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

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended **March 31, 2018**

or

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

Commission File Number **1-3548**

ALLETE, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x	Accelerated Filer ☐
Non-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 x No

Common Stock, without par value,
51,271,007 shares outstanding
as of March 31, 2018

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Definitions

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

Abbreviation or Acronym	Term
AFUDC	Allowance for Funds Used During Construction – the cost of both debt and equity funds used to finance 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.
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
EITE	Energy-Intensive Trade-Exposed
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
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.
MISO	Midcontinent Independent System Operator, Inc.

Abbreviation or Acronym	Term
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.
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
TCJA	Tax Cuts and Job Act of 2017 (Public Law 115-97)
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
WTG	Wind Turbine Generator

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 cyberattacks;
- 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 GHG;
- 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" of ALLETE's 2017 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

	March 31, 2018	December 31, 2017
Millions		
Assets		
Current Assets		
Cash and Cash Equivalents	$98.5	$98.9
Accounts Receivable (Less Allowance of $2.1 and $2.1)	128.2	135.1
Inventories – Net	143.1	95.9
Prepayments and Other	33.8	37.6
Total Current Assets	403.6	367.5
Property, Plant and Equipment – Net	3,786.1	3,822.4
Regulatory Assets	376.0	384.7
Investment in ATC	120.1	118.7
Other Investments	52.8	53.1
Goodwill and Intangible Assets – Net	224.5	225.9
Other Non-Current Assets	109.0	107.7
Total Assets	$5,072.1	$5,080.0
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$88.1	$136.3
Accrued Taxes	60.5	50.0
Accrued Interest	14.6	17.6
Long-Term Debt Due Within One Year	106.2	64.1
Other	130.2	83.2
Total Current Liabilities	399.6	351.2
Long-Term Debt	1,396.5	1,439.2
Deferred Income Taxes	229.7	230.5
Regulatory Liabilities	516.0	532.0
Defined Benefit Pension and Other Postretirement Benefit Plans	175.2	191.8
Other Non-Current Liabilities	257.8	267.1
Total Liabilities	2,974.8	3,011.8
Commitments, Guarantees and Contingencies (Note 13)		
Shareholders' Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 51.3 and 51.1 Shares Issued and Outstanding	1,407.4	1,401.4
Accumulated Other Comprehensive Loss	(27.9)	(22.6)
Retained Earnings	717.8	689.4
Total Shareholders' Equity	2,097.3	2,068.2
Total Liabilities and Shareholders' Equity	$5,072.1	$5,080.0

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF INCOME
Unaudited

	Three Months Ended March 31,	
	2018	2017
Millions Except Per Share Amounts		
Operating Revenue		
Contracts with Customers – Utility	$270.2	$281.6
Contracts with Customers – Non-utility	82.0	78.1
Other – Non-utility	6.0	5.9
Total Operating Revenue	358.2	365.6
Operating Expenses		
Fuel, Purchased Power and Gas – Utility	100.9	96.6
Transmission Services – Utility	18.4	16.6
Cost of Sales – Non-utility	32.9	31.5
Operating and Maintenance	86.5	84.4
Depreciation and Amortization	45.8	50.5
Taxes Other than Income Taxes	16.3	14.4
Total Operating Expenses	300.8	294.0
Operating Income	57.4	71.6
Other Income (Expense)		
Interest Expense	(16.9)	(17.2)
Equity Earnings in ATC	4.7	6.1
Other	2.1	1.6
Total Other Expense	(10.1)	(9.5)
Income Before Income Taxes	47.3	62.1
Income Tax Expense (Benefit)	(3.7)	13.1
Net Income	$51.0	$49.0
Average Shares of Common Stock		
Basic	51.2	50.2
Diluted	51.4	50.4
Basic Earnings Per Share of Common Stock	$1.00	$0.97
Diluted Earnings Per Share of Common Stock	$0.99	$0.97
Dividends Per Share of Common Stock	$0.56	$0.535

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended March 31,	
	2018	**2017**
Millions		
Net Income	$51.0	$49.0
Other Comprehensive Income (Loss)		
Unrealized Gain (Loss) on Securities		
Net of Income Tax Expense of $– and $0.3	(0.1)	0.3
Defined Benefit Pension and Other Postretirement Benefit Plans		
Net of Income Tax Expense of $0.1 and $0.1	0.4	0.2
Total Other Comprehensive Income	0.3	0.5
Total Comprehensive Income	$51.3	$49.5

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

	Three Months Ended March 31,	
	2018	2017
Millions		
Operating Activities		
Net Income	$51.0	$49.0
AFUDC – Equity	(0.3)	(0.2)
Income from Equity Investments – Net of Dividends	(0.5)	(1.5)
Change in Fair Value of Contingent Consideration	—	(0.4)
Loss (Gain) on Sales of Investments and Property, Plant and Equipment	(0.1)	0.1
Depreciation Expense	44.5	49.2
Amortization of PSAs	(6.0)	(5.9)
Amortization of Other Intangible Assets and Other Assets	2.8	2.9
Deferred Income Tax Expense	(4.4)	13.0
Share-Based and ESOP Compensation Expense	1.7	1.8
Defined Benefit Pension and Postretirement Benefit Expense	2.2	2.5
Provision for Interim Rate Refund	4.4	—
Provision for Tax Reform Refund	7.5	—
Bad Debt Expense (Recoveries)	0.3	(0.4)
Changes in Operating Assets and Liabilities		
Accounts Receivable	6.3	0.1
Inventories	(0.3)	(6.3)
Prepayments and Other	(1.2)	1.8
Accounts Payable	(0.1)	(11.3)
Other Current Liabilities	17.3	(1.0)
Cash Contributions to Defined Benefit Pension Plans	(15.0)	(1.7)
Changes in Regulatory and Other Non-Current Assets	3.8	9.6
Changes in Regulatory and Other Non-Current Liabilities	7.4	(2.6)
Cash from Operating Activities	121.3	98.7
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	3.3	0.3
Payments for Purchase of Available-for-sale Securities	(5.3)	(0.5)
Investment in ATC	(1.6)	(3.1)
Changes to Other Investments	2.5	(1.2)
Additions to Property, Plant and Equipment	(88.1)	(36.7)
Other Investing Activities	0.2	0.1
Cash for Investing Activities	(89.0)	(41.1)
Financing Activities		
Proceeds from Issuance of Common Stock	4.3	70.6
Changes in Notes Payable	—	1.3
Repayments of Long-Term Debt	(1.9)	(26.3)
Acquisition-Related Contingent Consideration Payments	—	(15.1)
Dividends on Common Stock	(28.7)	(26.9)
Other Financing Activities	(0.2)	—
Cash from (for) Financing Activities	(26.5)	3.6
Change in Cash, Cash Equivalents and Restricted Cash	5.8	61.2
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	110.1	38.3
Cash, Cash Equivalents and Restricted Cash at End of Period	$115.9	$99.5

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, 2017	$2,068.2	$689.4	$(22.6)	$1,401.4
Adjustments to Opening Balance – Net of Income Taxes *(a)*	0.5	6.1	(5.6)	—
Balance as of January 1, 2018	2,068.7	695.5	(28.2)	1,401.4
Comprehensive Income				
Net Income	51.0	51.0	—	—
Other Comprehensive Income – Net of Income Taxes				
Unrealized Loss on Debt Securities	(0.1)	—	(0.1)	—
Defined Benefit Pension and Other Postretirement Plans	0.4	—	0.4	—
Total Comprehensive Income	51.3			
Common Stock Issued	6.0	—	—	6.0
Dividends Declared	(28.7)	(28.7)	—	—
Balance as of March 31, 2018	$2,097.3	$717.8	$(27.9)	$1,407.4

(a) Reflects the impacts associated with the recently adopted accounting standards concerning Financial Instruments, Revenue from Contracts with Customers and the Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. (See Note 1. Operations and Significant Accounting Policies.)

The accompanying notes are an integral part of these statements.

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and do not include all of the information and notes required by GAAP for complete financial statements. Similarly, the December 31, 2017, 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 three months ended March 31, 2018, are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2018. For further information, refer to the Consolidated Financial Statements and notes included in our 2017 Form 10-K.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Cash, Cash Equivalents and Restricted Cash. We consider all investments purchased with original maturities of three months or less to be cash equivalents. Restricted cash amounts included in Prepayments and Other on the Consolidated Balance Sheet include collateral deposits required under an ALLETE Clean Energy loan agreement and U.S. Water Service's standby letters of credit. The restricted cash amounts included in Other Non-Current Assets represents collateral deposits required under an ALLETE Clean Energy loan agreement and PSAs, and deposits from a SWL&P customer in aid of future capital expenditures. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Balance Sheet that aggregate to the amount presented in the Consolidated Statement of Cash Flows. During the first quarter of 2018, the Company updated the presentation of its Consolidated Statement of Cash Flows to include restricted cash 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. (See *Recently Adopted Pronouncements - Statement of Cash Flows: Restricted Cash*.)

Cash, Cash Equivalents and Restricted Cash	**March 31, 2018**	**December 31, 2017**	**March 31, 2017**	**December 31, 2016**
Millions				
Cash and Cash Equivalents	$98.5	$98.9	$81.8	$27.5
Restricted Cash included in Prepayments and Other	8.8	2.6	9.1	2.2
Restricted Cash included in Other Non-Current Assets	8.6	8.6	8.6	8.6
Cash, Cash Equivalents and Restricted Cash in the Consolidated Statement of Cash Flows	$115.9	$110.1	$99.5	$38.3

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

Inventories – Net	**March 31, 2018**	**December 31, 2017**
Millions		
Fuel *(a)*	$33.8	$34.8
Materials and Supplies	46.9	46.5
Construction of Wind Energy Facility *(b)*	46.9	—
Raw Materials	2.8	2.8
Work in Progress	4.2	4.2
Finished Goods	9.3	8.3
Reserve for Obsolescence	(0.8)	(0.7)
Total Inventories – Net	$143.1	$95.9

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

(b) On February 28, 2018, Montana-Dakota Utilities exercised its option to purchase the Thunder Spirit II wind energy facility upon completion, resulting in a reclassification of the project value from Property, Plant and Equipment – Net to Inventory – Net as ALLETE Clean Energy will no longer own and operate the facility upon completion.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Non-Current Assets	March 31, 2018	December 31, 2017
Millions		
Contract Assets *(a)*	$31.0	$31.6
Finance Receivable	10.9	11.0
Other	67.1	65.1
Total Other Non-Current Assets	$109.0	$107.7

(a) Contract Assets include payments made to customers as an incentive to execute or extend service agreements. The contract payments are being amortized over the term of the respective agreements.

Other Current Liabilities	March 31, 2018	December 31, 2017
Millions		
Provision for Interim Rate Refund *(a)*	$28.1	—
PSAs	21.5	$24.5
Contract Liabilities *(b)*	20.0	8.7
Provision for Tax Reform Refund *(c)*	7.5	—
Contingent Consideration *(d)*	5.5	—
Other	47.6	50.0
Total Other Current Liabilities	$130.2	$83.2

(a) Provision for Interim Rate Refund is expected to be refunded to Minnesota Power's regulated retail customers in the first quarter of 2019. (See Note 6. Regulatory Matters.)

(b) Contract Liabilities include deposits received as a result of entering into contracts with our customers prior to completing our performance obligations.

(c) Provision for Tax Reform Refund is deferred as a regulatory liability pending the outcome of regulatory proceedings with the MPUC and PSCW. (See Note 6. Regulatory Matters.)

(d) 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.)

Other Non-Current Liabilities	March 31, 2018	December 31, 2017
Millions		
Asset Retirement Obligation	$122.9	$122.7
PSAs	86.3	89.5
Contingent Consideration *(a)*	—	5.4
Other	48.6	49.5
Total Other Non-Current Liabilities	$257.8	$267.1

(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.)

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Supplemental Statement of Cash Flows Information.

Three Months Ended March 31,	2018	2017
Millions		
Cash Paid for Interest – Net of Amounts Capitalized	$19.3	$18.9
Noncash Investing and Financing Activities		
Decrease in Accounts Payable for Capital Additions to Property, Plant and Equipment	$(48.1)	$(3.5)
Reclassification of Property, Plant and Equipment to Inventory *(a)*	$46.9	—
Capitalized Asset Retirement Costs	$0.8	$19.3
AFUDC–Equity	$0.3	$0.2
ALLETE Common Stock Contributed to the Pension Plans	—	$13.5

(a) On February 28, 2018, Montana-Dakota Utilities exercised its option to purchase the Thunder Spirit II wind energy facility upon completion, resulting in a reclassification of the project value from Property, Plant and Equipment – Net to Inventory – Net as ALLETE Clean Energy will no longer own and operate the facility upon completion.

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

Revenue.

Contracts with Customers – Utility includes sales from our regulated operations for generation, transmission and distribution of electric service, and distribution of water and gas services to our customers. Also included is an immaterial amount of regulated steam generation that is used during production of paper and pulp.

Contracts with Customers – Non-utility includes sales of goods and services to customers from ALLETE Clean Energy, U.S. Water Services and our Corporate and Other businesses.

Other – Non-utility is the non-cash revenue recognized by ALLETE Clean Energy for the amortization of differences between contract prices and estimated market prices for PSAs that were assumed during the acquisition of various wind energy facilities.

Revenue Recognition

Revenue is recognized upon transfer of control of promised goods or services to our customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. Revenue is recognized net of allowance for returns and any taxes collected from customers, which are subsequently remitted to the appropriate governmental authorities. We account for shipping and handling activities that occur after the customer obtains control of goods as a cost rather than an additional performance obligation thereby recognizing revenue at time of shipment and accruing shipping and handling costs when control transfers to our customers. We have a right to consideration from our customers in an amount that corresponds directly with the value to the customer for our performance completed to date; therefore, we may recognize revenue in the amount to which we have a right to invoice.

Nature of Revenue Streams

Utility

Residential and Commercial includes sales for electric, gas or water service to customers, who have implied contracts with the utility, under rates governed by the MPUC, PSCW or FERC. Customers are billed on a monthly cycle basis and revenue is recognized for electric, gas or water service delivered during the billing period. Revenue is accrued for service provided but not yet billed at period end. Performance obligations with these customers are satisfied at time of delivery to customer meters and simultaneously consumed.

Municipal includes sales to 16 non-affiliated municipal customers in Minnesota under long-term wholesale electric contracts. All wholesale electric contracts include a termination clause requiring a three-year notice to terminate. These contracts have termination dates ranging from 2019 through at least 2032, with a majority of contracts effective through at least 2024. Performance obligations with these customers are satisfied at the time energy is delivered to an agreed upon municipal substation or meter.

Industrial includes sales recognized from contracts with customers in the taconite mining, iron concentrate, paper, pulp and secondary wood products, pipeline and other industries. Industrial sales accounted for approximately 49 percent of total regulated utility kWh sales for the three months ended March 31, 2018. Within industrial revenue, Minnesota Power has 9 Large Power Customer contracts, each serving requirements of 10 MW or more of customer load. These contracts automatically renew past the contract term unless a four-year advanced written notice is given. Large Power Customer contracts have earliest termination dates ranging from 2022 through 2026. We satisfy our performance obligations for these customers at the time energy is delivered to an agreed upon customer substation. Revenue is accrued for energy provided but not yet billed at period end. Based on current contracts with industrial customers, we expect to recognize minimum revenue for the fixed contract components of approximately $70 million per annum through 2019, $50 million in 2020 and 2021, $30 million in 2022 and $30 million for aggregate years thereafter, which reflects the termination notice period in these contracts. When determining minimum revenue, we assume that customer contracts will continue under the contract renewal provision; however, if long-term contracts are renegotiated and subsequently approved by the MPUC or there are changes within our industrial customer class, these amounts may be impacted. Contracts with customers that contain variable pricing or quantity components are excluded from the expected minimum revenue amounts.

Other Power Suppliers includes the sale of energy under long-term PSAs with two customers as well as MISO market and liquidation sales. Expiration dates of these PSAs range from 2020 through 2026. Performance obligations with these customers are satisfied at the time energy is delivered to an agreed upon delivery point defined in the contract (generally the MISO pricing node). Based on current contracts with customers, we expect to recognize minimum revenue for fixed contract components of approximately $10 million per annum through 2019. Other power supplier contracts that extend beyond 2020 contain variable pricing components that prevent us from estimating future minimum revenue, and therefore are not included.

Other Revenue includes all remaining individually immaterial revenue streams for Minnesota Power and SWL&P, and is comprised of steam sales to paper and pulp mills, wheeling revenue and other sources. Revenue for steam sales to customers is recognized at the time steam is delivered and simultaneously consumed, and includes standard payment terms. Revenue is recognized at the time each performance obligation is satisfied.

Alternative Programs includes revenue that is driven by factors outside of our regulated entities' control or as a result of the achievement of certain objectives, such as CIP financial incentives. This revenue is accounted for in accordance with the accounting standards for alternative revenue programs which allow for the recognition of revenue under an alternative revenue program if the program is established by an order from the utility's regulatory commission, the order allows for automatic adjustment of future rates, the amount of revenue recognized is objectively determinable and probable of recovery, and the revenue will be collected within 24 months following the end of the annual period in which it is recognized. CIP financial incentives are recognized in the period in which the MPUC approves the filing, which is typically mid-year.

Non-utility

ALLETE Clean Energy

Long-term PSA revenue includes all sales recognized under long-term contracts for production, curtailment, capacity and associated renewable energy credits for ALLETE Clean Energy generation facilities. Expiration dates of these PSAs range from 2018 through 2032. Performance obligations for these contracts are satisfied at the time energy is delivered to an agreed upon point, or production is curtailed at the request of the customer, at specified prices. Revenue from the sale of renewable energy credits is recognized at the same time the related energy is delivered to the customer when sold to the same party.

Other is the non-cash revenue recognized by ALLETE Clean Energy for the amortization of differences between contract prices and estimated market prices on assumed PSAs. As part of wind energy facility acquisitions, ALLETE Clean Energy assumed various PSAs that were above or below estimated market prices at the time of acquisition; the resulting differences between contract prices and estimated market prices are amortized to revenue over the remaining PSA term.

U.S. Water Services

Point-in-time revenue is recognized for purchases by customers for chemicals, consumable equipment (e.g. filters, pumps and valves) or related maintenance and repair services as the customer’s usage and needs change over time. These goods and services are purchased on an as-needed basis by the customers and therefore revenue can be variable. Products are shipped to the customer in accordance with the terms of the purchase order, and performance obligations are satisfied at the time of shipment of goods or when services have been rendered to the customer.

Contract includes monthly revenue from contracts with customers to provide chemicals, consumable equipment and services to meet customer needs during the contract period. As agreed with the customer, a fixed amount is invoiced based on the goods and services to be provided under the contract. The duration of these contracts generally range in length from three months to five years and automatically renew. A 30-day notice is required to terminate such contracts without penalty after contract execution. Performance obligations are satisfied during the period as goods and service are delivered in accordance with the terms of the contract.

Capital Project includes the sale of equipment and other components assembled to create a water treatment system for the customer. These projects are provided under contracts at an agreed upon price to meet a customer's specifications and typically take less than one year to complete. In general, progress payments are received throughout the project period and are recorded as contract liabilities until performance obligations are satisfied at the time the equipment and other components are delivered to the customer’s site.

Corporate and Other

Long-term Contract encompasses the sale and delivery of coal to customer generation facilities. Revenue is recognized on a monthly basis at the cost of production plus a specified profit per ton of coal delivered to the customer. Coal sales are secured under long-term coal supply agreements extending through 2037. Performance obligations are satisfied during the period as coal is delivered to customer generation facilities.

Other primarily includes revenue from BNI Energy which is unrelated to coal, the sale of real estate from ALLETE Properties, and non-rate base steam generation that is sold for use during production of paper and pulp. Performance obligations are satisfied when control transfers to the customer.

Payment Terms

Payment terms and conditions vary across our businesses. Aside from our taconite-producing Large Power Customers, payment terms generally require payment to be made within 15 to 30 days from the end of the period that the service has been rendered or goods provided. In the case of its taconite-producing Large Power Customers, as permitted by the MPUC, Minnesota Power requires weekly payments for electric usage based on monthly energy usage estimates. These customers receive estimated bills based on Minnesota Power’s estimate of the customers’ energy usage, forecasted energy prices and fuel adjustment clause estimates. Minnesota Power’s taconite-producing Large Power Customers have generally predictable energy usage on a weekly basis and any differences that occur are trued-up the following month. Due to the timing difference of revenue recognition from the timing of invoicing and payment, the customer receives credit for the time value of money; however, we have determined that our contracts do not include a significant financing component as the period in which we transfer the service to the customer and when they pay for such service is minimal.

Assets Recognized From the Costs to Obtain a Contract with a Customer

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We expense incremental costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. As of March 31, 2018, we have $31.0 million of assets recognized for costs incurred to obtain contracts with our customers ($31.6 million as of December 31, 2017). Management determined the amount of costs to be recognized as assets based on actual costs incurred and paid to obtain and fulfill these contracts to provide goods and services to our customers. Assets recognized to obtain contracts are amortized on a straight-line basis over the contract term as a non-cash reduction to revenue. For the three months ended March 31, 2018, and 2017, we recognized $0.6 million of non-cash amortization.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements.

Recently Adopted Pronouncements

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. In February 2018, the FASB issued an update allowing for a one-time reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the enactment of the TCJA. With the enactment of the new federal tax rates in 2017, entities were required to adjust deferred tax assets and liabilities to reflect the lower federal rate with the effect of this reduction impacting income from continuing operations in the period of enactment, even in instances where the related income tax effects of items were originally recognized in other comprehensive income. As such, companies were left with stranded tax effects in accumulated other comprehensive income that did not reflect the appropriate tax rate. This guidance is effective in the first quarter of 2019 with early adoption permitted. The Company elected to early adopt this guidance in the first quarter of 2018 which resulted in a reduction of $5.7 million to Accumulated Other Comprehensive Loss and a corresponding increase to Retained Earnings for the reclassification of the stranded income tax effects.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. In March 2017, the FASB issued an accounting standard update to improve the presentation of net periodic pension and postretirement benefit costs. Under the guidance, an entity is required to 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 on a prospective basis. The other components of net periodic expense must be presented separately from the line item that includes the service cost and must be excluded from the operating income subtotal. The Company adopted the guidance in the first quarter of 2018 and retrospectively adjusted the presentation of the service cost component and the other components of net periodic costs in the Consolidated Statement of Income. The retrospective adjustment for the three months ended March 31, 2017, from Operating and Maintenance and Cost of Sales – Non-utility was an increase of $1.1 million and a decrease of $0.1 million, respectively, resulting in an increase of $1.0 million to Other Income (Expense) – Other. There was no impact to net income as a result of adoption.

Financial Instruments. In 2016, the FASB issued an accounting standard update which requires entities to measure equity 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 amendments of this update were adopted by the Company in the first quarter of 2018 which resulted in a cumulative-effect transition adjustment reducing Retained Earnings by $0.1 million, including the tax effect, for the previously unrealized loss on available-for-sale equity securities in Accumulated Other Comprehensive Loss as of December 31, 2017.

Classification of Certain Cash Receipts and Cash Payments. In 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. The amendments of this update were adopted by the Company in the first quarter of 2018. There was no impact to the Consolidated Statement of Cash Flows as a result of adoption.

Statement of Cash Flows: Restricted Cash. In 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 guidance update was adopted by the Company in the first quarter of 2018 and was applied retrospectively to the periods presented in the Consolidated Statement of Cash Flows which resulted in a net increase in cash from financing activities of $6.9 million for the three months ended March 31, 2017. Additional disclosure, including a reconciliation of the beginning-of-period and end-of-period cash on hand to the statement of cash flows is included in this note. (See *Cash, Cash Equivalents and Restricted Cash.)*

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 to in exchange for those goods or services. The guidance 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 regarding customer contracts, significant judgments and changes in those judgments, and the assets recognized from the costs to obtain or fulfill a contract are required. The Company adopted this accounting guidance in the first quarter of 2018 and elected to apply the modified retrospective method of adoption to all contracts as of the date of initial application. The overall financial impact to the consolidated financial statements as a result of adoption of the new standard is immaterial. Based on the nature of the contracts with our customers and our related performance obligations which transfer control, a $0.5 million after-tax cumulative-effect transition adjustment was made to increase opening Retained Earnings. We have included additional disclosures in the notes to the consolidated financial statements including additional information on the Company's revenue streams and related performance obligations required to be satisfied in order to recognize revenue. (See *Revenue Recognition*.)

Practical Expedients

The following practical expedients were used by the Company as part of the adoption of the new revenue recognition guidance:

- We have a right to consideration from our customers in an amount that corresponds directly with the value to such customer for performance completed to date; therefore, we may recognize revenue in the amount to which we have a right to invoice.
- We do not adjust the promised amount of consideration for the effects of a significant financing component as at contract inception we expect that the period between when we transfer a promised good or service to a customer and when the customer pays for that good or service will be one year or less.
- Where applicable, we adopted this guidance using the portfolio approach in which contracts that have similar characteristics were reviewed as a portfolio. The effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying the guidance to each individual contract.
- We recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that would otherwise have been recognized is one year or less.

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.

Leases. In 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 new guidance. We expect to make approximately $80 million in minimum lease payments due in future years (undiscounted). 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.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes. Under SEC Staff Accounting Bulletin 118 (SAB 118), which was issued in December 2017, companies were allowed up to one year to complete the required analyses and accounting for the TCJA. SAB 118 requires companies to disclose which tax positions are considered complete, which tax positions are considered provisional and which tax provisions reflect prior law. At December 31, 2017, we were reasonably able to estimate the effects of the TCJA, and therefore recorded provisional amounts associated with the changes under the TCJA. The provisional amounts incorporate assumptions made based upon the Company's current interpretation of the TCJA, and may change as the Company receives additional clarification and implementation guidance. We have not made any adjustments to our accounting to date, although the accounting is still considered provisional while we complete our analysis. Any adjustments recorded to the provisional amounts in 2018 will be included in income from operations as an adjustment to income tax expense.

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 $281.6 million of Operating Revenue as Operating Revenue – Utility for the three months ended March 31, 2017, as it is generated from our regulated utility operations. Non-utility revenue of $84.0 million for the three months ended March 31, 2017, 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 $3.6 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 three months ended March 31, 2017.

NOTE 2. INVESTMENTS

Investments. As of March 31, 2018, 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	March 31, 2018	December 31, 2017
Millions		
ALLETE Properties	$26.0	$26.4
Available-for-sale Securities *(a)*	21.1	19.1
Cash Equivalents	2.0	3.8
Other	3.7	3.8
Total Other Investments	$52.8	$53.1

(a) As of March 31, 2018, the aggregate amount of available-for-sale corporate and governmental debt securities maturing in one year or less was $0.9 million, in one year to less than three years was $3.4 million, in three years to less than five years was $3.3 million and in five or more years was $1.1 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 three months ended March 31, 2018, and 2017.

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 three months ended March 31, 2018, and 2017.

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 three months ended March 31, 2018, and 2017.

2017 Activity.

Tonka Water. In September 2017, U.S. Water Services acquired 100 percent of Tonka Water. Total consideration for the transaction was $19.2 million, including a working capital adjustment. Consideration of $19.0 million was paid in cash on the acquisition date and a working capital adjustment of $0.2 million was paid in the fourth quarter of 2017. 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 estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition. The purchase price accounting, which was finalized in 2018, is reflected in the following table. Fair value measurements were valued primarily using the discounted cash flow method and replacement cost basis.

Millions	
Assets Acquired	
Accounts Receivable	$5.1
Other Current Assets	5.1
Trade Names *(a)*	0.9
Goodwill *(a)(b)*	16.9
Other Non-Current Assets	0.2
Total Assets Acquired	$28.2
Liabilities Assumed	
Current Liabilities	$9.0
Total Liabilities Assumed	$9.0
Net Identifiable Assets Acquired	$19.2

(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.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

The aggregate carrying amount of goodwill was $148.3 million as of March 31, 2018, and December 31, 2017. There have been no changes to goodwill by reportable segment for the three months ended March 31, 2018.

Balances of intangible assets, net, excluding goodwill as of March 31, 2018, are as follows:

	December 31, 2017	Amortization	March 31, 2018
Millions			
Intangible Assets			
Definite-Lived Intangible Assets			
Customer Relationships	$54.7	$(1.1)	$53.6
Developed Technology and Other *(a)*	6.3	(0.3)	6.0
Total Definite-Lived Intangible Assets	61.0	(1.4)	59.6
Indefinite-Lived Intangible Assets			
Trademarks and Trade Names	16.6	n/a	16.6
Total Intangible Assets	$77.6	$(1.4)	$76.2

(a) Developed Technology and Other includes patents, non-compete agreements, land easements and trade names with finite lives.

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 March 31, 2018, is approximately 18 years.

Amortization expense for intangible assets was $1.4 million for the three months ended March 31, 2018, and 2017. Accumulated amortization was $16.2 million as of March 31, 2018 ($14.8 million as of December 31, 2017). The estimated amortization expense for definite-lived intangible assets for the remainder of 2018 is $4.0 million. Estimated annual amortization expense for definite-lived intangible assets is $4.9 million in 2019, $4.7 million in 2020, $4.6 million in 2021, $4.3 million in 2022 and $37.1 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 2017 Form 10-K.

The following tables set forth by level within the fair value hierarchy our assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2018, and December 31, 2017. 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.

NOTE 5. FAIR VALUE (Continued)

	Fair Value as of March 31, 2018			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Millions				
Assets				
Investments *(a)*				
Available-for-sale – Equity Securities	$12.4	—	—	$12.4
Available-for-sale – Corporate and Governmental Debt Securities	—	$8.7	—	8.7
Cash Equivalents	2.0	—	—	2.0
Total Fair Value of Assets	$14.4	$8.7	—	$23.1
Liabilities				
Deferred Compensation *(b)*	—	$20.2	—	$20.2
U.S. Water Services Contingent Consideration *(c)*	—	—	$5.5	5.5
Total Fair Value of Liabilities	—	$20.2	$5.5	$25.7
Total Net Fair Value of Assets (Liabilities)	$14.4	$(11.5)	$(5.5)	$(2.6)

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

	Fair Value as of December 31, 2017			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Millions				
Assets				
Investments *(a)*				
Available-for-sale – Equity Securities	$10.2	—	—	$10.2
Available-for-sale – Corporate and Governmental Debt Securities	—	$8.9	—	8.9
Cash Equivalents	3.8	—	—	3.8
Total Fair Value of Assets	$14.0	$8.9	—	$22.9
Liabilities *(b)*				
Deferred Compensation	—	$18.2	—	$18.2
U.S. Water Services Contingent Consideration	—	—	$5.4	5.4
Total Fair Value of Liabilities	—	$18.2	$5.4	$23.6
Total Net Fair Value of Assets (Liabilities)	$14.0	$(9.3)	$(5.4)	$(0.7)

(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 March 31, 2018. 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, 2017	$5.4
Accretion	0.1
Balance as of March 31, 2018	$5.5

NOTE 5. FAIR VALUE (Continued)

For the three months ended March 31, 2018, and the year ended December 31, 2017, 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		
March 31, 2018	$1,512.2	$1,583.1
December 31, 2017	$1,513.3	$1,627.6

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 three months ended March 31, 2018, and the year ended December 31, 2017, 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 2017 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, PSCW or FERC. 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 $24.1 million for the three months ended March 31, 2018 ($24.2 million for the three months ended March 31, 2017).

2016 Minnesota General Rate Case. In November 2016, Minnesota Power filed a retail rate increase request with the MPUC which sought an average increase of approximately 9 percent for retail customers. The rate filing sought 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 in January 2017.

In February 2017, Minnesota Power filed an additional request to further reduce its requested interim rate increase. In an April 2017 order, 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 in May 2017. As a result of working with intervenors and further developments as the rate review progressed, Minnesota Power's final rate request was adjusted to approximately $49 million on an annualized basis. In an order dated March 12, 2018, the MPUC affirmed determinations made at a hearing on January 18, 2018, regarding Minnesota Power's general rate case including allowing a return on common equity of 9.25 percent and a 53.81 percent equity ratio. Upon commencement of final rates, we expect additional revenue of approximately $13 million on an annualized basis. Final rates are expected to commence in the fourth quarter of 2018; interim rates will be collected through this period which will be partially offset by the recognition of a corresponding reserve. Minnesota Power has recorded a reserve for an interim rate refund of approximately $41 million as of March 31, 2018 ($32 million as of December 31, 2017). The MPUC also disallowed Minnesota Power's regulatory asset for deferred fuel adjustment clause costs due to the anticipated adoption of a forward-looking fuel adjustment clause methodology resulting in a $19.5 million pre-tax charge to Fuel, Purchased Power and Gas – Utility in the fourth quarter of 2017.

As part of its decision in Minnesota Power's 2016 general rate case, the MPUC extended the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2050 primarily to mitigate rate increases for our customers, and shortened the depreciable lives of Boswell Unit 1 and Unit 2 to 2022, resulting in a net decrease to depreciation expense of approximately $25 million pre-tax on an annual basis.

On April 2, 2018, Minnesota Power filed a petition for reconsideration with the MPUC requesting reconsideration of certain decisions in the MPUC's order dated March 12, 2018, collectively representing approximately $20 million to $25 million in additional revenue on an annualized basis. Minnesota Power's petition included requesting reconsideration of the allowed return on common equity, recovery of the prepaid pension asset in rate base, certain disallowed expenses, and certain transmission revenue adjustments. On April 12, 2018, Minnesota Power responded to a Minnesota Department of Commerce (DOC) request for reconsideration requesting that the MPUC generally accept, with modifications and conditions, the DOC's proposal to reduce the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035 and use the benefits of the TCJA to offset the resulting increase in customer rates. We expect a decision on reconsideration by mid-year in 2018. We are unable to predict the outcome of this regulatory proceeding.

Energy-Intensive Trade-Exposed Customer Rates. An EITE customer ratemaking law was enacted in 2015 which established a Minnesota energy policy 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. 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 were 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 April 2017 order; collection of the discount was subject to the MPUC's review of Minnesota Power's compliance filing implementing approval of a recovery mechanism, with the subsequent order issued in October 2017 that modified the April 2017 order. During 2017, Minnesota Power provided discounts of $8.6 million that were recorded as a receivable. In September 2017, Minnesota Power informed its EITE customers that it had suspended the EITE discount due to a concern that it was not revenue and cash flow neutral to Minnesota Power based on an MPUC decision at a hearing in September 2017, as well as the interim rate reduction and decisions in its 2016 general rate case. Based on the MPUC's decisions at a hearing on January 18, 2018, as part of Minnesota Power's 2016 general rate case, Minnesota Power reinstated the EITE discount effective January 1, 2018. Minnesota Power expects the discount to EITE customers to be approximately $15 million annually based on EITE customer current operating levels. While interim rates are in effect for Minnesota Power's 2016 general rate case, discounts provided to EITE customers will offset interim rate refund reserves for non-EITE customers. Minnesota Power provided $4.3 million of discounts to EITE customers during the three months ended March 31, 2018 ($2.3 million for the three months ended March 31, 2017).

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 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 at least December 31, 2032. No termination notice may be given for this contract prior to July 1, 2029. The wholesale electric service contracts with SWL&P and another municipal customer are effective through at least May 31, 2021, and through June 30, 2019, respectively. Under the agreement with SWL&P, no termination notice has been given. The other municipal customer provided termination notice for its contract in 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. 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 varying dates ranging from 2024 through 2029 with a majority effective through at least December 31, 2024. No termination notices may be given prior to three years before maturity. These contracts include fixed capacity charges through 2018; beginning in 2019, the capacity charge will be determined using a cost-based formula methodology with limits on the annual change from the previous year's capacity charge. 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 for certain transmission investments and expenditures. In a 2016 order, the MPUC approved Minnesota Power's updated customer billing rates which allow 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 bill factor filings.

Renewable Cost Recovery Rider. Minnesota Power has an approved cost recovery rider 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 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 in a November 2017 order.

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 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 2016 order; however, implementation of the updated rates was delayed pending resolution of Minnesota Power's 2016 general rate case based on a March 2017 MPUC order. On April 9, 2018, Minnesota Power filed an updated environmental improvement factor filing and requested to implement the updated billing rates to coincide with the implementation of final rates from its 2016 general rate case. (See *2016 Minnesota General Rate Case*.) Upon approval of the filing and implementation of final rates from its 2016 general rate case, Minnesota Power will be authorized to include updated billing rates on customer bills.

Fuel Adjustment Clause Reform Pilot. In a December 2017 order, 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 order will change the method of accounting for all Minnesota electric utilities to a monthly budgeted, forwarded-looking FAC with an annual prudence review and true-up to actual allowed costs. The MPUC is seeking input from Minnesota electric utilities and other stakeholders on the implementation and transition accounting needed to adopt the change. The three-year pilot program is expected to begin in 2019. In an order dated March 12, 2018, the MPUC affirmed determinations made at a hearing on January 18, 2018, at which the MPUC disallowed Minnesota Power's regulatory asset for deferred fuel adjustment clause costs due to the anticipated adoption of the forward-looking fuel adjustment clause methodology in this proceeding resulting in a $19.5 million pre-tax charge to Fuel, Purchased Power and Gas – Utility in the fourth quarter of 2017.

Tax Cuts and Jobs Act of 2017. In December 2017, the MPUC opened a docket to review the effects of the TCJA on electric and natural gas rates and services in Minnesota, including the legislation's impact on tax rates and utilities' deferred income tax assets and liabilities. On March 2, 2018, Minnesota Power submitted an initial filing to the MPUC regarding the impacts of the TCJA on Minnesota Power. In this filing, Minnesota Power proposed to use the net tax benefits as an offset to other regulated costs, to the extent Minnesota Power is able to earn its allowed return on common equity, and flow the remainder of the benefits to customers through a new tax cost recovery rider. On April 20, 2018, Minnesota Power responded to intervenor comments requesting that the MPUC generally accept, with modifications and conditions, the DOC's proposal to reduce the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035 and use the benefits of the TCJA to offset the resulting increase in customer rates.

On January 10, 2018, the PSCW also opened a docket to review the effects of the TCJA and directed Wisconsin utilities to defer its impacts until further direction is provided by the PSCW. On February 9, 2018, SWL&P filed comments with the PSCW regarding the impacts of the TCJA on SWL&P. In this filing, SWL&P proposed deferring the benefits of the TCJA and incorporating any deferred refunds or credits into its next general rate case.

We have recorded the impact of the remeasurement of deferred income tax assets and liabilities in 2017 and the federal income tax rate change in 2018 resulting from the TCJA for Minnesota Power and SWL&P as regulatory assets and liabilities as the benefits of the TCJA are deferred pending the outcome of these regulatory proceedings. We are unable to predict the outcome of these regulatory proceedings.

2016 Wisconsin General Rate Case. SWL&P's current retail rates are based on a 2017 PSCW retail rate order effective in August 2017 that allows for a 10.5 percent return on common equity and a 55 percent equity ratio. SWL&P's retail rates prior to August 2017 were based on a 2012 PSCW retail rate order that provided for a 10.9 percent return on equity. On an annualized basis, SWL&P expects to collect additional revenue of $2.5 million under the 2017 PSCW retail rate order.

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 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 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 2016, Minnesota Power announced Boswell Units 1 and 2 will be retired, which is expected to occur in the fourth quarter of 2018.

In July 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 are 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 a September 2017 order, 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. A public hearing was held February 28, 2018, and public comments were due March 23, 2018. 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.

Great Northern Transmission Line. Minnesota Power is constructing the GNTL, an approximately 220-mile 500-kV transmission line between Manitoba and Minnesota's Iron Range that was proposed by Minnesota Power and Manitoba Hydro. 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 a 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 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. To date, most of the right-of-way has been cleared, foundation installation and transmission tower assembly have commenced and tower construction is expected to begin in 2018. 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 $211.4 million have been incurred through March 31, 2018, of which $110.0 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 known as the Manitoba-Minnesota Transmission Project (MMTP) that will connect with the GNTL. In 2015, Manitoba Hydro submitted the final preferred route and EIS for the MMTP to the Manitoba Conservation and Water Stewardship for siting and environmental approval, which remains pending. In 2016, Manitoba Hydro filed an application with the Canadian National Energy Board (NEB) requesting authorization to construct and operate the MMTP. The NEB determined that Manitoba Hydro's application was complete in December 2017, and scheduled public hearings for this summer. The NEB is required to make a decision on the MMTP by March 2019 but is not precluded from making a decision prior to that date. Approval of the Canadian federal cabinet is also required. The MMTP is subject to legal and regulatory challenges which Minnesota Power is actively monitoring. Manitoba Hydro has informed Minnesota Power that it continues to work towards completing the MMTP on schedule. In order to meet the transmission in-service requirements in PPAs with Minnesota Power, Manitoba Hydro has indicated that it would need to start construction of the MMTP in December 2018. We are unable to predict the outcome of the Canadian regulatory review process, including the timing thereof or whether any onerous conditions may be imposed, or the timing of the completion of the MMTP, including the impact of any delays that may result in construction schedule adjustments. Any significant delays in the MMTP construction schedule may result in Minnesota Power adjusting the GNTL construction schedule and impact the timing of capital expenditures and associated cost recovery under our transmission cost recovery rider.

NOTE 6. REGULATORY MATTERS (Continued)
Great Northern Transmission Line (Continued)

Construction of Manitoba Hydro’s Keeyask hydroelectric generation facility, which will provide the power to be sold under PPAs with Minnesota Power that is to be transmitted on the MMTP and the GNTL, commenced in 2014 and is anticipated to be in service by early 2021.

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 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 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. Minnesota law requires 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 and community solar garden subscriptions. In a 2016 order, 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 2016 order, the MPUC approved a community solar garden project in northeastern Minnesota, which is comprised of a 1 MW solar array 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 arrays will meet approximately one-third of the overall mandate. Additionally, in a February 2017 order, 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. The proposal to incentivize customer-sited solar installations and community solar garden subscriptions is expected to meet a portion of the required small scale solar mandate.

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.

NOTE 6. REGULATORY MATTERS (Continued)
Regulatory Assets and Liabilities (Continued)

Regulatory Assets and Liabilities	March 31, 2018	December 31, 2017
Millions		
Non-Current Regulatory Assets		
Defined Benefit Pension and Other Postretirement Benefit Plans	$217.7	$220.3
Income Taxes	110.4	112.8
Asset Retirement Obligations	30.4	29.6
Manufactured Gas Plant	7.8	8.1
PPACA Income Tax Deferral	5.0	5.0
Conservation Improvement Program	0.2	3.3
Other	4.5	5.6
Total Non-Current Regulatory Assets	$376.0	$384.7
Current Regulatory Liabilities *(a)*		
Provision for Interim Rate Refund *(b)*	$28.1	—
Provision for Tax Reform Refund *(c)*	7.5	—
Total Current Regulatory Liabilities	35.6	—
Non-Current Regulatory Liabilities		
Income Taxes	406.2	$411.2
Wholesale and Retail Contra AFUDC	59.1	57.9
Plant Removal Obligations	21.8	20.3
North Dakota Investment Tax Credits	14.3	14.1
Cost Recovery Riders	11.1	2.2
Provision for Interim Rate Refund *(a)*	—	23.7
Other	3.5	2.6
Total Non-Current Regulatory Liabilities	516.0	532.0
Total Regulatory Liabilities	$551.6	$532.0

(a) Current regulatory liabilities are presented within Other Current Liabilities on the Consolidated Balance Sheet.

(b) This amount is expected to be refunded to Minnesota Power's regulated retail customers in the first quarter of 2019 and includes $12.9 million of discounts provided to EITE customers that will be offset against interim rate refunds as of March 31, 2018 ($8.6 million as of December 31, 2017). (See 2016 Minnesota General Rate Case and Energy-Intensive Trade-Exposed Customer Rates.)

(c) We have recorded the impact of the federal income tax rate change in 2018 due to the TCJA for Minnesota Power and SWL&P as regulatory liabilities and a reduction in revenue as the benefits of the TCJA are deferred pending the outcome of regulatory proceedings with the MPUC and PSCW. (See Tax Cuts and Jobs Act of 2017.)

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 portions of Wisconsin, Michigan, Minnesota and Illinois. We account for our investment in ATC under the equity method of accounting. As of March 31, 2018, our equity investment in ATC was $120.1 million ($118.7 million at December 31, 2017). In the first three months of 2018, we invested $1.6 million in ATC, and on April 30, 2018, we invested an additional $2.3 million. We expect to make additional investments of $2.6 million in 2018.

ALLETE's Investment in ATC	
Millions	
Equity Investment Balance as of December 31, 2017	$118.7
Cash Investments	1.6
Equity in ATC Earnings	4.7
Distributed ATC Earnings	(5.2)
Amortization of the Remeasurement of Deferred Income Taxes *(a)*	0.3
Equity Investment Balance as of March 31, 2018	$120.1

(a) Amortization related to the impact of the remeasurement of deferred income tax assets and liabilities resulting from the TCJA.

NOTE 7. INVESTMENT IN ATC (Continued)

In 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.

In 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.)

NOTE 8. SHORT-TERM AND LONG-TERM DEBT

The following tables present the Company's short-term and long-term debt as of March 31, 2018, and December 31, 2017:

March 31, 2018	Principal	Unamortized Debt Issuance Costs	Total
Millions			
Short-Term Debt	$106.6	$(0.4)	$106.2
Long-Term Debt	1,405.6	(9.1)	1,396.5
Total Debt	$1,512.2	$(9.5)	$1,502.7

December 31, 2017	Principal	Unamortized Debt Issuance Costs	Total
Millions			
Short-Term Debt	$64.6	$(0.5)	$64.1
Long-Term Debt	1,448.7	(9.5)	1,439.2
Total Debt	$1,513.3	$(10.0)	$1,503.3

On April 16, 2018, ALLETE issued and sold $60.0 million of its First Mortgage Bonds (the Bonds) that bear interest at 4.07 percent. The Bonds will mature in April 2048 and pay interest semi-annually in April and October of each year, commencing on October 16, 2018. ALLETE has the option to prepay all or a portion of the Bonds at its discretion, subject to a make-whole provision. The Bonds are subject to additional terms and conditions which are customary for these types of transactions. ALLETE intends to use the proceeds from the sale of the Bonds to fund utility capital investment and for general corporate purposes. The Bonds were sold in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, to institutional accredited investors.

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 March 31, 2018, 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. ALLETE has no significant restrictions on its ability to pay dividends from retained earnings or net income. As of March 31, 2018, ALLETE was in compliance with its financial covenants.

NOTE 9. INCOME TAX EXPENSE

	Three Months Ended March 31,	
	2018	2017
Millions		
Current Income Tax Expense *(a)*		
Federal	—	—
State	$0.7	$0.1
Total Current Income Tax Expense	$0.7	$0.1
Deferred Income Tax Expense (Benefit)		
Federal *(b)*	$(6.8)	$7.3
State	2.6	5.9
Investment Tax Credit Amortization	(0.2)	(0.2)
Total Deferred Income Tax Expense (Benefit)	$(4.4)	$13.0
Total Income Tax Expense (Benefit)	$(3.7)	$13.1

(a) For the three months ended March 31, 2018, and 2017, 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.

(b) For the three months ended March 31, 2018, the federal tax benefit is primarily due to the reduction of the federal statutory tax rate from 35 percent to 21 percent enacted as part of the TCJA, and production tax credits.

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	Three Months Ended March 31,	
	2018	2017
Millions		
Income Before Non-Controlling Interest and Income Taxes	$47.3	$62.1
Statutory Federal Income Tax Rate	21%	35%
Income Taxes Computed at Statutory Federal Rate	$9.9	$21.7
Increase (Decrease) in Income Tax Due to:		
State Income Taxes – Net of Federal Income Tax Benefit	2.6	3.9
Production Tax Credits	(14.4)	(13.0)
Regulatory Differences for Utility Plant	(2.5)	0.1
Other	0.7	0.4
Total Income Tax Expense (Benefit)	$(3.7)	$13.1

For the three months ended March 31, 2018, the effective tax rate was a benefit of 7.8 percent (expense of 21.1 percent for the three months ended March 31, 2017).

Uncertain Tax Positions. As of March 31, 2018, we had gross unrecognized tax benefits of $1.7 million ($1.7 million as of December 31, 2017). Of the total gross unrecognized tax benefits, $0.8 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 2014, or state examination for years before 2013.

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 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 three months ended March 31, 2018, and 2017, reclassifications out of accumulated other comprehensive loss for the Company were not material. Changes in accumulated other comprehensive loss for the three months ended March 31, 2018, 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 three months ended March 31, 2018, and 2017, no options to purchase shares of ALLETE common stock were excluded from the computation of diluted earnings per share.

	2018			2017		
Reconciliation of Basic and Diluted Earnings Per Share	**Basic**	**Dilutive Securities**	**Diluted**	**Basic**	**Dilutive Securities**	**Diluted**
Millions Except Per Share Amounts						
Three Months Ended March 31,						
Net Income	$51.0		$51.0	$49.0		$49.0
Average Common Shares	51.2	0.2	51.4	50.2	0.2	50.4
Earnings Per Share	$1.00		$0.99	$0.97		$0.97

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

	Pension		Other Postretirement	
Components of Net Periodic Benefit Cost	**2018**	**2017**	**2018**	**2017**
Millions				
Three Months Ended March 31,				
Service Cost	$2.7	$2.5	$1.2	$1.1
Interest Cost *(a)*	7.4	8.1	1.8	1.9
Expected Return on Plan Assets *(a)*	(11.0)	(10.6)	(2.7)	(2.6)
Amortization of Prior Service Credits *(a)*	—	—	(0.4)	(0.5)
Amortization of Net Loss *(a)*	3.0	2.5	0.2	0.1
Net Periodic Benefit Cost	$2.1	$2.5	$0.1	—

(a) These components of net periodic benefit cost are included in the line item "Other" under Other Income (Expense) on the Consolidated Statement of Income.

Employer Contributions. For the three months ended March 31, 2018, we contributed $15.0 million in cash to the defined benefit pension plans ($1.7 million in cash and $13.5 million in ALLETE common stock for the three months ended March 31, 2017); we do not expect to make additional contributions to our defined benefit pension plans in 2018. For the three months ended March 31, 2018, and 2017, 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 2018.

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 2017 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 March 31, 2018, Square Butte had total debt outstanding of $314.5 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 three months ended March 31, 2018, was $17.3 million ($20.3 million for the three months ended March 31, 2017). 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 $2.3 million ($2.3 million for the same period in 2017). 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 2018 and in 2017.

Oconto Electric Cooperative PSA. On March 6, 2018, Minnesota Power entered into a PSA with Oconto Electric Cooperative. The contract begins in January 2019 and is effective through May 2026. Under the PSA, Minnesota Power expects to provide approximately 25 MW of energy and capacity at fixed prices.

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 estimated minimum payments under these supply and transportation agreements is $21.5 million for the remainder of 2018, $1.8 million in 2019, and none thereafter. The costs of fuel and related transportation costs 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 a majority of terms expiring through 2024. The aggregate amount of minimum lease payments for all operating leases is $3.6 million for the remainder of 2018, $12.8 million in 2019, $9.5 million in 2020, $7.3 million in 2021, $6.1 million in 2022 and $30.0 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 is constructing the GNTL, an approximately 220-mile 500-kV transmission line between Manitoba and Minnesota's Iron Range that was proposed by Minnesota Power and Manitoba Hydro 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 a 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 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. To date, most of the right-of-way has been cleared, foundation installation and transmission tower assembly have commenced and tower construction is expected to begin in 2018. 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 $211.4 million have been incurred through March 31, 2018, of which $110.0 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 known as the Manitoba-Minnesota Transmission Project (MMTP) that will connect with the GNTL. In 2015, Manitoba Hydro submitted the final preferred route and EIS for the MMTP to the Manitoba Conservation and Water Stewardship for siting and environmental approval, which remains pending. In 2016, Manitoba Hydro filed an application with the Canadian National Energy Board (NEB) requesting authorization to construct and operate the MMTP. The NEB determined that Manitoba Hydro's application was complete in December 2017, and scheduled public hearings for this summer. The NEB is required to make a decision on the MMTP by March 2019 but is not precluded from making a decision prior to that date. Approval of the Canadian federal cabinet is also required. The MMTP is subject to legal and regulatory challenges which Minnesota Power is actively monitoring. Manitoba Hydro has informed Minnesota Power that it continues to work towards completing the MMTP on schedule. In order to meet the transmission in-service requirements in PPAs with Minnesota Power, Manitoba Hydro has indicated that it would need to start construction of the MMTP in December 2018. We are unable to predict the outcome of the Canadian regulatory review process, including the timing thereof or whether any onerous conditions may be imposed, or the timing of the completion of the MMTP, including the impact of any delays that may result in construction schedule adjustments. Any significant delays in the MMTP construction schedule may result in Minnesota Power adjusting the GNTL construction schedule and impact the timing of capital expenditures and associated cost recovery under our transmission cost recovery rider.

Construction of Manitoba Hydro's Keeyask hydroelectric generation facility, which will provide the power to be sold under PPAs with Minnesota Power that is to be transmitted on the MMTP and the GNTL, commenced in 2014 and is anticipated to be in service by early 2021.

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 been promulgated by both the EPA and state authorities over the past several years. Minnesota Power's facilities are subject to additional requirements under many of 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 and requirements finalized, or to be finalized in the near future, potential expenditures for future environmental matters may be material and 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.

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

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, retrofitting or retiring 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 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 but does require 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. Based on our review of the NO_x and SO_2 allowances issued and pending issuance, we currently expect generation levels and emission rates will result in continued compliance with the CSAPR.

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 final MATS rule addressed such emissions from coal-fired utility units greater than 25 MW and established categories of HAPs, including mercury, trace metals other than mercury, and acid gases. The EPA established emission limits for these categories of HAPs and work practice standards for the remaining categories. Construction on the project to implement the Boswell Unit 4 mercury emissions reduction plan to position the unit for MATS compliance 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 operate on natural gas in 2015 positioned those units for MATS compliance.

Minnesota Mercury Emissions Reduction Act/Rule. 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.

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. Four NAAQS have either recently been revised or are currently proposed for revision, as described below.

- *Ozone NAAQS.* 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 ground-level ozone continue in the state. No additional costs for compliance are anticipated at this time.

- *Particulate Matter NAAQS.* The EPA has 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 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 implementation plans 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.

- *NO_2 NAAQS.* Ambient monitoring data indicates that Minnesota is likely in compliance with the one-hour NAAQS standard for NO_2. In July 2017, the EPA proposed retaining the current one-hour and annual NO_2 NAAQS. Additional compliance costs for the one-hour NO_2 NAAQS are not expected at this time.

- *SO_2 NAAQS.* In 2015, the EPA finalized the SO_2 data requirements rule (DRR) for the 2010 one-hour NAAQS to assist the states in implementing the standard. The MPCA initially informed Minnesota Power that compliant SO_2 modeling completed at Minnesota Power's Boswell and Taconite Harbor facilities would satisfy the DRR obligations and no further modeling would be required; however, the DRR also require facilities have federally-enforceable permit limits at which the one-hour SO_2 NAAQS compliance was modeled by January 2017. Taconite Harbor was issued an amended air permit in 2016, containing the new modeling limits at that facility. The MPCA did not meet the January 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. In August 2017, the EPA proposed retaining the current primary SO_2 one-hour NAAQS. Compliance costs for the one-hour SO_2 NAAQS are not expected to be material.

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 power supply;
- Providing energy conservation initiatives for our customers and engaging in other demand side management 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.

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 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 best available control technology (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.

In 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.

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. In 2016, the U.S. Supreme Court issued an order staying the effectiveness of the rule until after the appellate court process is complete. In 2016, the U.S. Court of Appeals for the District of Columbia heard oral arguments and is currently deliberating. If the CPP is upheld at the completion of the appellate process, all of the CPP regulatory deadlines are expected to be reset based on the length of time that the appeals process takes. 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 CO_2 emission performance rates for existing fossil fuel-fired and natural gas-fired combined cycle generating units, setting state-specific goals for CO_2 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 filed a motion with the U.S. Court of Appeals for the District of Columbia Circuit to hold CPP-related litigation in suspension while the EPA is reviewing the rule. In October 2017, the EPA issued a notice of proposed rulemaking, proposing to repeal the CPP. In December 2017, an Advanced Notice of Proposed Rulemaking (ANPRM) for a CPP replacement rule was published in the Federal Register.

Minnesota Power is currently evaluating the CPP rescission and recently proposed ANPRM for a CPP replacement rule as it relates to the State of Minnesota as well as its potential impact on the Company. Minnesota has already initiated several measures consistent with those called for under the 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 National Pollutant Discharge Elimination System (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 2014, EPA regulations under Section 316(b) of the Clean Water Act setting standards applicable to cooling water intake structures for the protection of aquatic organisms became effective. The regulations 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 will be implemented through NPDES permits issued to covered facilities. No NPDES permits for Minnesota Power facilities have been re-issued containing Section 316(b) requirements since the final rule became effective. Should the MPCA require significant modifications to Minnesota Power's intake structures, a preliminary assessment indicates that Minnesota Power could incur costs of compliance up to $15 million over the next five years. Minnesota Power would seek recovery of additional costs through a rate proceeding.

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 set effluent limits and prescribed BACT for several wastewater streams, including flue gas desulphurization (FGD) water, bottom ash transport water and coal combustion landfill leachate. In September 2017, the EPA announced a two-year postponement of the ELG compliance date of November 1, 2018, to November 1, 2020, while the agency reconsiders bottom ash transport water and FGD wastewater provisions.

The final ELG rule's potential impact on Minnesota Power operations is 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 discharge, but may do so in the future. Under the existing ELG rule, bottom ash transport water discharge must cease no later than December 31, 2023. Bottom ash contact water will either need to be re-used in a closed-loop process, routed to a FGD scrubber, or the bottom ash handling system will need to be converted to a dry process. If FGD wastewater is discharged in the future, it will require additional wastewater treatment. The ELG rule provision regarding these two waste-streams are being reconsidered and may change prior to November 1, 2020. 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.

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 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.

Coal Combustion Residuals from Electric Utilities (CCR). In 2015, the EPA published the final rule regulating CCR as nonhazardous waste under Subtitle D of the Resource Conservation and Recovery Act (RCRA) in the Federal Register. 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. 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. In September 2017, the EPA announced its intention to formally reconsider the CCR rule under Subtitle D of the RCRA and on March 15, 2018, published the first phase of the proposed rule revisions in the federal register. 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 Environmental Matters

Manufactured Gas Plant Site. We are reviewing and addressing environmental conditions at a former manufactured gas plant site located in Superior, Wisconsin, and formerly operated by SWL&P. SWL&P has been working with the Wisconsin Department of Natural Resources (WDNR) in determining the extent and location of contamination at the site and surrounding properties. In December 2017, the WDNR authorized SWL&P to transition from site investigation into the remedial design process. As of March 31, 2018, we have recorded a liability of approximately $7 million for remediation costs at this site (approximately $8 million as of December 31, 2017), and a corresponding regulatory asset as we expect recovery of these remediation costs to be allowed by the PSCW. We expect to incur these costs over the next four years.

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 March 31, 2018, ALLETE Clean Energy has $16.2 million outstanding in standby letters of credit.

U.S. Water Services. As of March 31, 2018, U.S. Water Services has $0.8 million outstanding in standby letters of credit.

BNI Energy. As of March 31, 2018, 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 March 31, 2018, 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 $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.

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

Community Development District Obligations. At March 31, 2018, we owned 70 percent of the assessable land in the Town Center District (70 percent at December 31, 2017) and 27 percent of the assessable land in the Palm Coast Park District (33 percent at December 31, 2017). At March 31, 2018, 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 $0.6 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)

	Three Months Ended March 31,	
	2018	2017
Millions		
Operating Revenue *(a)*		
Regulated Operations		
Residential	$40.7	$39.5
Commercial	36.6	38.2
Municipal	14.0	18.2
Industrial	114.9	121.7
Other Power Suppliers	43.7	41.2
Other	20.3	22.8
Total Regulated Operations	270.2	281.6
Energy Infrastructure and Related Services		
ALLETE Clean Energy		
Long-term PSA	18.6	17.8
Other	6.0	5.9
Total ALLETE Clean Energy	24.6	23.7
U.S. Water Services		
Point-in-Time	22.3	21.8
Contract	9.5	8.9
Capital Project	6.4	1.4
Total U.S. Water Services	38.2	32.1
Corporate and Other		
Long-term Contract	20.0	22.1
Other	5.2	6.1
Total Corporate and Other	25.2	28.2
Total Operating Revenue	$358.2	$365.6
Net Income (Loss)		
Regulated Operations	$43.9	$43.5
Energy Infrastructure and Related Services		
ALLETE Clean Energy	8.1	6.7
U.S. Water Services	(1.4)	(0.3)
Corporate and Other	0.4	(0.9)
Total Net Income	$51.0	$49.0

(a) *With the adoption of new revenue recognition guidance, the Company has enhanced the presentation of business segment Operating Revenue. (See Note 1. Operations and Significant Accounting Policies.)*

	March 31, 2018	December 31, 2017
Millions		
Assets		
Regulated Operations	$3,877.0	$3,886.6
Energy Infrastructure and Related Services		
ALLETE Clean Energy	620.4	600.5
U.S. Water Services	287.4	292.4
Corporate and Other	287.3	300.5
Total Assets	$5,072.1	$5,080.0

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 2017 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 2017 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 2017 Form 10-K. The risks and uncertainties described in this Form 10-Q and our 2017 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 portions 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 contracted under PSAs of various durations. ALLETE Clean Energy also engages in the development of wind energy facilities to operate under long-term PSAs or for sale to others upon completion.

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 March 31, 2018, 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 three months ended March 31, 2018, to the three months ended March 31, 2017.

Net income for the three months ended March 31, 2018, was $51.0 million, or $0.99 per diluted share, compared to $49.0 million, or $0.97 per diluted share, for the same period in 2017. Earnings per share dilution was $0.02 due to additional shares of common stock outstanding as of March 31, 2018.

Regulated Operations net income was $43.9 million for the three months ended March 31, 2018, compared to $43.5 million for the same period in 2017. Net income at Minnesota Power was slightly lower than 2017 primarily due to reserves for an interim rate refund, discounts provided to EITE customers, lower transmission revenue, and higher property taxes. These decreases were mostly offset by lower depreciation expense due to the timing of the MPUC's decision to modify the depreciable lives at Boswell, lower operating and maintenance expense, higher sales to industrial customers due to the start-up of Keetac in March 2017, and higher sales to residential customers due to colder weather. Net income at SWL&P was higher than 2017 due to the implementation of updated rates in August 2017 and colder weather in 2018. Our after-tax equity earnings in ATC for the three months ended March 31, 2018, were consistent with the same period in 2017.

ALLETE Clean Energy net income was $8.1 million for the three months ended March 31, 2018, compared to $6.7 million for the same period in 2017. Net income in 2018 included a lower federal income tax rate due to the TCJA and $0.6 million after-tax of additional production tax credits generated as ALLETE Clean Energy continues to execute its refurbishment strategy. These increases were partially offset by higher operating and maintenance expenses.

U.S. Water Services net loss was $1.4 million for the three months ended March 31, 2018, compared to $0.3 million for the same period in 2017. The net loss in 2018 includes higher operating expenses, partially offset by increased revenue primarily resulting from the September 2017 acquisition of Tonka Water. The first quarter of 2018 was also negatively impacted by the timing of equipment sales and colder weather reducing chemical sales. The net loss in 2018 included $0.3 million of after-tax expense recognized as cost of sales related to purchase accounting for sales backlog.

Corporate and Other net income was $0.4 million for the three months ended March 31, 2018, compared to a net loss of $0.9 million for the same period in 2017. Results in 2018 increased primarily due to higher revenue at ALLETE Properties and lower interest expense.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

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

Regulated Operations

Three Months Ended March 31,	2018	2017
Millions		
Operating Revenue – Utility	$270.2	$281.6
Fuel, Purchased Power and Gas – Utility	100.9	96.6
Transmission Services – Utility	18.4	16.6
Operating and Maintenance	55.5	56.1
Depreciation and Amortization	34.3	39.7
Taxes Other than Income Taxes	15.1	13.2
Operating Income	46.0	59.4
Interest Expense	(14.9)	(14.0)
Equity Earnings in ATC	4.7	6.1
Other Income	1.6	1.3
Income Before Income Taxes	37.4	52.8
Income Tax Expense (Benefit)	(6.5)	9.3
Net Income	$43.9	$43.5

Operating Revenue – Utility decreased $11.4 million, or 4 percent, from 2017 reflecting reserves related to the federal income tax rate change due to the TCJA, interim retail rate refund reserves, discounts provided to EITE customers, lower transmission revenue and lower FERC formula-based rates, partially offset by higher revenue from kWh sales and conservation improvement program recoveries.

Reserves related to the federal income tax rate change due to the TCJA of $7.5 million were recognized during 2018. We have recorded the impact of the federal income tax rate change due to the TCJA for Minnesota Power and SWL&P as regulatory liabilities pending the outcome of regulatory proceedings with the MPUC and PSCW. (See Note 6. Regulatory Matters.)

Interim rates, net of reserves, decreased $4.5 million from 2017 as interim rate refund reserves were recognized during 2018 due to the regulatory outcome of the MPUC's decisions in Minnesota Power's 2016 general rate case. (See Note 6. Regulatory Matters.)

Transmission revenue decreased $2.5 million primarily due to lower MISO-related revenue. (See *Operating Expenses - Transmission Services – Utility.*)

Revenue from wholesale customers under FERC formula-based rates decreased $1.2 million from 2017 primarily due to lower rates.

Revenue from kWh sales increased $3.4 million from 2017 primarily due to higher sales to Industrial, Residential and Municipal customers, partially offset by discounts provided to EITE customers in 2018. Sales to Industrial customers increased 4.6 percent primarily due to increased taconite production. USS Corporation restarted production at its Keetac plant in March 2017. Sales to Residential and Municipal customers increased in 2018, primarily due to colder temperatures in 2018. Heating degree days in Duluth, Minnesota were approximately 13 percent higher in 2018 compared to 2017. Sales to Other Power Suppliers decreased 3.7 percent from 2017 as a result of increased sales to Industrial customers, which was more than offset by higher pricing on PSAs with these 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 **Three Months Ended March 31,**	**2018**	**2017**	**Quantity Variance**	**% Variance**
Millions				
Regulated Utility				
Retail and Municipal				
Residential	342	323	19	5.9 %
Commercial	367	369	(2)	(0.5)%
Industrial	1,843	1,762	81	4.6 %
Municipal	219	215	4	1.9 %
Total Retail and Municipal	2,771	2,669	102	3.8 %
Other Power Suppliers	1,003	1,041	(38)	(3.7)%
Total Regulated Utility Kilowatt-hours Sold	3,774	3,710	64	1.7 %

Revenue from electric sales to taconite and iron concentrate customers accounted for 21 percent of consolidated operating revenue in 2018 (21 percent in 2017). Revenue from electric sales to paper, pulp and secondary wood product customers accounted for 4 percent of consolidated operating revenue in 2018 (5 percent in 2017). Revenue from electric sales to pipelines and other industrial customers accounted for 7 percent of consolidated operating revenue in 2018 (7 percent in 2017).

Conservation improvement program recoveries increased $2.3 million from 2017 primarily due to an increase in related expenditures. (See *Operating Expenses - Operating and Maintenance.*)

Operating Expenses increased $2.0 million from 2017.

Fuel, Purchased Power and Gas – Utility expense increased $4.3 million, or 4 percent, from 2017 primarily due to increased kWh sales and higher purchased power prices, partially offset by lower fuel costs. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause.

Transmission Services – Utility expense increased $1.8 million, or 11 percent, from 2017 primarily due to higher MISO-related expense. (See *Operating Revenue – Utility.*)

Operating and Maintenance expense decreased $0.6 million, or 1 percent, from 2017 primarily due to lower salary and benefit expenses, partially offset by a $2.3 million increase in conservation improvement program expenses in 2018. Conservation improvement program expenses are recovered from certain retail customers. (See *Operating Revenue – Utility.*)

Depreciation and Amortization expense decreased $5.4 million, or 14 percent, from 2017 primarily due to modifications of the depreciable lives for Boswell, partially offset by additional property, plant and equipment in service. As part of its order dated March 12, 2018, affirming determinations made at a hearing on January 18, 2018, the MPUC extended the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2050, and shortened the depreciable lives of Boswell Unit 1 and Unit 2 to 2022, resulting in a net decrease to depreciation expense of approximately $25 million in the fourth quarter of 2017.

Taxes Other than Income Taxes increased $1.9 million, or 14 percent, from 2017 primarily due to higher property tax expenses resulting from higher taxable plant.

Interest Expense increased $0.9 million, or 6 percent, from 2017 primarily due to higher average long-term debt balances and 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 decreased $1.4 million, or 23 percent, from 2017 primarily due to the federal income tax rate change due to the TCJA, partially offset by additional investments in ATC. (See Note 7. Investment in ATC.)

Income Tax Expense decreased $15.8 million from 2017 primarily due to the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA, and lower pre-tax income. (See Note 6. Regulatory Matters.)

We expect our annual effective tax rate in 2018 to be lower than 2017 due to the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA, and lower pre-tax income.

ALLETE Clean Energy

Three Months Ended March 31,	**2018**	**2017**
Millions		
Operating Revenue	$24.6	$23.7
Net Income	$8.1	$6.7

Operating Revenue increased $0.9 million, or 4 percent, from 2017 primarily due to higher kWh sales at ALLETE Clean Energy's Condon and Armenia Mountain wind energy facilities resulting from higher wind resources, partially offset by lower kWh sales at the remaining wind energy facilities.

	Three Months Ended March 31,			
	2018		**2017**	
Production and Operating Revenue	**kWh**	**Revenue**	**kWh**	**Revenue**
Millions				
Wind Energy Facilities				
Lake Benton	70.4	$3.4	75.8	$3.5
Storm Lake II	47.9	2.9	48.2	2.9
Condon	34.3	2.8	24.2	2.0
Storm Lake I	62.5	3.3	69.7	3.4
Chanarambie/Viking	78.7	3.9	80.9	3.9
Armenia Mountain	91.5	8.3	87.7	8.0
Total Production and Operating Revenue	385.3	$24.6	386.5	$23.7

Net Income increased $1.4 million, or 21 percent, from 2017. Net income in 2018 included a lower federal income tax rate due to the TCJA and $0.6 million after-tax of additional production tax credits generated as ALLETE Clean Energy continues to execute its refurbishment strategy. These increases were partially offset by higher operating and maintenance expenses.

U.S. Water Services

Three Months Ended March 31,	**2018**	**2017**
Millions		
Operating Revenue	$38.2	$32.1
Net Loss	$(1.4)	$(0.3)

Operating Revenue increased $6.1 million, or 19 percent, from 2017 primarily due to the acquisition of Tonka Water in September 2017. Revenue from chemical sales and related services was $31.8 million in 2018 compared to $30.7 million in 2017. Revenue from capital projects was $6.4 million for 2018 compared to $1.4 million in 2017; capital project sales can significantly fluctuate from period to period.

Net Loss increased $1.1 million from 2017.The net loss in 2018 includes higher operating expenses, partially offset by increased revenue primarily resulting from the September 2017 acquisition of Tonka Water. The first quarter of 2018 was also negatively impacted by the timing of equipment sales and colder weather reducing chemical sales. The net loss in 2018 included $0.3 million of after-tax expense recognized as cost of sales related to purchase accounting for sales backlog.

Corporate and Other

Operating Revenue decreased $3.0 million, or 11 percent, from 2017 primarily due to a decrease in revenue at BNI Energy, which operates under cost-plus fixed fee contracts, as a result of lower expenses in 2018 compared to 2017, partially offset by higher revenue at ALLETE Properties resulting from an increase in land sales.

Net Income was $0.4 million in 2017 compared to a net loss of $0.9 million in 2017. Results in 2018 increased primarily due to higher revenue at ALLETE Properties and lower interest expense. Net income at BNI Energy was $1.8 million in 2018 and in 2017. The net loss at ALLETE Properties was $0.5 million in 2018 compared to a net loss of $1.2 million in 2017.

Income Taxes – Consolidated

For the three months ended March 31, 2018, the effective tax rate was a benefit of 7.8 percent (expense of 21.1 percent for the three months ended March 31, 2017). The decrease from 2017 was primarily due to the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA, and lower pre-tax income. (See *Regulated Operations - Income Tax Expense*.) We expect our annual effective tax rate in 2018 to be lower than 2017 due to the reduction of the federal income tax rate as part of the TCJA, and lower pre-tax income. The effective rate deviated from the combined statutory rate of approximately 28 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 2017 Form 10-K.

Valuation of Goodwill and Intangible Assets.

Goodwill. Our 2017 annual testing of U.S. Water Services’ goodwill for impairment indicated the calculated fair value of equity for the reporting unit exceeded carrying value. Significant assumptions utilized in the fair value calculation included a discount rate of 10.75 percent, cash flow forecasts through 2022, annual revenue growth rates ranging from 7 percent to 9 percent, excluding 13 percent of revenue growth in 2018 related to the year over year impact of the acquisition of Tonka Water, and a terminal growth rate of 4.0 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 2018. Subsequent to our 2017 annual impairment test, there have been no triggering events or indicators of impairment of goodwill.

OUTLOOK

For additional information see our 2017 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 5 percent to 7 percent, and providing a dividend payout competitive with our industry. Regulated Operations is projected to have average annual earnings growth of 3 percent to 4 percent and our Energy Infrastructure and Related Services businesses are projected to have average annual earnings growth of 15 percent.

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 Regulated Operations to be approximately 80 percent of total consolidated net income in 2018. 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 which sought an average increase of approximately 9 percent for retail customers. The rate filing sought 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 in January 2017.

In February 2017, Minnesota Power filed an additional request to further reduce its requested interim rate increase. In an April 2017 order, 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 in May 2017. As a result of working with intervenors and further developments as the rate review progressed, Minnesota Power's final rate request was adjusted to approximately $49 million on an annualized basis. In an order dated March 12, 2018, the MPUC affirmed determinations made at a hearing on January 18, 2018, regarding Minnesota Power's general rate case including allowing a return on common equity of 9.25 percent and a 53.81 percent equity ratio. Upon commencement of final rates, we expect additional revenue of approximately $13 million on an annualized basis. Final rates are expected to commence in the fourth quarter of 2018; interim rates will be collected through this period which will be partially offset by the recognition of a corresponding reserve. Minnesota Power has recorded a reserve for an interim rate refund of approximately $41 million as of March 31, 2018 ($32 million as of December 31, 2017). The MPUC also disallowed Minnesota Power's regulatory asset for deferred fuel adjustment clause costs due to the anticipated adoption of a forward-looking fuel adjustment clause methodology resulting in a $19.5 million pre-tax charge to Fuel, Purchased Power and Gas – Utility in the fourth quarter of 2017.

As part of its decision in Minnesota Power's 2016 general rate case, the MPUC extended the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2050 primarily to mitigate rate increases for our customers, and shortened the depreciable lives of Boswell Unit 1 and Unit 2 to 2022, resulting in a net decrease to depreciation expense of approximately $25 million pre-tax on an annual basis.

On April 2, 2018, Minnesota Power filed a petition for reconsideration with the MPUC requesting reconsideration of certain decisions in the MPUC's order dated March 12, 2018, collectively representing approximately $20 million to $25 million in additional revenue on an annualized basis. Minnesota Power's petition included requesting reconsideration of the allowed return on common equity, recovery of the prepaid pension asset in rate base, certain disallowed expenses, and certain transmission revenue adjustments. On April 12, 2018, Minnesota Power responded to a Minnesota Department of Commerce (DOC) request for reconsideration requesting that the MPUC generally accept, with modifications and conditions, the DOC's proposal to reduce the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035 and use the benefits of the TCJA to offset the resulting increase in customer rates. We expect a decision on reconsideration by mid-year in 2018. We are unable to predict the outcome of this regulatory proceeding.

Energy-Intensive Trade-Exposed Customer Rates. An EITE customer ratemaking law was enacted in 2015 which established a Minnesota energy policy 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. 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 were 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 April 2017 order; collection of the discount was subject to the MPUC's review of Minnesota Power's compliance filing implementing approval of a recovery mechanism, with the subsequent order issued in October 2017 that modified the April 2017 order. During 2017, Minnesota Power provided discounts of $8.6 million that were recorded as a receivable. In September 2017, Minnesota Power informed its EITE customers that it had suspended the EITE discount due to a concern that it was not revenue and cash flow neutral to Minnesota Power based on an MPUC decision at a hearing in September 2017, as well as the interim rate reduction and decisions in its 2016 general rate case. Based on the MPUC's decisions at a hearing on January 18, 2018, as part of Minnesota Power's 2016 general rate case, Minnesota Power reinstated the EITE discount effective January 1, 2018. Minnesota Power expects the discount to EITE customers to be approximately $15 million annually based on EITE customer current operating levels. While interim rates are in effect for Minnesota Power's 2016 general rate case, discounts provided to EITE customers will offset interim rate refund reserves for non-EITE customers. Minnesota Power provided $4.3 million of discounts to EITE customers during the three months ended March 31, 2018 ($2.3 million for the three months ended March 31, 2017).

2016 Wisconsin General Rate Case. SWL&P's current retail rates are based on a 2017 PSCW retail rate order effective in August 2017 that allows for a 10.5 percent return on common equity and a 55 percent equity ratio. SWL&P's retail rates prior to August 2017 were based on a 2012 PSCW retail rate order that provided for a 10.9 percent return on equity. On an annualized basis, SWL&P expects to collect additional revenue of $2.5 million under the 2017 PSCW retail rate order.

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 49 percent of our regulated utility kWh sales in the three months ended March 31, 2018, were made to our industrial customers (47 percent in the three months ended March 31, 2017).

<u>Taconite and Iron Concentrate</u>. Minnesota Power's taconite customers are 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 has been 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 currently idled. (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 three months of 2018 compared to 73 percent in the first three months of 2017. 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 2018 will increase by approximately 3 percent compared to 2017.

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 $0.04, 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.

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. In May 2017, Cliffs announced that production of a fully fluxed taconite pellet had started at its United Taconite facility. The product replaced a flux pellet previously made at Cliffs' indefinitely idled Empire operation in Michigan. United Taconite has the capability to produce approximately 5 million tons of taconite annually.

Northshore Mining. Cliffs has announced that it is investing further in Minnesota ore operations, specifically it plans to invest approximately $80 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. (See *Silver Bay Power*.)

Silver Bay Power. In 2016, Minnesota Power and Silver Bay Power entered into a long-term PSA through 2031. Silver Bay Power supplies approximately 90 MW of load to Northshore Mining, an affiliate of Silver Bay Power, which has been served predominately through self-generation by Silver Bay Power. Through 2019, Minnesota Power will supply Silver Bay Power with at least 50 MW of energy and Silver Bay Power has the option to purchase additional energy from Minnesota Power as it transitions away from self-generation. On December 31, 2019, Silver Bay Power will cease self-generation and Minnesota Power will supply the energy requirements for Silver Bay Power.

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 2016, Magnetation idled its Plant 2 facility in Bovey, Minnesota. In 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.

Magnetation subsequently idled the facilities and stated it was preserving the plants and their value for a potential buyer. In January 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 2017. Lower levels of production are expected in 2018 as a result of the closure of the smaller of the two paper machines located at UPM Blandin in the fourth quarter of 2017. (See *UPM Blandin*.)

UPM Blandin. In October 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 planned to permanently close the smaller of UPM Blandin's two paper machines located in Grand Rapids, Minnesota; the closure was completed in the fourth quarter of 2017. Paper production related to the other paper machine is planned to continue at UPM Blandin. Minnesota Power provides electric and steam service to UPM Blandin.

OUTLOOK (Continued)
Industrial Customers and Prospective Additional Load (Continued)

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. Mesabi Metallics filed for bankruptcy protection in 2016, under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. In June 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. In December 2017, Mesabi Metallics emerged from bankruptcy under the ownership of Chippewa Capital Partners LLC.

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 2016, finding the final EIS adequate. The final EIS also requires Records of Decision by the federal agencies, which are expected in 2018, before final action can be taken on the required federal permits to construct and operate the mining operation.

In 2016, PolyMet submitted applications for water-related permits with the DNR and MPCA, an air quality permit with the MPCA, and a state permit to mine application with the DNR detailing its operational plans for the mine. On January 5, 2018, the DNR released PolyMet’s draft permit to mine and opened a public comment period through March 6, 2018. Public hearings were held in February 2018 to review the draft permit to mine, as well as the MPCA’s recently released draft water quality permit, draft air quality permit and draft water quality certification. In January 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 10-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, construction of additional transmission capacity, the installation of emissions control technology and the idling of certain coal-fired generating facilities.

In July 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 are 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 a September 2017 order, the MPUC approved both 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. A public hearing was held February 28, 2018, and public comments were due March 23, 2018. 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 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 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 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 2016, Minnesota Power announced Boswell Units 1 and 2 will be retired, which is expected to occur in the fourth quarter of 2018. (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 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 28 percent of its applicable retail and municipal energy sales will be supplied by renewable energy sources in 2018.

Minnesota Solar Energy Standard. Minnesota law requires 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 40kW or less and community solar garden subscriptions.

Minnesota Power's solar energy supply consists of 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, and a community solar garden project in northeastern Minnesota, which is comprised of a 1 MW solar array 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 arrays will meet approximately one-third of the overall mandate with an increase in solar rebates and community solar garden subscriptions expected to meet a portion of the required small scale solar mandate.

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 in a November 2017 order, which allows Minnesota Power to charge retail customers on a current basis for the costs of certain renewable investments plus a return on the capital invested.

Tenaska PPA. In May 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. 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. This agreement is subject to MPUC approval and construction of the wind energy facility.

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.

The third 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. 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.

The fourth PPA 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. (See *Great Northern Transmission Line*.)

The fifth PPA provides for Minnesota Power to purchase 50 MW of capacity from Manitoba Hydro 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 is constructing the GNTL, an approximately 220-mile 500-kV transmission line between Manitoba and Minnesota's Iron Range that was proposed by Minnesota Power and Manitoba Hydro 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 a 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 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. To date, most of the right-of-way has been cleared, foundation installation and transmission tower assembly have commenced and tower construction is expected to begin in 2018. 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 $211.4 million have been incurred through March 31, 2018, of which $110.0 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 known as the Manitoba-Minnesota Transmission Project (MMTP) that will connect with the GNTL. In 2015, Manitoba Hydro submitted the final preferred route and EIS for the MMTP to the Manitoba Conservation and Water Stewardship for siting and environmental approval, which remains pending. In 2016, Manitoba Hydro filed an application with the Canadian National Energy Board (NEB) requesting authorization to construct and operate the MMTP. The NEB determined that Manitoba Hydro's application was complete in December 2017, and scheduled public hearings for this summer. The NEB is required to make a decision on the MMTP by March 2019 but is not precluded from making a decision prior to that date. Approval of the Canadian federal cabinet is also required. The MMTP is subject to legal and regulatory challenges which Minnesota Power is actively monitoring. Manitoba Hydro has informed Minnesota Power that it continues to work towards completing the MMTP on schedule. In order to meet the transmission in-service requirements in PPAs with Minnesota Power, Manitoba Hydro has indicated that it would need to start construction of the MMTP in December 2018. We are unable to predict the outcome of the Canadian regulatory review process, including the timing thereof or whether any onerous conditions may be imposed, or the timing of the completion of the MMTP, including the impact of any delays that may result in construction schedule adjustments. Any significant delays in the MMTP construction schedule may result in Minnesota Power adjusting the GNTL construction schedule and impact the timing of capital expenditures and associated cost recovery under our transmission cost recovery rider.

Construction of Manitoba Hydro's Keeyask hydroelectric generation facility, which will provide the power to be sold under PPAs with Minnesota Power that is to be transmitted on the MMTP and the GNTL, commenced in 2014 and is anticipated to be in service by early 2021.

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 portions of Wisconsin, Michigan, Minnesota and Illinois. As of March 31, 2018, our equity investment in ATC was $120.1 million ($118.7 million as of December 31, 2017). In the first three months of 2018, we invested $1.6 million in ATC, and on April 30, 2018, we invested an additional $2.3 million. We expect to make additional investments of approximately $2.6 million in 2018. (See Note 7. Investment in ATC.)

In 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.

In 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.

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 contracted under PSAs of various durations. ALLETE Clean Energy also engages in the development of wind energy facilities to operate under long-term PSAs or for sale to others upon completion.

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 or development of new facilities 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 the economics of project development, and in late 2016 and late 2017, ALLETE Clean Energy invested in equipment to meet production tax credit safe harbor provisions which provides an opportunity to seek development of up to approximately 1,500 MW of production tax credit qualified wind projects through 2021. ALLETE Clean Energy will also invest approximately $80 million through 2020 for production tax credit requalification of up to 385 WTGs at its Storm Lake I, Storm Lake II and Lake Benton wind energy facilities. We anticipate annual production tax credits relating to these projects of approximately $5 million in 2018, $10 million in 2019, $15 million to $20 million annually in 2020 through 2027 and decreasing thereafter through 2030.

In January 2017, ALLETE Clean Energy announced that it will develop a wind energy facility of up to 50 MW which will be sold to Montana-Dakota Utilities; construction and sale is expected to be completed in the second half of 2018. Revenue is expected to be recognized upon completion; if the wind energy facility is not completed and sold in 2018, revenue and related margins would be recognized in 2019. ALLETE Clean Energy constructed and sold a 107 MW wind energy facility to Montana-Dakota Utilities in 2015.

In March 2017, ALLETE Clean Energy announced it will build, own and operate a 100 MW wind energy facility pursuant to a 20-year PSA with Northern States Power; construction is expected to begin in late 2018. On March 15, 2018, ALLETE Clean Energy announced that it will build, own and operate an 80 MW wind energy facility pursuant to a 15-year PSA with NorthWestern Corporation; construction is expected to be completed in 2019.

ALLETE Clean Energy manages risk by having a diverse portfolio of assets, which includes PSA expiration, technology and geographic diversity. The current portfolio of approximately 535 MW is subject to typical variations in seasonal wind with higher wind resources typically available in the winter months. The majority of its planned maintenance leverages this seasonality and is performed during lower wind periods. 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 has a presence in 49 states and Canada, and has an established base of approximately 4,900 customers. U.S. Water Services differentiates itself from the competition by developing synergies between solutions in engineering, equipment and chemical water treatment, which helps 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 purchase prices between $10 million and $50 million. Priority will be given to acquisitions which expand its geographic reach, add new technology, or deepen its capabilities to serve its expanding customer base.

In September 2017, U.S. Water Services acquired Tonka Water for total consideration of $19.2 million. Tonka Water is a supplier of municipal and industrial water treatment systems that will expand U.S. Water Services’ geographic and customer markets.

U.S. Water Services expects cash flow from operations of approximately $15 million in 2018 ($12 million in 2017).

OUTLOOK (Continued)

Corporate and Other.

BNI Energy. BNI Energy anticipates selling 4.4 million tons of lignite coal in 2018 (4.7 million tons were sold in 2017) and has sold 1.2 million tons for the three months ended March 31, 2018 (1.2 million tons were sold for the three months ended March 31, 2017). 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 and operating expenses including 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 1,900 acres combined of land available for sale. In addition to these two projects, ALLETE Properties has approximately 800 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 ALLETE Clean Energy and U.S. Water Services, collectively our Energy Infrastructure and Related Services businesses. ALLETE Properties continues to pursue sales of individual parcels over time and will continue to maintain key entitlements and infrastructure without making additional investments or acquisitions.

Income Taxes.

ALLETE's aggregate federal and multi-state statutory tax rate is approximately 28 percent for 2018. ALLETE also 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 a benefit of approximately 8 percent for 2018 primarily due to a lower statutory tax rate resulting from the TCJA, and 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 12 years due to production tax credits attributable to our wind energy generation.

We expect the federal income tax rate change of the TCJA to result in lower income tax expense on an ongoing basis for our Regulated Operations, ALLETE Clean Energy and U.S. Water Services segments as well as our Corporate and Other businesses. The lower income tax expense for our Regulated Operations segment is expected to be mostly offset by lower revenue as most of the benefit is deferred pending the outcome of regulatory proceedings with the MPUC and PSCW. We do not expect a material impact on the Company's ability to utilize its federal and state NOL and tax credit carryforwards due to the TCJA.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Position. ALLETE is well-positioned to meet the Company's liquidity needs. As of March 31, 2018, we had cash and cash equivalents of $98.5 million, $393.4 million in available consolidated lines of credit and a debt-to-capital ratio of 42 percent.

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

	March 31, 2018	%	December 31, 2017	%
Millions				
Shareholders' Equity	$2,097.3	58	$2,068.2	58
Long-Term Debt (Including Long-Term Debt Due Within One Year)	1,512.2	42	1,513.3	42
	$3,609.5	100	$3,581.5	100

LIQUIDITY AND CAPITAL RESOURCES (Continued)

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

For the Three Months Ended March 31,	2018	2017
Millions		
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	$110.1	$38.3
Cash Flows from (used for)		
Operating Activities	121.3	98.7
Investing Activities	(89.0)	(41.1)
Financing Activities	(26.5)	3.6
Change in Cash, Cash Equivalents and Restricted Cash	5.8	61.2
Cash, Cash Equivalents and Restricted Cash at End of Period	$115.9	$99.5

Operating Activities. Cash from operating activities was higher in 2018 compared to 2017 primarily due to higher net income, higher contributions in aid of capital received relating to the construction of the GNTL and amounts collected from customers which are anticipated to be refunded in future periods. These increases were partially offset by higher contributions to the defined benefit pension plans.

Investing Activities. Cash used for investing activities was higher in 2018 compared to 2017 primarily due to higher capital expenditures and additional purchases of available-for-sale securities.

Financing Activities. Cash used for financing activities was higher in 2018 due to lower proceeds from the issuance of common stock of $4.3 million compared to $70.6 million in 2017 and higher dividends on common stock, partially offset by lower repayments of long-term debt and lower contingent consideration payments.

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 March 31, 2018, we had consolidated bank lines of credit aggregating $407.0 million ($407.0 million as of December 31, 2017), the majority of which expire in October 2020. We had $13.6 million outstanding in standby letters of credit and no outstanding draws under our lines of credit as of March 31, 2018 ($11.9 million in standby letters of credit and no outstanding draws as of December 31, 2017). In addition, as of March 31, 2018, we had 3.1 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 three months ended March 31, 2018, no shares of common stock were issued under this agreement (1.0 million shares were issued for the three months ended March 31, 2017, resulting in net proceeds of $65.7 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 three months ended March 31, 2018, we issued 0.2 million shares of common stock through Invest Direct, the Employee Stock Purchase Plan, and the Retirement Savings and Stock Ownership Plan, resulting in net proceeds of $4.3 million (0.1 million shares were issued for the three months ended March 31, 2017, resulting in net proceeds of $4.9 million). These shares of common stock were registered under Registration Statement Nos. 333-211075, 333-188315, 333-183051 and 333-162890.

On April 16, 2018, ALLETE issued and sold $60.0 million of its First Mortgage Bonds (the Bonds) that bear interest at 4.07 percent. The Bonds will mature in April 2048 and were sold in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, to institutional accredited investors. (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 three months ended March 31, 2018, we contributed $15.0 million in cash to the defined benefit pension plans. We do not expect to make additional contributions to our defined benefit pension plans in 2018, and we do not expect to make any contributions to our other postretirement benefit plans in 2018. (See Note 12. Pension and Other Postretirement Benefit Plans.)

Off-Balance Sheet Arrangements. Off-balance sheet arrangements are summarized in our 2017 Form 10-K, with additional disclosure in Note 13. Commitments, Guarantees and Contingencies.

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.

On February 6, 2018, Standard & Poor's revised its credit rating outlook on ALLETE to negative from stable, while affirming its issuer and commercial paper ratings on ALLETE. Standard & Poor's cited the potential effect of the TCJA on the Company's cash flows and Standard & Poor's assessment of the Company's regulatory risk following Minnesota Power's recent general rate case as its rationale for issuing the negative outlook.

On February 8, 2018, Moody's issued a report on ALLETE noting that Minnesota Power's general rate case was credit negative. With respect to Minnesota Power's general rate case outcome, Moody's noted a lower return on equity, disallowance of various expenses, including a decision to disallow recovery of the prepaid pension asset, and a ruling against Minnesota Power's request to adopt an annual rate review mechanism. In addition, Moody's noted the potential negative impact of the TCJA on certain financial metrics used by Moody's.

The Company believes it is well-positioned to meet its liquidity needs. As of March 31, 2018, we had cash and cash equivalents of $98.5 million, $393.4 million in available consolidated lines of credit and a debt-to-equity ratio of 42 percent. Our cash from operating activities for the year ended December 31, 2017, was $402.9 million. In addition, as of March 31, 2018, we had 3.1 million original issue shares of our common stock available for issuance through Invest Direct and 2.9 million original issue shares of common stock available for issuance through a distribution agreement with Lampert Capital Markets, Inc.

Capital Requirements. Our capital expenditures for 2018 and 2019 are expected to be approximately $350 million and $470 million, respectively. The increase from the 2018 and 2019 capital expenditures projected in our 2017 Form 10-K is primarily due to the recently announced 80 MW wind energy facility ALLETE Clean Energy will build, own and operate pursuant to a 15-year PSA with NorthWestern Corporation. (See Item 7. Management's Discussion and Analysis – Outlook – Energy Infrastructure and Related Services – ALLETE Clean Energy.) For the three months ended March 31, 2018, capital expenditures totaled $52.6 million ($32.7 million for the three months ended March 31, 2017). 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 been promulgated by both the EPA and state authorities over the past several years. Minnesota Power's facilities are subject to additional requirements under many of 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 March 31, 2018, ALLETE had 2,024 employees, of which 1,979 were full-time.

Minnesota Power and SWL&P have an aggregate of 504 employees who are members of International Brotherhood of Electrical Workers (IBEW) Local 31. The labor agreements with IBEW Local 31 expired on January 31, 2018, and on February 1, 2018, Minnesota Power, SWL&P and IBEW Local 31 agreed to amend the current contracts and extend the expiration to April 30, 2020, and February 1, 2021, respectively.

BNI Energy has 183 employees, of which 148 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 March 31, 2018, 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 March 31, 2018, an increase of 100 basis points in interest rates would impact the amount of pre-tax interest expense by $0.8 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 March 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of March 31, 2018, 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 2017 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 2017 Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

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

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	
4	Thirty-ninth Supplemental Indenture, dated as of April 1, 2018, between ALLETE, Inc. and The Bank of New York Mellon, as corporate trustee, and Andres Serrano, as co-trustee.
10(a)1	ALLETE Executive Annual Incentive Plan Form of Award Effective 2018.
10(a)2	ALLETE Executive Annual Incentive Plan Form of Award Superior Water, Light and Power Effective 2018.
10(b)	Form of ALLETE Executive Long-Term Incentive Compensation Plan Cash Award Effective 2018.
10(c)	ALLETE and Affiliated Companies Change in Control Severance Plan, as amended and restated, effective April 23, 2018.
31(a)	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Section 1350 Certification of Periodic Report by the Chief Executive Officer and the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
95	Mine Safety.
99	**ALLETE News Release dated May 2, 2018, announcing 2018 first quarter earnings. (This exhibit has been furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.)**
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.

May 2, 2018	/s/ Robert J. Adams
	Robert J. Adams Senior Vice President and Chief Financial Officer (Principal Financial Officer)
May 2, 2018	/s/ Steven W. Morris
	Steven W. Morris Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)

Exhibit 4

ALLETE, Inc.
(formerly Minnesota Power & Light Company

and formerly Minnesota Power, Inc.)

TO

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

AND

Andres Serrano
(successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May, J. A. Vaughan, W. T. Cunningham, Douglas J. MacInnes, Ming Ryan, and Philip L. Watson)

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

Thirty-ninth Supplemental Indenture

Providing, among other things, for

First Mortgage Bonds, 4.07% Series due April 16, 2048

(Fifty-seventh Series),

Dated as of April 1, 2018

THIRTY-NINTH SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of April 1, 2018, by and between ALLETE, Inc. (formerly Minnesota Power & Light Company and formerly Minnesota Power, Inc.), a corporation of the State of Minnesota, whose post office address is 30 West Superior Street, Duluth, Minnesota 55802 (hereinafter sometimes called the "Company"), and The Bank of New York Mellon (formerly The Bank of New York (formerly Irving Trust Company)), a corporation of the State of New York, whose post office address is 101 Barclay Street, New York, New York 10286 (hereinafter sometimes called the "Corporate Trustee"), and Andres Serrano (successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May, J. A. Vaughan, W. T. Cunningham, Douglas J. MacInnes, Ming Ryan and Philip L. Watson), whose post office address is c/o The Bank of New York Mellon, 101 Barclay Street, New York, New York 10286 (said Andres Serrano being hereinafter sometimes called the "Co-Trustee" and the Corporate Trustee and the Co-Trustee being hereinafter together sometimes called the "Trustees"), as Trustees under the Mortgage and Deed of Trust, dated as of September 1, 1945, between the Company and Irving Trust Company and Richard H. West, as Trustees, securing bonds issued and to be issued as provided therein (hereinafter sometimes called the "Mortgage"), reference to which Mortgage is hereby made, this indenture (hereinafter sometimes called the "Thirty-ninth Supplemental Indenture") being supplemental thereto:

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

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

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

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

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

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

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

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

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

Whereas, under the Thirty-second Supplemental Indenture, dated as of August 1, 2010, to which reference is hereinafter made, Ming Ryan in turn succeeded Douglas J. MacInnes as Co-Trustee under the Mortgage; and

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

Whereas, an instrument, dated as of July 31, 2015, was executed and delivered under which Andres Serrano in turn succeeded Philip L. Watson as Co-Trustee under the Mortgage effective at the close of business on August 14, 2015, and such instrument was filed and recorded in various official records in the State of Minnesota; and

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

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

Designation	**Dated as of**
First Supplemental Indenture	March 1, 1949
Second Supplemental Indenture	July 1, 1951
Third Supplemental Indenture	March 1, 1957
Fourth Supplemental Indenture	January 1, 1968
Fifth Supplemental Indenture	April 1, 1971
Sixth Supplemental Indenture	August 1, 1975
Seventh Supplemental Indenture	September 1, 1976
Eighth Supplemental Indenture	September 1, 1977
Ninth Supplemental Indenture	April 1, 1978
Tenth Supplemental Indenture	August 1, 1978
Eleventh Supplemental Indenture	December 1, 1982
Twelfth Supplemental Indenture	April 1, 1987
Thirteenth Supplemental Indenture	March 1, 1992
Fourteenth Supplemental Indenture	June 1, 1992
Fifteenth Supplemental Indenture	July 1, 1992
Sixteenth Supplemental Indenture	July 1, 1992
Seventeenth Supplemental Indenture	February 1, 1993
Eighteenth Supplemental Indenture	July 1, 1993
Nineteenth Supplemental Indenture	February 1, 1997
Twentieth Supplemental Indenture	November 1, 1997
Twenty-first Supplemental Indenture	October 1, 2000
Twenty-second Supplemental Indenture	July 1, 2003
Twenty-third Supplemental Indenture	August 1, 2004
Twenty-fourth Supplemental Indenture	March 1, 2005
Twenty-fifth Supplemental Indenture	December 1, 2005
Twenty-sixth Supplemental Indenture	October 1, 2006
Twenty-seventh Supplemental Indenture	February 1, 2008
Twenty-eighth Supplemental Indenture	May 1, 2008
Twenty-ninth Supplemental Indenture	November 1, 2008
Thirtieth Supplemental Indenture	January 1, 2009
Thirty-first Supplemental Indenture	February 1, 2010
Thirty-second Supplemental Indenture	August 1, 2010
Thirty-third Supplemental Indenture	July 1, 2012
Thirty-fourth Supplemental Indenture	April 1, 2013
Thirty-fifth Supplemental Indenture	March 1, 2014
Thirty-sixth Supplemental Indenture	June 1, 2014
Thirty-seventh Supplemental Indenture	September 1, 2014
Thirty-eighth Supplemental Indenture	September 1, 2015

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

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

Exhibit 4

Series	**Principal Amount Issued**	**Principal Amount Outstanding**
3-1/8% Series due 1975	$26,000,000	None
3-1/8% Series due 1979	4,000,000	None
3-5/8% Series due 1981	10,000,000	None
4-3/4% Series due 1987	12,000,000	None
6-1/2% Series due 1998	18,000,000	None
8-1/8% Series due 2001	23,000,000	None
10-1/2% Series due 2005	35,000,000	None
8.70% Series due 2006	35,000,000	None
8.35% Series due 2007	50,000,000	None
9-1/4% Series due 2008	50,000,000	None
Pollution Control Series A	111,000,000	None
Industrial Development Series A	2,500,000	None
Industrial Development Series B	1,800,000	None
Industrial Development Series C	1,150,000	None
Pollution Control Series B	13,500,000	None
Pollution Control Series C	2,000,000	None
Pollution Control Series D	3,600,000	None
7-3/4% Series due 1994	55,000,000	None
7-3/8% Series due March 1, 1997	60,000,000	None
7-3/4% Series due June 1, 2007	55,000,000	None
7-1/2% Series due August 1, 2007	35,000,000	None
Pollution Control Series E	111,000,000	None
7% Series due March 1, 2008	50,000,000	None
6-1/4% Series due July 1, 2003	25,000,000	None
7% Series due February 15, 2007	60,000,000	None
6.68% Series due November 15, 2007	20,000,000	None
Floating Rate Series due October 20, 2003	250,000,000	None
Collateral Series A	255,000,000	None
Pollution Control Series F	111,000,000	None
5.28% Series due August 1, 2020	35,000,000	35,000,000
5.69% Series due March 1, 2036	50,000,000	50,000,000
5.99% Series due February 1, 2027	60,000,000	60,000,000
4.86% Series due April 1, 2013	60,000,000	None
6.02% Series due May 1, 2023	75,000,000	75,000,000
6.94% Series due January 15, 2014	18,000,000	None
7.70% Series due January 15, 2016	20,000,000	None
8.17% Series due January 15, 2019	42,000,000	42,000,000
4.85% Series due April 15, 2021	15,000,000	15,000,000
5.10% Series due April 15, 2025	30,000,000	30,000,000
6.00% Series due April 15, 2040	35,000,000	35,000,000
4.90% Series due October 15, 2025	30,000,000	30,000,000
5.82% Series due April 15, 2040	45,000,000	45,000,000

3.20% Series due July 15, 2026	75,000,000	75,000,000
4.08% Series due July 15, 2042	85,000,000	85,000,000
1.83% Series due April 15, 2018	50,000,000	50,000,000
3.30% Series due October 15, 2028	40,000,000	40,000,000
4.21% Series due October 15, 2043	60,000,000	60,000,000
3.69% Series due March 15, 2024	60,000,000	60,000,000
4.95% Series due March 15, 2044	40,000,000	40,000,000
3.40% Series due July 15, 2022	75,000,000	75,000,000
5.05% Series due July 15, 2044	40,000,000	40,000,000
3.02% Series due September 15, 2021	60,000,000	60,000,000
3.74% Series due September 15, 2029	50,000,000	50,000,000
4.39% Series due September 15, 2044	50,000,000	50,000,000
2.80% Series due September 15, 2020	40,000,000	40,000,000
3.86% Series due September 16, 2030	60,000,000	60,000,000

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

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

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

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

WHEREAS, Section 120 of the Mortgage also provides, among other things, that the Company may cure any ambiguity contained in the Mortgage, or in any supplemental indenture, by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS, Section 116 of the Mortgage, as amended by the Twenty-first Supplemental Indenture, dated as of October 1, 2000, provides, among other things, that any action by bondholders with respect to any modification or alteration of the Mortgage may be expressed by the written consent of the holders of sixty-six and two-thirds per centum (66 2/3%) or more in principal amount of the bonds Outstanding under the Mortgage, provided that the rights of all series of bonds then Outstanding are to be affected by action taken pursuant to such consent; and

WHEREAS, (1) the Company has reserved the right to amend the Mortgage, as heretofore supplemented, as set forth in Article IV of the Thirty-first Supplemental Indenture, dated as of February 1, 2010; (2) the initial and future holders of the bonds of the Thirty-eighth Series through the Fifty-sixth Series have irrevocably consented to the amendments set forth in Article IV of such Thirty-first Supplemental Indenture; (3) the Outstanding bonds of the Thirty-eighth Series through the Fifty-sixth Series now constitute more than 66 2/3% in principal amount of all bonds Outstanding; (4) the Company now desires to exercise its right to make the amendments set forth in Sections 2, 6, 8, 9, 10, 14 and 15 of Article IV of such Thirty-first Supplemental Indenture; and (5) the rights of all series of bonds now Outstanding are to be affected by such amendments; and

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

Now, Therefore, This Indenture Witnesseth:

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

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

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

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

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

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

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

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

ARTICLE I
Fifty-seventh Series of Bonds

Section 1. There shall be a series of bonds designated “4.07% Series due April 16, 2048” (herein sometimes referred to as the “Fifty-seventh Series”), each of which shall also bear the descriptive title “First Mortgage Bond”, and the form thereof, which shall be established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Fifty-seventh Series shall be dated as in Section 10 of the Mortgage provided, mature on April 16, 2048 (the “Fifty-seventh Series Stated Maturity”), be issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, in any multiple or multiples of One Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and bear interest from April 16, 2018 (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 4.07% per annum, payable semi-annually on April 16 and October 16 of each year, commencing October 16, 2018, the principal of and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

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

(I) **Optional Prepayment.** At any time prior to October 16, 2047 (six months prior to the Fifty-seventh Series Stated Maturity) the Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the bonds of the Fifty-seventh Series at 100% of the principal amount so prepaid, and the Make-Whole Amount determined for the Settlement Date specified by the Company in such notice with respect to such principal amount. The Company will give each registered owner of bonds of the Fifty-seventh Series written notice (by first class mail or such other method as may be agreed upon by the Company and such registered owner) of each optional prepayment under this subsection (I) mailed or otherwise given not less than 30 days and not more than 60 days prior to the date fixed for such prepayment, to each such registered owner at his, her or its last address appearing on the registry books. Each such notice shall specify the Settlement Date (which shall be a Business Day), the aggregate principal amount of the bonds of the Fifty-seventh Series to be prepaid on such date, the principal amount of each bond held by such registered owner to be prepaid (determined in accordance with subsection (II) of this section), and the interest to be paid on the Settlement Date with respect to such principal amount being prepaid, and shall be accompanied by a certificate signed by a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such Settlement Date, the Company shall send to each registered owner of bonds of the Fifty-seventh Series (by first class mail or by such other method as may be agreed upon by the Company and such registered owner) a certificate signed by a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified Settlement Date. As promptly as practicable after the giving of the notice and the sending of the certificates provided in this subsection, the Company shall provide a copy of each to the Corporate Trustee. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice or certificate.

At any time on or after October 16, 2047, the bonds of the Fifty-seventh Series will be redeemable at the option of the Company, in whole or in part, on not less than 30 nor more than 60 days' notice prior to the Settlement Date, at a redemption price equal to 100% of the principal amount of the bonds of the Fifty-seventh Series to be redeemed, plus accrued and unpaid interest thereon to the Settlement Date.

The bonds of the Fifty-seventh Series are not otherwise subject to voluntary or optional prepayment.

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

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

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

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

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

"Called Principal" means, with respect to any bond of the Fifty-seventh Series, the principal of such bond that is to be prepaid pursuant to subsection (I) of this section.

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

"Reinvestment Yield" means, with respect to the Called Principal of any bond of the Fifty-seventh Series, the sum of (a) 0.50% plus (b) the yield to maturity implied by the "Ask Yield(s)" reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on-the-run benchmark U.S. Treasury securities ("Reported") having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there are no such U.S. Treasury securities Reported having a maturity equal to such Remaining Average Life, then such implied yield to maturity will be determined by (i) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (ii) interpolating linearly between the "Ask Yields" Reported for the applicable most recently issued actively traded on-the-run benchmark U.S. Treasury securities with the maturities (1) closest to and greater than such Remaining Average Life and (2) closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable bond of the Fifty-seventh Series.

If such yields are not Reported or the yields Reported as of such time are not ascertainable (including by way of interpolation), then "Reinvestment Yield" means, with respect to the Called Principal of any bond of the Fifty-seventh Series, the sum of (x) 0.50% plus (y) the yield to maturity implied by the U.S. Treasury constant maturity yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for the U.S. Treasury constant maturity having a term equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there is no such U.S. Treasury constant maturity having a term equal to such Remaining Average Life, such implied yield to maturity will be determined by interpolating linearly between (1) the U.S. Treasury constant maturity so reported with the term closest to and greater than such Remaining Average Life and (2) the U.S. Treasury constant maturity so reported with the term closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable bond of the Fifty-seventh Series.

"Remaining Average Life" means, with respect to any Called Principal, the number of years obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years, computed on the basis of a 360-day year comprised of twelve 30-day months and calculated to two decimal places, that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

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

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

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

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

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

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

After the delivery of this Thirty-ninth Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage and receipt of consideration therefor by the Company, there shall be an initial issue of bonds of the Fifty-seventh Series for the aggregate principal amount of $60,000,000.

ARTICLE II
Consent to Amendments
and Amendments to Mortgage

Section 1. Consent to Amendments Each initial and future holder of bonds of the Fifty-seventh Series, by its acquisition of an interest in such bonds, irrevocably (a) consents to the amendments set forth in Article IV of the Thirty-first Supplemental Indenture, dated as of February 1, 2010, without any other or further action by any holder of such bonds, and (b) designates the Corporate Trustee, and its successors, as its proxy with irrevocable instructions to vote and deliver written consents on behalf of such holder in favor of such amendments at any bondholder meeting, in lieu of any bondholder meeting, in any consent solicitation or otherwise.

Section 2. Elimination of Obligation to Dispose of Released Property. The holders of more than 66 2/3% in principal amount of the bonds Outstanding under the Mortgage, as heretofore supplemented, having consented to the amendments set forth in Section 2 of Article IV of the Thirty-first Supplemental Indenture, dated as of February 1, 2010, the Company hereby exercises its right to amend clause (a) of subdivision (3) of Section 59 of the Mortgage, as heretofore supplemented, to read as follows:

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

Section 3. Recalibration of Funded Property. The holders of more than 66 2/3% in principal amount of the bonds Outstanding under the Mortgage, as heretofore supplemented, having consented to the amendments set forth in Section 6 of Article IV of the Thirty-first Supplemental Indenture, dated as of February 1, 2010, the Company hereby exercises its right to amend Section 5 of the Mortgage, as heretofore supplemented, to replace the first two paragraphs thereof with three paragraphs reading as follows:

> "The term "Funded Property Certificate" shall mean an Independent Engineer's Certificate delivered to the Corporate Trustee, within ninety days after the date thereof,
>
> (A) stating the aggregate principal amount of bonds then Outstanding under this Indenture;
>
> (B) stating the aggregate principal amount of bonds which the Company is then entitled to have authenticated and delivered by compliance with the provisions of Section 29 hereof;
>
> (C) stating an amount equal to 10/6ths of the sum of the amounts stated in clauses (A) and (B) above; and

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

The term “Funded Property” shall mean:

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

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

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

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

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

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

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

Section 4. Insurance. The holders of more than 66 2/3% in principal amount of the bonds Outstanding under the Mortgage, as heretofore supplemented, having consented to the amendments set forth in Section 8 of Article IV of the Thirty-first Supplemental Indenture, dated as of February 1, 2010, the Company hereby exercises its right to amend Section 37 of the Mortgage, as heretofore supplemented, to read as follows:

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

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

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

(i) a letter signed by an officer of the Company requesting such payment,

(ii) an Engineer's Certificate:

(A) describing the property so damaged or destroyed;

(B) stating the Cost of such property (or, if the fair value to the Company of such property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such fair value, as so certified, in lieu of Cost) or, if such damage or destruction shall have affected only a portion of such property, stating the allocable portion of such Cost or fair value;

(C) stating the amounts so expended or committed for expenditure in the rebuilding, renewal, replacement of and/or substitution for such property; and

(D) stating the fair value to the Company of such property as rebuilt or renewed or as to be rebuilt or renewed and/or of the replacement or substituted property, and if

(a) within six months prior to the date of acquisition thereof by the Company, such property has been used or operated, by a person or persons other than the Company, in a business similar to that in which it has been or is to be used or operated by the Company, and

(b) the fair value to the Company of such property as set forth in such Engineer's Certificate is not less than Twenty-five Thousand Dollars ($25,000) and not less than one percent (1%) of the aggregate principal amount of the bonds at the time Outstanding,

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

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

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

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

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

(i) a letter from an officer of the Company requesting such payment;

(ii) an Engineer's Certificate stating:

(A) that such moneys were paid to or received by the Corporate Trustee on account of a loss on or with respect to property which does not constitute Funded Property; and

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

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

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

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

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

Section 5. Property Additions. The holders of more than 66 2/3% in principal amount of the bonds Outstanding under the Mortgage, as heretofore supplemented, having consented to the amendments set forth in Section 9 of Article IV of the Thirty-first Supplemental Indenture, dated as of February 1, 2010, and the Company having the right to add additional restrictions pursuant to Section 120 of the Mortgage, as heretofore supplemented, the Company hereby exercises its right to amend subdivision (I) of Section 4 of the Mortgage, as heretofore supplemented, to read as follows:

(I) The term "Property Additions" shall mean Mortgaged and Pledged Property acquired by the Company by purchase, consolidation, merger, donation, construction, erection or in any way whatsoever, subsequent to June 30, 1945, or in the process of construction or erection in so far as actually constructed or erected subsequent to June 30, 1945; provided however, that "Property Additions" shall not include any shares of stock or other equity interests in any subsidiary of the Company.

Section 6. Definitions. The holders of more than 66 2/3% in principal amount of the bonds Outstanding under the Mortgage, as heretofore supplemented, having consented to the amendments set forth in Section 10 of Article IV of the Thirty-first Supplemental Indenture, dated as of February 1, 2010, the Company hereby exercises its right to amend the Mortgage, as heretofore supplemented, to add the following definitions:

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

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

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

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

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

Section 7. Priority Opinions. The holders of more than 66 2/3% in principal amount of the bonds Outstanding under the Mortgage, as heretofore supplemented, having consented to the amendments set forth in Section 14 of Article IV of the Thirty-first Supplemental Indenture, dated as of February 1, 2010, the Company hereby exercises its right to amend Section 28 of the Mortgage, as heretofore supplemented, to restate subdivisions (7) and (9) thereof to read as follows:

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

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

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

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

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

Section 8. Maintenance of Mortgaged Property. The holders of more than 66 2/3% in principal amount of the bonds Outstanding under the Mortgage, as heretofore supplemented, having consented to the amendments set forth in Section 15 of Article IV of the Thirty-first Supplemental Indenture, dated as of February 1, 2010, the Company hereby exercises its right to amend Section 38 of the Mortgage, as heretofore supplemented, to read as follows:

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

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

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

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

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

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

ARTICLE IV
Miscellaneous Provisions

Section 1. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words "and April 16, 2048" after the words "and September 15, 2020 and September 16, 2030."

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

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

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

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

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

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

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

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

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

ALLETE, Inc.

By

Robert J. Adams
Senior Vice President and
Chief Financial Officer

Attest:

Bethany M. Owen
Senior Vice President, Chief Legal
and Administrative Officer and
Corporate Secretary

Trustees' Signature Page Follows

The Bank of New York Mellon,
as Trustee

By

Attest:

L.S.

Executed, sealed and delivered by The Bank of New York Mellon and Andres Serrano in the presence of:

Thirty-ninth Supplemental Indenture dated as of April 1, 2018
To Mortgage and Deed of Trust dated as of September 1, 1945

Trustees' Signature Page

Exhibit 4

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

On this 29th day of March, 2018, the foregoing instrument was acknowledged before me by Robert J. Adams, Senior Vice President and Chief Financial Officer of ALLETE, Inc., a Minnesota corporation, on behalf of the Company.

NOTARIAL STAMP OR SEAL

____

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

On this 29th day of March, 2018, the foregoing instrument was acknowledged before me by Bethany M. Owen, Senior Vice President, Chief Legal and Administrative Officer and Corporate Secretary of ALLETE, Inc., a Minnesota corporation, on behalf of the Company.

NOTARIAL STAMP OR SEAL

____

Exhibit 4

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

On this ______ day of __________________________, 2018, the foregoing instrument was acknowledged before me by _____________________________ and ____________________________, the ___________________________________ and ______________________________________, respectively, of The Bank of New York Mellon, the corporation named in the foregoing instrument.

Given under my hand and notarial seal this ____ day of _____________________, 2018.

Notary Public, State of New York

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

On this ______ day of _____________________________, 2018, the foregoing instrument was acknowledged before me by [__________________________], the person described in and who executed the foregoing instrument.

Given under my hand and notarial seal this ____ day of _____________________________, 2018.

Notary Public, State of New York

ALLETE Executive Annual Incentive Plan
Form of Award
Effective 2018
[Eligible Executive Employees, except CEO and CFO]

Target Award Opportunity

Base Salary	$
Times	
Award Opportunity (percent of base salary)	%
Equals	
Target Award	$

Performance Levels and Award Amounts

Goal Performance Level	Payout as Percent of Target Award	Award Amount
Superior	200%	$
Target	100%	$
Threshold	45%	$
Below Threshold	0%	$

Goals

	Goal Weighting
Financial Goals	
Net Income	**50%**
Cash from Operating Activities	**25%**
Strategic & Operational Positioning Goals	**25%**
	100%

Compensation Subject to Compensation Recovery Policy

Annual Incentive Plan Compensation is subject to recoupment as defined in the Compensation Recovery policy.

Exhibit 10(a)2

ALLETE Executive Annual Incentive Plan
Form of Award
Effective 2018
[Eligible Superior Water, Light and Power Executive Employees]

Target Award Opportunity

Base Salary $

Times

Award Opportunity (percent of base salary) %

Equals

Target Award $

Performance Levels and Award Amounts

Goal Performance Level	Payout as Percent of Target Award	Award Amount
Superior	200%	$
Target	100%	$
Threshold	37.5%	$
Below Threshold	0%	$

Goals

	Goal Weighting
Financial Goals	
ALLETE Net Income	**15%**
Superior Water Light & Power Net Income	**55%**
Strategic & Operational Positioning Goals	**30%**
	100%

Compensation Subject to Compensation Recovery Policy

Annual Incentive Plan Compensation is subject to recoupment as defined in the Compensation Recovery policy.

Exhibit 10(b)

ALLETE Executive Long-Term Incentive Plan
Form of Cash Award
Effective 2018
[CEO and CFO]

Target Award Opportunity

Base Salary	$
Times	
Award Opportunity (percent of base salary)	%
Equals	
Target Award	$

Performance Levels and Award Amounts

Goal Performance Level	Payout as Percent of Target Award	Award Amount
Superior	200%	$
Target	100%	$
Threshold	45%	$
Below Threshold	0%	$

Goals

	Goal Weighting
Financial Goals	
Net Income	**50%**
Cash from Operating Activities	**25%**
Strategic & Operational Positioning Goals	**25%**
	100%

Compensation Subject to Compensation Recovery Policy

Long-Term Incentive Plan compensation is subject to recoupment as defined in the Compensation Recovery policy.

AMENDED AND RESTATED
ALLETE AND AFFILIATED COMPANIES
CHANGE IN CONTROL SEVERANCE PLAN

ALLETE's Board of Directors has determined that it is in the best interest of ALLETE and its shareholders to foster the continued dedication and objectivity of certain key members of the Company's management notwithstanding the possibility or occurrence of an acquisition by another company or other change in control of the Company. Accordingly, ALLETE adopted the Change in Control Severance Plan effective as of February 13, 2008.

Effective January 19, 2011, the Board amended and restated the Change in Control Severance Pay Plan to eliminate the excise tax gross-up feature, to eliminate certain benefit continuation payments and to establish a modified severance payment cap.

Effective as of the "Effective Date," the Board has adopted this Amended and Restated Change in Control Severance Pay Plan designed, among other changes, to establish additional participation levels, as provided herein.

Section 1. **Definitions**. For purposes of the Plan, the following terms shall have the meanings indicated below:

"Act" means the Securities Exchange Act of 1934, as amended from time to time.

"Affiliate" means any entity directly or indirectly controlled by, controlling or under common control with, ALLETE.

"ALLETE" means ALLETE, Inc., a Minnesota Corporation.

"Base Salary" shall mean, as to any Participant, the highest amount a Participant is entitled to receive annually as base salary at any time during the Protection Period, without reduction for any pre-tax contributions to benefit plans.

"Benefit Continuation Payment" means the payment described in Section 2.1.2.

"Board" means the Board of Directors of ALLETE.

"Bonus Amount" shall mean, as to any Participant, an amount equal to the Participant's annual bonus which would have been payable under the Bonus Plan in which he or she participates (x) as of immediately prior to the Change in Control had he or she continued in employment until the end of the fiscal year of the Employer in which the Change in Control occurs and had bonuses been payable at "target" levels for such year or (y) if greater, as of the Termination Date had he or she continued in employment until the end of the fiscal year of the Employer in which the Termination Date occurs and had bonuses been payable at "target" levels for such year.

"Bonus Plan" shall mean an annual bonus plan, including, but not limited to, the ALLETE Executive Annual Incentive Plan, the U.S. Water Management Incentive Plan, and any similar or successor annual bonus plan, excluding plans intended to qualify under Section 401(a) of the Code.

"Cause" means:

(a) the Participant's willful and continued failure to perform the duties and responsibilities of his or her position (other than as a result of the Participant's disability or anticipated failure after the Participant gives notice of Termination for Good Reason by the Participant) after there has been delivered to the Participant a written demand for performance which describes the basis for the belief that the Participant has not substantially performed his or her duties and after the Participant fails to take full corrective action within twenty (20) days of receipt of such notice; or

(b) any material act of personal dishonesty taken by the Participant in connection with his or her responsibilities as an employee of the Company which is demonstrably and materially injurious to the Company; or

(c) the Participant's conviction of, or plea of *nolo contendere* to, a felony that the Company (or in the case of the Chief Executive Officer, the Board) reasonably believes has had or will have a material detrimental effect on the Company's business or reputation.

"**Change in Control**" means the earliest of:

(a) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulation section 1.409A-3(i)(5)(v)(B)), acquires ownership of stock of ALLETE that, together with stock previously held by the acquiror, constitutes more than fifty (50%) percent of the total fair market value or total voting power of ALLETE stock. If any one Person, or more than one Person acting as a group, is considered to own more than fifty (50%) percent of the total fair market value or total voting power of ALLETE stock, the acquisition of additional stock by the same Person or Persons acting as a group does not cause a Change in Control. An increase in the percentage of stock owned by any one Person, or Persons acting as a group, as a result of a transaction in which ALLETE acquires its stock in exchange for property, is treated as an acquisition of stock;

(b) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulation section 1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by that Person or Persons) ownership of a ALLETE stock possessing at least thirty (30%) percent of the total voting power of ALLETE stock;

(c) the date a majority of the members of the ALLETE board of directors is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the board of directors prior to the date of appointment or election; or

(d) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulation section 1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by that Person or Persons) assets from ALLETE that have a total gross fair market value equal to at least forty (40%) percent of the total gross fair market value of all ALLETE's assets immediately prior to the acquisition or acquisitions. For this purpose, "gross fair market value" means the value of the corporation's assets, or the value of the assets being disposed of, without regard to any liabilities associated with these assets.

In determining whether a Change in Control occurs, the attribution rules of Code Section 318 apply to determine stock ownership. The stock underlying a vested option is treated as owned by the individual who holds the vested option, and the stock underlying an unvested option is not treated as owned by the individual who holds the unvested option.

"Change in Control Severance Payment" means the Severance Payment and Benefit Continuation Payment.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Committee" means the committee responsible for administering the Plan, as described in Section 5.

"Company" means ALLETE and its Affiliates and except for purposes of determining whether a Change in Control has occurred, shall include any successor in interest to its business or assets which assumes the obligations of the Plan as required in Section 6.1 or which becomes bound by the terms of the Plan by operation of law.

"Effective Date" means April 23, 2018.

"Good Reason" means the occurrence of any of the following without the Participant's consent, which will permit the Participant to terminate employment within ninety (90) days after the end of the Cure Period (defined below):

(a) a material diminution of the Participant's authority, duties, or responsibilities relative to the authority, duties or responsibilities of the Participant prior to such reduction; or

(b) a material diminution by the Company in the Participant's total compensation, including base pay, aggregate incentive compensation opportunities (but excluding any reduction in incentive compensation awards as the result of the performance of the Participant or the Company) and aggregate benefits, as in effect immediately prior to such reduction; or

(c) the relocation of the Participant to a location or facility more than fifty (50) miles from the Participant's location immediately prior to change; or

(d) a material diminution by the Company of the authority, duties, or responsibilities of the supervisor to whom the Participant is required to report relative to the authority, duties or responsibilities of the supervisor prior to such reduction, including a requirement that the Participant report to a corporate officer or employee instead of reporting directly to the Board; or

(e) a material diminution in the budget over which the Participant retains authority relative to the budget prior to such reduction; or

(f) any other action or inaction that constitutes a material breach by the Company of an agreement under which a Participant provides services.

Notwithstanding the foregoing, the Participant may not resign for Good Reason without first providing the Employer with written notice (except in the case of ALLETE's Chief Executive Officer who shall provide such notice to the Board) of the condition that could constitute a "Good Reason" event within ninety (90) days of the initial existence of the condition and then only if such condition has not been remedied by the Employer within thirty (30) days of such written notice (the "Cure Period").

"Employer" shall mean, as applicable to any Participant, ALLETE or an Affiliate that employs the Participant.

"Involuntary Separation" means, with respect to a Participant, an involuntary termination of employment by the Employer without Cause, or a voluntary termination by the Participant with Good Reason.

"Participant" means an individual who the Committee has selected to participate in the Plan and who has received written notification of both the eligibility to participate and status as either a "Group A Participant," a "Group B Participant," a "Group C Participant," or a "Group D Participant."

"Person" means any individual, corporation (including any non-profit corporation), general, limited or limited liability partnership, limited liability company, joint venture, estate, trust, firm, association, organization or other entity or any governmental or quasi-governmental authority, organization, agency or body.

"Plan" means this Amended and Restated ALLETE and Affiliated Companies Change in Control Severance Plan.

"Protection Period" means the period beginning on the date that is six (6) months prior to a Change in Control and ending on the date that is twenty four (24) months after a Change in Control.

"Severance Duration Multiplier" means with respect to any Group A Participant, 2.5; with respect to any Group B Participant, 2; with respect to any Group C Participant, 1.5; and with respect to any Group D Participant, 1.

"Severance Payment" means the payment described in Section 2.1.1.

"Termination Date" shall mean, with respect to a Participant, the date of the Participant's Involuntary Separation.

Section 2. Change in Control Severance Benefits.

2.1 Involuntary Separation in Connection with Change in Control. If a Participant has an Involuntary Separation on any date during the Protection Period, Participant will receive the following severance benefits from the Employer:

2.1.1 Severance Payment. Participant will receive a lump sum cash payment in an amount equal to the product of (a) the applicable Severance Duration Multiplier and (b) the sum of (i) the Participant's Base Salary and (ii) the Participant's Bonus Amount.

2.1.2 Benefit Continuation Payment. Participant will receive an additional lump sum cash payment in an amount equal to the applicable Severance Duration Multiplier times the sum of: (i) the annual premium for medical and dental benefits in effect on the Termination Date as determined for individuals who are entitled to elect continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"); (ii) the annual premium the Employer would have paid to maintain core life insurance on behalf of the Participant had the Participant remained an employee of the Employer; and (iii) an amount the Employer would have allocated to the Participant annually under the ALLETE and Affiliated Companies Flexible Compensation Plan, determined with reference to the Participant's Base Salary.

Participants will be responsible for electing benefit continuation coverage, if such coverage is desired, pursuant to COBRA, within the time period prescribed pursuant to COBRA, and for paying all COBRA premiums for any continuation coverage so elected.

2.1.3 Outplacement Services. The Company will pay up to an aggregate of $25,000 for outplacement services obtained by Participant on or before the end of the second year following the year including the Termination Date, provided that the services commence not later than three (3) months following the later of the Change in Control or the Termination Date, and all amounts must be paid by the end of the third year following the year including the Termination Date. Outplacement services will be provided only in kind; the Company will pay the outplacement service provider(s) directly for services rendered to the Participant in accordance with this Section. No cash will be paid in lieu of outplacement services, nor will cash compensation to the Participant be increased if the Participant declines or does not use outplacement services.

2.2 Timing of Severance Payments. Subject to Sections 2.5 and 3.1, the Company will pay any Change in Control Severance Payment to which a Participant is entitled within 30 days after the later of the Termination Date or the effective date of the Separation Agreement and Release, but in no event more than seventy-four (74) calendar days after the later of the date of the Change of Control or the Termination Date.

2.3 Voluntary Resignation; Termination for Cause. If Participant's employment with the Company terminates for any reason other than Involuntary Separation, Participant will not receive any payments under this Plan.

2.4 Coordination with other Payments. The payments and benefits under this Plan to a Participant are intended to constitute the exclusive payments in the nature of severance or termination pay that shall be due to a Participant upon termination of his or her employment without Cause or for Good Reason in connection with a Change in Control and shall be in lieu of any such other payments under any agreement, plan, practice or policy of the Company, except as otherwise expressly provided in a written agreement between the

Company and the Participant that such severance payments or benefits are to be paid in addition to any payment or benefit described herein. Accordingly, if a Participant is a party to an employment, severance, termination, salary continuation or other similar agreement with the Company or any of its Affiliates, or is a participant in any other severance plan, practice or policy of the Company or any of its Affiliates that does not expressly provide that such severance payments or benefits are to be paid in addition to any payment or benefit described herein, the severance pay to which the Participant is entitled under this Plan shall be reduced (but not below zero) by the amount of severance pay to which he or she is entitled under such other agreement, plan, practice or policy; provided that the reduction set forth in this sentence shall not apply as to any other such agreement, plan, practice or policy that contains a reduction provision substantially similar to this Section 2.4 so long as the reduction provision of such other agreement, plan, practice or policy is applied.

2.5 Code Section 409A. To the extent that any payment under this Plan is deemed to be deferred compensation subject to the requirements of Section 409A of the Code, or any final regulations or guidance promulgated thereunder ("Section 409A"), the plan will be operated in compliance with Section 409A with respect to the subject payment. Notwithstanding anything in this Plan to the contrary, if Participant is a Specified Employee, the payment of any amount under this Plan that is Nonqualified Deferred Compensation, and that becomes payable on account of a Separation from Service, will be delayed and paid in a lump sum, with interest from the date on which it would otherwise have been paid in accordance with Section 2.2 at the short-term applicable federal rate, on the first date on which any such amount may be paid without triggering a tax under Section 409A, but in no event before the date that is six (6) months and one (1) day following the Participant's Separation from Service. The Plan is intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. The Company may amend or modify the plan, at any time, to comply with Section 409A. The terms "Specified Employee," "Nonqualified Deferred Compensation," and "Separation from Service" shall have the meaning provided by Section 409A and the applicable Treasury Regulations.

Section 3. Conditions to Receipt of Benefits; No Mitigation.

3.1 Separation Agreement and Release of Claims. No Change in Control Severance Payment shall be provided to a Participant unless, within sixty (60) days following the later of the Change in Control or Participant's Termination Date, the Participant delivers to the Company a Separation Agreement and Release, that has been properly executed on or after the Participant's Termination Date and has become irrevocable as provided therein. The initial form of the Separation Agreement and Release, including non-solicitation, non-competition and non-disparagement provisions, is attached to this Plan as Appendix A. Prior to the occurrence of a Change in Control, the Company may revise the Separation Agreement and Release. The Company may in any event modify the Separation Agreement and Release to conform it to the laws of the local jurisdiction applicable to a Participant or a change in applicable federal law so long as such modification does not increase the obligations of the Participant thereunder.

3.2 No Duty to Mitigate. Participant will not be required to mitigate the amount of any payment or benefit contemplated by this Plan, nor will any earnings that Participant may receive from any other source reduce any such payment or benefits.

Section 4. Limitation on Payments.

If it is determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Participant, whether paid or payable pursuant to this Plan or otherwise (a "Payment") would constitute an "excess parachute payment" within the meaning of Section 280G of the Code, the aggregate present value of the Payments under the Plan shall be reduced (but not below zero) to the Reduced Amount (defined below), provided that the Payments shall be reduced only if the Accounting Firm (described below) determines that the reduction will provide the Executive with a greater net after-tax benefit than would no reduction. The "Reduced Amount" shall be an amount expressed in the present value which maximizes the aggregate present value of Payments under this Plan without causing any Payment under this Plan to be subject to the excise tax imposed under Code Section 4999, determined in accordance with Code Section 280G(d)(4). Payments under this Plan shall be reduced on a nondiscretionary basis in such a way as to minimize the reduction in the economic value deliverable to the Participant. Any such reduction shall be implemented in a manner consistent with the requirements of Code Section 409A, and if more than one payment has the same value for this purpose and they are payable at different times, they will be reduced on a pro rata basis. The determination of whether any Payments constitute an “excess parachute payment” within the meaning of Code Section 280G and, if so, the amount to be delivered to the Participant pursuant to this Section of the Plan shall be determined by an independent accounting firm (the “Accounting Firm”) selected by the Participant and the Company. The Accounting Firm shall be a nationally recognized United States public accounting firm. If the Participant and the Company cannot agree on the Accounting Firm, the Participant and the Company shall each designate one (1) accounting firm and those two firms shall jointly select the accounting firm to serve as the Accounting Firm. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Participant.

Section 5. Plan Administration.

5.1 The Plan shall be interpreted, administered and operated by the Executive Compensation Committee of the Board (“Committee”). Subject to the express terms of the Plan, the Committee shall have complete authority, in its sole discretion, to determine who shall be a Participant, to interpret the Plan, to prescribe, amend and rescind rules relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. Notwithstanding the foregoing, the Committee may delegate any of its duties hereunder to such Person or Persons from time to time as it may designate.

5.2 All expenses and liabilities that members of the Committee incur in connection with the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants, appraisers, brokers, or other Persons, and the Committee, the Company and the Company's officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such Persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, and all members of the Committee shall be fully protected by the Company in respect of any such action, determination or interpretation.

Section 6. Successors.

6.1 The Company’s Successors. This Plan shall bind any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, in the same manner and to the same extent that the Company would be obligated under this Plan if no succession had taken place. In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by this Plan, the Company shall require such successor expressly and unconditionally to assume and agree to perform the obligations of the Company and each Employer under this Plan, in the same manner and to the same extent that the Company and each Employer would be required to perform if no such succession had taken place.

6.2 Participant’s Successors. All rights of the Participant under this Plan will inure to the benefit of, and be enforceable by, the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, legatees or other beneficiaries. If a Participant dies while any amount is payable to such Participant hereunder (other than amounts which, by their terms, terminate upon the death of the Participant) if such Participant had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to the executors, personal representatives or administrators of such Participant's estate.

Section 7. Notices.

7.1 General. Notices and all other communications provided for in the Plan shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested and postage prepaid. In the case of a Participant, mailed notices will be sent to his or her home address most recently communicated to the Company in writing. In the case of the Company, mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of its Vice President, Human Resources.

7.2 Notice of Termination. Any termination of a Participant’s employment by the Company for Cause or by a Participant for Good Reason will be communicated by a notice of termination to the other party given in accordance with Section 7.1 of the Plan.

Section 8. Miscellaneous.

8.1 No Waiver. No waiver by the Company or any Participant, as the case may be, at any time of any lack of compliance with any condition or provision of this Plan to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same, or at any prior or subsequent time. All other plans, policies and arrangements of the Company in which the Participant participates during the term of this Plan shall be interpreted so as to avoid the duplication of benefits paid hereunder.

8.2 No Right to Employment. Nothing contained in this Plan or any documents relating to the Plan shall: (a) confer on a Participant any right to continue in the employ of the Company or a subsidiary, (b) constitute any contract or agreement of employment, or (c) interfere in any way with the right of the Company to terminate the Participant's employment at any time, with or without Cause.

8.3 Legal Fees and Expenses. If a Participant commences a legal action to enforce any of the obligations of the Company under this Plan and Participant prevails on the merits of the substantive issues in dispute in such proceeding, the Company shall pay the Participant the amount necessary to reimburse the Participant in full for all actual reasonable expenses (including reasonable attorneys' fees and legal expenses) incurred by the Participant with respect to such action.

8.4 Plan Termination; Amendment of Plan. Prior to a Change in Control, the Plan may be amended or modified in any respect, and may be terminated, in any such case by resolution adopted by the Executive Compensation Committee of the Board; provided, however, that no such amendment, modification or termination that would adversely affect the benefits or protections hereunder of any individual who is a Participant as of the date such amendment, modification or termination is adopted shall be effective as it relates to such individual unless no Change in Control occurs within one year after such adoption, any such attempted amendment, modification or termination adopted within one year prior to a Change in Control being null and void ab initio as it relates to all such individuals who were Participants prior to such adoption (it being understood, however, that the hiring, termination of employment, promotion or demotion of any employee of the Company prior to a Change in Control shall not be construed to be an amendment, modification or termination of the Plan); provided, further, however, that the Plan may not be amended, modified or terminated, (i) at the request of a third party who has indicated an intention or taken steps to effect a Change in Control and who effectuates a Change in Control or (ii) otherwise in connection with, or in anticipation of, a Change in Control which actually occurs, any such attempted amendment, modification or termination being null and void ab initio. Any action taken to amend, modify or terminate the Plan which is taken after the execution of an agreement providing for a transaction or transactions which, if consummated, would constitute a Change in Control shall conclusively be presumed to have been taken in connection with a Change in Control. From and after the occurrence of a Change in Control, the Plan may not be amended or modified in any manner that would in any way adversely affect the benefits or protections provided hereunder to any individual who is a Participant in the Plan on the date the Change in Control occurs. From and after the occurrence of a Change in Control, except to the extent specifically permitted by the last sentence of Section 3.1, the revision of the Separation Agreement and Release, attached hereto as Appendix A, shall be deemed to be a modification of the Plan for purposes of this Section 8.4. If a Change in Control occurs, this Plan shall continue in full force and effect and shall not terminate or expire until after all Participants who have become entitled to Change in Control Severance Payments hereunder shall have received such payments in full.

8.5 Benefits not Assignable. Except as otherwise provided herein or by law, no right or interest of a Participant under the Plan shall be assignable or transferable, in whole or in part, either directly or by operation of law or otherwise, including without limitation by execution, levy, garnishment, attachment, pledge or in any manner; no attempted assignment or transfer thereof shall be effective; and no right or interest of a Participant under the Plan shall be liable for, or subject to, any obligation or liability of such Participant. When a payment is due pursuant this Plan to a Participant who is unable to care for his or her affairs, payment may be made directly to his or her legal guardian or personal representative.

8.6 Tax Withholding. All amounts payable hereunder shall be subject to withholding of applicable federal, state and local taxes.

8.7 Minnesota Law. This Plan will be construed and interpreted, and the rights of the Company and Participants will be determined in accordance with, the laws of the State of Minnesota (without regard to the conflicts of laws principles thereof), to the extent not preempted by federal law, which shall otherwise control.

8.8 Validity. The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, which shall remain in full force and effect. If this Plan shall for any reason be or become unenforceable by either party, this Plan shall thereupon terminate and become unenforceable by the other party as well.

Now, therefore, ALLETE has adopted this Amended and Restated Change in Control Severance Plan effective as of the Effective Date.

ALLETE, Inc.

By ______________________________________

Its _______________________________________

Attest:

By _____________________________________

Its _____________________________________

<u>Appendix A</u>

Form of
SEPARATION AGREEMENT AND RELEASE

WHEREAS << [Insert:] Full Name >> (“Executive”) is a Participant in the Amended and Restated ALLETE and Affiliated Companies Change in Control Severance Plan (“the Plan”), and whereas Executive’s employment with <<[Select:] ALLETE, Inc. or applicable Affiliate >> (together with all affiliates of ALLETE, Inc., the “Company”) terminated effective <<[Insert] Termination Date>> (“<<”[Select] Termination Date” or “Retirement Date”>>)under circumstances that make Executive eligible to receive certain compensation and other benefits under the Plan, and whereas Executive enters into this Separation Agreement and Release (“Agreement”) of << [Select:] his or her>> own free will and deed; therefore, as of the date written below the Company and Executive agree as follows:

1. <u>Separation Benefit</u>. Executive will receive from the Company the payment and other benefits provided by the Plan and delivered in accordance with the Plan provided that this Agreement becomes effective and Executive has not rescinded the Agreement within the Reconsideration Period (defined below).

2. <u>Non-Solicitation</u>. From the <<[Select:]Termination Date” or “Retirement Date>> and for a period continuing through the date that twenty four (24) months following the later of the <<[Select:] Termination Date” or “Retirement Date>> or a Change in Control (as defined in the Plan) Executive will not solicit, or assist any Person (as defined in the Plan) in the solicitation of, any director, officer or employee of the Company for employment other than with the Company, or otherwise interfere with or disrupt any employment relationship (contractual or otherwise) of the Company.

3. <u>Non-Competition</u>. For a period of twelve (12) months following the later of the <<[Select:] Termination Date” or “Retirement Date>> or a Change in Control (as defined in the Plan) Executive will not, without the written express consent of the Company, directly or indirectly, alone or as a partner, owner, officer, director, employee, or consultant of any other firm, business or entity, engage in any activity in competition with the Company. This prohibition will apply only to activities in which the Company is engaged at any time during the Executive’s employment with the Company and only with respect to those geographic regions in which the Company is engaged in such business activities or reasonably anticipates engaging in such business activities. <<[Provide specific areas or examples as appropriate]>>. Notwithstanding the foregoing, nothing herein shall prohibit Executive from owning stock of any corporation, if such stock is traded on a recognized national securities exchange.

4. <u>Nondisparagement</u>. For a period of twelve (12) months following the later of the <<[Select:] Termination Date” or “Retirement Date>> or a Change in Control (as defined in the Plan) Executive will not, directly or indirectly, knowingly and materially disparage, criticize, or otherwise make derogatory statements regarding the Company or any aspect of management policies, operations, practices, or personnel of the Company. Notwithstanding the foregoing, nothing contained herein will be deemed to restrict the Participant from providing information to any governmental or regulatory agency (or in any way limit the content of such information) to the extent the Participant is required to provide such information pursuant to applicable law or regulation; nor will the foregoing restrict the Participant from enforcing his or her rights under this Agreement or the Plan. The Company promises that its officers will not disparage Executive, and will do nothing intentionally calculated to harm the Executive’s reputation.

5. <u>Non Disclosure.</u> Executive agrees to keep confidential all information and trade secrets to which Executive has had access during and in the course of Executive’s employment by the Company, (whether written, prepared or made by him or others), including but not limited to the terms of this Agreement, the

business practices, strategies, and opportunities of the Company, and any other non-public information relating to the Company's business. Notwithstanding the foregoing, Executive may reveal the existence of this Agreement, its terms and conditions, and the facts and circumstances leading up to this Agreement with Executive's spouse, attorneys, accountants, tax consultants, and to state and federal tax authorities or as may be required by law.

6. Waiver and Release. Except with respect to Executive's rights under this Agreement and the Plan, Executive on behalf of himself and his heirs, executors, administrators, representatives, successors and assigns, agrees to release and forever discharge ALLETE, Inc., and its affiliates, subsidiaries, predecessors, successors, related entities, insurers and the current and former officers, directors, shareholders, employees, attorneys, agents and trustees or administrators of any benefit plan of each of the foregoing (any and all of which are referred to as "Released Parties") of and from any claim for future employment, and of and from any claims, rights, or causes of action or other demands whatsoever, which Executive, or Executive's heirs, executors, administrators, successors, or assigns may now have or hereafter can, shall or may have for, upon, or by any reason of any matter, cause or thing, whatsoever, which has happened, developed or occurred on or before the date of this Waiver and Release, arising out of Executive's employment with or termination of employment from the Company, including, but not limited to claims for wrongful termination, discrimination, retaliation, invasion of privacy, defamation, slander, fraud, intentional infliction of emotional distress as well as claims arising out of any federal, state or local discrimination, civil rights or labor laws, rules or regulations, contract, tort, or common law as it relates to the employment relationship between Executive and the Company, including, without limitation, claims arising under: the Age Discrimination and Employment Act of 1967, as amended by the Older Workers Benefit Protection Act of 1990; Title VII of the Civil Rights Act of 1964, as amended; the Civil Rights Act of 1991; the Equal Pay Act of 1963; The Fair Labor Standards Act, the National Labor Relations Act, as amended; the Americans with Disabilities Act, as amended; the Americans with Disabilities Amendment Act; the Family Medical Leave Act; the Employee Retirement Income Security Act (but only as to claims arising thereunder prior to the date hereof); and the Minnesota Human Rights Act. Executive understands that the claims that Executive is releasing include but are not limited to any claim that the Company in any way discriminated against Executive on account of race, color, religious creed, sex, marital status, familial status, sexual orientation, age, national origin, ancestry, alienage, veteran status, and disability, as well as any claim that the Company wrongfully terminated my employment or breached any express or implied employment contract. Executive understands and agrees that, with respect to any individual Released Party, Executive is releasing such Released Party in his or her individual capacity as well as his or her official capacity.

7. Specific Limitations on Waiver and Release. The foregoing Waiver and Release shall not release any claims that cannot be waived or released as a matter of law. Therefore, Executive does not waive or release the right:

a) to file an employment-related charge or complaint with any federal, state, or local government agency with authority over employment-related matters (examples of such government agencies include the United States Department of Labor, the federal Equal Employment Opportunity Commission, and the Minnesota Department of Human Rights, etc.); provided, however, if Executive does file a charge or complaint with a government agency, or if someone else files on Executive's behalf or for Executive's benefit, and if it would otherwise be covered by the Waiver ad Release, Executive waives and releases all individual rights, remedies, claims, and causes of action, known and unknown, contingent or absolute, Executive might have against the Company to receive any damages, attorneys' fees, costs, disbursements, and other monetary and personal relief; also, if the charge or complaint is followed by a lawsuit brought by Executive or by someone else on Executive's behalf, Executive waives and releases all individual rights, remedies, claims, and causes of action, known and unknown, contingent or absolute, Executive might have against the Company to receive any damages, attorneys' fees, costs, disbursements, and other monetary and personal relief in the lawsuit;

b) to testify, assist, or otherwise participate in any investigation, hearing, or other proceeding conducted by any government agency;

c) to bring claims under the Minnesota Workers' Compensation Act, as amended, pertaining to workers' compensation benefits; except, however, Executive waives the right to bring claims under Minn. Stat. § 176.82; or

d) to challenge in court the validity of Executive's waiver and release under the Age Discrimination in Employment Act of 1967, as amended; however, Executive has no reason to believe that the above Waiver and Release under that Act is invalid or unenforceable, it being in the best interests of the parties that such wavier and release is valid and enforceable.

8. <u>Acknowledgments</u>. Executive specifically acknowledge, understand and agree as follows:

a) Executive's election to sign this Agreement is wholly voluntary, made of Executive's own free will, free from coercion by the Company or any of its officers or employees and with full knowledge that it is intended, to the maximum extent permitted by law, as a complete and final release and waiver of any and all claims;

b) Executive will receive from the Company consideration, meaning something of value beyond that which Executive was already entitled to receive prior to signing this Agreement;

c) Executive has been advised by the Company in writing (and given the opportunity) to consult with an attorney before signing this Agreement;

d) Executive has made these decisions only after Executive has had the opportunity to carefully consider the benefits available and the ramifications of the Waiver and Release and Executive has not relied on any explanations, statements or promises made by the Company or its agents or attorneys other than as set forth in this Agreement.

e) Executive has also been advised by the Company (and given the opportunity) to discuss this Release with family and other advisors, as Executive deems appropriate;

f) Executive has been given a period of at least <<[Select:] twenty-one (21) or forty-five (45)>> calendar days from the day that Executive received this Agreement, not counting the day on which Executive received it, to consider whether Executive wished to participate and to sign this Agreement. If Executive signs this Agreement before the end of the <<[Select:] 21-day or 45-day>> period, it will be Executive's voluntary decision to do so because Executive decided that additional time was not not to decide whether to sign this Agreement; and

g) Executive may revoke this Agreement and rescind the Waiver and Release of claims within fifteen (15) days of the date of this Agreement, (the "Reconsideration Period") Executive understands this Agreement does not become effective until the 15-day period lapses without such revocation by Executive, and that no payment under the Plan will be made to Executive unless and until this Agreement is effective.

9. Severability. Should any provision of this agreement be held invalid or illegal, such illegality shall not invalidate the whole of this agreement, but, rather, the agreement shall be construed as if it did not contain the illegal part, and the rights and obligations of the parties shall be construed and enforced accordingly.

10. Voluntary Agreement. This Agreement is entered into on a completely voluntary basis by both Executive and Minnesota Power, and represents the complete agreement between the parties, superseding any previous agreements.

_________________________ ____

Date Executive’s Signature (Notarized)

Subscribed to before me this

_____day of ___________, 201___.

Notary Public

ALLETE, Inc. << or applicable affiliate employer>>

By: ______________________________________

Title: ____________________________________

Exhibit 31(a)

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

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

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2018, 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: May 2, 2018

/s/ Alan R. Hodnik

Alan R. Hodnik
Chairman, President and Chief Executive Officer

Exhibit 31(b)

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

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

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2018, 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: May 2, 2018	/s/ Robert J. Adams
	Robert J. Adams
	Senior Vice President and Chief Financial Officer

Exhibit 32

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

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

1. The Quarterly Report on Form 10-Q of ALLETE for the period ended March 31, 2018, (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: May 2, 2018

/s/ Alan R. Hodnik

Alan R. Hodnik
Chairman, President and Chief Executive Officer

Date: May 2, 2018

/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.

Exhibit 95

Mine Safety Disclosure

Mine or Operating Name/MSHA Identification Number	Section 104 S&S Citations (#)	Section 104(b) Orders (#)	Section 104(d) Citations and Orders (#)	Section 110(b)(2) Violations (#)	Section 107(a) Orders (#)	Total Dollar Value of MSHA Assessments Proposed ($)	Total Number of Mining Related Fatalities (#)	Received Notice of Pattern of Violation Under Section 104(e) (yes/no)	Received Notice of Potential to Have Pattern Under Section 104(e) (yes/no)	Legal Actions Pending as of Last Day of Period (#)	Legal Actions Initiated During Period (#)	Legal Actions Resolved During Period (#)
Center Mine / 3200218	—	—	—	—	—	$208	—	No	No	—	—	—

For the three months ended March 31, 2018, BNI Energy, owner of Center Mine, received one citation under Section 104(a) of the Mine Safety Act; however, it was not a significant and substantial (S&S) citation. The total penalty proposed to be assessed on BNI with respect to the one citation was $208. For the three months ended March 31, 2018, there were no citations, orders, violations or notices received under Sections 104(b), 104(d), 107(a), 104(e) or 110(b)(2) of the Mine Safety Act and there were no fatalities.

Exhibit 99

For Release: May 2, 2018
Investor Contact: Vince Meyer
218-723-3952
vmeyer@allete.com

NEWS

ALLETE, Inc. reports first quarter 2018 earnings of 99 cents per share

DULUTH, Minn. - ALLETE, Inc. (NYSE: ALE) today reported first quarter 2018 earnings of 99 cents per share on net income of $51.0 million and operating revenue of $358.2 million. Last year's results were 97 cents per share on net income of $49.0 million and operating revenue of $365.6 million.

"Our multifaceted growth strategy is evidenced in our financial results for the quarter, and overall the results are in-line with our expectations; our full-year earnings guidance range and expected contribution ranges from our Regulated Operations segment, and Energy Infrastructure and Related Services businesses and Corporate and Other operations remain unchanged. ALLETE has delivered on growth initiatives this quarter" said ALLETE Chairman, President and CEO Al Hodnik. "And we are well positioned with ALLETE's family of businesses to answer the call for cleaner energy forms and water conservation, while creating additional value for our shareholders."

ALLETE's Regulated Operations segment, which includes Minnesota Power, Superior Water, Light and Power (SWL&P) and the Company's investment in the American Transmission Co. (ATC), recorded net income of $43.9 million, compared to $43.5 million in the first quarter a year ago. Earnings reflect lower net income at Minnesota Power resulting from reserves for an interim rate refund, discounts provided to Energy-Intensive Trade-Exposed customers, lower transmission revenue and higher property taxes. These declines were offset by lower depreciation expense due to timing of the Minnesota Public Utilities Commission's decision to modify the Boswell Units 3 and 4 and common facilities depreciable lives, lower operating and maintenance expense, higher sales to industrial customers due to the start-up of Keewatin Taconite in March 2017, and higher sales to residential customers due to colder weather. Minnesota Power and the Minnesota Department of Commerce separately requested reconsideration on rate case decision points that, if granted, will impact 2018 revenue and expense. Net income at SWL&P increased over last year due to the implementation of new rates effective in August 2017 and higher sales attributable to colder weather, while equity earnings from ATC were similar to last year.

ALLETE's Energy Infrastructure and Related Services businesses, which include ALLETE Clean Energy and U.S. Water Services, recorded net income of $8.1 million and a net loss of $1.4 million in 2018, respectively. Earnings at ALLETE Clean Energy increased $1.4 million, or 21 percent, from 2017 primarily due to a lower federal income tax rate and production tax credits generated by its ongoing wind turbine refurbishment strategy. The net loss at U.S. Water Services increased $1.1 million due to higher operating expenses, which were partially offset by increased equipment revenue. Revenue increased 19 percent primarily due to the September 2017 acquisition of Tonka Water; however, revenue was negatively impacted by lower than expected equipment sales due to timing of shipments, as well as colder weather which reduced chemical sales. Earnings at U.S. Water Services reflect results from selling certain products that are seasonal in nature, with higher demand typically realized in warmer months.

Corporate and Other, which includes BNI Energy and ALLETE Properties, recorded net income of $0.4 million for the quarter, compared to a net loss of $0.9 million in 2017. The increase in 2018 reflects higher land sales at ALLETE Properties and lower interest expense.

Earnings per share for the quarter was diluted by 2 cents due to additional shares of common stock outstanding as of March 31, 2018.

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 May 6, 2018 by calling (855) 859-2056, pass code 2193327. 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, BNI Energy in Bismarck, N.D., U.S. Water Services headquartered in St. Michael, Minn., 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

	Three Months Ended March 31,	
	2018	2017
Operating Revenue		
Contracts with Customers – Utility	$270.2	$281.6
Contracts with Customers – Non-utility	82.0	78.1
Other – Non-utility	6.0	5.9
Total Operating Revenue	358.2	365.6
Operating Expenses		
Fuel, Purchased Power and Gas – Utility	100.9	96.6
Transmission Services – Utility	18.4	16.6
Cost of Sales – Non-utility	32.9	31.5
Operating and Maintenance	86.5	84.4
Depreciation and Amortization	45.8	50.5
Taxes Other than Income Taxes	16.3	14.4
Total Operating Expenses	300.8	294.0
Operating Income	57.4	71.6
Other Income (Expense)		
Interest Expense	(16.9)	(17.2)
Equity Earnings in ATC	4.7	6.1
Other	2.1	1.6
Total Other Expense	(10.1)	(9.5)
Income Before Income Taxes	47.3	62.1
Income Tax Expense (Benefit)	(3.7)	13.1
Net Income	$51.0	$49.0
Average Shares of Common Stock		
Basic	51.2	50.2
Diluted	51.4	50.4
Basic Earnings Per Share of Common Stock	$1.00	$0.97
Diluted Earnings Per Share of Common Stock	$0.99	$0.97
Dividends Per Share of Common Stock	$0.56	$0.535

Consolidated Balance Sheet
Millions - Unaudited

	Mar. 31, 2018	Dec. 31, 2017		Mar. 31, 2018	Dec. 31, 2017
Assets			**Liabilities and Shareholders' Equity**		
Cash and Cash Equivalents	$98.5	$98.9	Current Liabilities	$399.6	$351.2
Other Current Assets	305.1	268.6	Long-Term Debt	1,396.5	1,439.2
Property, Plant and Equipment – Net	3,786.1	3,822.4	Deferred Income Taxes	229.7	230.5
Regulatory Assets	376.0	384.7	Regulatory Liabilities	516.0	532.0
Investment in ATC	120.1	118.7	Defined Benefit Pension and Other Postretirement Benefit Plans	175.2	191.8
Other Investments	52.8	53.1	Other Non-Current Liabilities	257.8	267.1
Goodwill and Intangibles – Net	224.5	225.9	Shareholders' Equity	2,097.3	2,068.2
Other Non-Current Assets	109.0	107.7			
Total Assets	$5,072.1	$5,080.0	**Total Liabilities and Shareholders' Equity**	$5,072.1	$5,080.0

ALLETE, Inc. Income (Loss)	Three Months Ended March 31, 2018	 2017
Millions		
Regulated Operations	$43.9	$43.5
Energy Infrastructure and Related Services		
ALLETE Clean Energy	8.1	6.7
U.S. Water Services	(1.4)	(0.3)
Corporate and Other	0.4	(0.9)
Net Income Attributable to ALLETE	$51.0	$49.0
Diluted Earnings Per Share	$0.99	$0.97

Statistical Data		
Corporate		
Common Stock		
High	$74.42	$68.38
Low	$66.64	$61.64
Close	$72.25	$67.71
Book Value	$40.91	$39.34

Kilowatt-hours Sold		
Millions		
Regulated Utility		
Retail and Municipal		
Residential	342	323
Commercial	367	369
Industrial	1,843	1,762
Municipal	219	215
Total Retail and Municipal	2,771	2,669
Other Power Suppliers	1,003	1,041
Total Regulated Utility Kilowatt-hours Sold	3,774	3,710

Regulated Utility Revenue		
Millions		
Regulated Utility Revenue		
Retail and Municipal Electric Revenue		
Residential	$35.5	$34.7
Commercial	34.0	36.0
Industrial	113.3	120.5
Municipal	14.0	18.2
Total Retail and Municipal Electric Revenue	196.8	209.4
Other Power Suppliers	43.7	41.2
Other (Includes Water and Gas Revenue)	29.7	31.0
Total Regulated Utility Revenue	$270.2	$281.6

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