period over period impact of the regulatory outcomes related to the allocation of North Dakota investment tax credits. (See Note 6. Regulatory Matters.)

As a result of the favorable impact for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits, Regulated Operations increased operating revenue and reduced the corresponding regulatory liability for approximately \$14 million resulting in an income tax expense of approximately \$6 million in the third quarter of 2017. In addition, Regulated Operations recorded an income tax expense of approximately \$8 million for North Dakota investment tax credits transferred to Corporate and Other, resulting in no impact to net income for Regulated Operations. Corporate and Other recorded an offsetting income tax benefit of approximately \$8 million for the North Dakota investment tax credits transferred from Regulated Operations.

As a result of the adverse impact for the regulatory outcome of the November 2016 MPUC order, Regulated Operations reduced operating revenue and recorded a corresponding regulatory liability for approximately \$15 million resulting in an income tax benefit of approximately \$6 million in the third quarter of 2016. In addition, Regulated Operations recorded an income tax benefit of approximately \$9 million for North Dakota investment tax credits transferred from Corporate and Other, resulting in no impact to net income for Regulated Operations. Corporate and Other recorded an offsetting income tax expense of approximately \$9 million for the North Dakota investment tax credits transferred to Regulated Operations.

ALLETE Clean Energy

| Quarter Ended September 30, | 2017 | 2016 |
|-----------------------------------|--------|--------|
| Millions | | |
| Operating Revenue | \$13.5 | \$14.7 |
| Net Income Attributable to ALLETE | \$0.6 | \$1.0 |

Operating Revenue decreased \$1.2 million, or 8 percent, from 2016 primarily due to lower kWh sales at the wind energy facilities resulting from lower wind resources.

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2017 AND 2016 (Continued)
ALLETE Clean Energy (Continued)

| Production and Operating Revenue | Quarter Ended September 30, | | | |
|--|-----------------------------|---------|-------|---------|
| | 2017 | | 2016 | |
| | kWh | Revenue | kWh | Revenue |
| Millions | | | | |
| Wind Energy Facilities | | | | |
| Lake Benton | 32.5 | \$2.2 | 42.2 | \$2.6 |
| Storm Lake II | 19.7 | 1.9 | 22.2 | 1.9 |
| Condon | 14.7 | 1.2 | 16.0 | 1.4 |
| Storm Lake I | 28.1 | 2.6 | 31.2 | 2.4 |
| Chanarambie/Viking | 36.3 | 2.6 | 45.3 | 2.7 |
| Armenia Mountain | 31.2 | 3.0 | 40.2 | 3.7 |
| Total Production and Operating Revenue | 162.5 | \$13.5 | 197.1 | \$14.7 |

Net Income Attributable to ALLETE decreased \$0.4 million, or 40 percent, from 2016. Net income in 2017 included lower operating revenue, partially offset by lower operating and maintenance expense compared to the same period in 2016.

U.S. Water Services

| Quarter Ended September 30, | 2017 | 2016 |
|-----------------------------------|--------|--------|
| Millions | | |
| Operating Revenue | \$40.2 | \$37.8 |
| Net Income Attributable to ALLETE | \$1.3 | \$1.5 |

Operating Revenue increased \$2.4 million, or 6 percent, from 2016 primarily due to increased revenue from sales of equipment, and chemicals and related services. Revenue from equipment sales was \$8.7 million in 2017 compared to \$6.7 million in 2016; equipment sales can significantly fluctuate from period to period. Revenue from chemical sales and related services was \$31.5 million in 2017 compared to \$31.1 million in 2016.

Net Income Attributable to ALLETE decreased \$0.2 million from 2016 primarily due to increased operating expenses as a result of investments for future growth in waste treatment and water safety applications, partially offset by higher operating revenue.

Corporate and Other

Operating Revenue decreased \$12.6 million, or 29 percent, from 2016 primarily due to a decrease in land sales at ALLETE Properties, partially offset by an increase in revenue at BNI Energy, which operates under cost-plus fixed fee contracts, as a result of higher expenses in 2017 compared to the same period in 2016.

Net Income Attributable to ALLETE was \$8.8 million in 2017 compared to a net loss of \$7.2 million in 2016. Net income in 2017 included a favorable impact of approximately \$8 million after-tax for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits. Net income in 2017 also included lower accretion expense relating to the contingent consideration liability and lower interest expense. Net income in 2016 included an adverse impact of approximately \$9 million after-tax for the regulatory outcome of the November 2016 MPUC order. Net income in 2016 also included an approximately \$3 million after-tax gain for the sale of ALLETE Properties' Ormond Crossings project and Lake Swamp wetland mitigation bank. Net income at BNI Energy was \$1.8 million in 2017 compared to \$1.7 million in 2016, and net income at ALLETE Properties was \$0.2 million in 2017 compared to \$2.7 million in 2016.

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2017 AND 2016 (Continued)

Income Taxes – Consolidated

For the quarter ended September 30, 2017, the effective tax rate was 24.0 percent (4.0 percent for the quarter ended September 30, 2016). The increase from 2016 was primarily due to higher pre-tax income. (See *Regulated Operations - Income Tax Expense*.) We expect our annual effective tax rate in 2017 to be higher than 2016 due to higher pre-tax income. The effective rate deviated from the combined statutory rate of approximately 41 percent primarily due to production tax credits. (See Note 9. *Income Tax Expense*.) The estimated annual effective tax rate can differ from what a quarterly effective tax rate would otherwise be on a stand-alone basis, and this may cause quarter to quarter differences in the timing of income taxes.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(See Note 14. *Business Segments* for financial results by segment.)

Regulated Operations

| Nine Months Ended September 30, | 2017 | 2016 |
|---|---------|---------|
| Millions | | |
| Operating Revenue – Utility | \$824.1 | \$740.5 |
| Fuel, Purchased Power and Gas – Utility | 283.2 | 250.6 |
| Transmission Services – Utility | 53.1 | 49.5 |
| Operating and Maintenance | 162.2 | 157.0 |
| Depreciation and Amortization | 118.3 | 115.1 |
| Taxes Other than Income Taxes | 38.7 | 36.3 |
| Operating Income | 168.6 | 132.0 |
| Interest Expense | (42.6) | (38.8) |
| Equity Earnings in ATC | 17.3 | 15.0 |
| Other Income | 0.8 | 1.8 |
| Income Before Income Taxes | 144.1 | 110.0 |
| Income Tax Expense | 34.0 | — |
| Net Income Attributable to ALLETE | \$110.1 | \$110.0 |

Operating Revenue – Utility increased \$83.6 million, or 11 percent, from 2016 primarily due to the period over period impact of the regulatory outcomes related to the allocation of North Dakota investment tax credits as well as higher interim retail rates, fuel adjustment clause recoveries, conservation improvement program recoveries, revenue from kWh sales and transmission revenue, partially offset by lower FERC formula-based rates and financial incentives under the Minnesota conservation improvement program.

Revenue increased \$29.3 million due to the period over period impact of the regulatory outcomes related to the allocation of North Dakota investment tax credits. As a result of the favorable impact for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits, Regulated Operations increased operating revenue approximately \$14 million in 2017. As a result of the adverse impact for the regulatory outcome of the November 2016 MPUC order, Regulated Operations reduced operating revenue approximately \$15 million in 2016. (See Note 6. *Regulatory Matters*.)

Interim retail rates for Minnesota Power, subject to refund, were approved by the MPUC and became effective January 1, 2017, resulting in revenue of \$24.3 million. (See Note 6. *Regulatory Matters*.)

Fuel adjustment clause recoveries increased \$21.8 million due to higher fuel and purchased power costs attributable to retail and municipal customers. (See *Operating Expenses - Fuel, Purchased Power and Gas – Utility*.)

Conservation improvement program recoveries increased \$5.2 million from 2016 primarily due to an increase in related expenditures. (See *Operating Expenses - Operating and Maintenance*.)

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 (Continued)

Regulated Operations (Continued)

Revenue from kWh sales increased \$2.0 million from 2016 primarily due to higher sales to Industrial customers. Sales to Industrial customers increased 14.7 percent primarily due to increased taconite production and the commencement of a long-term PSA with Silver Bay Power in June 2016. Sales to Other Power Suppliers decreased 12.6 percent from 2016 as a result of increased sales to Industrial customers and lower pricing. 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. Sales to Residential, Commercial and Municipal customers decreased primarily due to milder temperatures in 2017. In Duluth, Minnesota, heating degree days in the winter months and cooling degree days in the summer months were approximately 5 percent and 60 percent lower, respectively, in 2017 compared to the same periods in 2016.

| Kilowatt-hours Sold | | | Quantity | % |
|--|---------------|---------------|------------|--------------|
| Nine Months Ended September 30, | 2017 | 2016 | Variance | Variance |
| Millions | | | | |
| Regulated Utility | | | | |
| Retail and Municipal | | | | |
| Residential | 791 | 816 | (25) | (3.1)% |
| Commercial | 1,061 | 1,090 | (29) | (2.7)% |
| Industrial | 5,437 | 4,740 | 697 | 14.7 % |
| Municipal | 591 | 611 | (20) | (3.3)% |
| Total Retail and Municipal | 7,880 | 7,257 | 623 | 8.6 % |
| Other Power Suppliers | 3,022 | 3,456 | (434) | (12.6)% |
| Total Regulated Utility Kilowatt-hours Sold | 10,902 | 10,713 | 189 | 1.8 % |

Revenue from electric sales to taconite and iron concentrate customers accounted for 22 percent of consolidated operating revenue in 2017 (17 percent in 2016). Revenue from electric sales to paper, pulp and secondary wood product customers accounted for 5 percent of consolidated operating revenue in 2017 (6 percent in 2016). Revenue from electric sales to pipelines and other industrial customers accounted for 7 percent of consolidated operating revenue in 2017 (7 percent in 2016).

Transmission revenue increased \$1.3 million primarily due to higher MISO-related revenue and period over period changes in the estimate of a refund liability related to MISO return on equity complaints. (See *Operating Expenses - Transmission Services – Utility*.)

Revenue from wholesale customers under FERC formula-based rates decreased \$2.4 million from 2016 primarily due to lower rates.

Financial incentives under the Minnesota conservation improvement program decreased \$1.9 million from 2016.

Operating Expenses increased \$47.0 million, or 8 percent, from 2016.

Fuel, Purchased Power and Gas – Utility expense increased \$32.6 million, or 13 percent, from 2016 primarily due to increased kWh sales and higher fuel costs, partially offset by lower purchased power prices. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause. (See *Operating Revenue – Utility*.)

Transmission Services – Utility expense increased \$3.6 million, or 7 percent, from 2016 primarily due to higher MISO-related expense. (See *Operating Revenue – Utility*.)

Operating and Maintenance expense increased \$5.2 million, or 3 percent, from 2016 primarily due to a \$5.2 million increase in conservation improvement program expenses in 2017 and the absence of a \$3.6 million sales tax refund received in 2016. Conservation improvement program expenses are recovered from certain retail customers. (See *Operating Revenue – Utility*.)

Depreciation and Amortization expense increased \$3.2 million, or 3 percent, from 2016 primarily due to additional property, plant and equipment in service.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 (Continued)

Regulated Operations (Continued)

Taxes Other than Income Taxes increased \$2.4 million, or 7 percent, from 2016 primarily due to higher property tax expenses resulting from higher taxable plant.

Interest Expense increased \$3.8 million, or 10 percent, from 2016 primarily due to higher average interest rates. We record interest expense for Regulated Operations primarily based on rate base and authorized capital structure, and allocate the balance to Corporate and Other.

Equity Earnings in ATC increased \$2.3 million, or 15 percent, from 2016 primarily due to additional investments in ATC and period over period changes in ATC's estimate of a refund liability related to MISO return on equity complaints. (See Note 7. Investment in ATC.)

Income Tax Expense increased \$34.0 million from 2016 due to higher pre-tax income and the period over period impact of the regulatory outcomes related to the allocation of North Dakota investment tax credits. (See Note 6. Regulatory Matters.)

As a result of the favorable impact for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits, Regulated Operations increased operating revenue and reduced the corresponding regulatory liability for approximately \$14 million resulting in an income tax expense of approximately \$6 million in the third quarter of 2017. In addition, Regulated Operations recorded an income tax expense of approximately \$8 million for North Dakota investment tax credits transferred to Corporate and Other, resulting in no impact to net income for Regulated Operations. Corporate and Other recorded an offsetting income tax benefit of approximately \$8 million for the North Dakota investment tax credits transferred from Regulated Operations.

As a result of the adverse impact for the regulatory outcome of the November 2016 MPUC order, Regulated Operations reduced operating revenue and recorded a corresponding regulatory liability for approximately \$15 million resulting in an income tax benefit of approximately \$6 million in the third quarter of 2016. In addition, Regulated Operations recorded an income tax benefit of approximately \$9 million for North Dakota investment tax credits transferred from Corporate and Other, resulting in no impact to net income for Regulated Operations. Corporate and Other recorded an offsetting income tax expense of approximately \$9 million for the North Dakota investment tax credits transferred to Regulated Operations.

We expect our annual effective tax rate in 2017 to be higher than 2016 due to higher pre-tax income.

ALLETE Clean Energy

| Nine Months Ended September 30, | 2017 | 2016 |
|-----------------------------------|--------|--------|
| Millions | | |
| Operating Revenue | \$56.8 | \$57.1 |
| Net Income Attributable to ALLETE | \$11.1 | \$9.7 |

Operating Revenue decreased \$0.3 million, or 1 percent, from 2016 primarily due to lower kWh sales at the wind energy facilities resulting from lower wind resources.

| Production and Operating Revenue | Nine Months Ended September 30, | | | |
|--|---------------------------------|---------|-------|---------|
| | 2017 | | 2016 | |
| | kWh | Revenue | kWh | Revenue |
| Millions | | | | |
| Wind Energy Facilities | | | | |
| Lake Benton | 166.7 | \$8.8 | 175.7 | \$9.1 |
| Storm Lake II | 102.9 | 7.1 | 113.8 | 7.5 |
| Condon | 59.5 | 4.9 | 67.0 | 5.7 |
| Storm Lake I | 147.2 | 9.0 | 151.5 | 8.4 |
| Chanarambie/Viking | 181.8 | 10.0 | 190.4 | 9.5 |
| Armenia Mountain | 181.4 | 17.0 | 181.0 | 16.9 |
| Total Production and Operating Revenue | 839.5 | \$56.8 | 879.4 | \$57.1 |

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 (Continued)

ALLETE Clean Energy (Continued)

Net Income Attributable to ALLETE increased \$1.4 million, or 14 percent, from 2016. Net income in 2017 included lower operating and maintenance expense, and lower interest expense compared to the same period in 2016. Net income in 2016 included an allocation of earnings to a non-controlling interest in the limited liability company that owns the Condon wind energy facility, which was acquired by ALLETE Clean Energy in April 2016. (See Note 3. Acquisitions.)

U.S. Water Services

| Nine Months Ended September 30, Millions | 2017 | 2016 |
|---|---------|---------|
| Operating Revenue | \$110.7 | \$104.5 |
| Net Income Attributable to ALLETE | \$1.6 | \$2.0 |

Operating Revenue increased \$6.2 million, or 6 percent, from 2016 primarily due to higher revenue from sales of chemicals and related services, and equipment. Revenue from chemical sales and related services was \$87.4 million in 2017 compared to \$84.3 million in 2016. Revenue from equipment sales was \$23.3 million for 2017 compared to \$20.2 million in 2016; equipment sales can significantly fluctuate from period to period.

Net Income Attributable to ALLETE decreased \$0.4 million from 2016. The decrease in net income is primarily due to increased operating expenses as a result of investments for future growth in waste treatment and water safety applications, partially offset by higher operating revenue.

Corporate and Other

Operating Revenue decreased \$6.3 million, or 7 percent, from 2016 primarily due to a decrease in land sales at ALLETE Properties, partially offset by an increase in revenue at BNI Energy, which operates under cost-plus fixed fee contracts, as a result of higher expenses in 2017 compared to the same period in 2016.

Net Income Attributable to ALLETE was \$8.0 million in 2017 compared to a net loss of \$10.7 million in 2016. Net income in 2017 included a favorable impact of approximately \$8 million after-tax for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits. Net income in 2017 also included lower accretion expense relating to the contingent consideration liability and lower interest expense. Net income in 2016 included an adverse impact of approximately \$9 million after-tax for the regulatory outcome of the November 2016 MPUC order. Net income in 2016 also included an approximately \$3 million after-tax gain for the sale of ALLETE Properties' Ormond Crossings project and Lake Swamp wetland mitigation bank. Net income at BNI Energy was \$5.6 million in 2017 compared to \$5.4 million for the same period in 2016. The net loss at ALLETE Properties was \$1.4 million in 2017 compared to net income of \$1.1 million in 2016.

Income Taxes – Consolidated

For the nine months ended September 30, 2017, the effective tax rate was 20.9 percent (12.3 percent for the nine months ended September 30, 2016). The increase from 2016 was primarily due to higher pre-tax income. (See *Regulated Operations - Income Tax Expense*.) We expect our annual effective tax rate in 2017 to be higher than 2016 due to higher pre-tax income. The effective rate deviated from the combined statutory rate of approximately 41 percent primarily due to production tax credits. (See Note 9. 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, taxation, and valuation of goodwill and intangible assets. 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 2016 Form 10-K.

Valuation of Goodwill and Intangible Assets.

Goodwill. Our 2016 annual testing of U.S. Water Services' goodwill for impairment indicated the calculated fair value of equity for the reporting unit exceeded carrying value by less than 10 percent. Significant assumptions utilized in the fair value calculation included a discount rate of 10.75 percent, cash flow forecasts through 2021, annual revenue growth rates ranging from 8 percent to 11 percent and a terminal growth rate of 5.0 percent. If U.S. Water Services fails to meet expected cash flow forecasts by a nominal margin or there is an increase in interest rates that has a negative impact on the discount rate used in the Company's valuation under the income approach, the results of our future tests could result in an impairment of goodwill; our next annual impairment test will occur in the fourth quarter of 2017. Subsequent to our 2016 annual impairment test, there have been no triggering events or indicators of impairment of goodwill.

OUTLOOK

For additional information see our 2016 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 long-term objectives of achieving average annual earnings per share growth of a minimum of five percent and providing a dividend payout competitive with our industry.

ALLETE is predominately a regulated utility through Minnesota Power, SWL&P and an investment in ATC. ALLETE's strategy is to remain predominately a regulated utility while investing in its Energy Infrastructure and Related Services businesses to complement its regulated businesses, balance exposure to the utility's industrial customers and provide potential long-term earnings growth. ALLETE expects net income from its Regulated Operations segment to be approximately 85 percent to 90 percent of total consolidated net income in 2017. Over the next several years, the contribution of the Energy Infrastructure and Related Services businesses to net income is expected to increase as ALLETE grows these operations. ALLETE expects its businesses to provide regulated, contracted or recurring revenues, and to support sustained growth in net income and cash flow.

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 energy 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 *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 approvals for transmission, renewable and environmental investments, as well as work with regulators to earn a fair rate of return.

Regulatory Matters. Entities within our Regulated Operations segment are under the jurisdiction of the MPUC, FERC, PSCW and NDPSC. See Note 6. Regulatory Matters for discussion of regulatory matters within these jurisdictions.

2016 Minnesota General Rate Case. In November 2016, Minnesota Power filed a retail rate increase request with the MPUC seeking an average increase of approximately 9 percent for retail customers. The rate filing seeks a return on equity of 10.25 percent and a 53.81 percent equity ratio. On an annualized basis, the requested final rate increase would have generated approximately \$55 million in additional revenue. In December 2016, Minnesota Power filed a request to modify its original interim rate proposal reducing its requested interim rate increase to \$34.7 million from the original request of approximately \$49 million due to a change in its electric sales forecast. In December 2016 orders, the MPUC accepted the November 2016 filing as complete and authorized an annual interim rate increase of \$34.7 million beginning January 1, 2017.

OUTLOOK (Continued)

Regulatory Matters (Continued)

On February 23, 2017, Minnesota Power filed an additional request to further reduce its requested interim rate increase. In an order dated April 13, 2017, the MPUC approved Minnesota Power's updated retail rate request resulting in a reduction in the annual interim rate increase to \$32.2 million beginning May 1, 2017. As a result of working with intervenors and further developments as the rate review has progressed, Minnesota Power's final rate request is approximately \$49 million on an annualized basis. A report and recommendation from the administrative law judge is scheduled to be issued in November 2017, with a final decision from the MPUC expected in January 2018. Management has evaluated the need for a reserve for interim rate refunds and concluded that a reserve is not necessary as of September 30, 2017. Management evaluates the need for reserves for interim rates each reporting period.

As part of its 2016 general rate case and through its 2017 remaining life depreciation petition filed on February 1, 2017, Minnesota Power is seeking an extension of the recovery period for Boswell to better reflect recent environmental investments at the facility and mitigate rate increases for our customers. If the requested recovery period extension is approved, annual depreciation expense will be reduced by approximately \$25 million. If not approved, we would expect final rates to be increased by a similar amount, subject to regulatory approval. We cannot predict the level of final rates that may be authorized by the MPUC.

2016 Wisconsin General Rate Case. In June 2016, SWL&P filed a rate increase request with the PSCW requesting an average increase of 3.1 percent for retail customers. The filing sought an overall return on equity of 10.9 percent and a 55 percent equity ratio. In an order dated August 9, 2017, the PSCW approved SWL&P's rate increase request allowing for a 10.5 percent return on common equity and a 55 percent equity ratio. The order authorizes SWL&P to collect on average a 2.9 percent increase in rates for retail customers (3.8 percent increase in electric rates; (4.8) percent decrease in natural gas rates; and 9.8 percent increase in water rates). Final rates became effective on August 14, 2017. On an annualized basis, SWL&P will collect additional revenue of approximately \$2.5 million.

Industrial Customers and Prospective Additional Load.

Industrial Customers. Electric power is one of several key inputs in the taconite mining, iron concentrate, paper, pulp and secondary wood products, pipeline and other industries. Approximately 50 percent of our regulated utility kWh sales in the nine months ended September 30, 2017, were made to our industrial customers (44 percent in the nine months ended September 30, 2016).

Taconite and Iron Concentrate. Minnesota Power provides electric service to six taconite facilities 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. Minnesota Power also provides electric service to three iron concentrate facilities capable of producing up to approximately 4 million tons of iron concentrate per year. Iron concentrate is used in the production of taconite pellets. These iron concentrate facilities are owned in whole, or in part, by ERP Iron Ore and are not currently operating. (See *ERP Iron Ore / Magnetation*.)

There has been a general historical correlation between U.S. steel production and Minnesota taconite production. The American Iron and Steel Institute, an association of North American steel producers, reported that U.S. raw steel production operated at approximately 75 percent of capacity during the first nine months of 2017 compared to 72 percent in the first nine months of 2016. The World Steel Association, an association of over 160 steel producers, national and regional steel industry associations, and steel research institutes representing approximately 85 percent of world steel production, projected U.S. steel consumption in 2017 will increase by approximately 5 percent compared to 2016.

Minnesota Power's taconite customers may experience annual variations in production levels due to such factors as economic conditions, short-term demand changes or maintenance outages. We estimate that a one million ton change in Minnesota Power's taconite customers' production would impact our annual earnings per share by approximately \$0.03, net of expected power marketing sales at current prices. Changes in wholesale electric prices or customer contractual demand nominations could impact this estimate. Minnesota Power proactively sells power in the wholesale power markets that is temporarily not required by industrial customers to optimize the value of its generating facilities. Long-term reductions in taconite production or a permanent shut down of a taconite customer may lead Minnesota Power to file a general rate case to recover lost revenue.

OUTLOOK (Continued)

Industrial Customers and Prospective Additional Load (Continued)

USS Corporation. In 2015, USS Corporation temporarily idled its Minnesota Ore Operations - Keetac plant in Keewatin, Minnesota, and a portion of its Minnesota Ore Operations - Minntac plant in Mountain Iron, Minnesota. These actions were due to high inventory levels and ongoing adjustment of its steel producing operations throughout North America. Global influences in the market, including a higher level of imports, unfairly traded products and reduced steel prices, were cited as having an impact. USS Corporation returned its Minntac plant to full production in 2015, and in the first quarter of 2017, USS Corporation restarted its Keetac plant. USS Corporation has the capability to produce approximately 5 million tons and 15 million tons of taconite annually at its Keetac and Minntac plants, respectively.

United Taconite. On May 16, 2017, Cliffs announced that production of a fully fluxed taconite pellet has started at its United Taconite facility. Cliffs broke ground in August 2016 and invested approximately \$75 million into the project. The new product replaces a flux pellet previously made at Cliffs' indefinitely idled Empire operation in Michigan.

Northshore Mining. Cliffs has announced that it is investing further in Minnesota ore operations, specifically it plans to invest approximately \$75 million through 2020 to expand capacity for producing direct reduced-grade pellets at Northshore Mining. The additional direct reduced-grade pellets could be sold commercially or used to supply Cliff's planned hot briquetted iron production plant in Toledo, Ohio. Minnesota Power has a long-term PSA through 2031 with Silver Bay Power, which provides the majority of the electric service requirements for Northshore Mining.

ERP Iron Ore / Magnetation. In 2015, Magnetation announced that it had filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Minnesota, citing the significant decrease in global iron ore prices and its existing capital structure. In January 2016, Magnetation idled its Plant 2 facility in Bovey, Minnesota. In October 2016, the bankruptcy court approved plans to idle Magnetation's Plant 4 facility near Grand Rapids, Minnesota, and its pellet plant in Reynolds, Indiana, as well as terminate Magnetation's pellet purchase agreement with AK Steel Corporation. The company subsequently idled the facilities and stated it was preserving the plants and their value for a potential buyer. On January 30, 2017, ERP Iron Ore purchased substantially all of Magnetation's assets pursuant to an asset purchase agreement approved by the bankruptcy court. Although we cannot predict whether the facilities will be restarted, Minnesota Power would serve the Plant 2 and Plant 4 facilities through ERP Iron Ore's assumption of the existing electric service agreement.

Paper, Pulp and Secondary Wood Products. Minnesota Power serves a number of customers in the paper, pulp and secondary wood products industry. The four major paper and pulp mills we serve reported operating at, or near, full capacity in 2016, and similar levels are expected in 2017.

UPM Blandin. On October 24, 2017, UPM-Kymmene Corporation announced that in light of the global market situation for graphic papers, and to sustain its competitiveness and leading position in the market, it plans to permanently close one of its two paper machines located at UPM Blandin in Grand Rapids, Minnesota. The closure is expected to be completed by the end of the first quarter of 2018. Paper production related to its other paper machine is planned to continue at UPM Blandin. Minnesota Power provides electric and steam service to UPM Blandin. Minnesota Power has formally notified the MPUC in its current general rate case docket regarding the UPM Blandin announcement.

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. We cannot predict the outcome of these projects.

Nashwauk Public Utilities Commission. Mesabi Metallics is a retail customer of the Nashwauk Public Utilities Commission, and Minnesota Power has a wholesale electric contract with the Nashwauk Public Utilities Commission for electric service through at least December 2032, subject to bankruptcy court approval. Mesabi Metallics filed for bankruptcy protection in July 2016, under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. On June 13, 2017, the bankruptcy court approved a settlement plan for a consortium led by Chippewa Capital Partners LLC to take control of the project, subject to certain stipulations.

OUTLOOK (Continued)

Industrial Customers and Prospective Additional Load (Continued)

PolyMet. PolyMet is planning to start a new copper-nickel and precious metal (non-ferrous) mining operation in northeastern Minnesota. In 2015, PolyMet announced the completion of the final EIS by state and federal agencies, which was subsequently published in the Federal Register and Minnesota Environmental Quality Board Monitor. The Minnesota Department of Natural Resources (DNR) issued its Record of Decision in March 2016, finding the final EIS adequate. The 30-day period allowed by law to challenge the Record of Decision passed without any legal challenges being filed. In July 2016, PolyMet submitted applications for water-related permits with the State of Minnesota, and in August 2016, an application for an air quality permit was submitted to the MPCA. In November 2016, PolyMet submitted a state permit to mine application to the DNR detailing its operational plans for the mine. The final EIS also requires Records of Decision by the federal agencies, which are expected in 2017, before final action can be taken on the required federal permits to construct and operate the mining operation. On January 9, 2017, the U.S. Forest Service signed the Final Record of Decision authorizing a land exchange with PolyMet, which upon completion of title transfer will result in PolyMet obtaining surface rights to land needed to develop its mining operation. Minnesota Power could supply between 45 MW and 50 MW of load under a ten-year power supply contract with PolyMet that would begin upon start-up of operations.

EnergyForward. Minnesota Power is executing *EnergyForward*, a strategic plan for assuring reliability, protecting affordability and further improving environmental performance. The plan includes completed and planned investments in wind, solar, natural gas and hydroelectric power, the installation of emissions control technology and the idling of certain coal-fired generating facilities.

On July 28, 2017, Minnesota Power submitted a resource package to the MPUC requesting approval of PPAs for the output of a 250 MW wind energy facility and a 10 MW solar energy facility as well as approval of a 250 MW natural gas energy PPA. These agreements will be subject to MPUC approval of the construction of a 525 MW to 550 MW combined-cycle natural gas-fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE. Minnesota Power would purchase approximately 50 percent of the facility's output starting in 2025. In an order September 19, 2017, the MPUC approved Minnesota Power's request that approval for the natural gas energy PPA be decided through an administrative law judge process. The administrative law judge is expected to provide a recommendation by July 2018, and the Company anticipates a MPUC decision in the second half of 2018. The MPUC did not take any action regarding the wind and solar energy PPAs which will be refiled separately from the natural gas energy PPA.

Integrated Resource Plan. In 2015, Minnesota Power filed its 2015 IRP with the MPUC which contained steps in its *EnergyForward* strategic plan, and included an analysis of a variety of existing and future energy resource alternatives and a projection of customer cost impact by class. In a July 2016 order, the MPUC approved Minnesota Power's 2015 IRP with modifications. The order accepted Minnesota Power's plans for Taconite Harbor, directed Minnesota Power to retire Boswell Units 1 and 2 no later than 2022, required an analysis of generation and demand response alternatives to be filed with a natural gas resource proposal, and required Minnesota Power to conduct request for proposals for additional wind, solar and demand response resource additions subject to further MPUC approvals. In October 2016, Minnesota Power announced that Boswell Units 1 and 2 will be retired in 2018 as part of its *EnergyForward* strategic plan. In an order dated September 19, 2017, the MPUC approved Minnesota Power's request to extend the next IRP filing deadline until October 1, 2019. (See Note 6. Regulatory Matters.)

Renewable Energy. Minnesota Power's 2015 IRP includes an update on its plans and progress in meeting the Minnesota renewable energy milestones through 2025. Minnesota Power continues to execute its renewable energy strategy through key renewable projects that will ensure it meets the identified state mandate at the lowest cost for customers. Minnesota Power has exceeded the interim milestone requirements to date and expects 29 percent of its applicable retail and municipal energy sales will be supplied by renewable energy sources in 2017.

OUTLOOK (Continued)
EnergyForward (Continued)

Minnesota Solar Energy Standard. In 2013, legislation was enacted by the state of Minnesota requiring at least 1.5 percent of total retail electric sales, excluding sales to certain 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 40 kW or less. In a February 2016 order finalized in December 2016, the MPUC approved Camp Ripley, a 10 MW utility scale solar project at the Camp Ripley Minnesota Army National Guard base and training facility near Little Falls, Minnesota, as eligible to meet the solar energy standard and for current cost recovery. Camp Ripley was completed in the fourth quarter of 2016. In a July 2016 order, the MPUC approved a community solar garden project in northeastern Minnesota, which is comprised of a 1 MW solar array to be owned and operated by a third party with the output purchased by Minnesota Power and a 40 kW solar array that is owned and operated by Minnesota Power. Minnesota Power believes Camp Ripley and the community solar garden project will meet approximately one-third of the overall mandate. Additionally, in an order dated February 10, 2017, the MPUC approved Minnesota Power's proposal to increase the amount of solar rebates available for customer-sited solar installations and recover costs of the program through Minnesota Power's renewable cost recovery rider. This proposal to incentivize customer-sited solar installations is expected to meet a portion of the required mandate related to solar photovoltaic devices with a nameplate capacity of 40 kW or less.

Minnesota Power has approval for current cost recovery of investments and expenditures related to compliance with the Minnesota Solar Energy Standard. Currently, there is no approved customer billing rate for solar costs.

Wind Energy. Minnesota Power's wind energy facilities consist of Bison (497 MW) located in North Dakota, and Taconite Ridge (25 MW) located in northeastern Minnesota. Minnesota Power also has two long-term wind energy 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.

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 its 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.

Updated customer billing rates for the renewable cost recovery rider, which includes investments and expenditures related to Bison, were approved by the MPUC at a hearing on September 28, 2017, which allows Minnesota Power to charge retail customers on a current basis for the costs of constructing certain renewable investments plus a return on the capital invested.

In a November 2016 order, the MPUC directed Minnesota Power to attribute all North Dakota investment tax credits realized from Bison to Minnesota Power regulated retail customers. As a result of the adverse regulatory outcome, Minnesota Power recorded a regulatory liability and a reduction in operating revenue of approximately \$15 million in the third quarter of 2016. The North Dakota investment tax credits previously recognized as income tax credits in Corporate and Other were reversed in 2016 resulting in an approximately \$9 million charge to net income in the third quarter of 2016. In December 2016, Minnesota Power submitted a request for reconsideration with the MPUC. In an order dated February 14, 2017, the MPUC decided to reconsider its November 2016 order.

At a hearing on September 28, 2017, the MPUC modified its November 2016 order to allow Minnesota Power to account for North Dakota investment tax credits based on the long-standing regulatory precedents of stand-alone allocation methodology of accounting for income taxes. As a result of the favorable regulatory outcome, Minnesota Power recorded a reduction in its regulatory liability and an increase in operating revenue of approximately \$14 million in the third quarter of 2017. The North Dakota investment tax credits were reestablished as income tax credits in Corporate and Other, resulting in an approximately \$8 million increase to net income in the third quarter of 2017.

The stand-alone method provides that income taxes (and credits) are calculated as if Minnesota Power was the only entity included in ALLETE's consolidated federal and unitary state income tax returns. Minnesota Power has recorded a regulatory liability for North Dakota investment tax credits generated by its jurisdictional activity and expected to be realized in the future. North Dakota investment tax credits attributable to ALLETE's apportionment and income of ALLETE's other subsidiaries are included in Corporate and Other operations.

OUTLOOK (Continued)
EnergyForward (Continued)

Tenaska PPA. On May 10, 2017, Minnesota Power and an affiliate of Tenaska signed a long-term PPA that provides for Minnesota Power to purchase the energy and associated capacity from a 250 MW wind energy facility in southwest Minnesota for a 20-year period beginning in 2020. This agreement is subject to MPUC approval of the construction of a 525 MW to 550 MW combined-cycle natural gas-fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE and a wind energy facility. (See Note 6. Regulatory Matters.) The agreement provides for the purchase of output from the facility at fixed energy prices. There are no fixed capacity charges, and Minnesota Power will only pay for energy as it is delivered.

Manitoba Hydro. Minnesota Power has five long-term PPAs with Manitoba Hydro. The first PPA 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. Under the second PPA, Minnesota Power is purchasing 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 2011, Minnesota Power and Manitoba Hydro signed a third PPA. This PPA provides for Minnesota Power to purchase 250 MW of capacity and energy from Manitoba Hydro 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. (See *Transmission – Great Northern Transmission Line.*) The capacity price is adjusted annually until 2020 by the change in a governmental inflationary index. The energy price is based on a formula that includes an annual fixed price component adjusted for the change in a governmental inflationary index and a natural gas index, as well as market prices.

In 2014, Minnesota Power and Manitoba Hydro signed a fourth PPA that provides for Minnesota Power to purchase up to 133 MW of energy from Manitoba Hydro for 20 years beginning in 2020. The pricing under this PPA is based on forward market prices. The PPA is subject to the construction of the GNTL.

In 2015, Minnesota Power and Manitoba Hydro signed a fifth PPA that provides for Minnesota Power to purchase 50 MW of capacity at fixed prices. The PPA began in June 2017 and expires in May 2020.

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, investments to enhance our own transmission facilities, investments in other transmission assets (individually or in combination with others), and our investment in ATC.

Great Northern Transmission Line. As a condition of the 250-MW long-term PPA entered into 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.

In 2015, a certificate of need was approved by the MPUC. Based on this approval, Minnesota Power's portion of the investments and expenditures for the project are eligible for cost recovery under its existing transmission cost recovery rider and are anticipated to be included in future transmission cost recovery filings. (See Note 6. Regulatory Matters.) Also in 2015, the FERC approved our request to recover on construction work in progress related to the GNTL from Minnesota Power's wholesale customers. In an April 2016 order, the MPUC approved the route permit for the GNTL which largely follows Minnesota Power's preferred route, including the international border crossing, and in November 2016, the U.S. Department of Energy issued a presidential permit to cross the U.S.-Canadian border, which was the final major regulatory approval needed before construction in the U.S. could begin. Site clearing and pre-construction activities commenced in the first quarter of 2017 with construction expected 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, of which Minnesota Power's portion is expected to be between \$300 million and \$350 million; the difference will be recovered from a subsidiary of Manitoba Hydro as contributions in aid of construction. Total project costs of \$66.9 million have been incurred through September 30, 2017, of which \$36.8 million has been recovered from a subsidiary of Manitoba Hydro.

Manitoba Hydro must obtain regulatory and governmental approvals related to a new transmission line in Canada. In 2015, Manitoba Hydro submitted the final preferred route and EIS for the transmission line in Canada to the Manitoba Conservation and Water Stewardship for regulatory approval. Construction of Manitoba Hydro's hydroelectric generation facility commenced in 2014.

OUTLOOK (Continued)
Transmission (Continued)

Investment in ATC. Our wholly-owned subsidiary, ALLETE Transmission Holdings, 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. As of September 30, 2017, our equity investment in ATC was \$146.0 million (\$135.6 million as of December 31, 2016). In the first nine months of 2017, we invested \$6.6 million in ATC, and on October 31, 2017, we invested an additional \$1.2 million. We do not expect to make any additional investments in 2017. (See Note 7. Investment in ATC.)

In September 2016, the FERC issued an order reducing ATC's authorized return on equity to 10.32 percent, or 10.82 percent including an incentive adder for participation in a regional transmission organization. Prior to this order, ATC had been allowed a return on equity of 12.2 percent which had been impacted by reductions for estimated refunds related to complaints filed with the FERC by several customers located within the MISO service area.

In June 2016, a federal administrative law judge ruled on an additional complaint proposing a further reduction in the base return on equity to 9.70 percent, or 10.20 percent including an incentive adder for participation in a regional transmission organization, subject to approval or adjustment by the FERC. A final decision from the FERC on the administrative law judge's recommendation is pending. (See Note 6. Regulatory Matters.) 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 after-tax.

ATC's 10-year transmission assessment, which covers the years 2017 through 2026, identifies a need for between \$2.8 billion and \$3.6 billion in transmission system investments. These investments by ATC, if undertaken, 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.

Energy Infrastructure and Related Services.

ALLETE Clean Energy.

ALLETE Clean Energy focuses on developing, acquiring, and operating clean and renewable energy projects. ALLETE Clean Energy currently owns and operates, in four states, approximately 535 MW of nameplate capacity wind energy generation that is from PSAs of various durations. In addition, ALLETE Clean Energy constructed and sold a 107 MW wind energy facility in 2015. On January 3, 2017, ALLETE Clean Energy announced that it will develop another wind energy facility of up to 50 MW after securing a 25-year PSA with Montana-Dakota Utilities. The PSA includes an option for Montana-Dakota Utilities to purchase the facility upon completion; construction is expected to begin in 2018. On March 16, 2017, ALLETE Clean Energy announced it will build, own and operate a separate 100 MW wind energy facility pursuant to a 20-year PSA with Northern States Power; construction is expected to begin in late 2018, subject to regulatory approval.

ALLETE Clean Energy believes the market for renewable energy in North America is robust, driven by several factors including environmental regulation, tax incentives, societal expectations and continual technology advances. State renewable portfolio standards, and state or federal regulations to limit GHG emissions are examples of environmental regulation or public policy that we believe will drive renewable energy development.

ALLETE Clean Energy's strategy includes the safe, reliable, optimal and profitable operation of its existing facilities. This includes a strong safety culture, the continuous pursuit of operational efficiencies at existing facilities and cost controls. ALLETE Clean Energy generally acquires facilities in liquid power markets and its strategy includes the exploration of PSA extensions upon expiration of existing contracts.

ALLETE Clean Energy will pursue growth through acquisitions or project development for others. ALLETE Clean Energy is targeting acquisitions of existing facilities up to 200 MW each, which have long-term PSAs in place for the facilities' output. At this time, ALLETE Clean Energy expects acquisitions will be primarily wind or solar facilities in North America. ALLETE Clean Energy is also targeting the development of new facilities up to 200 MW each, which will have long-term PSAs in place for the output or may be sold upon completion. Federal production tax credit qualification is important to development project economics, and ALLETE Clean Energy invested approximately \$100 million in equipment in late 2016 to meet production tax credit safe harbor provisions. ALLETE Clean Energy will invest approximately \$80 million through 2020 to refurbish wind turbine generators at its Storm Lake I, Storm Lake II and Lake Benton wind energy facilities and requalify the facilities for production tax credits.

OUTLOOK (Continued)
ALLETE Clean Energy (Continued)

ALLETE Clean Energy manages risk by having a diverse portfolio of assets, which includes PSA expiration and geographic diversity. The current mix of PSA expiration and geographic location for existing facilities is as follows:

| Wind Energy Facility | Location | Capacity MW | PSA MW % | PSA Expiration |
|----------------------|--------------|-------------|----------|----------------|
| Armenia Mountain | Pennsylvania | 100.5 | 100% | 2024 |
| Chanarambie/Viking | Minnesota | 97.5 | | |
| PSA 1 | | | 12% | 2018 |
| PSA 2 | | | 88% | 2023 |
| Condon | Oregon | 50 | 100% | 2022 |
| Lake Benton | Minnesota | 104 | 100% | 2028 |
| Storm Lake I | Iowa | 108 | 100% | 2019 |
| Storm Lake II | Iowa | 77 | | |
| PSA 1 | | | 90% | 2019 |
| PSA 2 | | | 10% | 2032 |

U.S. Water Services.

U.S. Water Services provides integrated water management for industry by combining chemical, equipment, engineering and service for customized solutions to reduce water and energy usage and improve efficiency. U.S. Water Services is located in 49 states and Canada, and has an established base of approximately 4,800 customers. U.S. Water Services differentiates itself from the competition by developing synergies between established solutions in engineering, equipment and chemical water treatment, and helping customers achieve efficient and sustainable use of their water and energy systems. U.S. Water Services is a leading provider to the biofuels industry, and also serves the commercial and institutional markets, food and beverage, light manufacturing, power generation, and midstream oil and gas industries, among others. U.S. Water Services principally relies upon recurring revenues from a diverse mix of industrial customers. U.S. Water Services sells certain products which are seasonal in nature, with higher demand typically realized in warmer months; generally, lower sales occur in the first quarter of each year.

Our strategy is to grow U.S. Water Services' presence in North America by adding customers, products, markets and new geographies. We believe water scarcity and a growing emphasis on conservation will continue to drive significant growth in the industrial, commercial and governmental sectors leading to organic revenue growth for U.S. Water Services. U.S. Water Services also expects to pursue periodic strategic tuck-in acquisitions with a purchase price in the \$10 million to \$50 million range. Priority will be given to acquisitions which expand its geographic reach, add new technology, or deepen its capabilities to serve its expanding customer base.

Corporate and Other.

BNI Energy. BNI Energy anticipates selling 4.6 million tons of coal in 2017 (3.8 million tons were sold in 2016) and has sold 3.5 million tons for the nine months ended September 30, 2017 (3.3 million tons were sold for the nine months ended September 30, 2016). BNI Energy operates under cost-plus fixed fee agreements extending through December 31, 2037.

ALLETE Properties. ALLETE Properties represents our legacy Florida real estate investment. Market conditions can impact land sales and could result in our inability to cover our cost basis, operating expenses or fixed carrying costs such as community development district assessments and property taxes. ALLETE Properties' major projects in Florida are Town Center at Palm Coast and Palm Coast Park, with approximately 2,500 acres combined of land available-for-sale. In addition to these two projects, ALLETE Properties has approximately 1,000 acres of other land available-for-sale.

In recent years, market conditions for real estate in Florida have required us to review our land inventories for impairment. In 2015, the Company reevaluated its strategy related to the real estate assets of ALLETE Properties in response to market conditions and transaction activity. The revised strategy incorporated the possibility of a bulk sale of its entire portfolio. Proceeds from a bulk sale would be strategically deployed to support growth in our energy infrastructure and related services businesses. ALLETE Properties also continues to pursue sales of individual parcels over time. ALLETE Properties will continue to maintain key entitlements and infrastructure without making additional investments or acquisitions.

OUTLOOK (Continued)

Income Taxes.

ALLETE's aggregate federal and multi-state statutory tax rate is approximately 41 percent for 2017. On an ongoing basis, ALLETE has tax credits and other tax adjustments that reduce the combined statutory rate to the effective tax rate. These tax credits and adjustments historically have included items such as investment tax credits, production 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 before income taxes, state and federal tax law changes that become effective during the year, business combinations, tax planning initiatives and resolution of prior years' tax matters. We expect our effective tax rate to be approximately 20 percent for 2017 primarily due to federal production tax credits as a result of wind energy generation. We also expect that our effective tax rate will be lower than the combined statutory rate over the next eight years due to production tax credits attributable to our wind energy generation.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Position. ALLETE is well-positioned to meet the Company's liquidity needs. As of September 30, 2017, we had cash and cash equivalents of \$104.4 million, \$397.8 million in available consolidated lines of credit and a debt-to-capital ratio of 43 percent.

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

| | September 30, 2017 | % | December 31, 2016 | % |
|---|-----------------------|-----|----------------------|-----|
| Millions | | | | |
| Shareholders' Equity | \$2,042.7 | 57 | \$1,893.0 | 55 |
| Long-Term Debt (Including Long-Term Debt Due Within One Year) | 1,519.0 | 43 | 1,569.1 | 45 |
| | \$3,561.7 | 100 | \$3,462.1 | 100 |

Cash Flows. Selected information from the Consolidated Statement of Cash Flows is as follows:

| For the Nine Months Ended September 30, | 2017 | 2016 |
|--|---------|---------|
| Millions | | |
| Cash and Cash Equivalents at Beginning of Period | \$27.5 | \$97.0 |
| Cash Flows from (used for) | | |
| Operating Activities | 307.2 | 237.8 |
| Investing Activities | (151.7) | (120.7) |
| Financing Activities | (78.6) | (106.9) |
| Change in Cash and Cash Equivalents | 76.9 | 10.2 |
| Cash and Cash Equivalents at End of Period | \$104.4 | \$107.2 |

Operating Activities. Cash from operating activities was higher in 2017 compared to 2016 primarily due to a payment of \$31.0 million made in 2016 as part of a long-term PSA between Minnesota Power and Silver Bay Power as well as higher recoveries of our cost recovery riders, net income and non-cash items in 2017, partially offset by an increase in customer receivables and higher payments on accounts payable in 2017.

Investing Activities. Cash used for investing activities was higher in 2017 compared to 2016 primarily due to the acquisition of Tonka Water, higher capital expenditures and additional investments in ATC in 2017.

Financing Activities. Cash used for financing activities was lower in 2017 primarily due to proceeds received from the issuance of common stock of \$80.5 million compared to \$27.0 million in 2016, partially offset by higher contingent consideration payments in 2017 and higher repayments of long-term debt of \$183.6 million in 2017, net of long-term debt issuances of \$131.5 million in 2017. Additionally, in 2016 the Company paid \$8.0 million to acquire the non-controlling interest of the limited liability company that owns the Condon wind energy facility. (See *Securities* and Note 3. Acquisitions.)

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Working Capital. Additional working capital, if and when needed, generally is provided by consolidated bank lines of credit and the issuance of securities, including long-term debt, common stock and commercial paper. As of September 30, 2017, we had consolidated bank lines of credit aggregating \$409.0 million (\$409.0 million as of December 31, 2016), the majority of which expire in November 2019. We had \$11.2 million outstanding in standby letters of credit and no outstanding draws under our lines of credit as of September 30, 2017 (\$11.1 million in standby letters of credit and no outstanding draws as of December 31, 2016). In addition, as of September 30, 2017, we had 3.2 million original issue shares of our common stock available for issuance through Invest Direct, our direct stock purchase and dividend reinvestment plan, and 2.9 million original issue shares of common stock available for issuance through a distribution agreement with Lampert Capital Markets, Inc. (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 2008, as amended most recently in August 2016, with respect to the issuance and sale of up to an aggregate of 13.6 million shares of our common stock, without par value, of which 2.9 million shares remain available for issuance. For the nine months ended September 30, 2017, 1.0 million shares of common stock were issued under this agreement, resulting in net proceeds of \$65.7 million (0.1 million shares were issued for the nine months ended September 30, 2016, resulting in net proceeds of \$7.6 million). The shares issued in 2017 were offered and sold pursuant to Registration Statement No. 333-212794, pursuant to which the remaining shares will continue to be offered for sale, from time to time.

During the nine months ended September 30, 2017, we issued 0.2 million shares of common stock through Invest Direct, the Employee Stock Purchase Plan, and the Retirement Savings and Stock Ownership Plan, resulting in net proceeds of \$14.8 million (0.4 million shares were issued for the nine months ended September 30, 2016, resulting in net proceeds of \$19.6 million). These shares of common stock were registered under Registration Statement Nos. 333-211075, 333-188315, 333-183051 and 333-162890.

On June 1, 2017, ALLETE issued \$80 million of its senior unsecured notes (the Notes) to certain institutional buyers in the private placement market. The Notes were issued in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, to institutional accredited investors. The Notes bear interest at 3.11 percent and mature on June 1, 2027. (See Note 8. Short-Term and Long-Term Debt.)

On August 25, 2017, ALLETE entered into a \$40.0 million term loan agreement (Term Loan). The Term Loan is an unsecured, single draw loan that is due on August 25, 2020, and may be prepaid at any time subject to a make-whole provision. The interest rate on the Term Loan is equal to LIBOR plus 1.025 percent. (See Note 8. Short-Term and Long-Term Debt.)

Financial Covenants. See Note 8. 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. During the nine months ended September 30, 2017, we contributed \$1.7 million in cash and 0.2 million shares of ALLETE common stock, which had an aggregate value of \$13.5 million when contributed, to the defined benefit 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. We do not expect to make additional contributions to our defined benefit pension plans in 2017, and we do not expect to make any contributions to our other postretirement benefit plans in 2017. (See Note 11. Earnings Per Share and Common Stock and Note 12. Pension and Other Postretirement Benefit Plans.)

Off-Balance Sheet Arrangements. Off-balance sheet arrangements are summarized in our 2016 Form 10-K, with additional disclosure in Note 13. Commitments, Guarantees and Contingencies.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Credit Ratings. Access to reasonably priced capital markets is dependent in part on credit and ratings. Our securities have been rated by Standard & Poor's and by Moody's. Rating agencies use both quantitative and qualitative measures in determining a company's credit rating. These measures include business risk, liquidity risk, competitive position, capital mix, financial condition, predictability of cash flows, management strength and future direction. Some of the quantitative measures can be analyzed through a few key financial ratios, while the qualitative ones are more subjective. Our current credit ratings are listed in the following table:

| Credit Ratings | Standard & Poor's | Moody's |
|----------------------|-------------------|---------|
| Issuer Credit Rating | BBB+ | A3 |
| Commercial Paper | A-2 | P-2 |
| First Mortgage Bonds | (a) | A1 |

(a) Not rated by Standard & Poor's.

The disclosure of these credit ratings is not a recommendation to buy, sell or hold our securities. Ratings are subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Capital Requirements. Our capital expenditures for 2017 are expected to be approximately \$215 million. The decrease from the 2017 capital expenditures projected in our 2016 Form 10-K is primarily due to approximately \$65 million of lower expected capital expenditures for the GNTL. The reduction in 2017 capital expenditures relating to the GNTL is anticipated to be offset by increased capital expenditures in future periods. (See Note 6. Regulatory Matters.) For the nine months ended September 30, 2017, capital expenditures totaled \$135.8 million (\$101.6 million for the nine months ended September 30, 2016). The expenditures were primarily made in the Regulated Operations segment.

OTHER

Environmental Matters.

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. A number of regulatory changes to the Clean Air Act, the Clean Water Act and various waste management requirements have recently been promulgated by both the EPA and state authorities. Minnesota Power's facilities are subject to additional regulation under many of these regulations. In response to these regulations, Minnesota Power is reshaping its generation portfolio over time to reduce its reliance on coal, has installed cost-effective emission control technology, and advocates for sound science and policy during rulemaking implementation. (See Note 13. Commitments, Guarantees and Contingencies.)

Employees.

As of September 30, 2017, ALLETE had 2,051 employees, of which 1,991 were full-time.

Minnesota Power and SWL&P have an aggregate of 521 employees who are members of International Brotherhood of Electrical Workers (IBEW) Local 31. The current labor agreements with IBEW Local 31 expire on January 31, 2018.

BNI Energy has 180 employees, of which 137 are members of IBEW Local 1593. The current labor agreement with IBEW Local 1593 expires on March 31, 2019.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements 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. As of September 30, 2017, our available-for-sale securities portfolio consisted primarily of securities held in other postretirement plans to fund employee benefits. (See Note 2. 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. Minnesota Power'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 or distribution of savings in fuel costs to ratepayers. SWL&P's exposure to price risk for natural gas is significantly mitigated by the current ratemaking process and regulatory framework, which allows the commodity cost to be passed through to customers. 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

Minnesota Power's power marketing activities consist of: (1) purchasing energy in the wholesale market to serve its regulated service territory when energy requirements exceed generation output; and (2) selling excess available energy and purchased power. From time to time, Minnesota Power may have excess energy that is temporarily not required by retail and municipal customers in our regulated service territory. Minnesota Power actively sells any excess energy to the wholesale market to optimize the value of its 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 as of September 30, 2017, an increase of 100 basis points in interest rates would impact the amount of pre-tax interest expense by \$1.0 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, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of September 30, 2017, evaluations were performed, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, on 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding material legal and regulatory proceedings, see Note 4. Regulatory Matters and Note 11. Commitments, Guarantees and Contingencies to our Consolidated Financial Statements in our 2016 Form 10-K and Note 6. Regulatory Matters and Note 13. Commitments, Guarantees and Contingencies herein. Such information is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part I, Item 1A. Risk Factors of our 2016 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 | <u>Term Loan Agreement dated as of August 25, 2017, among ALLETE, as Borrower, the Lenders party hereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and JPMorgan Chase Bank, N.A., as Sole Lead Arranger and Sole Book Runner.</u> |
| 31(a) | <u>Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 31(b) | <u>Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 32 | <u>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.</u> |
| 95 | <u>Mine Safety.</u> |
| 99 | <u>ALLETE News Release dated November 1, 2017, announcing 2017 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.)</u> |
| 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 1, 2017

/s/ Robert J. Adams

Robert J. Adams
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

November 1, 2017

/s/ Steven W. Morris

Steven W. Morris
Vice President, Controller and Chief Accounting Officer
(Principal Accounting Officer)

TERM LOAN AGREEMENT
dated as of AUGUST 25, 2017

among

ALLETE, INC.,
as Borrower,

The Lenders Party Hereto,

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

and

BANK OF AMERICA, N.A.,
as Syndication Agent

JPMORGAN CHASE BANK, N.A.,
as Sole Lead Arranger and Sole Book Runner

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EXHIBITS:

| | |
|-----------|-----------------------------------|
| Exhibit A | Form of Assignment and Assumption |
| Exhibit B | Form of Note |
| Exhibit C | Form of Compliance Certificate |

ALLETE, INC., the Lenders party hereto, JPMORGAN CHASE BANK, N.A., as Administrative Agent, and BANK OF AMERICA, N.A., as Syndication Agent.

WHEREAS, the Lenders have agreed to make term loans to the Borrower in an aggregate principal amount up to \$40,000,000,

NOW, THEREFORE, the parties hereto agree as follows:

Article 1.

DEFINITIONS AND INTERPRETATION

Section 1.1. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

“Accountants” means PricewaterhouseCoopers, L.L.P. or another registered public accounting firm of recognized national standing.

“Adjusted LIBO Rate” means, for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

“Administrative Agent” means JPMorgan Chase Bank, N.A. (together with its branches and Affiliates), in its capacity as administrative agent for the Lenders hereunder, and any successor in such capacity.

“Administrative Questionnaire” means an administrative questionnaire in a form supplied by the Administrative Agent.

“Affiliate” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Agent Party” has the meaning assigned to such term in Section 10.1(d).

“Agreement” has the meaning assigned to such term in the preamble.

“Alternate Base Rate” means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the NYFRB Rate in effect on such day plus 1/2 of 1%, and (c) the Adjusted LIBO Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1% per annum (provided that, for the avoidance of doubt, the Adjusted LIBO Rate for any day shall be based on the LIBOR Screen Rate (or if the LIBOR Screen Rate is not available for such one month Interest Period, the Interpolated Rate) at approximately 11:00 a.m. London time on such day). Any change in the Alternate Base Rate due to a change in the Prime Rate, the NYFRB Rate or the Adjusted LIBO Rate shall be effective from and including the effective date of such change in the Prime Rate, the NYFRB Rate or the Adjusted LIBO Rate, respectively. For the avoidance of doubt, if the Alternate Base Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the Borrower or its Subsidiaries from time to time concerning or relating to bribery or corruption

“Applicable Percentage” means, with respect to any Lender, (a) prior to the making of the Loans, the percentage of the total Commitments represented by such Lender’s Commitment and (b) thereafter, the percentage of the aggregate principal amount of the Loans represented by the principal amount of such Lender’s Loan.

“Approved Fund” means, with respect to any Lender that is a fund that invests in commercial loans, any other fund that invests in commercial loans and is managed or advised by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

“Assignment and Assumption” means an assignment and assumption agreement entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 10.4), and accepted by the Administrative Agent, substantially in the form of Exhibit A or in such other form as shall be acceptable to the Administrative Agent.

“Bail-In Action” means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“Bail-In Legislation” means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“Bankruptcy Event” means, with respect to any Person, such Person becomes the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, custodian, assignee for the benefit of creditors or similar Person charged with the reorganization or liquidation of its business appointed for it, or, in the good faith determination of the Administrative Agent, has taken any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any such proceeding or appointment, provided that a Bankruptcy Event shall not result solely by virtue of any ownership interest, or the acquisition of any ownership interest, in such Person by a Governmental Authority or instrumentality thereof, provided, further, that such ownership interest does not result in or provide such Person with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Person (or such Governmental Authority or instrumentality) to reject, repudiate, disavow or disaffirm any contracts or agreements made by such Person.

“Board” means the Board of Governors of the Federal Reserve System of the United States of America.

“Borrower” means ALLETE, Inc., a Minnesota corporation.

“Borrower Financial Statements” has the meaning assigned to such term in Section 4.4(a).

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed, provided that, when used in connection with borrowing or continuing, or paying principal of or interest on, or determining the interest rate for, the Loans, the term “Business Day” shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

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

“Change in Control” means the occurrence of any of the following: (a) the consummation of any transaction the result of which is that any “person” or “group” (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934 but excluding any employee benefit plan of the Borrower or its Subsidiaries, and any Person acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the “beneficial owner” (as such term is defined in Rule 13d-3 under the Securities Exchange Act of 1934) of more than 30% of the total voting power in the aggregate of all classes of the Voting Securities of the Borrower then outstanding, (b) during any period of two consecutive calendar years, individuals who at the beginning of such period constituted the board of directors of the Borrower cease for any reason to constitute a majority of the directors of the Borrower then in office unless (i) such new directors were elected or nominated by a majority of the directors of the Borrower who constituted the board of directors of the Borrower at the beginning of such period or (ii) the reason for such directors failing to constitute a majority is a result of retirement by directors due to age, death or disability or (c) any event or condition relating to a change of control of the Borrower shall occur which requires or permits the holder or holders of indebtedness of the

Borrower in an aggregate principal amount of \$35,000,000 or more, or any agent or trustee for such holders, to require payment, purchase, redemption or defeasance of such indebtedness prior to its expressed maturity.

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline, requirement or directive (whether or not having the force of law) by any Governmental Authority; provided that, notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements or directives thereunder or issued in connection therewith or in implementation thereof and (ii) all requests, rules, guidelines, requirements or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or any United States or foreign regulatory authority, in each case pursuant to Basel III, shall, in each case referred to in the foregoing clauses (i) and (ii), be deemed to be a “Change in Law,” regardless of the date enacted, adopted, promulgated, implemented or issued.

“Code” means the Internal Revenue Code of 1986.

“Commitment” means, with respect to each Lender, the commitment of such Lender to make its Loan on the Effective Date in the amount set forth opposite such Lender’s name on Schedule 2.1. The aggregate amount of the Commitments is \$40,000,000.

“Communications” has the meaning assigned to such term in Section 10.1(d).

“Compliance Certificate” means a certificate, substantially in the form of Exhibit C.

“Consolidated Assets” means the total amount of assets shown on the consolidated balance sheet of the Borrower and its Subsidiaries, determined in accordance with GAAP and prepared as of the end of the fiscal quarter then most recently ended for which financial statements have been filed with the SEC.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. The terms “Controlling” and “Controlled” have meanings correlative thereto.

“Credit Parties” means the Administrative Agent and the Lenders.

“Default” means any event or condition that constitutes an Event of Default or that upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means any Lender, as determined by the Administrative Agent (or if the Administrative Agent is the Defaulting Lender, by the Required Lenders), that (a) has failed, within three (3) Business Days of the date required to be funded or paid, to (i) fund any portion of its Loans, or (ii) pay over to any Credit Party any other amount required to be paid by it hereunder, unless, in the case of clause (i) above, such Lender notifies the Administrative Agent in writing that such failure is the result of such Lender’s good faith determination that a condition precedent to funding (specifically identified and including the particular default, if any) has not been satisfied, (b) has notified the Borrower or any Credit Party in writing, or has made a public statement to the effect, that it does not intend or expect to comply with any of its funding obligations under this Agreement or generally under other agreements in which it commits to extend credit, (c) has failed, within three (3) Business Days after requested by a Credit Party (based on the reasonable belief that it may not fulfill its funding obligation), acting in good faith, to provide a certification in writing from an authorized officer of such Lender that it will comply with its obligations (and is financially able to meet such obligations) to fund Loans under this Agreement, provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon such Credit Party’s receipt of such certification in form and substance satisfactory to it and the Administrative Agent, or (d) has become the subject of (A) a Bankruptcy Event or (B) a Bail-In Action.

“Disclosed Matters” means the actions, suits, proceedings and environmental matters disclosed in (a) Schedule 4.5/4.6, (b) the current and periodic reports filed by the Borrower from time to time with the SEC pursuant

to the requirements of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, or (c) disclosed by the Borrower to the Lenders (either directly or indirectly through the Administrative Agent) in writing.

“Disqualified Stock” means any Equity Interest that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures (excluding any maturity as a result of an optional redemption by the issuer thereof) or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the unconditional sole option of the holder thereof (other than solely for Equity Interests that do not constitute Disqualified Stock), in whole or in part, on or prior to the date that is 180 days after the Maturity Date.

“dollars” or “\$” refers to lawful money of the United States of America.

“EEA Financial Institution” means (a) any institution established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any Person entrusted with public administrative authority of any EEA Member Country (including any delegatee) having responsibility for the resolution of any EEA Financial Institution.

“Effective Date” means August 25, 2017.

“Electronic Signature” means an electronic sound, symbol, or process attached to, or associated with, a contract or other record and adopted by a Person with the intent to sign, authenticate or accept such contract or record.

“Electronic System” means any electronic system, including e-mail, e-fax, the Platform and any other Internet or extranet-based site, whether such electronic system is owned, operated or hosted by the Administrative Agent and any of its respective Related Parties or any other Person, providing for access to data protected by passcodes or other security system.

“Eligible Assignees” means any of the following (a) any commercial banks, finance companies, insurance companies and other financial institutions and funds (whether a corporation, partnership or other entity) engaged generally in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business, provided that unless such entity is a Lender or an Affiliate of a Lender, such entity has been approved by the Administrative Agent and, unless an Event of Default has occurred and is continuing at the time of assignment to such entity, the Borrower (each such approval not to be unreasonably withheld or delayed), and provided, further, that any such entity shall be entitled, as of the date such entity becomes a Lender, to receive payments under its Note without deduction or withholding with respect to United States federal income tax, (b) each of the Lenders and (c) any Affiliate or Approved Fund of a Lender, and each is an “Eligible Assignee”; provided that neither a natural person nor the Borrower or any of the Borrower’s Affiliates shall be an Eligible Assignee.

“Environmental Law” means any and all applicable present and future treaties, laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by or with any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the presence, management, release or threatened release of any Hazardous Material or to health and safety matters.

“Equity Interest” means (a) shares of corporate stock, partnership interests, limited liability company membership interests, and any other interest that confers on a Person the right to receive a share of the profits and

losses of, or distribution of assets of, the issuing Person, and (b) all warrants, options or other rights to acquire any Equity Interest set forth in the foregoing clause (a).

“ERISA” means the Employee Retirement Income Security Act of 1974.

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

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

“EU Bail-In Legislation Schedule” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor Person), as in effect from time to time.

“Event of Default” has the meaning assigned to such term in Article 8.

“Existing Term Loan Agreement” means the Term Loan Agreement dated as of August 25, 2015, as amended, restated, supplemented or otherwise modified and as in effect as of the Effective Date.

“FATCA” means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b)(1) of the Code.

“Federal Funds Effective Rate” means, for any day, the rate calculated by the NYFRB based on such day’s federal funds transactions by depository institutions (as determined in such manner as the NYFRB shall set forth on its public website from time to time) and published on the next succeeding Business Day by the NYFRB as the federal funds effective rate. For the avoidance of doubt, if the Federal Funds Effective Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“Financial Officer” means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

“Fitch” means Fitch Ratings, Inc. or any successor thereto.

“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“GAAP” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and in the statements and pronouncements of the Financial Accounting Standards Board or in such other statement by such other entity as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of

the date of determination, consistently applied; provided that in the event Borrower converts to use the International Financial Reporting Standards by the International Accounting Standards Board or other method of accounting, as may hereafter be required or permitted by the SEC, then the term “GAAP” as used in this Agreement shall be deemed to mean and refer to such International Financial Reporting Standards or such other method of accounting instead, which are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, commission, exchange, association, board, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including supranational bodies such as the European Union or European Central Bank).

“Guarantee” of or by any Person (the “guarantor”) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation, provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guaranteed” has a meaning correlative thereto. The amount of any Guarantee of a Person shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee is made (or, if less, the maximum amount of such primary obligation for which such Person may be liable pursuant to the terms of the instrument evidencing such Guarantee) or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith, provided that, notwithstanding anything in this definition to the contrary, the amount of any Guarantee of a Person in respect of any Permitted Hedge Agreement by any other Person with a counterparty shall be deemed to be the maximum reasonably anticipated liability of such other Person, as determined in good faith by such Person, net of any obligation or liability of such counterparty in respect of any Permitted Hedge Agreement with such Person, provided further that the obligations of such other Person under such Permitted Hedge Agreement with such counterparty shall be terminable at the election of such other Person in the event of a default by such counterparty in its obligations to such other Person.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

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

“Immaterial Subsidiary” means a Subsidiary that (a) has consolidated total assets with a book value not exceeding 5% of Consolidated Assets as of the end of the most recent fiscal quarter for which financial statements have been filed with the SEC and (b) had total revenues not exceeding 5% of the Borrower’s consolidated total revenues for the period ending on the last day of such fiscal quarter.

“Immaterial Transaction” means any transaction or event described in paragraph (i) or (j) of Article 8 so long as, after giving effect to such transaction or event, all Subsidiaries that have become subject to such transactions or events during the 12-month period ending on the date of such transaction or event (a) had consolidated total assets with a fair market value not exceeding 5% of Consolidated Assets as of the end of the most recent fiscal quarter for

which financial statements have been filed with the SEC and (b) had total revenues not exceeding 5% of the Borrower's consolidated total revenues for the period ending on the last day of such fiscal quarter.

“Impacted Interest Period” has the meaning assigned to such term in the definition of “LIBO Rate”.

“Incremental Term Lender” has the meaning assigned to such term in Section 2.7.

“Incremental Term Loan” has the meaning assigned to such term in Section 2.7.

“Incremental Term Loan Amendment” has the meaning assigned to such term in Section 2.7.

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

“Indemnitee” has the meaning assigned to such term in Section 10.3(b).

“Information” has the meaning assigned to such term in Section 10.15.

“Intellectual Property” means all copyrights, trademarks, service marks, patents, trade names and service names.

“Interest Payment Date” means (i) to the extent any of the Loans shall accrue interest at the Alternate Base Rate, the last day of each March, June, September and December, (ii) the last day of each Interest Period, (iii) the date of payment or prepayment of any of the Loans (due to acceleration or otherwise) and (iv) the Maturity Date.

“Interest Period” means (a) a period commencing on the Effective Date or on the last day of the preceding Interest Period and ending on the numerically corresponding day in the immediately following calendar month, provided that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day, unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the next calendar month and (c) no Interest Period shall extend beyond the Maturity Date.

“Interpolated Rate” means, at any time, for any Interest Period, the rate per annum determined by the Administrative Agent (which determination shall be conclusive and binding absent manifest error) to be equal to the rate that results from interpolating on a linear basis between: (a) the LIBOR Screen Rate for the longest period (for which the LIBOR Screen Rate is available for the applicable currency) that is shorter than the Impacted Interest Period and (b) the LIBOR Screen Rate for the shortest period (for which the LIBOR Screen Rate is available for the applicable currency) that exceeds the Impacted Interest Period, in each case, at such time.

“Investment Grade Rating” has the meaning assigned to such term in Section 7.2.

“JPMorgan Chase” means JPMorgan Chase Bank, N.A.

“Lenders” means the Persons listed on Schedule 2.1 and any other Person that shall have become a party hereto pursuant to Section 2.7 or pursuant to an Assignment and Assumption or other documentation contemplated hereby, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption or other documentation contemplated hereby.

“LIBO Rate” means, with respect to any Loan and for any applicable Interest Period, the LIBOR Screen Rate at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period; provided that, if the LIBOR Screen Rate shall not be available at such time for such Interest Period (the “Impacted Interest Period”), then the LIBO Rate for such Interest Period shall be the Interpolated Rate. It is understood and agreed that all of the terms and conditions of this definition of “LIBO Rate” shall be subject to Section 3.2.

“LIBOR Screen Rate” means, for any date and time, with respect to any Loan and for any Interest Period, the London interbank offered rate as administered by ICE Benchmark Administration (or any other Person that takes over the administration of such rate) for dollars for a period equal in length to such Interest Period as displayed on such day and time on pages LIBOR01 or LIBOR02 of the Reuters screen that displays such rate (or, in the event such rate does not appear on such Reuters pages or screens, on any successor or substitute page on such screen that displays such rate, or on the appropriate page of such other information service that publishes such rate as shall be selected by the Administrative Agent from time to time in its reasonable discretion); provided that, if the LIBOR Screen Rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien (statutory or other), assignment, deposit arrangement, pledge, hypothecation, encumbrance or preference, priority, charge or other security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Loan” has the meaning specified in Section 2.1.

“Loan Documents” means this Agreement and each Note issued pursuant to Section 2.3(e).

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

“Material Adverse Change” means a material adverse change in (a) the financial condition, operations, business or property of (i) the Borrower or (ii) the Borrower and its Subsidiaries, taken as a whole, (b) the ability of the Borrower to perform its obligations under the Loan Documents or (c) the ability of the Credit Parties to enforce their rights and remedies under the Loan Documents.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition, operations, business or property of (i) the Borrower or (ii) the Borrower and its Subsidiaries, taken as a whole, (b) the ability of the Borrower to perform its obligations under the Loan Documents or (c) the ability of the Credit Parties to enforce their rights and remedies under the Loan Documents.

“Material Obligations” means as of any date, Indebtedness (other than Indebtedness under the Loan Documents) or operating leases of any one or more of the Borrower or any Subsidiary or, in the case of the Borrower only, any Guarantee, in an aggregate principal amount exceeding \$35,000,000. For purposes of determining Material Obligations, the “principal amount” of Indebtedness, operating leases or Guarantees at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary, as applicable, would be required to pay if such Indebtedness, operating leases or Guarantees became due and payable on such day.

“Maturity Date” means the August 25, 2020.

“Maximum Rate” has the meaning assigned to such term in Section 10.12.

“Moody’s” means Moody’s Investors Service, Inc., or any successor thereto.

“Mortgage” means the Mortgage and Deed of Trust, dated as of September 1, 1945, among the Borrower, The Bank of New York Mellon (formerly Irving Trust Company) and Andres Serrano (successor to Richard H. West), Trustees.

“MPUC” means the Minnesota Public Utilities Commission or any Governmental Authority succeeding to the functions thereof.

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Note” means a promissory note substantially in the form of Exhibit B issued at the request of a Lender pursuant to Section 2.3(e) to evidence its Loans.

“NYFRB” means the Federal Reserve Bank of New York.

“NYFRB Rate” means, for any day, the greater of (a) the Federal Funds Effective Rate in effect on such day and (b) the Overnight Bank Funding Rate in effect on such day (or for any day that is not a Business Day, for the immediately preceding Business Day); provided that if none of such rates are published for any day that is a Business Day, the term “NYFRB Rate” means the rate for a federal funds transaction quoted at 11:00 a.m. on such day received by the Administrative Agent from a Federal funds broker of recognized standing selected by it; provided, further, that if any of the aforesaid rates shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“Obligations” means (a) the due and punctual payment of (i) principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, (b) all other monetary obligations, including fees, commissions, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of the Borrower to the Lenders, or that are otherwise payable to any Credit Party, in each case under the Loan Documents and (c) the due and punctual performance of all covenants, agreements, obligations and liabilities of the Borrower under or pursuant to the Loan Documents.

“OFAC” means the Office of Foreign Assets Control of the U.S. Department of the Treasury.

“Other Taxes” means any and all current or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution or delivery of, or performance under, or otherwise with respect to, the Loan Documents.

“Overnight Bank Funding Rate” means, for any day, the rate comprised of both overnight federal funds and overnight eurodollar borrowings by U.S.-managed banking offices of depository institutions (as such composite rate shall be determined by the NYFRB as set forth on its public website from time to time) and published on the next succeeding Business Day by the NYFRB as an overnight bank funding rate (from and after such date as the NYFRB shall commence to publish such composite rate).

“Participant” has the meaning assigned to such term in Section 10.4(d).

“PATRIOT Act” means the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)).

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

“Permitted Encumbrances” means:

- (a) Liens imposed by law for taxes, assessments or similar charges incurred in the ordinary course of business that are not yet due or are being contested in compliance with Section 6.4, provided that enforcement of such Liens is stayed pending such contest;
- (b) landlords', vendors', carriers', warehousemen's, mechanics', materialmen's, contractors', repairmen's and other like Liens imposed by law, arising in the ordinary course of business and securing obligations which are not delinquent or are being contested, provided that enforcement of such Liens is stayed pending such contest;
- (c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations (but not ERISA);
- (d) pledges and deposits to secure the performance of bids, trade contracts, leases, purchase agreements, government contracts, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business, and other than promissory notes and contracts for the repayment of borrowed money;
- (e) Liens (including contractual security interests) in favor of a financial institution (including securities firms) encumbering deposit accounts or checks or instruments for collection, commodity accounts or securities accounts (including the right of set-off) at or held by such financial institution in the ordinary course of its commercial business and which secure only liabilities owed to such financial institution arising out of or resulting from its maintenance of such account or otherwise are within the general parameters customary in the financial industry;
- (f) judgment liens in respect of judgments that do not constitute an Event of Default under paragraph (k) of Article 8;
- (g) any interest of a lessor or licensor in property under an operating lease under which the Borrower or any Subsidiary is lessee or licensee, and any restriction or encumbrance to which the interest of such lessor or licensor is subject;
- (h) Liens arising from filed UCC-1 financing statements relating solely to leases not prohibited by this Agreement;
- (i) leases or subleases granted to others that do not materially interfere with the ordinary conduct of business of the Borrower and its Subsidiaries;
- (j) licenses of Intellectual Property granted by the Borrower or any Subsidiary in the ordinary course of business and not materially interfering with the ordinary conduct of the business of the Borrower and its Subsidiaries;
- (k) easements, servitudes (contractual and legal), zoning restrictions, rights of way, encroachments, minor defects and irregularities in title and other similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not render title to such property unmarketable or materially interfere with the ability of the Borrower and its Subsidiaries, as the case may be, to utilize their respective properties for their intended purposes;
- (l) Liens securing obligations, neither assumed by the Borrower or any Subsidiary nor on account of which the Borrower or any Subsidiary customarily pays interest, upon real estate on which the Borrower or any Subsidiary has a right-of-way, easement, franchise or other servitude or of which the Borrower or any Subsidiary is the lessee, for the purpose of locating transmission and distribution lines and related support structures, pipe lines, substations, measuring stations, tanks, pumping or delivery equipment or similar equipment, or service buildings incidental to any of the foregoing;
- (m) with respect to properties involved in the production of oil, gas and other minerals, unitization and pooling agreements and orders, operating agreements, royalties, reversionary interests, preferential purchase rights, farmout agreements, gas balancing agreements and other agreements, in each case that are customary in the oil, gas

and mineral production business in the general area of such property and that are entered into in the ordinary course of business;

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

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

(p) Liens on any cash collateral for letters of credit issued under the Borrower's primary revolving credit facility upon the occurrence of an event of default thereunder or to cover an issuing lender's credit exposure under such facility with respect to a defaulting lender thereunder;

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

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

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

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

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower, any Subsidiary or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Platform" means Debt Domain, Intralinks, Syndtrak or a substantially similar electronic transmission system.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by JPMorgan Chase as its prime rate in effect at its principal office in New York City; each change in the Prime Rate being effective from and including the date such change is publicly announced as being effective. The Prime Rate is not intended to be lowest rate of interest charged by JPMorgan Chase in connection with extensions of credit to borrowers.

"Rating Agencies" means Fitch, Moody's and S&P (or, if any of the foregoing ceases to provide Senior Debt Ratings as contemplated hereby, such other nationally recognized rating agency as shall be agreed by the Borrower and the Administrative Agent).

"Register" has the meaning assigned to such term in Section 10.4(c).

"Regulation D" means Regulation D of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“Regulation T” means Regulation T of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“Regulation U” means Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“Regulation X” means Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“Related Parties” means, with respect to any specified Person, such Person’s Affiliates and the respective directors, officers, employees, agents, representatives and advisors of such Person and such Person’s Affiliates.

“Required Lenders” means, at any time, two or more Lenders holding Applicable Percentages totaling more than 50%.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business.

“Sanctioned Country” means, at any time, a country, region or territory which is itself the subject or target of any Sanctions (at the time of this Agreement, Crimea, Cuba, Iran, North Korea, Sudan and Syria).

“Sanctioned Person” means, at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by OFAC, the U.S. Department of State, the United Nations Security Council, the European Union, any European Union member state, Her Majesty’s Treasury of the United Kingdom, or other relevant sanctions authority, (b) any Person operating, organized or resident in a Sanctioned Country or (c) any Person owned or controlled by any such Person or Persons described in the foregoing clauses (a) or (b).

“Sanctions” means all economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (a) the U.S. government, including those administered by OFAC or the U.S. Department of State or (b) the United Nations Security Council, the European Union, any European Union member state, Her Majesty’s Treasury of the United Kingdom or other relevant sanctions authority.

“SEC” means the United States Securities and Exchange Commission or any Governmental Authority succeeding to the functions thereof.

“Senior Debt Rating” means, at any date, the credit rating identified by a Rating Agency as the credit rating that (a) it has assigned to long term unsecured senior debt of the Borrower or (b) would assign to long term unsecured senior debt of the Borrower were the Borrower to issue or have outstanding any long term unsecured senior debt on such date.

“Sole Lead Arranger and Sole Bookrunner” means JPMorgan Chase, in its capacity as Sole Lead Arranger and Sole Bookrunner hereunder.

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages, if any, (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject for eurocurrency funding (currently referred to as “Eurocurrency liabilities” in Regulation D). Such reserve percentages shall include those imposed pursuant to Regulation D. The Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Subsidiary” means, as to any Person, any corporation, association, partnership, limited liability company, joint venture or other business entity of which such Person or any Subsidiary of such Person, directly or indirectly, either (i) in respect of a corporation, owns or controls more than 50% of the outstanding Equity Interests having ordinary

voting power to elect a majority of the board of directors or similar managing body, irrespective of whether a class or classes shall or might have voting power by reason of the happening of any contingency or (ii) in respect of an association, partnership, joint venture or other business entity, is entitled to share in more than 50% of the profits and losses, however determined. Unless the context otherwise requires, any reference to a Subsidiary shall be deemed to refer to a Subsidiary of the Borrower.

“Syndication Agent” means Bank of America, N.A. in its capacity as syndication agent for the term loan facility evidenced by this Agreement.

“Tax” means any present or future tax, levy, assessment, impost, duty, charge, fee, deduction or withholding of any nature, and whatever called, by a Governmental Authority, on whomsoever and wherever imposed, levied, collected, withheld or assessed.

“Tax on the Overall Net Income” means, as to any Person, a Tax imposed by the jurisdiction in which that Person’s principal office (and/or, in the case of a Lender, its lending office in the United States of America designated in its Administrative Questionnaire or such other office as such Lender may designate in writing to the Administrative Agent and the Borrower) is located, or by any political subdivision or taxing authority thereof, or in which that Person is deemed to be doing business, except to the extent such Person is doing business solely as a result of negotiation, execution, delivery or performance of the Transactions contemplated by this Agreement, imposed on (or measured by) all or part of the net income, profits or gains of that Person (whether worldwide, or only insofar as such income, profits or gains are considered to arise in or to relate to a particular jurisdiction, or otherwise).

“Total Capitalization” means, at any time, the difference between (a) the sum of each of the following at such time with respect to the Borrower and the Subsidiaries, determined on a consolidated basis in accordance with GAAP: (i) preferred Equity Interests, plus (ii) common Equity Interests and any premium on Equity Interests thereon (as such term is used in the Borrower Financial Statements), excluding accumulated other comprehensive income or loss, plus (iii) retained earnings, plus (iv) Total Indebtedness, and (b) (i) stock of the Borrower acquired by the Borrower and (ii) stock of a Subsidiary acquired by such Subsidiary, in each case at such time, as applicable, determined on a consolidated basis in accordance with GAAP.

“Total Indebtedness” means, at any time, all Indebtedness (net of unamortized premium and discount (as such term is used in the Borrower Financial Statements)) at such time of the Borrower and the Subsidiaries, determined on a consolidated basis in accordance with GAAP.

“Transactions” means (a) the execution, delivery and performance by the Borrower of each Loan Document to which it is a party, (b) the borrowing of the Loans and (c) the use of the proceeds of the Loans.

“United States” and “U.S.” each mean the United States of America.

“Voting Security” means a security which ordinarily has voting power for the election of the board of directors (or other governing body), whether at all times or only so long as no senior class of Equity Interests has such voting power by reason of any contingency.

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

“Write-Down and Conversion Powers” means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

“WPS” means the Public Service Commission of Wisconsin or any Governmental Authority succeeding to the functions thereof.

Section 1.2. Terms Generally

. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. The word “law” shall be construed as referring to all statutes, rules, regulations, codes and other laws (including official rulings and interpretations thereunder having the force of law or with which affected Persons customarily comply), and all judgments, orders and decrees, of all Governmental Authorities. Unless the context requires otherwise, (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, restated, supplemented or otherwise modified, (b) any definition of or reference to any statute, rule or regulation shall be construed as referring thereto as from time to time amended, supplemented or otherwise modified (including by succession of comparable successor laws), (c) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (d) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (e) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (f) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to all tangible and intangible assets and properties, including cash, securities, accounts and contract rights, and (g) any reference to a fiscal quarter or fiscal year means a fiscal quarter or fiscal year of the Borrower. Unless otherwise specified, each reference herein to a time of day shall mean such time in New York, New York.

Section 1.3. Accounting Terms; GAAP

. Except as otherwise expressly provided herein, as used in the Loan Documents and in any certificate, opinion or other document made or delivered pursuant thereto, accounting terms not defined in Section 1.1, and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP. If at any time any change in GAAP (including any change to the International Financial Reporting Standards by the International Accounting Standards Board or other method of accounting, as may hereafter be required or permitted by the SEC) would affect the computation of any financial requirement set forth in this Agreement, the Administrative Agent, the Lenders and the Borrower shall negotiate in good faith to amend such requirement to reflect such change in GAAP (subject to the approval of the Required Lenders), provided that, until so amended, (a) such requirement shall continue to be computed in accordance with GAAP prior to such change therein and (b) the Borrower shall provide to the Credit Parties financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such requirement made before and after giving effect to such change in GAAP. Notwithstanding the foregoing, for all purposes hereof, no effect shall be given to any changes in GAAP occurring after the Effective Date, the effect of which would be to cause leases which would be treated as operating leases under GAAP as of the Effective Date to be treated as capital leases under GAAP.

Section 1.4. Rounding

. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

Article 2.

THE CREDITS

Section 2.1. Commitments

. Subject to the terms and conditions hereof, each Lender agrees, severally and not jointly, to make a loan in dollars (each a "Loan" and collectively the "Loans") to the Borrower on the Effective Date in an amount equal to such Lender's Commitment. The Commitments will automatically terminate concurrently with the making of the Loans on the Effective Date. For the avoidance of doubt, the failure of any Lender to make its Loan shall not relieve any other Lender of its obligations hereunder, provided that the Commitments of the Lenders are several, and no Lender shall be responsible for any other Lender's failure to make its Loan. Amounts repaid or prepaid in respect of Loans may not be reborrowed.

Section 2.2. Funding of Loans.

(a) Not later than 2:00 p.m. New York City time on the Effective Date, each Lender shall deliver the proceeds of its Loan by wire transfer of immediately available funds to the account of the Administrative Agent designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such proceeds available to the Borrower by promptly crediting or otherwise transferring the amounts so received, in like funds, to an account of the Borrower designated by the Borrower to the Administrative Agent.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the Effective Date that such Lender will not make the proceeds of its Loan available to the Administrative Agent, the Administrative Agent may assume that such Lender has made such proceeds available on such date in accordance with Section 2.2(a) and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its Loan available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate that would be otherwise applicable to such Loan. Any payment by the Borrower, however, shall be without prejudice to its rights against the applicable Lender. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan.

Section 2.3. Repayment of Loans; Evidence of Debt.

(a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of such Lender's Loan on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the debt of the Borrower to such Lender resulting from the Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Lender's Loan made hereunder, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein, provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that its Loan be evidenced by a Note in the original principal amount of such Lender's Loan. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loan evidenced by such Note and interest thereon shall at all times

(including after any assignment pursuant to Section 10.4) be represented by a Note payable to the order of the payee named therein or any Eligible Assignee pursuant to Section 10.4, except to the extent that any such Lender or Eligible Assignee subsequently returns any such Note for cancellation and requests that such Loan once again be evidenced as described in paragraphs (b) and (c) above.

Section 2.4. Voluntary Prepayments. (a) The Borrower shall have the right at any time and from time to time to prepay any Loans in whole or in part, subject to the requirements of this Section 2.4. The parties hereto hereby consent to the prepayment of the "Loans" under (and as defined in) the Existing Term Loan Agreement on the Effective Date.

(b) The Borrower shall notify the Administrative Agent by telephone (confirmed by facsimile) of any prepayment under this Section 2.4, (i) in the case of a prepayment of Loans bearing interest at the LIBO Rate, not later than 11:30 a.m., New York City time, three Business Days before the date of prepayment or (ii) in the case of prepayment of Loans bearing interest at the Alternate Base Rate, not later than 11:30 a.m., New York City time, on the date of the prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of the Loans to be prepaid, provided that, such notice of prepayment may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Promptly following receipt of any such notice relating to the prepayment of Loans, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of Loans shall be in an integral multiple of \$1,000,000 and not less than \$5,000,000 (or, if the outstanding principal balance of the Loans is less than such minimum amount, then such lesser outstanding principal balance). Each prepayment of Loans shall be applied ratably to all of the then outstanding Loans. Prepayments shall be accompanied by accrued interest to the extent required by Section 3.1 and, if applicable, shall be subject to the provisions of Section 3.4.

Section 2.5. Payments Generally; Pro Rata Treatment; Sharing of Set-offs.

(a) The Borrower shall make each payment required to be made by it hereunder or under any other Loan Document (whether of principal of Loans, interest or fees, or of amounts payable under Sections 3.3, 3.4, 3.5 or 10.3, or otherwise) prior to 2:00 p.m., New York City time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its office at 10 S. Dearborn, Chicago, Illinois, or such other office as to which the Administrative Agent may notify the other parties hereto, except that payments pursuant to Sections 3.3, 3.4, 3.5 and 10.3 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in dollars.

(b) Each payment or prepayment of principal or interest on the Loans shall be allocated pro rata among the Lenders in accordance with their Applicable Percentages. If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal of Loans, interest, fees and commissions then due hereunder, such funds shall be applied (i) first, towards payment of interest, fees and commissions then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest, fees and commissions then due to such parties and (ii) second, towards payment of principal of Loans then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal of the Loans then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of, or interest on, its Loan resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loan and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders

ratably in accordance with the aggregate amount of principal of, and accrued interest on, their respective Loans, provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the applicable Lenders hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to such Lenders the amount due. In such event, if the Borrower has not in fact made such payment, then each such Lender severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to 2.5(d), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Section until all such unsatisfied obligations are fully paid.

Section 2.6. Defaulting Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then, for so long as such Lender is a Defaulting Lender, the Commitments and Loans of such Defaulting Lender shall not be included in determining whether all Lenders or the Required Lenders have voted or taken or may take any action hereunder (including any consent to any amendment, modification or waiver pursuant to Section 10.2); provided that (i) any waiver, amendment or modification requiring the consent of all Lenders or each affected Lender which affects such Defaulting Lender differently than other affected Lenders shall require the consent of such Defaulting Lender and (ii) any amendment or modification that increases, or extends the maturity of, such Defaulting Lender's Commitment or reduces the principal amount of, or rate of interest on, any Loan made by such Defaulting Lender, shall require the consent of such Defaulting Lender.

Section 2.7. Incremental Term Loans. The Borrower may elect to enter into up to three (3) additional tranches of term loans (each an "Incremental Term Loan"), in each case in minimum increments of \$20,000,000 so long as, after giving effect thereto, the aggregate principal amount of all such Incremental Term Loans does not exceed \$100,000,000. The Borrower may arrange for any Incremental Term Loan to be provided by one or more Lenders or by one or more new banks, financial institutions or other entities (each such Lender or new bank, financial institution or other entity agreeing to participate in such Incremental Term Loans, an "Incremental Term Lender"; provided that each Incremental Term Lender that is not an existing Lender shall be an Eligible Assignee), which agree to participate in such Incremental Term Loans; provided that each Incremental Term Lender that is not an existing Lender shall be subject to the approval of the Borrower and the Administrative Agent (such approvals not to be unreasonably withheld or delayed). No consent of any Lender (other than the Lenders participating in any Incremental Term Loans) shall be required for any Incremental Term Loan pursuant to this Section 2.7.

Any tranche of Incremental Term Loans created pursuant to this Section 2.7 shall become effective on the date agreed by the Borrower, the Administrative Agent and the relevant Incremental Term Lenders, and the Administrative Agent shall notify each Lender thereof. Notwithstanding the foregoing, no tranche of Incremental Term Loans shall become effective under this paragraph unless, (i) on the proposed date of the effectiveness of such tranche of Incremental Term Loans, the Administrative Agent shall have received a certificate dated such date and executed by a Financial

Officer of the Borrower certifying that (x) the representations and warranties of the Borrower set forth in this Agreement are true and correct in all material respects (or in all respects in the case of any representation and warranty qualified by materiality or Material Adverse Effect) on and as of such date, (y) no Default or Event of Default shall have occurred and be continuing and (z) the Borrower is in compliance (on a pro forma basis) with the financial covenant contained in Section 7.5 and (ii) the Administrative Agent shall have received documents and opinions consistent with those delivered on the Effective Date as to the organizational power and authority of the Borrower to borrow hereunder after giving effect to such tranche of Incremental Term Loans.

The Incremental Term Loans (a) shall rank pari passu in right of payment with the initial Loans, (b) shall not mature earlier than the Maturity Date (but may have amortization prior to such date) and (c) shall be treated substantially the same as (and in any event no more favorably than) the initial Loans; provided that (i) the terms and conditions applicable to any portion of any tranche of Incremental Term Loans maturing after the Maturity Date may provide for additional or different financial or other covenants or prepayment requirements applicable only during periods after the Maturity Date and (ii) the Incremental Term Loans may be priced differently than the initial Loans.

Incremental Term Loans shall be made hereunder pursuant to an amendment or restatement (an “Incremental Term Loan Amendment”) of this Agreement and, as appropriate, the other Loan Documents, executed by the Borrower, each Incremental Term Lender participating in such tranche and the Administrative Agent. The Incremental Term Loan Amendment may, without the consent of any other Lenders, effect such amendments to this Agreement and the other Loan Documents as may be necessary or appropriate, in the reasonable opinion of the Administrative Agent, to effect the provisions of this Section 2.7.

Nothing contained in this Section 2.7 shall constitute, or otherwise be deemed to be, a commitment on the part of any Lender to provide any portion of any tranche of Incremental Term Loans at any time. In connection with any tranche of Incremental Term Loans pursuant to this Section 2.7, any Incremental Term Lender that is not an existing Lender and becomes a party hereto shall (1) execute such documents and agreements as the Administrative Agent may reasonably request and (2) in the case of any such Incremental Term Lender that is organized under the laws of a jurisdiction outside of the United States of America, provide to the Administrative Agent, its name, address, tax identification number and/or such other information as shall be necessary for the Administrative Agent to comply with “know your customer” and anti-money laundering rules and regulations, including without limitation, the PATRIOT Act.

Article 3.

INTEREST, FEES, YIELD PROTECTION, ETC.

Section 3.1. Interest.

(a) The Borrower promises to pay interest on the unpaid principal amount of each Loan for the period commencing on the date such Loan is made until such Loan is paid in full at a rate per annum equal to the sum of the LIBO Rate for each applicable Interest Period plus 1.025%.

(b) Notwithstanding the foregoing, if any principal of or interest on any Loan, or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraph of this Section or, in the case of any other amount, 2% plus the Alternate Base Rate from time to time in effect.

(c) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date, provided that (i) interest accrued pursuant to paragraph (b) of this Section shall be payable on demand and (ii) in the event of any repayment or prepayment of any Loan, accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment.

(d) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent clearly demonstrable error. If any amount payable hereunder is bearing interest at the Alternate Base Rate, the Administrative Agent shall, as soon as practicable, notify the Borrower and the Lenders of the effective date and the amount of each change in the Prime Rate or Alternate Base Rate, but any failure to so notify shall not in any manner affect the obligation of the Borrower to pay interest hereunder in the amounts and on the dates required.

Section 3.2. Alternate Rate of Interest. If prior to the commencement of any Interest Period:

(a) the Administrative Agent determines (which determination shall be conclusive and binding absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone (confirmed by facsimile) or facsimile as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, all Loans shall bear interest at the Alternate Base Rate.

Section 3.3. Increased Costs; Illegality.

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, liquidity or similar requirement (including any compulsory loan requirement, insurance charge or other assessment) against assets of, deposits with or for the account of, or credit extended by, any Credit Party (except any such reserve requirement reflected in the Adjusted LIBO Rate);

(ii) subject any Lender to any Tax of any kind whatsoever with respect to this Agreement or its Loan, or any commitment or other obligation, or its deposits, reserves, other liabilities or capital attributable thereto, or change the basis of taxation of payments to such Lender in respect thereof (except for indemnified Taxes or Other Taxes covered by Section 3.5, the imposition of, or any change in the rate of, any Tax on the Overall Net Income payable by such Lender, and any U.S. federal withholding Taxes imposed under FATCA); or

(iii) impose on any Credit Party or the London interbank market any other condition, cost or expense (other than Taxes) affecting this Agreement or such Lender's Loan;

and the result of any of the foregoing shall be to increase the cost to such Credit Party of making, continuing or maintaining its Loan or to reduce the amount of any sum received or receivable by such Credit Party hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Credit Party such additional amount or amounts as will compensate such Credit Party for such additional costs incurred or reduction suffered.

(b) If any Credit Party determines that any Change in Law regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on such Credit Party's capital or on the capital of such Credit Party's holding company, if any, as a consequence of this Agreement or its Loans to a level below that which such Credit Party or such Credit Party's holding company could have achieved but for such Change in Law (taking into consideration such Credit Party's policies and the policies of such Credit Party's holding company with

respect to capital adequacy and liquidity), then from time to time the Borrower will pay to such Credit Party such additional amount or amounts as will compensate such Credit Party or such Credit Party's holding company for any such reduction suffered.

(c) A certificate of a Credit Party setting forth the amount or amounts necessary to compensate such Credit Party or its holding company, as applicable, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive and binding upon all parties hereto absent manifest error. The Borrower shall pay such Credit Party the amount shown as due on any such certificate within 10 Business Days after receipt thereof.

(d) Failure or delay on the part of any Credit Party to demand compensation pursuant to this Section shall not constitute a waiver of such Credit Party's right to demand such compensation; provided that the Borrower shall not be required to compensate a Credit Party pursuant to this Section for any increased costs or reductions incurred more than 180 days prior to the date that such Credit Party notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Credit Party's intention to claim compensation therefor; and provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180 day period referred to above shall be extended to include the period of retroactive effect thereof but not to exceed a period of 365 days.

(e) Notwithstanding any other provision of this Agreement, if, any Change in Law shall make it unlawful for any Lender to make or maintain its Loan at the Adjusted LIBO Rate, then, by written notice to the Borrower and to the Administrative Agent, such Lender may declare that, beginning on the date such unlawfulness becomes effective, such Lender's Loan shall be bear interest at the Alternate Base Rate, unless such declaration shall be subsequently withdrawn.

Section 3.4. Break Funding Payments. In the event of (a) the prepayment (voluntary or otherwise) of any principal of any Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the failure to borrow or prepay any Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.4(b) and is revoked) or to continue a Loan for a new Interest Period in accordance herewith (other than at maturity) or (c) the assignment of any portion of a Loan other than on the last day of the relevant Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 3.6, then, in any such event, the Borrower shall compensate each applicable Lender for the loss, cost and expense attributable to such event. Such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow or continue a Loan, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate that such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 Business Days after receipt thereof.

Section 3.5. Taxes.

(a) Payments to be Free and Clear. Provided that all documentation, if any, then required to be delivered by any Lender or the Administrative Agent pursuant to Section 3.5(c) has been delivered, all sums payable by the Borrower under the Loan Documents shall be paid free and clear of and (except to the extent required by law) without any deduction or withholding on account of any Tax (other than a Tax on the Overall Net Income of any Lender and any U.S. federal withholding Taxes imposed under FATCA (for which payment need not be free and clear, but no deduction or withholding shall be made unless then required by applicable law)) imposed, levied, collected, withheld or assessed by or within the United States or any political subdivision in or of the United States or any other jurisdiction

from or to which a payment is made by or on behalf of the Borrower or by any federation or organization of which the United States or any such jurisdiction is a member at the time of payment.

(b) Grossing up of Payments. If the Borrower or any other Person is required by law to make any deduction or withholding on account of any such Tax from any sum paid or payable by the Borrower to the Administrative Agent or any Lender under any of the Loan Documents:

(i) the Borrower shall notify the Administrative Agent and such Lender of any such requirement or any change in any such requirement as soon as the Borrower becomes aware of it;

(ii) the Borrower shall pay any such Tax before the date on which penalties attach thereto, such payment to be made (if the liability to pay is imposed on the Borrower) for its own account or (if that liability is imposed on the Administrative Agent or such Lender, as the case may be) on behalf of and in the name of the Administrative Agent or such Lender, as the case may be;

(iii) the sum payable by the Borrower to the Administrative Agent or a Lender in respect of which the relevant deduction, withholding or payment is required shall be increased to the extent necessary to ensure that, after the making of that deduction, withholding or payment, the Administrative Agent or such Lender, as the case may be, receives on the due date therefor a net sum equal to what it would have received had no such deduction, withholding or payment been required or made, provided that no amount shall be required to be paid to any Foreign Lender for any U.S. federal withholding Taxes imposed under FATCA;

(iv) within 30 days after paying any sum from which it is required by law to make any deduction or withholding, and within 30 days after the due date of payment of any Tax which it is required by clause (ii) above to pay, the Borrower shall deliver to the Administrative Agent and the applicable Lender evidence satisfactory to the other affected parties of such deduction, withholding or payment and of the remittance thereof to the relevant Governmental Authority; and

(v) provided that no additional amount shall be required to be paid to any Lender under clause (iii) above except to the extent that any change after the Effective Date (in the case of each Lender listed on the signature pages hereof) or after the date of the Assignment and Assumption pursuant to which such Lender became a Lender (in the case of each other Lender) if any such requirement for a deduction, withholding or payment as is mentioned therein shall result in an increase in the rate of such deduction, withholding or payment from that in effect at the date of this Agreement or at the date of such Assignment and Assumption, as the case may be, in respect of payments to such Lender, and provided further that any Lender claiming any additional amounts payable pursuant to this Section 3.5 shall use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its applicable lending office or take other appropriate action if the making of such a change or the taking of such action, as the case may be, would avoid the need for, or reduce the amount of, any such additional amounts that may thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender.

(c) Tax Certificates. Each Foreign Lender listed on the signature pages hereof shall deliver to the Borrower (with a copy to the Administrative Agent), on or prior to the Effective Date (in the case of each Foreign Lender listed on the signature pages hereof) or on the effective date of the Assignment and Assumption pursuant to which it becomes a Lender (in the case of each other Foreign Lender), and at such other times as may be necessary in the determination of the Borrower or the Administrative Agent (each in the reasonable exercise of its discretion), including upon the occurrence of any event requiring a change in the most recent counterpart of any form set forth below previously delivered by such Foreign Lender to the Borrower, such certificates, documents or other evidence, properly completed and duly executed by such Foreign Lender including (i) two accurate and complete original signed copies of Internal Revenue Service Form W-8BEN, W-8BEN-E or W-8ECL, or successor applicable form and (ii) an Internal Revenue Service Form W-8 or W-9 (or any other certificate or statement of exemption required by Treasury Regulations Section 1.1441-4(a) or Section 1.1441-6(c) or any successor thereto) to establish that such Foreign Lender

is not subject to deduction or withholding of United States federal income tax under Section 1441 or 1442 of the Code or otherwise (or under any comparable provisions of any successor statute) with respect to any payments to such Foreign Lender of principal, interest, fees or other amounts payable under any of the Loan Documents. The Borrower shall not be required to pay any additional amount to any such Foreign Lender under Section 3.5(b)(iii) if such Foreign Lender shall have failed to satisfy the requirements of the immediately preceding sentence; provided that if such Foreign Lender shall have satisfied such requirements on the Effective Date (in the case of each Foreign Lender listed on the signature pages hereof) or on the effective date of the Assignment and Assumption pursuant to which it becomes a Lender (in the case of each other Foreign Lender), nothing in this Section shall relieve the Borrower of its obligation to pay any additional amounts pursuant to Section 3.5(b)(iii) in the event that, as a result of any change in applicable law, such Foreign Lender is no longer properly entitled to deliver certificates, documents or other evidence at a subsequent date establishing the fact that such Foreign Lender is not subject to withholding as described in the immediately preceding sentence.

(d) Other Taxes.

(i) The Borrower shall pay Other Taxes to the relevant Governmental Authority in accordance with applicable law; and

(ii) the Borrower shall indemnify the Administrative Agent and each Lender within 10 Business Days after written demand thereof, for the full amount of any Taxes (other than Taxes on the Overall Net Income and any U.S. federal withholding Taxes imposed under FATCA) or Other Taxes paid by the Administrative Agent or such Lender, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Taxes, other than Taxes on the Overall Net Income and any U.S. federal withholding Taxes imposed under FATCA, or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and (unless caused by the gross negligence or willful misconduct of such party as determined by a court of competent jurisdiction in a final, non-appealable judgment) any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes, other than Taxes on the Overall Net Income, or Other Taxes were correctly or legally imposed or asserted by the relevant Government Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(e) Tax Refunds. If the Administrative Agent or Lender determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 3.5, it shall pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 3.5 with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided that the Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest, or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Governmental Authority. Each of the Administrative Agent and each Lender agrees to cooperate with any reasonable request made by the Borrower in respect of a claim of a refund in respect of any Taxes paid by the Borrower or by such Lender for an on account of the Borrower if (i) the Borrower has agreed in writing to pay all of the Administrative Agent's or such Lender's reasonable out-of-pocket costs and expenses relating to such claim, (ii) the Administrative Agent or such Lender determines, in its good faith judgment, that it would not be disadvantaged, unduly burdened or prejudiced as a result of such claim, and (iii) the Borrower furnishes, upon request of the Administrative Agent or such Lender, an opinion of tax counsel (such opinion, which can be reasoned, and such counsel to be reasonably acceptable to the Administrative Agent or such Lender) that the Borrower is likely to receive a refund or credit. This Section shall not be construed to require any Lender to make available its Tax returns (or any other information relating to its Taxes which it deems confidential) to either the Borrower or any other Person.

(f) FATCA. If a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this Section 3.5(f)(i), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

Section 3.6. Mitigation Obligations.

(a) Designation of a Different Lending Office. In the event that the Borrower becomes obligated to pay additional amounts to any Lender (or to any Governmental Authority for the account of any Lender) pursuant to Section 3.3, Section 3.4 or Section 3.5, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.3, Section 3.4 or Section 3.5, as the case may be, in the future, and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. In the event that (i) the Borrower becomes obligated to pay additional amounts to any Lender (or to any Governmental Authority for the account of any Lender) pursuant to Section 3.3, Section 3.4 or Section 3.5, (ii) any Lender becomes a Defaulting Lender or (iii) any Lender has failed to consent to a proposed amendment, waiver, discharge or termination that under Section 10.2 requires the consent of all the Lenders and with respect to which the Required Lenders shall have granted their consent, then the Borrower may, at its sole cost and expense, within 60 days of the demand by such Lender for such additional amounts or the relevant action by such Lender, as the case may be, and subject to and in accordance with the provisions of Section 10.4 (with the Borrower obligated to pay any applicable processing and recordation fee), designate an Eligible Assignee (acceptable to the Administrative Agent) to purchase and assume all of such Lender's interests, rights and obligations under the Loan Documents, without recourse to or warranty by or expense to, such Lender, for a purchase price equal to the outstanding principal amount of such Lender's Loans plus any accrued but unpaid interest thereon and any other amounts payable to such Lender hereunder, and to assume all the obligations of such Lender hereunder, and, upon such purchase, such Lender shall no longer be a party hereto or have any rights hereunder (except those that survive full repayment hereunder) and shall be relieved from all obligations to the Borrower hereunder, and the Eligible Assignee shall succeed to the rights and obligations of such Lender hereunder. No replacement of a Defaulting Lender pursuant to this Section 3.6 shall be deemed to be a waiver of any right that the Borrower, the Administrative Agent or any other Lender may have against such Defaulting Lender. The Borrower shall execute and deliver to such Eligible Assignee a Note. Notwithstanding anything herein to the contrary, in the event that a Lender is replaced pursuant to this Section 3.6 as a result of the Borrower becoming obligated to pay additional amounts to such Lender (or to any Governmental Authority for the account of any Lender) pursuant to Section 3.3, Section 3.4 or Section 3.5, such Lender shall be entitled to receive such additional amounts as if it had not been so replaced.

Article 4.

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Credit Parties that:

Section 4.1. Organization; Powers. Each of the Borrower and each Subsidiary is duly organized or formed, validly existing and in good standing under the laws of the jurisdiction of its organization or formation, has all requisite corporate power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

Section 4.2. Authorization; Enforceability. The Transactions are within the corporate powers of the Borrower and have been duly authorized by all necessary corporate and, if required, equity holder action. Each Loan Document has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation thereof, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general principles of equity.

Section 4.3. Governmental Approvals; No Conflicts.

(a) The execution, delivery and performance by the Borrower of the Loan Documents and the borrowing of the Loans do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except for (i) information filings to be made in the ordinary course of business, which filings are not a condition to the Borrower's performance under the Loan Documents and (ii) such as have been obtained or made and are in full force and effect and not subject to any appeals period.

(b) The Transactions will not (i) violate the charter, by-laws or other organizational documents of the Borrower, (ii) violate any applicable law or regulation or any order of any Governmental Authority, (iii) violate or result in a default under any material indenture, agreement or other instrument binding upon the Borrower or its assets, or give rise to a right thereunder to require any payment to be made by the Borrower, and (iv) result in or require the creation or imposition of any Lien on any asset of the Borrower.

Section 4.4. Financial Condition; No Material Adverse Change.

(a) The Borrower has previously delivered to the Credit Parties copies of (i) its Form 10-K for the fiscal year ended December 31, 2016, containing the audited consolidated balance sheet of the Borrower and its Subsidiaries and the related audited consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the fiscal year ending December 31, 2016, and (ii) the unaudited consolidated balance sheet of the Borrower and its Subsidiaries and the related unaudited consolidated statements of income, equity and cash flows for the fiscal quarter ended June 30, 2017 (collectively, the "Borrower Financial Statements"). All such financial statements have been prepared in accordance with GAAP and fairly present in all material respects the consolidated financial condition and results of the operations of the Borrower and its Subsidiaries as of the dates and for the periods indicated therein (subject, in the case of unaudited financial statements, to the absence of footnotes and to normal, year end audit adjustments).

(b) Since December 31, 2016, there has been no Material Adverse Change.

Section 4.5. Litigation.

(a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened in writing against or affecting the Borrower or any Subsidiary that (a) if adversely determined (and provided that there exists a reasonable possibility of such adverse determination), would reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, except for any Disclosed Matters, and except that the commencement by the Borrower, any Subsidiary or any Governmental Authority of a rate proceeding, fuel adjustment clause audit or earnings review before such Governmental Authority shall not constitute such a pending or threatened action, suit or proceeding unless and until such Governmental Authority has made a final determination thereunder that would reasonably be expected to have a Material Adverse Effect, or (b) involve any Loan Document or the Transactions.

Section 4.6. Environmental Matters. Except for the Disclosed Matters, the Borrower and its Subsidiaries (a) are in compliance with Environmental Laws, (b) have received all permits, licenses or other approvals required of them under applicable Environmental Law to conduct their respective businesses and (c) are in compliance with all terms and conditions of any such permit, license, or approval, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect.

Section 4.7. Investment Company Status. Neither the Borrower nor any Subsidiary is an “investment company” or a company “controlled” by an “investment company” as defined in, or is otherwise subject to regulation under, the Investment Company Act of 1940.

Section 4.8. ERISA. Each of the Borrower and each of its ERISA Affiliates is in compliance in all material respects with the applicable provisions of ERISA and the Code and the regulations and published interpretations thereunder except for any such failure that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would reasonably be expected to result in a Material Adverse Effect.

Section 4.9. Disclosure. None of the reports, financial statements, certificates or other information furnished by or on behalf of the Borrower or any Subsidiary to any Credit Party in connection with the negotiation of, or delivered under any Loan Document when taken as a whole (as modified or supplemented by other information so furnished, including the information contained in the Borrower’s most recent annual report on Form 10-K and in Borrower’s reports filed with the SEC under the Securities Exchange Act of 1934 subsequent to the filing of the Form 10-K) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not materially misleading, provided that, to the extent any such reports, financial statements, certificates or other information was based upon or constitutes a forecast or a projection (including statements concerning future financial performance, ongoing business strategies or prospects or possible future actions, and other forward-looking statements), the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

Section 4.10. Subsidiaries. The Borrower has only the Subsidiaries set forth on Schedule 4.10. Schedule 4.10 sets forth with respect to each Subsidiary, the identity of each Person that owns Equity Interests in such Subsidiary and the percentage of the issued and outstanding Equity Interests owned by each such Person. The shares of each Subsidiary (excluding any Immaterial Subsidiary) are duly authorized, validly issued, fully paid and non assessable and are owned free and clear of any Liens, other than Liens permitted pursuant to Section 7.1.

Section 4.11. Use of Proceeds; Federal Reserve Regulations.

(a) The proceeds of the Loans will be used for general corporate purposes (including the refinancing of the Existing Term Loan Agreement) not inconsistent with the terms of this Agreement.

(b) Neither the Borrower nor any Subsidiary is engaged principally, or as one of their important activities, in the business of extending credit for the purpose of buying or carrying Margin Stock. Immediately before and after giving effect to the making of the Loans, Margin Stock will constitute less than 25% of the Borrower’s assets as determined in accordance with Regulation U.

(c) No part of the proceeds of any Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, (i) to purchase, acquire or carry any Margin Stock (other than any purchase of Equity Interests in the Borrower so long as such Equity Interests are retired immediately upon the purchase thereof) or for any purpose that entails a violation of, or that is inconsistent with, the provisions of the regulations of the Board, including Regulation T, U or X or (ii) to fund a personal loan to or for the benefit of a director or executive officer of the Borrower or any Subsidiary.

Section 4.12. EEA Financial Institutions. The Borrower is not an EEA Financial Institution.

Section 4.13. Foreign Corrupt Practices Act. No part of the proceeds of the Loans shall be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977.

Section 4.14. Sanctions Laws. The Borrower has implemented and maintains in effect policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and the Borrower, its Subsidiaries and their respective officers and directors and to the knowledge of the Borrower its employees and agents, are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. None of (a) the Borrower, any Subsidiary or to the knowledge of the Borrower or such Subsidiary any of their respective directors, officers or employees, or (b) to the knowledge of the Borrower, any agent of the Borrower or any Subsidiary that will act in any capacity in connection with or benefit from the term loan facility established hereby, is a Sanctioned Person. No Loan, use of proceeds or other Transactions will violate any Anti-Corruption Law or applicable Sanctions.

Article 5.

CONDITIONS

Section 5.1. Effectiveness. The obligation of each Lender to make its Loan hereunder is subject to the satisfaction (or waiver in accordance with Section 10.2) of the following conditions precedent:

(a) Term Loan Agreement. The Administrative Agent (or its counsel) shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include facsimile or other electronic transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) Notes. The Administrative Agent shall have received any Note requested by a Lender pursuant to Section 2.3(e) payable to the order of such requesting Lender.

(c) Accuracy of Representations and Warranties. The representations and warranties of the Borrower set forth in Article 4 shall be true and correct on and as of the Effective Date, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall have been true and correct on and as of such earlier date.

(d) No Default. No Default shall have occurred and be continuing.

(e) Legal Opinion. The Administrative Agent shall have received favorable written opinions (addressed to the Credit Parties and dated on or prior to the Effective Date) from Bethany M. Owen, Senior Vice President, Chief Legal and Administrative Officer and Corporate Secretary of the Borrower, and Cohen Tauber Spievack & Wagner P.C., special counsel to the Borrower, covering such matters relating to the Borrower, the Loan Documents and the Transactions as the Required Lenders may reasonably request. The Borrower hereby requests such counsel to deliver such opinion.

(f) Organizational Documents, etc. The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to (i) the organization, existence and good standing of the Borrower (including (x) a certificate of incorporation of the Borrower, certified as of a recent date by the Secretary of State of the jurisdiction of its incorporation, and (y) certificates of good standing (or comparable certificates) for the Borrower, certified as of a recent date prior to the Effective Date, by the Secretaries of State (or comparable official) of the jurisdiction of its incorporation and each other jurisdiction in which it is qualified to do business, (ii) the authorization of the Transactions, (iii) the incumbency of its officer or officers who may sign the Loan Documents, including therein a signature specimen of such officer or officers, and (iv) any

other legal matters relating to the Borrower, the Loan Documents or the Transactions, all in form and substance reasonably satisfactory to the Administrative Agent and its counsel.

(g) Officer's Certificate. The Administrative Agent shall have received a certificate, in form and substance satisfactory to the Administrative Agent, dated on or prior to the Effective Date and signed by the chief executive officer or a Financial Officer acceptable to the Administrative Agent, confirming (i) the representations and warranties of the Borrower set forth in the Loan Documents are true and correct and (ii) no Default exists.

(h) No Material Adverse Change. The Administrative Agent shall have received a certificate of a Financial Officer, in form and substance satisfactory to the Administrative Agent, dated the Effective Date, to the effect that since December 31, 2016, no Material Adverse Change has occurred, except as has been previously disclosed by the Borrower in documents filed with the SEC prior to the Effective Date.

(i) Existing Term Loan Agreement. The Administrative Agent shall have received evidence that the Borrower has paid, or concurrently with the effectiveness hereof will pay, all amounts payable under the Existing Term Loan Agreement (other than contingent indemnity obligations).

(j) KYC. The Administrative Agent and each Lender shall have received all documentation and other information required by bank regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including the PATRIOT Act.

(k) Fees and Expenses. The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(l) Miscellaneous. Such other documents as any Lender or its counsel may have reasonably requested.

The Administrative Agent shall notify the Borrower and the Credit Parties when the conditions set forth above have been satisfied or waived, and such notice shall be conclusive and binding.

Article 6.

AFFIRMATIVE COVENANTS

Until the principal of and interest on all Loans and all other amounts payable under the Loan Documents shall have been paid in full, the Borrower covenants and agrees with the Credit Parties that:

Section 6.1. Financial Statements and Other Information. The Borrower will furnish to the Administrative Agent and each Lender:

(a) As soon as available, but in any event within 120 days after the end of each fiscal year, (i) a copy of the Borrower's Annual Report on Form 10-K in respect of such fiscal year required to be filed by the Borrower with the SEC, together with the financial statements attached thereto, and (ii) the Borrower's audited consolidated balance sheet and related consolidated statements of income, stockholder's equity and cash flows as of the end of and for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by the Accountants (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial conditions and results of operations of the Borrower and the Subsidiaries on a consolidated basis in accordance with GAAP consistently applied during such fiscal year;

(b) As soon as available, but in any event within 60 days after the end of each of the first three fiscal quarters of each fiscal year, (i) a copy of the Borrower's Quarterly Report on Form 10-Q in respect of such fiscal quarter required to be filed by the Borrower with the SEC, together with the financial statements attached thereto, and

(ii) the Borrower's unaudited consolidated balance sheet and related consolidated statements of income, stockholder's equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by a duly authorized Financial Officer as presenting fairly in all material respects the financial conditions and results of operations of the Borrower and the Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year end audit adjustments and the absence of footnotes;

(c) Within 60 days after the end of each of the first three fiscal quarters and within 120 days after the end of the last fiscal quarter, a Compliance Certificate, signed by a Financial Officer (or such other officer as shall be acceptable to the Administrative Agent) as to the Borrower's compliance, as of such fiscal quarter ending date, with Section 7.5, and as to the absence of any Default as of such fiscal quarter ending date and the date of such certificate (or if a Default existed or exists, the nature thereof); and

(d) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of the Loan Documents, as any Credit Party may reasonably request.

Section 6.2. Notices of Material Events. The Borrower will furnish the following to the Administrative Agent and each Lender:

(a) prompt written notice of the occurrence of any Default, specifying the nature thereof and any action taken or proposed to be taken with respect thereto;

(b) promptly upon becoming available, copies of all (i) regular, periodic or special reports, schedules and other material which the Borrower or any of its Subsidiaries may be required to file with or deliver to any securities exchange or the SEC, or any other Governmental Authority succeeding to the functions thereof, and (ii) upon the written request of the Administrative Agent, reports that the Borrower or any of its Subsidiaries sends to or files with the Federal Energy Regulatory Commission, the WPS, the MPUC or any Governmental Authority succeeding to the functions thereof, or any similar state or local Governmental Authority;

(c) prompt written notice of (i) any material citation, summons, subpoena, order, notice, claim or proceeding received by, or brought against, the Borrower or any of its Subsidiaries, with respect to (x) any proceeding before any Governmental Authority (other than proceedings in the ordinary course of business before the WPS or the MPUC), or (y) any real property under any Environmental Law, and (ii) any lapse or other termination of, or refusal to renew or extend, any material franchise or other authorization issued to the Borrower or any of its Subsidiaries by any Governmental Authority (other than in the ordinary course of business), provided that any of the foregoing set forth in this paragraph would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and

(d) prompt written notice of any change by any Rating Agency in a Senior Debt Rating.

Each notice delivered under Section 6.2(a) or (c) shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Documents required to be delivered pursuant to Section 6.1(a) or (b) or Section 6.2(b) or (c) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (a) on which the Borrower posts such documents, or provides a link thereto, on the Borrower's website on the Internet at the website address listed in Section 10.1(b); or (b) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which each Lender and the Administrative have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent), provided that: (i) the Borrower shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests the Borrower to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) the Borrower shall notify

the Administrative Agent and each Lender (by facsimile or electronic mail) of the posting of any such documents and provide to the Administrative Agent by electronic mail electronic versions (i.e., soft copies) of such documents. Except for such Compliance Certificates, the Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

Section 6.3. Legal Existence. Except as permitted under Section 7.2, the Borrower shall maintain its legal existence in good standing in the jurisdiction of its organization or formation and in each other jurisdiction in which the failure so to do would reasonably be expected to have a Material Adverse Effect, and cause each of the Subsidiaries to maintain its qualification to do business and good standing in each jurisdiction in which the failure so to do would reasonably be expected to have a Material Adverse Effect (it being understood that the foregoing shall not prohibit the Borrower from dissolving or terminating the existence of any Subsidiary that is inactive or whose preservation otherwise is no longer desirable in the conduct of the business of the Borrower and its Subsidiaries considered as a whole).

Section 6.4. Taxes. The Borrower shall pay and discharge when due, and cause each of the Subsidiaries so to do, all Taxes imposed upon it or upon its property, which if unpaid would, individually or collectively, reasonably be expected to have a Material Adverse Effect or become a Lien on the property of the Borrower or such Subsidiary (other than a Lien described in clause (a) of the definition of Permitted Encumbrances), as the case may be, unless and to the extent only that such Taxes shall be contested in good faith and by appropriate proceedings diligently conducted by the Borrower or such Subsidiary, as the case may be.

Section 6.5. Insurance. The Borrower shall maintain, and cause each of its Subsidiaries to maintain, with financially sound and reputable insurance companies insurance on all its property in at least such amounts and against at least such risks as are usually insured against in the same general area by companies engaged in the same or a similar business, provided that the Borrower and its Subsidiaries may self-insure to the same extent as other companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates and to the extent consistent with prudent business practice. The Borrower shall furnish to the Administrative Agent, upon written request of the Administrative Agent or any Lender, full information as to the insurance carried.

Section 6.6. Condition of Property. The Borrower shall at all times maintain, protect and keep in good repair, working order and condition in all material respects (ordinary wear and tear excepted), and cause each of its Subsidiaries so to do, all material property necessary to the operation of the Borrower's or such Subsidiary's, as the case may be, material businesses, provided that nothing shall prevent the Borrower or its Subsidiaries, as appropriate, from discontinuing the maintenance or operation of any property if such discontinuance is, in the judgment of the Borrower or such Subsidiary, desirable in the conduct of the business of the Borrower or such Subsidiary. It is understood that this covenant relates only to working order and condition of such property in accordance with prudent industry practices and shall not be construed as a covenant not to dispose of property.

Section 6.7. Observance of Legal Requirements. The Borrower shall observe and comply in all material respects, and cause each of its Subsidiaries so to do, with all laws, regulations and orders of any Governmental Authority which now or at any time hereafter may be applicable to it, including ERISA and all Environmental Laws, a violation of which would individually or collectively reasonably be expected to have a Material Adverse Effect, except such thereof as shall be contested in good faith and, if applicable, by appropriate proceedings diligently conducted by it. The Borrower will maintain in effect and enforce policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

Section 6.8. Inspection of Property; Books and Records; Discussions. The Borrower shall keep proper books of record and account in conformity with GAAP and all requirements of law. The Borrower shall permit representatives of the Administrative Agent and any Lender to visit its offices, to inspect any of its property (subject to reasonable procedures relating to safety and security) and examine and make copies or abstracts from any of its books and records at any reasonable time and as often as may reasonably be desired, and to discuss the business, operations, prospects, property and financial condition of the Borrower and its Subsidiaries with the officers thereof

and the Accountants; provided that none of the Administrative Agent, its agents, its representatives or the Lenders shall be entitled to examine or make copies or abstracts of, or otherwise obtain information with respect to, the Borrower's records relating to pending or threatened litigation if any such disclosure by the Borrower would reasonably be expected (i) to give rise to a waiver of any attorney/client privilege of the Borrower or any of its Subsidiaries relating to such information or (ii) to be otherwise materially disadvantageous to the Borrower or any of its Subsidiaries in the defense of such litigation; and provided further that in the case of any discussion with the Accountants, the Borrower shall have been given the opportunity to participate in such discussion and, unless a Default exists, the Lender or Lenders requesting such discussion shall pay any fees and expenses of the Accountant in connection therewith.

Article 7.

NEGATIVE COVENANTS

Until the principal of and interest on all Loans and all other amounts payable under the Loan Documents shall have been paid in full, the Borrower covenants and agrees with the Credit Parties that:

Section 7.1. Liens. The Borrower shall not, and shall not permit any Subsidiary to, create, incur, assume or suffer to exist any Lien upon any of its property, whether now owned or hereafter acquired by it, except:

(a) Liens now existing or hereafter arising in favor of the Administrative Agent or the Lenders under the Loan Documents;

(b) Permitted Encumbrances;

(c) any Lien existing on any property prior to the acquisition thereof by the Borrower or any Subsidiary, or existing on any property of any Person that becomes a Subsidiary after the Effective Date prior to the time such Person becomes a Subsidiary or that is merged with or into or consolidated with the Borrower or any Subsidiary prior to such merger or consolidation, provided that (i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary or such merger or consolidation, as the case may be, (ii) such Lien shall not apply to any other property of the Borrower or any Subsidiary and (iii) such Lien shall secure only those obligations and liabilities that it secures on the date of such acquisition or the date such Person becomes a Subsidiary of the Borrower or such merger or consolidation, as the case may be;

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

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

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

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

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

(i) Liens created for the sole purpose of extending, renewing or replacing in whole or in part Indebtedness secured by any lien, mortgage or security interest referred to in the foregoing paragraphs (a) through (h), provided that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement and that such extension, renewal or replacement, as the case may be, shall be limited to all or a part of the property or indebtedness that secured the lien or mortgage so extended, renewed or replaced (and any improvements on such property);

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

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

Section 7.2. Merger; Consolidation. The Borrower shall not, and shall not permit any Subsidiary to, consolidate with or merge into any other Person (other than a merger of a Subsidiary into, or a consolidation of a Subsidiary with, the Borrower or another Subsidiary), unless:

(a) immediately before and after giving effect thereto no Default shall exist;

(b) immediately before and after giving effect thereto, all of the representations and warranties contained in the Loan Documents shall be true and correct except as the context thereof otherwise requires and except for those representations and warranties which by their terms or by necessary implication are expressly limited to a state of facts existing at a time prior to such merger, consolidation or acquisition, as the case may be, or such other matters relating thereto as are identified in a writing to the Administrative Agent and the Lenders and are satisfactory to the Administrative Agent and the Lenders; and

(c) in the case of a transaction involving the Borrower, either (i) the Borrower shall be the surviving entity thereof, or in the event the Borrower shall not be the surviving entity thereof, each of the following conditions shall be satisfied: (A) such surviving entity shall have been incorporated or otherwise formed in a State of the United States with substantially all of its assets and business located and conducted in the United States, (B) such surviving entity shall, immediately after giving effect to such transaction, have an Investment Grade Rating and (C) such surviving entity shall have expressly assumed the obligations of the Borrower under the Loan Documents pursuant to a writing in form and substance satisfactory to the Administrative Agent; and (ii) the Administrative Agent and the Lenders shall have received a certificate signed by a duly authorized officer of the Borrower identifying the Person to be merged with or into, or consolidated with, or acquired by, the Borrower, and certifying as to each of the matters set forth in clauses (a), (b) and (c)(i) of this Section 7.2.

For purposes of Clause (c) above, "Investment Grade Rating" means a Senior Debt Rating from at least two Rating Agencies equal to (1) for any transaction where the surviving entity has a Senior Debt Rating, a rating for such surviving entity of BBB- or higher from S&P or Fitch or Baa3 or higher from Moody's and (2) for any transaction where the surviving entity is an indirect or direct holding company for a public utility that does not have a Senior Debt Rating, a rating for such surviving entity's primary utility Subsidiary of BBB- or higher from S&P or Fitch or Baa3 or higher from Moody's.

Section 7.3. Transactions with Affiliates. The Borrower shall not, and shall not permit any of its Subsidiaries to, sell, transfer, lease or otherwise dispose of (including pursuant to a merger) any property or assets to, or purchase, lease or otherwise acquire (including pursuant to a merger) any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except in the ordinary course of business at prices and on terms and conditions not less materially favorable to the Borrower or such Subsidiary, as the case may be, than could be obtained on an arm's-length basis from unrelated third parties, provided that this Section shall not apply to (i) any transaction that is in compliance with applicable laws and regulations of the Federal Energy Regulatory Commission, the WPS or the MPUC pertaining to affiliate transactions or is authorized by a tariff or rate schedule which has been approved by a Governmental Authority or performed in accordance with its orders, (ii) any transaction that is otherwise permitted under Section 7.2 and (iii) transactions pursuant to any contract in effect on the date hereof, as the same may be amended, extended or replaced from time to time so long as such contract as so amended, extended or replaced is, taken as a whole, not materially less favorable to the Borrower and its Subsidiaries than under those contracts in effect on the date hereof.

Section 7.4. Permitted Hedge Agreements. The Borrower shall not enter into any Hedge Agreements other than (a) Permitted Hedge Agreements and (b) transactions in futures, floors, collars and similar Hedge Agreements involving the stock price of a Person involved in a merger transaction permitted by Section 7.2.

Section 7.5. Financial Covenant. The Borrower will not permit Total Indebtedness to be greater than 65% of Total Capitalization as of the end of any fiscal quarter.

Section 7.6. Sanctions; Anti-Corruption Laws; Foreign Corrupt Practices Act. The Borrower will not request any Loan, and the Borrower shall not, directly, or to its knowledge, indirectly, use, and shall ensure that its Subsidiaries and its or their respective directors, officers, employees and agents shall not, directly, or to its knowledge, indirectly, use, the proceeds of any Loan (i) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws, (ii) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country, to the extent such activities, business or transaction would be prohibited by Sanctions if conducted by a corporation incorporated in the United States or in a European Union member state, (iii) in any manner that would result in the violation of any Sanctions applicable to any party hereto or (iv) for any payment to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977.

Article 8.

EVENTS OF DEFAULT

If any of the following events (each an "Event of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee, commission or any other amount (other than an amount referred to in paragraph (a) of this Article) payable under any Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five Business Days;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any Subsidiary in or in connection with any Loan Document or any amendment or modification hereof or waiver thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with any Loan Document or any amendment or modification hereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 6.3 (with respect to the Borrower's existence), 7.2, 7.4, 7.5 or 7.6;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 7.1 or Section 7.3 and such failure shall continue unremedied for a period of ten days after the Borrower shall have obtained knowledge thereof.

(f) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in any Loan Document to which it is a party (other than those specified in paragraph (a), (b), (d) or (e) of this Article), and such failure shall continue unremedied for a period of 30 days after the Borrower shall have obtained knowledge thereof;

(g) the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect to any Material Obligations, when and as the same shall become due and payable and after the expiration of any applicable grace period;

(h) any event or condition occurs that results in any Material Obligations becoming due prior to their scheduled maturity or payment date, or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Obligations or any trustee or agent on its or their behalf to cause any Material Obligations to become due prior to their scheduled maturity or payment date or to require the prepayment, repurchase, redemption or defeasance thereof prior to their scheduled maturity or payment date (in each case after giving effect to any applicable cure period), provided that this paragraph (h) shall not apply to (i) Indebtedness that becomes due as a result of a notice of voluntary prepayment or redemption delivered by the Borrower or a Subsidiary, (ii) secured Indebtedness that becomes due solely as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness, (iii) intercompany indebtedness or (iv) the exercise of any contractual right to cause the prepayment of any Material Obligations (other than the exercise of a remedy for an event of default under the applicable contract or agreement);

(i) except for Immaterial Transactions and transactions expressly permitted by Section 6.3 with respect to Subsidiaries, the Borrower or any Subsidiary shall (i) suspend or discontinue its business, (ii) make an assignment for the benefit of creditors, (iii) generally not pay its debts as such debts become due, (iv) admit in writing its inability to pay its debts as they become due, (v) file a voluntary petition in bankruptcy, (vi) become insolvent (however such insolvency shall be evidenced), (vii) file any petition or answer seeking for itself any reorganization, arrangement, composition, readjustment of debt, liquidation or dissolution or similar relief under any present or future statute, law or regulation of any jurisdiction, (viii) petition or apply to any tribunal for any receiver, custodian or any trustee for any substantial part of its property, (ix) be the subject of any such proceeding filed against it which remains undismissed for a period of 45 days, (x) file any answer admitting or not contesting the material allegations of any such petition filed against it or any order, judgment or decree approving such petition in any such proceeding, (xi) seek, approve, consent to, or acquiesce in any such proceeding, or in the appointment of any trustee, receiver, sequestrator, custodian, liquidator, or fiscal agent for it, or any substantial part of its property, or an order is entered appointing any such trustee, receiver, custodian, liquidator or fiscal agent and such order remains in effect for 45 days, or (xii) take any formal action for the purpose of effecting any of the foregoing or looking to the liquidation or dissolution of the Borrower or any Subsidiary;

(j) except to the extent arising solely out of an Immaterial Transaction, an order for relief is entered under the United States bankruptcy laws or any other decree or order is entered by a court having jurisdiction (i) adjudging the Borrower or any Subsidiary bankrupt or insolvent, (ii) approving as properly filed a petition seeking reorganization, liquidation, arrangement, adjustment or composition of or in respect of Borrower or any Subsidiary under the United States bankruptcy laws or any other applicable Federal or state law, (iii) appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Borrower or any Subsidiary of any substantial part of the property thereof, or (iv) ordering the winding up or liquidation (other than, in the case of a Subsidiary, voluntary liquidation, not under any bankruptcy, insolvency or similar law) of the affairs of the Borrower or any Subsidiary, and any such decree or order continues unstayed and in effect for a period of 45 days;

(k) one or more judgments or decrees against the Borrower or any of its Subsidiaries or any combination thereof aggregating in excess of \$35,000,000, which judgment or decree (i) shall not be fully covered by insurance after taking into account any applicable deductibles and (ii) shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of at least 30 consecutive days;

(l) any Loan Document shall cease, for any reason, to be in full force and effect or the Borrower shall so assert in writing or shall disavow any of its Obligations;

(m) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect;

(n) any authorization or approval or other action by any Governmental Authority required for the execution, delivery or performance of any Loan Document shall be terminated, revoked or rescinded or shall otherwise no longer be in full force and effect;

(o) a Change in Control shall occur; or

(p) the Borrower shall fail to own, directly or indirectly, substantially all of the assets of Minnesota Power;

then, and in every such event (other than an event described in paragraph (i) or (j) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other Obligations, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event described in paragraph (i) or (j) of this Article, the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other Obligations, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower. Upon the occurrence and during the continuance of an Event of Default, the Administrative Agent may, and at the request of the Required Lenders shall, exercise any rights and remedies provided to the Administrative Agent under the Loan Documents or at law or equity.

Article 9.

THE ADMINISTRATIVE AGENT

Each Credit Party hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent and the Lenders, and neither the Borrower nor any Subsidiary shall have rights as a third party beneficiary of any of such provisions. It is understood and agreed that the use of the term "agent" as used herein or in any other Loan Documents (or any similar term) with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such Person and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (i) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (ii) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Credit Parties as shall be necessary under the circumstances as provided in Section 10.2), and (iii) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of the Subsidiaries that is communicated to or obtained by the Person serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Credit Parties as shall be necessary under the circumstances as provided in Section 10.2) or in the absence of its own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Credit Party (and, promptly after its receipt of any such notice, it shall give each Credit Party and the Borrower notice thereof), and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (a) any statement, warranty or representation made in or in connection with any Loan Document, (b) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (c) the performance or observance of any of the covenants, agreements or other terms or conditions set forth therein, (d) the validity, enforceability, effectiveness or genuineness thereof or any other agreement, instrument or other document or (e) the satisfaction of any condition set forth in Article 5 or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub agents appointed by the Administrative Agent, provided that no such delegation shall serve as a release of the Administrative Agent or waiver by the Borrower of any rights hereunder. The Administrative Agent and any such sub agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub agent and to the Related Parties of the Administrative Agent and any such sub agent, and shall apply to their respective activities in connection with the syndication of the term loan facility provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Credit Parties and the Borrower. Upon any such resignation, the Required Lenders shall have the right, with the consent of the Borrower (such consent not to be unreasonably withheld and not to be required during the existence of an Event of Default), to appoint a successor, which successor Administrative Agent shall be a commercial bank organized under the laws of the United States or any State thereof and having a combined capital, surplus, and undivided profits of at least \$100,000,000. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Credit Parties, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the

Administrative Agent's resignation hereunder, the provisions of this Article and Section 10.3 shall continue in effect for the benefit of such retiring Administrative Agent, its sub agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges and agrees that the extensions of credit made hereunder are commercial loans and not investments in a business enterprise or securities. Each Lender further represents that it is engaged in making, acquiring or holding commercial loans in the ordinary course of its business and has, independently and without reliance upon the Administrative Agent, any arranger of this term loan facility or any other Lender and their respective Related Parties and based on such documents and information (which may contain material, non-public information within the meaning of the United States securities laws concerning the Borrower and its Affiliates) as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement as a Lender, and to make, acquire or hold Loans hereunder. Each Lender shall, independently and without reliance upon the Administrative Agent, any arranger of this term loan facility or any amendment hereto or any other Lender and their respective Related Parties and based on such documents and information (which may contain material, non-public information within the meaning of the United States securities laws concerning the Borrower and its Affiliates) as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder and in deciding whether or to the extent to which it will continue as a Lender or assign or otherwise transfer its rights, interests and obligations hereunder.

None of the Lenders, if any, identified in this Agreement as a Syndication Agent or Sole Lead Arranger and Sole Book Runner shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, none of such Lenders shall have or be deemed to have a fiduciary relationship with any Lender. Each Lender hereby makes the same acknowledgments with respect to the relevant Lenders in their respective capacities as Syndication Agent or Sole Lead Arranger and Sole Book Runner, as applicable, as it makes with respect to the Administrative Agent in the preceding paragraph.

The Lenders are not partners or co-venturers, and no Lender shall be liable for the acts or omissions of, or (except as otherwise set forth herein in case of the Administrative Agent) authorized to act for, any other Lender. The Administrative Agent shall have the exclusive right on behalf of the Lenders to enforce the payment of the principal of and interest on any Loan after the date such principal or interest has become due and payable pursuant to the terms of this Agreement.

Article 10.

MISCELLANEOUS

Section 10.1. Notices.

(i) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile (or e-mail in accordance with Section 10.1(b) below) as follows:

(ii) if to the Borrower, to it at 30 West Superior Street, Duluth, Minnesota 55802, Attention of: Patrick L. Cutshall, Treasurer, Phone: 218-723-3978, Fax: 218-723-3912, Email: pcutshall@allete.com;

(iii) if to the Administrative Agent,

(A) for Loans, to it at its Loan and Agency Services Group, 10 S. Dearborn Street, Floor 07, Chicago, Illinois 60603, Attention of: Dartonya Jackson, Phone: 312-732-7032, Email: jpm.agency.servicing4@jpmchase.com;

(B) for credit related matters including compliance requirements pursuant to Article 6, to it at its Corporate Client Banking, 10 S. Dearborn Street, Floor 09, Chicago, Illinois 60603, Attention of: Justin Martin, Phone: 312-732-4441, Fax: 312-732-1762, Email: justin.2.martin@jpmorgan.com; and

(iv) if to any other Credit Party, to it at its address (or facsimile number) set forth in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by facsimile shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through Electronic Systems to the extent provided in paragraph (b) below, shall be effective as provided in such paragraph (b).

(b) Electronic Communications. Notices and other communications to the Credit Parties hereunder may be delivered or furnished by using Electronic Systems pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Credit Party pursuant to Article 2 if such Credit Party has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement) and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor; provided that if such notice, posting or other communication is not sent or posted during the normal business hours of the recipient, such notice, posting or communication shall be deemed to have been sent or posted at the opening of business on the next business day for the recipient.

For purposes of Section 6.2(d), the Borrower's website is www.allete.com.

(c) Change of Address, Etc. Any party hereto may change its address or facsimile number or e-mail address for notices and other communications hereunder by notice to the other parties hereto.

(d) Electronic Systems.

(i) The Borrower agrees that the Administrative Agent may, but shall not be obligated to, make Communications (as defined below) available to the Lenders by posting the Communications on the Platform or a substantially similar Electronic System.

(ii) Any Electronic System used by the Administrative Agent is provided "as is" and "as available." The Agent Parties (as defined below) do not warrant the adequacy of such Electronic Systems and expressly disclaim liability for errors or omissions in the Communications. No warranty of any kind, express, implied or statutory, including any warranty of merchantability, fitness for a particular purpose, non-infringement of third-party rights or freedom from viruses or other code defects, is made by any Agent Party in connection with the Communications or any Electronic System. In no event shall the Administrative Agent or any of its Related Parties (collectively, the "Agent Parties") have any liability to the Borrower, any Lender or any other Person or entity for damages of any kind, including direct or indirect, special, incidental or consequential damages, losses or expenses (whether in tort, contract or otherwise) arising out of the Borrower's or the Administrative Agent's transmission of Communications through an Electronic System. "Communications" means, collectively, any notice, demand, communication, information, document or other material provided

by or on behalf of the Borrower pursuant to any Loan Document or the transactions contemplated therein which is distributed by the Administrative Agent or any Lender by means of electronic communications pursuant to this Section, including through an Electronic System.

Section 10.2. Waivers; Amendments.

(a) No failure or delay by any Credit Party in exercising any right or power under any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Credit Parties under the Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default, regardless of whether any Credit Party may have had notice or knowledge of such Default at the time.

(b) Except as provided in Section 2.7 with respect to an Incremental Term Loan Amendment, neither any Loan Document nor any provision thereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders, provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan, or reduce the rate of any interest, or reduce any fees, payable under the Loan Documents, without the written consent of each Credit Party affected thereby, (iii) postpone the date of payment at stated maturity of any Loan, or the date of any interest or any fees payable under the Loan Documents, or reduce the amount of, waive or excuse any such payment, without the written consent of each Credit Party affected thereby, (iv) change any provision hereof in a manner that would alter the pro rata sharing of payments required by Section 2.5(b) or 2.5(c) without the written consent of each Credit Party affected thereby, and (v) change any of the provisions of this Section or the definition of the term "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder (it being understood that, solely with the consent of the parties prescribed by Section 2.7 to be parties to an Incremental Term Loan Amendment, Incremental Term Loans may be included in the determination of Required Lenders on substantially the same basis as the Commitments and the Loans are included on the Effective Date), or change the currency in which Loans are to be made or payment under the Loan Documents is to be made, or add additional borrowers, without the written consent of each Lender, and provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent hereunder without the prior written consent of the Administrative Agent, as applicable. Notwithstanding the foregoing, no consent with respect to any amendment, waiver or other modification of this Agreement shall be required of any Defaulting Lender, except with respect to any amendment, waiver or other modification referred to in clause (i), (ii) or (iii) of the first proviso of this paragraph and then only in the event such Defaulting Lender shall be directly affected by such amendment, waiver or other modification.

(c) Notwithstanding anything to the contrary herein the Administrative Agent may, with the consent of the Borrower only, amend, modify or supplement this Agreement or any of the other Loan Documents to cure any ambiguity, omission, mistake, defect or inconsistency.

Section 10.3. Expenses; Indemnity; Damage Waiver.

(a) Cost and Expenses. The Borrower shall pay (i) all reasonable out-of-pocket costs and expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication and distribution (including, without limitation, via the internet or through a service such as Intralinks) of the term loan facility provided for herein, the preparation and administration of each Loan Document or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated thereby shall be consummated) and (ii) all reasonable out-of-pocket costs and expenses incurred by any Credit Party, including the reasonable fees, charges and disbursements of any

counsel for any Credit Party and any consultant or expert witness fees and expenses, in connection with the enforcement or protection of its rights in connection with the Loan Documents, including its rights under this Section, or in connection with the Loans made hereunder, including all such reasonable out-of-pocket costs and expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

(b) Indemnification by the Borrower. The Borrower shall indemnify each Credit Party and each Related Party thereof (each such Person being called an “Indemnitee”) against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any agreement or instrument contemplated thereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated thereby, (ii) any Loan or the use of the proceeds thereof, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of the Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of the Subsidiaries or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not such claim, litigation, investigation or proceeding is brought by the Borrower or any of its equity holders, Affiliates, creditors or any other third Person and whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto, provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from (x) the gross negligence or willful misconduct of such Indemnitee or (y) a breach in bad faith by such Indemnitee or arising solely from claims between or among one or more Indemnitees.

(c) Reimbursement by Lenders. To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent under paragraph (a) or (b) of this Section (and without limiting the Borrower’s obligation to do so), each Lender severally agrees to pay to the Administrative Agent an amount equal to the product of such unpaid amount multiplied by a fraction, the numerator of which is the outstanding principal balance of such Lender’s Loans and the denominator of which is the outstanding principal balance of all Lenders Loans (in each case determined as of the time that the applicable unreimbursed expense or indemnity payment is sought), provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as applicable, was incurred by or asserted against the Administrative Agent in its capacity as such.

(d) Waiver of Consequential Damages, etc. To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, (i) subject to the provisions of Section 10.15, for any damages arising from the use by others of information or other materials obtained through telecommunications, electronic or other information transmission systems (including the Internet) (except for any claims by the Borrower for damages arising from the gross negligence or willful misconduct of such Indemnitee, which claims shall be permitted by this Section 10.3(d)(i); provided that no Indemnitee shall be liable for any such damages except to the extent determined by a court of competent jurisdiction in a final nonappealable judgment) or (ii) on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct and actual damages) arising out of, in connection with, or as a result of, any Loan Document or any agreement, instrument or other document contemplated thereby, the Transactions or any Loan or the use of the proceeds thereof.

(e) Payments. All amounts due under this Section shall be payable promptly but in no event later than ten days after written demand therefor.

Section 10.4. Successors and Assigns.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender, and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of paragraph (b) of this Section, (ii) by way of participation in accordance with the provisions of paragraph (d) of this Section or (iii) by way

of pledge or assignment of a security interest subject to the restrictions of paragraph (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in paragraph (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each Credit Party) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may (and if demanded by Borrower pursuant to Section 3.6 shall to the extent required thereby) at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) In the case of an assignment of the entire remaining amount of the assigning Lender's Loans at the time owing to it or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) In any case not described in paragraph (b)(i)(A) of this Section, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date) shall not be less than \$5,000,000.

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loan or the Commitment assigned.

(iii) Required Consents. For each such assignment, the consent of:

(A) the Borrower (such consent not to be unreasonably withheld) shall be required unless (x) an Event of Default has occurred and is continuing at the time of such assignment or (y) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund; provided that the Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Administrative Agent within five Business Days after having received notice thereof; and

(B) the Administrative Agent (such consent not to be unreasonably withheld); provided that no consent of the Administrative Agent shall be required for an assignment of all or any portion of a Loan to a Lender, an Affiliate of a Lender or an Approved Fund.

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Administrative Agent (x) an Assignment and Assumption or (y) to the extent applicable, an agreement incorporating an Assignment and Assumption by reference pursuant to a Platform as to which the Administrative Agent and the parties to the Assignment and Assumption are participants, together with a processing and recordation fee of \$3,500 (such fee to be paid by either the assigning Lender or the assignee Lender or shared between such Lenders), and the Eligible Assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire in which the assignee designates one or more credit contacts to whom all syndicate-level information (which may contain material non-public information about the Borrower and its Affiliates and their Related Parties or their respective securities) will be made available and who may receive such information in accordance with the assignee's compliance procedures and applicable laws, including Federal and state securities laws.

(v) No Assignment to Borrower. No such assignment shall be made to the Borrower or any of the Borrower's Affiliates or Subsidiaries.

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural person.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to paragraph (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.3, 3.4, 3.5 and 10.3 with respect to facts and circumstances occurring prior to the effective date of such assignment. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (d) of this Section.

(c) Register. The Administrative Agent, acting solely for this purpose as a non-fiduciary agent of the Borrower, shall maintain at one of its offices in New York, New York a copy of each Assignment and Assumption (or, to the extent applicable, an agreement incorporating an Assignment and Assumption by reference pursuant to a Platform as to which the Administrative Agent and the parties to the Assignment and Assumption are participants) delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts (and stated interest) of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, but with notice to, the Borrower and the Administrative Agent (provided that any failure to give such notice shall not impair the effectiveness of such participation except as expressly provided in paragraph (e) of this Section), sell participations to any Eligible Assignee (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any Note for all purposes of this Agreement and (iv) the Borrower, the Administrative Agent and each Credit Party shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Notwithstanding the foregoing, in no event may a participation be granted to any entity which is not a commercial bank, finance company, insurance company or other financial institution or fund (whether a corporation, partnership or other entity) engaged generally in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business without the express prior written consent of the Borrower.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver with respect to the following matters described in clauses (ii) and (iii) of the first proviso in Section 10.2(b) that directly affects such Participant. Subject to paragraph (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.3, 3.4 and 3.5 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section but (x) shall not be entitled to recover greater amounts under any such Section than the selling Lender would be entitled to recover and (y) shall be subject to replacement by the Borrower under Section 3.6 to the same extent as if it were a Lender; provided that such replacement Participant shall be an Eligible

Assignee engaged generally in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.8 as though it were a Lender, provided such Participant agrees to be subject to Section 2.5(c) as though it were a Lender.

Each Lender that sells a participating interest in any Loan or other interest to a Participant shall, as non-fiduciary agent of the Borrower solely for the purpose of this Section 10.4, record in book entries maintained by such Lender the name and the amount of the participating interest of each Participant entitled to receive payments in respect of such participating interests; provided that no Lender shall have any obligation to disclose all or any portion of such participant register to the Borrower or any other Person (other than the identity of any Participant pursuant to the first paragraph of this clause (d), but including any information relating to a Participant's interest in the Loans or other obligations under this Agreement) except to the extent that such disclosure is necessary to establish that the Loans are in registered form under Section 5f.103-1(c) of the United States Treasury Regulations.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Sections 3.4 or 3.6 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 3.5 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 3.5(c) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

Section 10.5. Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of any Loan Document and the making of any Loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that any Credit Party may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under the Loan Documents is outstanding and unpaid and so long as the Commitments have not expired or terminated. The provisions of Sections 3.4, 3.5, 3.6, 10.3, 10.9, 10.10 and Article 9 shall survive and remain in full force and effect regardless of the consummation of the Transactions, the repayment of the Loans or the termination of this Agreement or any provision hereof.

Section 10.6. Counterparts; Integration; Effectiveness; Electronic Execution. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 5.1, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy, e-mailed .pdf or any other electronic means that reproduces an image of the actual executed signature page shall be effective as delivery of a manually executed counterpart of this Agreement. The words "execution," "signed," "signature," "delivery," and words of like import in or relating to any document to be signed in connection with this Agreement and the transactions contemplated hereby shall be deemed to include Electronic Signatures, deliveries or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global

and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act; provided that nothing herein shall require the Administrative Agent to accept electronic signatures in any form or format without its prior written consent.

Section 10.7. Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

Section 10.8. Right of Set-off. If an Event of Default shall have occurred and be continuing, and the acceleration of all obligations owing in connection with the Loan Documents, or at any time upon the occurrence and during the continuance of an Event of Default under paragraph (a) of Article 8, each of the Lenders and their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by it to or for the credit or the account of the Borrower against any of the Obligations now or hereafter existing under this Agreement and the other Loan Documents held by it, irrespective of whether or not it shall have made any demand therefor and although such Obligations may be unmaturing. The rights of each of the Lenders and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of set-off) that it may have. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after any such set-off and application made by such Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application.

Section 10.9. Governing Law; Jurisdiction; Consent to Service of Process.

(a) This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in the Borough of Manhattan and of the United States District Court of the Southern District of New York City, sitting in the Borough of Manhattan, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that, to the extent permitted by applicable law, all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the extent permitted by applicable law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent or any other Credit Party may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Borrower, or any of its property, in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) The Borrower irrevocably consents to service of process in the manner provided for notices in Section 10.1. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

Section 10.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR RELATING TO THIS CREDIT AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 10.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 10.12. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts that are treated as interest thereon under applicable law (collectively the “Charges”), shall exceed the maximum lawful rate (the “Maximum Rate”) that may be contracted for, charged, taken, received or reserved by the Lender holding an interest in such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all of the charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and the charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated, and the interest and the charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

Section 10.13. Advertisement. The Borrower hereby authorizes JPMorgan Chase or any Affiliate thereof to publish the name of the Borrower and the amount of the financing evidenced hereby in any “tombstone” or comparable advertisement that JPMorgan Chase or such Affiliate elects to publish. In addition, the Borrower agrees that JPMorgan Chase or any Affiliates thereof may provide lending industry trade organizations with information necessary and customary for inclusion in league table measurements after the Effective Date.

Section 10.14. USA PATRIOT Act Notice. Each Lender that is subject to the requirements of the PATRIOT Act hereby notifies the Borrower that such Lender is required to obtain, verify and record information that identifies the Borrower, which information includes the name, address, tax identification number of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the PATRIOT Act.

Section 10.15. Treatment of Certain Information. Each Credit Party agrees to keep confidential, in accordance with its customary procedures for handling confidential information of the same nature, all confidential, proprietary or non-public information supplied by the Borrower or any Subsidiary pursuant to this Agreement relating to the Borrower, such Subsidiary or their respective businesses, including, without limitation, any financial statement, financial projections or forecasts, budget, Compliance Certificate, audit report, management letter or accountants’ certification delivered hereunder (“Information”), provided that nothing herein shall limit the disclosure of any Information (a) to any of its respective Related Parties that needs to know such Information, (b) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, or requested by any bank regulatory authority, (c) on a confidential basis, to any bona fide or potential assignee or participant in connection with the contemplated assignment or participation of any Loans or any participations therein or by any direct or indirect contractual counterparties (or the professional advisors thereto) to any swap or derivative transaction relating to the Borrower and its obligations (provided such assignees, participants, counterparties and advisors are advised of and agree to be bound by either the provisions of this Section 10.15 or other provisions at least as restrictive as this Section 10.15), (d) to auditors, accountants, consultants and advisors, and any analogous counterpart thereof, (e) to any other Credit Party, (f) in connection with the exercise of any remedies under this Agreement or any other Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement

of rights hereunder or thereunder, (g) on a confidential basis to (1) any rating agency in connection with rating the Borrower or its Subsidiaries or the term loan facility provided for herein or (2) the CUSIP Service Bureau or any similar agency in connection with the issuance and monitoring of CUSIP numbers with respect to the term loan facility provided for herein, (h) to the extent such Information (A) becomes publicly available other than as a result of a breach of this Agreement, (B) becomes available to any of the Credit Parties on a non-confidential basis from a source other than the Borrower or any of its Affiliates, (C) was available to the Credit Parties on a non-confidential basis prior to its disclosure to any of them by the Borrower or any of its Affiliates or (D) pertains to this Agreement and is of the type routinely provided by arrangers to data service providers, including league table providers, that serve the lending industry, and (i) to the extent the Borrower shall have consented to such disclosure in writing. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

EACH LENDER ACKNOWLEDGES THAT INFORMATION AS DEFINED IN THE IMMEDIATELY PRECEDING PARAGRAPH FURNISHED TO IT PURSUANT TO THIS AGREEMENT MAY INCLUDE MATERIAL NON-PUBLIC INFORMATION CONCERNING THE BORROWER AND ITS RELATED PARTIES OR THEIR RESPECTIVE SECURITIES, AND CONFIRMS THAT IT HAS DEVELOPED COMPLIANCE PROCEDURES REGARDING THE USE OF MATERIAL NON-PUBLIC INFORMATION AND THAT IT WILL HANDLE SUCH MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH THOSE PROCEDURES AND APPLICABLE LAW, INCLUDING FEDERAL AND STATE SECURITIES LAWS.

ALL INFORMATION, INCLUDING REQUESTS FOR WAIVERS AND AMENDMENTS, FURNISHED BY THE BORROWER OR THE ADMINISTRATIVE AGENT PURSUANT TO, OR IN THE COURSE OF ADMINISTERING, THIS AGREEMENT WILL BE SYNDICATE-LEVEL INFORMATION, WHICH MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION ABOUT THE BORROWER AND ITS RELATED PARTIES OR THEIR RESPECTIVE SECURITIES. ACCORDINGLY, EACH LENDER REPRESENTS TO THE BORROWER AND THE ADMINISTRATIVE AGENT THAT IT HAS IDENTIFIED IN ITS ADMINISTRATIVE QUESTIONNAIRE A CREDIT CONTACT WHO MAY RECEIVE INFORMATION THAT MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH ITS COMPLIANCE PROCEDURES AND APPLICABLE LAW.

Section 10.16. No Fiduciary Duty. The Administrative Agent, each Lender and their Affiliates (collectively, solely for purposes of this paragraph, the "Lenders"), may have economic interests that conflict with those of the Borrower, their stockholders and/or their affiliates. The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty between any Lender, on the one hand, and such Borrower, its stockholders or its affiliates, on the other. The Borrower acknowledges and agrees that (i) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lenders, on the one hand, and the Borrower, on the other, and (ii) in connection therewith and with the process leading thereto, (x) no Lender has assumed an advisory or fiduciary responsibility in favor of the Borrower, its stockholders or its affiliates with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender has advised, is currently advising or will advise the Borrower, its stockholders or its Affiliates on other matters) or any other obligation to the Borrower except the obligations expressly set forth in the Loan Documents and (y) each Lender is acting solely as principal and not as the agent or fiduciary of the Borrower, its management, stockholders, creditors or any other Person. The Borrower acknowledges and agrees that it has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Borrower, in connection with such transaction or the process leading thereto.

The Borrower further acknowledges and agrees, and acknowledges its Subsidiaries' understanding, that each Credit Party is a full service securities or banking firm engaged in securities trading and brokerage activities as well

as providing investment banking and other financial services. In the ordinary course of business, any Credit Party may provide investment banking and other financial services to, and/or acquire, hold or sell, for its own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of, the Borrower and other companies with which it may have commercial or other relationships. With respect to any securities and/or financial instruments so held by any Credit Party or any of its customers, all rights in respect of such securities and financial instruments, including any voting rights, will be exercised by the holder of the rights, in its sole discretion.

In addition, the Borrower acknowledges and agrees, and acknowledges its Subsidiaries' understanding, that each Credit Party and its affiliates may be providing debt financing, equity capital or other services (including financial advisory services) to other companies in respect of which the Borrower or its Subsidiaries may have conflicting interests regarding the transactions described herein and otherwise. No Credit Party will use confidential information obtained from the Borrower by virtue of the transactions contemplated by the Loan Documents or its other relationships with the Borrower in connection with the performance by such Credit Party of services for other companies, and no Credit Party will furnish any such information to other companies. The Borrower also acknowledges that no Credit Party has any obligation to use in connection with the transactions contemplated by the Loan Documents, or to furnish to the Borrower, confidential information obtained from other companies.

Section 10.17. Termination of Existing Term Loan Agreement. The Borrower and the Lenders that are party to the Existing Credit Agreement (which constitute "Required Lenders" under and as defined in each Existing Credit Agreement) agree that upon the effectiveness hereof, the Existing Term Loan Agreement shall terminate and be of no further force or effect (except for provisions thereof that expressly survive termination thereof) without the need for any other action, and hereby waive any notices or notice periods required under the Existing Credit Agreement in connection therewith.

Section 10.18. Acknowledgment and Consent to Bail-In of EEA Financial Institutions. Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document may be subject to the Write-Down and Conversion Powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and

(b) the effects of any Bail-In Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent entity, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the Write-Down and Conversion Powers of any EEA Resolution Authority.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ALLETE, INC., as Borrower

By: /s/ Patrick L. Cutshall

Name: Patrick L. Cutshall

Title: Treasurer

JPMORGAN CHASE BANK, N.A., individually as a Lender and as Administrative Agent

By: /s/ Justin Martin

Name: Justin Martin

Title: Authorized Officer

BANK OF AMERICA, N.A., individually as a Lender and as Syndication Agent

By: /s/ Carlos Morales

Name: Carlos Morales

Title: SVP

SCHEDULE 2.1

LIST OF COMMITMENTS

| Lender | Commitment |
|---------------------------|---------------------|
| JPMorgan Chase Bank, N.A. | \$20,000,000 |
| Bank of America, N.A. | \$20,000,000 |
| Total | \$40,000,000 |

SCHEDULE 4.5/4.6

DISCLOSED MATTERS

None.

SCHEDULE 4.10

LIST OF SUBSIDIARIES¹

ALLETE Automotive Services, LLC

ALLETE Capital II

ALLETE Capital III

ALLETE Enterprises, Inc.

ALLETE Clean Energy, Inc.

ACE O&M, LLC

ACE Wind LLC

ACE Mid-West Holdings, LLC

MWW Holdings, LLC

Lake Benton Power Associates LLC

Lake Benton Holdings LLC

Lake Benton Power Partners L.L.C.

Storm Lake Power Partners I LLC

Storm Lake II Power Associates LLC

Storm Lake II Holdings LLC

Storm Lake Power Partners II LLC

New Salem Holdings, LLC

Glen Ullin Energy Center, LLC

Northern Wind Energy, LLC

Chanarambie Power Partners, LLC

Viking Wind Holdings, LLC

Viking Wind Partners, LLC

Buffalo Ridge Wind Farm, LLC

Moulton Heights Wind Power Project, LLC

Muncie Power Partners, LLC

North Ridge Wind Farm, LLC

Vandy South Project, LLC

Viking Wind Farm, LLC

Vindy Power Partners, LLC

Wilson-West Wind Farm, LLC

ACE West Holdings, LLC

Condon Wind Power, LLC

Armenia Holdings, LLC

AMW I Holdings, LLC

Armenia Mountain Wind, LLC

Armenia Mountain Wind II, LLC

Thunder Spirit Wind, LLC

ALLETE Power Systems, Inc.

ALLETE Renewable Resources, Inc.

ALLETE Transmission Holdings, Inc.

BNI Energy, Inc.

BNI Coal, Ltd.

Global Water Services Holding Company, Inc. ²

Global Water Services Holdings, Inc.

¹ Unless otherwise specified, the Equity Interests in each Subsidiary are owned 100% by the Subsidiary identified above it, with first-tier Subsidiaries' Equity Interests owned 100% by ALLETE, Inc.

² The Equity Interests in Global Water Services Holding Company, Inc. are owned 97% by ALLETE Enterprises, Inc., and 3% in the aggregate by the following individuals: LaMarr Barnes, Michael Bertrang, James Booth, Jeff Filipiski, Tyler Johnson, Hung Le, Jim Merritt, Randy Meyer, Dan O'Brien.

U.S. Water Services, Inc.

U.S. Water Services - Canada, Inc.

MP Affiliate Resources, Inc.

Rainy River Energy Corporation

South Shore Energy, LLC

Upper Minnesota Properties, Inc.

Upper Minnesota Properties - Development, Inc.

ALLETE Properties, LLC

ALLETE Commercial, LLC

Lehigh Acquisition, LLC

Florida Landmark Communities, LLC

Lehigh Corporation

Mardem, LLC

Palm Coast Holdings, Inc.

Port Orange Holdings, LLC

Interlachen Lakes Estates, LLC

Palm Coast Land, LLC

ALLETE Water Services, Inc.

Florida Water Services Corporation

Energy Replacement Property, LLC

Energy Land, Incorporated

Lakeview Financial Corporation I

Lakeview Financial Corporation II

MP Investments, Inc.

RendField Land Company, Inc.

Superior Water, Light and Power Company

EXHIBIT A**FORM OF ASSIGNMENT AND ASSUMPTION**

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the] [each] For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language. Assignor identified in item 1 below ([the] [each, an] “Assignor”) and [the][each] For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language. Assignee identified in item 2 below ([the] [each, an] “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors][the Assignees] Select as appropriate. hereunder are several and not joint.] Include bracketed language if there are either multiple Assignors or multiple Assignees. Capitalized terms used but not defined herein shall have the meanings given to them in the Term Loan Agreement identified below (as amended, modified or otherwise supplemented from time to time, the “Term Loan Agreement”), receipt of a copy of which is hereby acknowledged by [the][each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Term Loan Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below, all of the Assignor’s rights and obligations in its capacity as a Lender under the Term Loan Agreement and any other documents or instruments delivered pursuant thereto that represents the amount and percentage interest identified below of all of the Assignor’s outstanding rights and obligations under the respective facilities identified below (including without limitation, to the extent permitted to be assigned under applicable law, all claims (including without limitation contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity), suits, causes of action and any other right of the Assignor against any Person whether known or unknown arising under or in connection with the Term Loan Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby) other than claims for indemnification or reimbursement with respect to any period prior to the Effective Date referred to below (the “Assigned Interest”). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

1. Assignor: _____
2. Assignee: _____ [and is an Affiliate of Assignor]
3. Borrower: ALLETE, Inc.
4. Administrative Agent: JPMorgan Chase Bank, N.A.
5. Term Loan Agreement: Term Loan Agreement dated as of August 25, 2017 among the Borrower, the Lenders party thereto and the Administrative Agent.

³ For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

⁴ For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

⁵ Select as appropriate.

⁶ Include bracketed language if there are either multiple Assignors or multiple Assignees.

6. Assigned Interest:

| Assignor[s] List each Assignor, as appropriate. | Assignee[s] List each Assignee, as appropriate. | Facility Assigned | Aggregate Amount of Commitment/ Loans for all Lenders Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date. | Amount of Commitment/ Loans Assigned Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder. | Percentage Assigned of Commitment/ Loans ⁸ |
|---|---|-------------------|--|--|---|
| | | Revolving | \${_____} | \${_____} | [_____]% |

7. Trade Date: Insert if satisfaction of minimum amounts is to be determined as of the Trade Date.

Effective Date: _____, 20__ [TO BE INSERTED BY THE ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER BY THE ADMINISTRATIVE AGENT.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
 [NAME OF ASSIGNOR]
 By:
 Title:

ASSIGNEE
 [NAME OF ASSIGNEE]
 By:
 Title:

⁷ List each Assignor, as appropriate.

⁸ List each Assignee, as appropriate.

⁹ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

¹⁰ Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

¹¹ Insert if satisfaction of minimum amounts is to be determined as of the Trade Date.

[Consented to and] [a] To be added only if the consent of the Administrative Agent is required by the terms of the Term Loan Agreement. [A]ccepted:
JPMORGAN CHASE BANK, N.A., as Administrative Agent

By:

Title:

[Consented to:] To be added only if the consent of the Borrower and/or other parties is required by the terms of the Term Loan Agreement.

[NAME OF RELEVANT PARTY]

By:

Title:

ANNEX 1

**TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION**

1. Representations and Warranties.

1.1 Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Term Loan Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Term Loan Agreement, (ii) it satisfies the requirements specified in the Term Loan Agreement that are required to be satisfied by it in order to acquire the Assigned Interest and become a Lender, (iii) from and after the Effective Date, it shall be bound by the provisions of the Term Loan Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by the Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire the Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Term Loan Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.1 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent, any arranger or any other Lender and their respective Related Parties, and (vi) if it is a Foreign Lender, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Term Loan Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, any arranger, the Assignor or any other Lender and their respective Related Parties, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date. The Assignor and Assignee shall make all appropriate adjustments in payments by the Administrative Agent for periods prior to the Effective Date with respect to the making of this assignment directly between themselves.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Acceptance and adoption of the terms of this Assignment and Assumption by the Assignee and the Assignor by Electronic Signature or delivery of an executed counterpart of a signature page of this Assignment and Assumption by any Electronic System shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of New York.

EXHIBIT B
FORM OF NOTE

§[•] _____, 2017

FOR VALUE RECEIVED, the undersigned, ALLETE, Inc., a Minnesota corporation (the "Borrower"), hereby promises to pay to the order of [INSERT LENDER NAME] (the "Lender"), on the Maturity Date (as defined in the Term Loan Agreement referred to below), the unpaid principal amount of the Loan made by the Lender to the Borrower pursuant to the Term Loan Agreement dated as of August 25, 2017 among the Borrower, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (as amended, supplemented or otherwise modified from time to time, the "Term Loan Agreement"), and to pay interest from the date hereof on the principal balance of the Loan from time to time outstanding at the rate or rates and at the times set forth in the Term Loan Agreement, in each case at the office of the Administrative Agent located at Ten South Dearborn Street, Chicago, Illinois, or at such other place as the Administrative Agent may specify from time to time, in lawful money of the United States in immediately available funds. Terms not otherwise defined herein but defined in the Term Loan Agreement are used herein with the same meanings.

The Loan evidenced by this Note is prepayable in the amounts, and under the circumstances, and its maturity is subject to acceleration upon the terms, set forth in the Term Loan Agreement. This Note is subject to, and shall be construed in accordance with, the provisions of the Term Loan Agreement.

Except as specifically otherwise provided in the Term Loan Agreement, the Borrower hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other demands, protests and notices in connection with the execution, delivery, performance, collection and enforcement of this Note.

Whenever in this Note either party hereto is referred to, such reference shall be deemed to include the successors and assigns of such party. The Borrower shall not have the right to assign its rights or obligations hereunder or any interest herein (and any such attempted assignment shall be void), except as expressly permitted by the Loan Documents. No failure or delay of the Lender in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. Neither this Note nor any provision hereof may be waived, amended or modified, nor shall any departure therefrom be consented to, except pursuant to a written agreement entered into between the Borrower and the Lender with respect to which such waiver, amendment, modification or consent is to apply, subject to any consent required in accordance with Section 10.2 of the Term Loan Agreement.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

All communications and notices hereunder shall be in writing and given as provided in Section 10.1 of the Term Loan Agreement.

The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Note or the other Loan Documents, or for recognition or enforcement of any judgment, and the Borrower hereby irrevocably and unconditionally agrees that, to the extent permitted by applicable law, all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the extent permitted by applicable law, in such Federal court. The Borrower, and by accepting this Note, the Lender, agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Note shall affect any right that the Lender may otherwise have to bring any action or proceeding relating to this Note or the other Loan Documents against the Borrower, or any of its property, in the courts of any jurisdiction.

The Borrower, and by accepting this Note, the Lender, hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Note or the other Loan Documents in any court referred to in the preceding paragraph hereof. The Borrower, and by accepting this Note, the Lender, hereby irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

The Borrower, and by accepting this Note, the Lender, irrevocably consents to service of process in the manner provided for notices herein. Nothing herein will affect the right of the Lender to serve process in any other manner permitted by law.

THE BORROWER, AND BY ACCEPTING THIS NOTE, THE LENDER, EACH HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR RELATING TO THIS NOTE. THE BORROWER (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE LENDER HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH LENDER WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT SUCH LENDER HAS BEEN INDUCED TO ACCEPT THIS NOTE AND ENTER INTO THE LOAN DOCUMENTS TO WHICH IT IS A PARTY BY, AMONG OTHER THINGS, THE WAIVERS AND CERTIFICATIONS IN THIS PARAGRAPH.

ALLETE, INC.

By:
Name:
Title:

EXHIBIT C

FORM OF COMPLIANCE CERTIFICATE

I, _____, do hereby certify that I am the _____ of ALLETE, Inc. (the "Borrower"), and that, as such, I am duly authorized to execute and deliver this Compliance Certificate on the Borrower's behalf pursuant to Section 6.1(c) of the Term Loan Agreement dated as of August 25, 2017 among the Borrower, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (as amended, supplemented or otherwise modified from time to time, the "Term Loan Agreement"). Capitalized terms used herein which are not defined herein shall have the meanings assigned to such terms in the Term Loan Agreement.

I hereby certify that:

1. To the best of my knowledge, all financial statements delivered herewith have been prepared in accordance with GAAP. There have been no changes in GAAP pertinent to the Borrower or in the application thereof to Borrower and that affects the computation of any financial covenant set forth in Section 7.5 of the Term Loan Agreement, since the date of the audited financial statements referred to in Section 4.4(a) of the Term Loan Agreement, [, except as follows: Specify each such change and the effect thereof on the financial statements accompanying this Compliance Certificate as set forth in Section 1.3 of the Term Loan Agreement.]

2. There existed no Default on the last day of the fiscal quarter ended _____, 20__, and there exists no Default as of the date hereof [, except as follows Specify all such violations, conditions and events, the nature and status thereof and any action taken or proposed to be taken with respect thereto.]

3. Attached are true and correct calculations demonstrating compliance with Section 7.5 of the Term Loan Agreement as of the fiscal quarter ended _____, 20__ (the "Quarter").

IN WITNESS WHEREOF, I have executed this Compliance Certificate on this ___ day of _____, 201_.

¹⁴ Specify each such change and the effect thereof on the financial statements accompanying this Compliance Certificate as set forth in Section 1.3 of the Term Loan Agreement.

¹⁵ Specify all such violations, conditions and events, the nature and status thereof and any action taken or proposed to be taken with respect thereto.

Section 7.5

Ratio of Total Indebtedness to Total Capitalization Each of the computations is based on the Borrower and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

| | | |
|----------|--|-----------|
| Item 1. | Sum of all Indebtedness | \$ |
| Item 2. | Unamortized premium and discount (as such term is used in the Borrower Financial Statements) | \$ |
| Item 3. | Total Indebtedness (Item 1 minus Item 2) | \$ |
| Item 4. | Preferred Equity Interests | \$ |
| Item 5. | Common Equity Interests and any premium on Equity Interests thereon (as such term is used in the Borrower Financial Statements) excluding accumulated other comprehensive income or loss | \$ |
| Item 6. | Retained earnings | \$ |
| Item 7. | Sum of Items 3, 4, 5 and 6 | \$ |
| Item 8. | Stock of the Borrower acquired by the Borrower and stock of a Subsidiary acquired by such Subsidiary | \$ |
| Item 9. | Total Capitalization (Item 7 minus Item 8) | \$ |
| Item 10. | Ratio of Total Indebtedness to Total Capitalization (Item 3 divided by Item 9) | _. : 1.00 |
| | Maximum permitted ratio | 0.65:1.00 |

¹⁶ Each of the computations is based on the Borrower and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

**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, 2017, 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 1, 2017

/s/ Alan R. Hodnik

Alan R. Hodnik

Chairman, President and Chief Executive Officer

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

I, Robert J. Adams, of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2017, 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 1, 2017

/s/ Robert J. Adams

Robert J. Adams

Senior Vice President and Chief Financial Officer

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

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

1. The Quarterly Report on Form 10-Q of ALLETE for the period ended September 30, 2017, (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 1, 2017

/s/ Alan R. Hodnik

Alan R. Hodnik

Chairman, President and Chief Executive Officer

Date: November 1, 2017

/s/ Robert J. Adams

Robert J. Adams

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.

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 | 1 | — | — | — | — | \$1,963 | — | No | No | — | — | — |

For the quarter ended September 30, 2017, BNI Energy, owner of Center Mine, received ten citations under Section 104(a) of the Mine Safety Act, one of which was a significant and substantial (S&S) citation; fifteen citations were received for the nine months ended September 30, 2017. The total penalties proposed to be assessed on BNI with respect to the ten citations were \$1,963. For the nine months ended September 30, 2017, BNI Energy paid \$908 in penalties for citations closed during the period. For the quarter and nine months ended September 30, 2017, 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.



For Release: November 1, 2017
Investor Contact: Vince Meyer
218-723-3952
vmeyer@allete.com

NEWS

ALLETE, Inc. reports third quarter results; reaffirms 2017 earnings guidance

DULUTH, Minn. - ALLETE, Inc. (NYSE: ALE) today reported third quarter 2017 earnings of 88 cents per share on net income of \$44.9 million and operating revenue of \$362.5 million. Last year's results were 81 cents per share on net income of \$40.3 million and operating revenue of \$349.6 million. Results for the third quarter of 2017 reflect a favorable impact of approximately \$8 million after-tax, or 16 cents per share, for the modification of a November 2016 Minnesota Public Utilities Commission (MPUC) order on the allocation of North Dakota investment tax credits at a MPUC hearing on September 28, 2017. Net income in the third quarter of 2016 included an adverse impact of approximately \$9 million after-tax, or 18 cents per share, for the initial MPUC decision in October 2016. Net income in 2016 also included approximately \$3 million after-tax, or 7 cent per share, gain for the sale of ALLETE Properties' Ormond Crossings project and Lake Swamp mitigation bank.

"We remain on track to meet our full-year earnings targets," said ALLETE Chairman, President and CEO Al Hodnik. "We expect 2017 earnings to be within a range of \$3.15 to \$3.40 per share, excluding the impact of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits. We have made many accomplishments during the year and are pleased that our efforts are delivering value to ALLETE's shareholders. We believe we are well positioned to deliver additional long-term value to our shareholders with our unique mix of businesses."

ALLETE's Regulated Operations segment, which includes Minnesota Power, Superior Water, Light and Power, and the Company's investment in the American Transmission Co., recorded net income of \$34.2 million compared to net income of \$45.0 million recorded in the third quarter of 2016. Financial incentives under the Minnesota conservation improvement program decreased \$4.4 million after-tax from 2016 due to the timing of the MPUC approval. In 2017, the conservation improvement program financial incentive was approved and recognized in the second quarter. Earnings in 2017 were also impacted by lower residential, commercial and municipal sales resulting from milder temperatures this quarter, lower sales to other power suppliers as a result of higher industrial sales and lower market prices, lower transmission margins, and higher depreciation, property tax and interest expense. These impacts were partially offset by higher sales to industrial customers, the implementation of final rates at Superior Water, Light and Power in August 2017 and interim rates at Minnesota Power in effect since the beginning of the year.

ALLETE's Energy Infrastructure and Related Services businesses, which include ALLETE Clean Energy and U.S. Water Services, recorded net income of \$0.6 million and net income of \$1.3 million, respectively. Earnings at ALLETE Clean Energy decreased \$0.4 million due to lower operating revenue as a result of lower wind resources, partially offset by lower operating and maintenance expense. Net income at U.S. Water Services decreased \$0.2 million from 2016 primarily due to higher operating expenses as a result of investments for future growth in waste treatment and water safety applications, partially offset by higher operating revenue compared to the same period in 2016.

Corporate and Other, which includes BNI Energy and ALLETE Properties, increased \$16.0 million from 2016 primarily due to the previously mentioned modification of a 2016 MPUC order on the allocation of North Dakota investment tax credits. This increase was partially offset by a decrease in earnings at ALLETE Properties due to lower land sales as previously mentioned.

Earnings per share for the quarter was diluted by 3 cents due to additional shares of common stock outstanding as of September 30, 2017.

ALLETE will host a conference call and webcast at 10 a.m. Eastern Time this morning to discuss details of its 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, 2017, by calling (855) 859-2056, pass code 92681362. The webcast will be accessible for one year at www.allete.com.

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 ALLETE Clean Energy, based in Duluth, U.S. Water Services headquartered in St. Michael, Minn., BNI Energy in Bismarck, N.D., and has an eight percent equity interest in the American Transmission Co. More information about ALLETE is available at www.allete.com.
ALE-CORP

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, | |
|--|--------------------------------|---------------|------------------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Operating Revenue | | | | |
| Utility | \$277.6 | \$253.3 | \$824.1 | \$740.5 |
| Non-utility | 84.9 | 96.3 | 257.3 | 257.7 |
| Total Operating Revenue | 362.5 | 349.6 | 1,081.4 | 998.2 |
| Operating Expenses | | | | |
| Fuel, Purchased Power and Gas – Utility | 93.5 | 91.7 | 283.2 | 250.6 |
| Transmission Services – Utility | 18.9 | 16.6 | 53.1 | 49.5 |
| Cost of Sales – Non-utility | 36.1 | 45.7 | 106.1 | 108.5 |
| Operating and Maintenance | 80.0 | 80.8 | 248.2 | 240.9 |
| Depreciation and Amortization | 50.9 | 48.9 | 151.5 | 145.7 |
| Taxes Other than Income Taxes | 14.1 | 12.5 | 42.7 | 40.6 |
| Total Operating Expenses | 293.5 | 296.2 | 884.8 | 835.8 |
| Operating Income | 69.0 | 53.4 | 196.6 | 162.4 |
| Other Income (Expense) | | | | |
| Interest Expense | (16.6) | (18.7) | (50.5) | (53.0) |
| Equity Earnings in ATC | 5.9 | 6.1 | 17.3 | 15.0 |
| Other | 0.8 | 1.2 | 2.0 | 2.8 |
| Total Other Expense | (9.9) | (11.4) | (31.2) | (35.2) |
| Income Before Non-Controlling Interest and Income Taxes | 59.1 | 42.0 | 165.4 | 127.2 |
| Income Tax Expense | 14.2 | 1.7 | 34.6 | 15.7 |
| Net Income | 44.9 | 40.3 | 130.8 | 111.5 |
| Less: Non-Controlling Interest in Subsidiaries | — | — | — | 0.5 |
| Net Income Attributable to ALLETE | \$44.9 | \$40.3 | \$130.8 | \$111.0 |
| Average Shares of Common Stock | | | | |
| Basic | 51.0 | 49.4 | 50.7 | 49.3 |
| Diluted | 51.2 | 49.5 | 50.9 | 49.4 |
| Basic Earnings Per Share of Common Stock | \$0.88 | \$0.82 | \$2.58 | \$2.25 |
| Diluted Earnings Per Share of Common Stock | \$0.88 | \$0.81 | \$2.57 | \$2.25 |
| Dividends Per Share of Common Stock | \$0.535 | \$0.52 | \$1.605 | \$1.56 |

Consolidated Balance Sheet
Millions - Unaudited

| | Sept. 30, 2017 | Dec. 31, 2016 | | Sept. 30, 2017 | Dec. 31, 2016 |
|-------------------------------------|-------------------|------------------|---|-------------------|------------------|
| Assets | | | Liabilities and Shareholders' Equity | | |
| Cash and Cash Equivalents | \$104.4 | \$27.5 | Current Liabilities | \$290.5 | \$399.5 |
| Other Current Assets | 283.5 | 267.0 | Long-Term Debt | 1,444.6 | 1,370.4 |
| Property, Plant and Equipment - Net | 3,746.3 | 3,741.2 | Deferred Income Taxes | 592.9 | 554.6 |
| Regulatory Assets | 310.6 | 330.1 | Regulatory Liabilities | 111.5 | 125.8 |
| Investment in ATC | 146.0 | 135.6 | Defined Benefit Pension & Other | 195.2 | 210.9 |
| Other Investments | 55.8 | 55.6 | Other Non-Current Liabilities | 301.1 | 322.7 |
| Goodwill and Intangibles - Net | 228.9 | 213.4 | Shareholders' Equity | 2,042.7 | 1,893.0 |
| Other Non-Current Assets | 103.0 | 106.5 | | | |
| Total Assets | \$4,978.5 | \$4,876.9 | Total Liabilities and Shareholders' Equity | \$4,978.5 | \$4,876.9 |

| ALLETE, Inc. Income (Loss) | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|---------------|------------------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Millions | | | | |
| Regulated Operations | \$34.2 | \$45.0 | \$110.1 | \$110.0 |
| Energy Infrastructure and Related Services | | | | |
| ALLETE Clean Energy | 0.6 | 1.0 | 11.1 | 9.7 |
| U.S. Water Services | 1.3 | 1.5 | 1.6 | 2.0 |
| Corporate and Other | 8.8 | (7.2) | 8.0 | (10.7) |
| Net Income Attributable to ALLETE | \$44.9 | \$40.3 | \$130.8 | \$111.0 |
| Diluted Earnings Per Share | \$0.88 | \$0.81 | \$2.57 | \$2.25 |

Statistical Data

| | | | | |
|--------------|---------|---------|---------|---------|
| Corporate | | | | |
| Common Stock | | | | |
| High | \$79.61 | \$65.41 | \$79.61 | \$65.41 |
| Low | \$69.79 | \$58.20 | \$61.64 | \$48.26 |
| Close | \$77.29 | \$59.62 | \$77.29 | \$59.62 |
| Book Value | \$40.02 | \$37.87 | \$40.02 | \$37.87 |

Kilowatt-hours Sold

| | | | | |
|---|-------|-------|--------|--------|
| Millions | | | | |
| Regulated Utility | | | | |
| Retail and Municipal | | | | |
| Residential | 239 | 250 | 791 | 816 |
| Commercial | 364 | 383 | 1,061 | 1,090 |
| Municipal | 195 | 205 | 591 | 611 |
| Industrial | 1,859 | 1,633 | 5,437 | 4,740 |
| Total Retail and Municipal | 2,657 | 2,471 | 7,880 | 7,257 |
| Other Power Suppliers | 977 | 1,141 | 3,022 | 3,456 |
| Total Regulated Utility Kilowatt-hours Sold | 3,634 | 3,612 | 10,902 | 10,713 |

Regulated Utility Revenue

| | | | | |
|---------------------------------|---------|---------|---------|---------|
| Millions | | | | |
| Regulated Utility Revenue | | | | |
| Retail and Municipal | | | | |
| Residential | \$26.6 | \$27.4 | \$86.4 | \$85.2 |
| Commercial | 35.3 | 36.1 | 103.9 | 100.1 |
| Municipal | 14.6 | 19.2 | 45.1 | 50.4 |
| Industrial | 121.5 | 106.0 | 362.8 | 302.5 |
| Total Retail and Municipal | 198.0 | 188.7 | 598.2 | 538.2 |
| Other Power Suppliers | 41.2 | 46.8 | 124.0 | 133.2 |
| Other | 38.4 | 17.8 | 101.9 | 69.1 |
| Total Regulated Utility Revenue | \$277.6 | \$253.3 | \$824.1 | \$740.5 |

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.