SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 JUNE 30, 2006

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 and (2) has been subject to such filing requirements for the past 90 days. /X/ Yes / / No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer /X/ Accelerated Filer / / Non-Accelerated Filer / /

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, no par value,
30,321,240 shares outstanding
as of June 30, 2006

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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
2005 Form 10-K	ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 2005
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, Inc.
AREA	Arrowhead Regional Emission Abatement Plan
ATC	American Transmission Company LLC
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
Company	ALLETE, Inc. and its subsidiaries
Constellation Energy Commodities	Constellation Energy Commodities Group, Inc.
DOC	Minnesota Department of Commerce
Enventis Telecom	Enventis Telecom, Inc.
EITF	Emerging Issues Task Force Issue No.
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Florida Water	Florida Water Services Corporation
FSP	Financial Accounting Standards Board Staff Position
GAAP	Accounting Principles Generally Accepted in the United States of America
Laskin	Laskin Energy Center
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midwest Independent Transmission System Operator, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
Note ___	Note ___ to the consolidated financial statements in this Form 10-Q
NOx	Nitrogen Oxide
Palm Coast District	Palm Coast Park Community Development District
Palm Coast Park	Palm Coast Park development project in Florida
PSCW	Public Service Commission of Wisconsin
Rainy River Energy	Rainy River Energy Corporation
Resource Plan	Integrated Resource Plan
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards No.
SO2	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
Town Center	Town Center at Palm Coast development project in Florida
Town Center District	Town Center at Palm Coast Community Development District
WDNR	Wisconsin Department of Natural Resources

SAFE HARBOR STATEMENT
UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are hereby filing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) made by or on behalf of ALLETE in this Quarterly Report on Form 10-Q, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "will likely result," "will continue," "could," "may," "potential," "target," "outlook" or similar expressions) are not statements of historical facts and may be forward-looking.

Forward-looking statements involve estimates, assumptions, risks and uncertainties, and 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, which are difficult to predict, contain uncertainties, are beyond our control and may cause actual results or outcomes to differ materially from those contained in forward-looking statements:

- our ability to successfully implement our strategic objectives;
- our ability to manage expansion and integrate acquisitions;
- prevailing governmental policies and regulatory actions, including those of the United States Congress, state legislatures, the FERC, the MPUC, the PSCW, and various local and county regulators, and city administrators, about allowed rates of return, financings, industry and rate structure, acquisition and disposal of assets and facilities, real estate development, operation and construction of plant facilities, recovery of purchased power and capital investments, present or prospective wholesale and retail competition (including but not limited to transmission costs), and zoning and permitting of land held for resale;
- effects of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- natural disasters and pandemic diseases;
- war and acts of terrorism;
- wholesale power market conditions;
- our ability to obtain viable real estate for development purposes;
- population growth rates and demographic patterns;
- the effects of competition, including competition for retail and wholesale customers;
- pricing and transportation of commodities;
- changes in tax rates or policies or in rates of inflation;
- unanticipated project delays or changes in project costs;
- unanticipated changes in operating expenses and capital expenditures;
- global and domestic economic conditions;
- our ability to access capital markets;
- changes in interest rates and the performance of the financial markets;
- competition for economic expansion or development opportunities;
- our ability to replace a mature workforce, and retain qualified, skilled and experienced personnel; and
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this report are discussed under the heading "Risk Factors" in Part I, Item 1A of our 2005 Form 10-K and Part II, Item 1A of our Quarterly Reports on Form 10-Q for 2006. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by us in this Form 10-Q and in our other reports filed with the SEC that attempt to advise interested parties of the factors that may affect our business.

ALLETE
CONSOLIDATED BALANCE SHEET
MILLIONS - UNAUDITED

	JUNE 30, 2006	DECEMBER 31, 2005
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 62.8	$ 89.6
Short-Term Investments	120.4	116.9
Accounts Receivable (Less Allowance of $1.0 for 2006 and 2005)	61.0	79.1
Inventories	42.1	33.1
Prepayments and Other	21.6	23.8
Deferred Income Taxes	33.1	31.0
Discontinued Operations	-	0.4
Total Current Assets	341.0	373.9
Property, Plant and Equipment - Net	871.6	860.4
Investments	127.8	117.7
Other Assets	45.7	44.6
Discontinued Operations	-	2.2
TOTAL ASSETS	$1,386.1	$1,398.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 30.4	$ 44.7
Accrued Taxes	15.8	19.1
Accrued Interest	7.2	7.4
Long-Term Debt Due Within One Year	61.6	2.7
Deferred Profit on Sales of Real Estate	8.1	8.6
Other	18.0	24.2
Discontinued Operations	-	13.0
Total Current Liabilities	141.1	119.7
Long-Term Debt	326.9	387.8
Deferred Income Taxes	135.4	138.4
Other Liabilities	149.2	144.1
Minority Interest	5.7	6.0
Total Liabilities	758.3	796.0
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock Without Par Value, 43.3 Shares Authorized, 30.3 and 30.1 Shares Outstanding	430.8	421.1
Unearned ESOP Shares	(75.6)	(77.6)
Accumulated Other Comprehensive Loss	(12.5)	(12.8)
Retained Earnings	285.1	272.1
Total Shareholders' Equity	627.8	602.8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,386.1	$1,398.8

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF INCOME
MILLIONS EXCEPT PER SHARE AMOUNTS - UNAUDITED

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
OPERATING REVENUE	$178.3	$174.4	$370.8	$367.7
OPERATING EXPENSES				
Fuel and Purchased Power	63.0	68.9	132.4	136.5
Operating and Maintenance	76.8	71.7	151.3	144.4
Kendall County Charge	-	77.9	-	77.9
Depreciation	12.2	11.9	24.4	23.8
Total Operating Expenses	152.0	230.4	308.1	382.6
OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS	26.3	(56.0)	62.7	(14.9)
OTHER INCOME (EXPENSE)				
Interest Expense	(6.4)	(6.7)	(12.8)	(13.5)
Other	3.4	1.5	5.1	(2.7)
Total Other Expense	(3.0)	(5.2)	(7.7)	(16.2)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND INCOME TAXES	23.3	(61.2)	55.0	(31.1)
MINORITY INTEREST	0.8	0.2	2.1	1.4
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	22.5	(61.4)	52.9	(32.5)
INCOME TAX EXPENSE (BENEFIT)	8.9	(21.6)	20.5	(10.1)
INCOME (LOSS) FROM CONTINUING OPERATIONS	13.6	(39.8)	32.4	(22.4)
LOSS FROM DISCONTINUED OPERATIONS - NET OF TAX	(0.4)	(0.5)	(0.4)	(0.5)
NET INCOME (LOSS)	$ 13.2	$(40.3)	$ 32.0	$(22.9)
AVERAGE SHARES OF COMMON STOCK				
Basic	27.7	27.2	27.6	27.2
Diluted	27.9	27.2	27.8	27.2
BASIC EARNINGS (LOSS) PER SHARE OF COMMON STOCK				
Continuing Operations	$0.50	$(1.46)	$1.18	$(0.82)
Discontinued Operations	(0.02)	(0.02)	(0.02)	(0.02)
	$0.48	$(1.48)	$1.16	$(0.84)
DILUTED EARNINGS (LOSS) PER SHARE OF COMMON STOCK				
Continuing Operations	$0.49	$(1.46)	$1.17	$(0.82)
Discontinued Operations	(0.02)	(0.02)	(0.02)	(0.02)
	$0.47	$(1.48)	$1.15	$(0.84)
DIVIDENDS PER SHARE OF COMMON STOCK	$0.3625	$0.3150	$0.7250	$0.6150

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
MILLIONS - UNAUDITED

	SIX MONTHS ENDED JUNE 30, 2006	2005
OPERATING ACTIVITIES		
Net Income (Loss)	$ 32.0	$(22.9)
Loss from Discontinued Operations	0.4	0.5
Loss on Impairment of Investments	-	5.1
Depreciation	24.4	23.8
Deferred Income Taxes	(4.7)	(34.1)
Minority Interest	2.1	1.4
Stock Compensation Expense	0.9	0.6
Bad Debt Expense	0.4	0.4
Changes in Operating Assets and Liabilities		
Accounts Receivable	17.7	15.7
Inventories	(9.0)	(3.6)
Prepayments and Other	2.2	1.8
Accounts Payable	(10.9)	(9.5)
Other Current Liabilities	(10.1)	(0.9)
Other Assets	(1.1)	4.7
Other Liabilities	5.1	3.0
Net Operating Activities for Discontinued Operations	(13.0)	(6.0)
Cash from (for) Operating Activities	36.4	(20.0)
INVESTING ACTIVITIES		
Proceeds from Sale of Available-For-Sale Securities	410.6	271.1
Payments for Purchase of Available-For-Sale Securities	(414.1)	(183.5)
Changes to Investments	(11.2)	(3.4)
Additions to Property, Plant and Equipment	(35.3)	(22.6)
Other	2.5	(1.8)
Net Investing Activities from (for) Discontinued Operations	2.2	(1.4)
Cash from (for) Investing Activities	(45.3)	58.4
FINANCING ACTIVITIES		
Issuance of Common Stock	8.8	12.8
Issuance of Long-Term Debt	50.0	-
Payments of Long-Term Debt	(52.0)	(1.0)
Dividends on Common Stock and Distributions to Minority Shareholders	(21.3)	(16.0)
Net Decrease in Book Overdrafts	(3.4)	-
Net Financing Activities for Discontinued Operations	-	(0.1)
Cash for Financing Activities	(17.9)	(4.3)
CHANGE IN CASH AND CASH EQUIVALENTS	(26.8)	34.1
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	89.6	46.1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 62.8	$ 80.2
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Period for		
Interest - Net of Amounts Capitalized	$19.4	$16.4
Income Taxes	$31.1	$13.6

Included $1.1 million of cash from Discontinued Operations at June 30, 2005 and $1.2 million at December 31, 2004.

The accompanying notes are an integral part of these statements.

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with our 2005 Form 10-K. In our opinion, all adjustments necessary for a fair statement of the results for the interim periods have been made. The results of operations for an interim period are not necessarily indicative of the results to be expected for the full year.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Certain reclassifications have been made to prior years' amounts to conform to current year classifications. We revised our Consolidated Statement of Cash Flows for the quarter ended June 30, 2005, to reconcile Net Income to Cash from Operating Activities. Previously, we reconciled Income from Continuing Operations to Cash from Operating Activities. In addition, we have reclassified certain amounts in our balance sheet, statement of income, statement of cash flows and segment information to reflect discontinued operations treatment for our telecommunications business, which we sold in December 2005. These reclassifications had no effect on previously reported consolidated net income, shareholders' equity, comprehensive income or cash flows.

INVENTORIES. Inventories are stated at the lower of cost or market. Cost is determined by the average cost method.

INVENTORIES	JUNE 30, 2006	DECEMBER 31, 2005
MILLIONS		
Fuel	$20.0	$11.0
Materials and Supplies	22.1	22.1
Total Inventories	$42.1	$33.1

STOCK-BASED COMPENSATION EXPENSE. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, "Share-Based Payment," using the modified prospective transition method. Under this method, we recognize compensation expense for all share-based payments granted after January 1, 2006, and those granted prior to but not yet vested as of January 1, 2006. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation expense for those shares expected to vest over the required service period of the award. Prior to our adoption of SFAS 123R, we accounted for share-based payments under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations.

STOCK INCENTIVE PLAN. Under our Executive Long-Term Incentive Compensation Plan, share-based awards may be issued to employees via a broad range of methods, including non-qualified and incentive stock options, performance shares, performance units, restricted stock, stock appreciation rights and other awards. There are 3.2 million shares of common stock reserved for issuance under the plan, with 1.6 million of these shares available for issuance as of June 30, 2006. We currently have the following types of share-based awards outstanding:

NON-QUALIFIED STOCK OPTIONS. The options allow for the purchase of shares of common stock at a price equal to the common stock's market value at the date of grant. Options become exercisable beginning one year after the grant date, with one-third vesting each year over three years. Options may be exercised up to ten years following the date of grant. In the case of qualified retirement, death or disability, options vest immediately and the period over which the options can be exercised is shortened. Employees have up to three months to exercise vested options upon voluntary termination or involuntary termination without cause. All options are cancelled upon termination for cause. All options vest immediately upon a change of control, as defined in the award agreement. We determine the fair value of options using the Black-Scholes option pricing model. The estimated fair value of options, including the effect of estimated forfeitures, is recognized as expense on the straight-line basis over the options' vesting periods.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following assumptions were used in determining the fair value of stock options granted during the first six months of 2006, under the Black-Scholes option-pricing model:

	2006
Risk-Free Interest Rate	4.5%
Expected Life	5 Years
Expected Volatility	20%
Dividend Growth Rate	5%

The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the grant date. Expected volatility is based on the historic volatility of our stock and the stock of our peer group companies. We utilize historical option exercise and employee termination data to estimate the option life. Dividend growth rate is based upon historic growth rates in our dividends and the dividends of our peer group companies.

PERFORMANCE SHARES. Under these awards, the number of shares earned is contingent upon attaining specific performance targets over a three-year performance period. In the case of qualified retirement, death or disability during a performance period, a pro-rata portion of the award will be earned at the conclusion of the performance period based on the performance goals achieved. In the case of termination of employment for any reason other than qualified retirement, death or disability, no award will be earned. If there is a change in control, a pro-rata portion of the award will be paid based on the greater of actual performance up to the date of the change in control or target performance. The fair value of these awards is equal to the grant date fair value which is estimated based upon the assumed share-based payment three years from the date of grant. Compensation cost is recognized over the three-year performance period based on our estimate of the number of shares which will be earned by the award recipients.

EMPLOYEE STOCK PURCHASE PLAN (ESPP). Under our ESPP, eligible employees may purchase ALLETE common stock at a 5 percent discount from the market price. Because the discount is not greater than 5 percent, we are not required by SFAS 123R to apply fair value accounting to these awards.

RETIREMENT SAVINGS AND STOCK OWNERSHIP PLAN (RSOP). Shares held in our RSOP are excluded from SFAS 123R and are accounted for in accordance with the American Institute of Certified Public Accountants' Statement of Position No. 93-6, "Employers' Accounting for Employee Stock Ownership Plans."

The following share-based compensation expense amounts were recognized in our consolidated statement of income for the periods presented since our adoption of FAS 123R.

SHARE-BASED COMPENSATION EXPENSE MILLIONS	QUARTER ENDED JUNE 30, 2006	SIX MONTHS ENDED JUNE 30, 2006
Stock Options	$0.2	$0.4
Performance Shares	0.3	0.5
Total Share-Based Compensation Expense	$0.5	$0.9
Income Tax Benefit	$0.2	$0.4

There were no significant capitalized stock-based compensation costs at June 30, 2006.

As of June 30, 2006, the total compensation cost for nonvested awards not yet recognized in our statements of income was $2.2 million. This amount is expected to be recognized over a weighted-average period of 1.3 years.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table presents the pro forma effect of stock-based compensation, had we applied the provisions of SFAS 123 for the quarter and six months ended June 30, 2005.

PRO FORMA EFFECT OF SFAS 123 ACCOUNTING FOR STOCK-BASED COMPENSATION	QUARTER ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2005
MILLIONS EXCEPT PER SHARE AMOUNTS		
Net Loss		
As Reported	$(40.3)	$(22.9)
Plus: Employee Stock Compensation Expense Included in Net Loss - Net of Tax	0.3	0.6
Less: Employee Stock Compensation Expense Determined Under SFAS 123 - Net of Tax	0.3	0.7
Pro Forma Net Loss	$(40.3)	$(23.0)
Basic Loss Per Share		
As Reported	$(1.48)	$(0.84)
Pro Forma	$(1.48)	$(0.85)
Diluted Loss Per Share		
As Reported	$(1.48)	$(0.84)
Pro Forma	$(1.48)	$(0.85)

In the previous table, the expense for employee stock options granted determined under SFAS 123 was calculated using the Black-Scholes option pricing model and the following assumptions:

	2005
Risk-Free Interest Rate	3.7%
Expected Life	5 Years
Expected Volatility	20%
Dividend Growth Rate	5%

The following table presents information regarding our outstanding stock options for the six months ended June 30, 2006.

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	AGGREGATE INTRINSIC VALUE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL TERM
			MILLIONS	
Outstanding at December 31, 2005	357,827	$34.29	$3.5	7.4 years
Granted	115,653	$44.15		
Exercised	(20,966)	$25.81		
Forfeited or Expired	(6,233)	$38.25		
Outstanding at June 30, 2006	446,281	$37.19	$4.5	7.7 years
Exercisable at June 30, 2006	225,618	$32.16	$3.4	6.4 years

The weighted-average grant-date fair value of options was $6.49 for the six months ended June 30, 2006. The intrinsic value of a stock award is the amount by which the fair value of the underlying stock exceeds the exercise price of the award. The total intrinsic value of options exercised was $0.4 million during the six months ended June 30, 2006.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table presents information regarding our nonvested performance shares for the six months ended June 30, 2006.

	NUMBER OF SHARES	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE
Nonvested at December 31, 2005	97,884	$38.63
Granted	25,752	$44.00
Awarded	(49,076)	$37.76
Forfeited	(1,785)	$39.53
Nonvested at June 30, 2006	72,775	$41.10

NEW ACCOUNTING STANDARDS. FSP INTERPRETATION NO. 46(R)-6. In April 2006, the FASB issued Staff Position Interpretation No. 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)," which addresses how an enterprise should determine the variability to be considered in applying FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." The variability that is considered in applying Interpretation No. 46(R) affects the determination of: (a) whether the entity is a variable interest entity (VIE); (b) which interests are variable interests in the entity; and (c) which party, if any, is the primary beneficiary of the VIE. This FSP provides a guide for the qualitative analysis of the design of the entity and clarifying guidance to assist in determining the variability to consider in applying Interpretation No. 46(R), determining which interests are variable interests, and ultimately determining which variable interest holder, if any, is the primary beneficiary.

FSP Interpretation No. 46(R)-6 is applied prospectively to all entities with which the Company first becomes involved and to all entities previously required to be analyzed under Interpretation No. 46(R) when a reconsideration event has occurred, effective as of the first day of the first reporting period after June 15, 2006. We do not expect this FSP to have a material impact on existing contracts. We will evaluate the impact of this new guidance on any new contracts or any changes to existing contracts executed after the effective date to determine applicability of this FSP.

INTERPRETATION NO. 48. In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." Interpretation No. 48 clarifies the accounting for uncertain tax positions in accordance with SFAS 109, "Accounting for Income Taxes." The Company will be required to recognize in its financial statements the largest tax benefit of a tax position that is "more-likely-than-not" to be sustained on audit based solely on the technical merits of the position as of the reporting date. The term "more-likely-than-not" means a likelihood of more than 50 percent. Interpretation No. 48 also provides guidance on new disclosure requirements, reporting and accrual of interest and penalties, accounting in interim periods and transition. Interpretation No. 48 is effective as of the beginning of the first fiscal year after December 15, 2006, which will be as of January 1, 2007, for calendar-year companies. Only tax positions that meet the "more-likely-than-not" threshold at that date may be recognized. The cumulative effect of initially applying Interpretation No. 48 will be recognized as a change in accounting principle as of the end of the period in which Interpretation No. 48 is adopted. The Company has begun an evaluation of the impact of applying this interpretation as of January 1, 2007, which will be the effective date of the interpretation for the Company. We do not expect Interpretation No. 48 to have a material impact on our financial position, results of operation or cash flows.

NOTE 2. BUSINESS SEGMENTS

Financial results by segment for the periods presented were impacted by the integration of our Taconite Harbor facility into the Regulated Utility segment effective January 1, 2006. The redirection of Taconite Harbor from our Nonregulated Energy Operations segment to our Regulated Utility segment was in accordance with the Company's Resource Plan, as approved by the MPUC. Under the terms of our Resource Plan, we have operated the Taconite Harbor facility as a rate-based asset within the Minnesota retail jurisdiction effective January 1, 2006. Prior to January 1, 2006, we operated our Taconite Harbor facility as nonregulated generation (non-rate base generation sold at market-based rates primarily to the wholesale market). Historical financial results of Taconite Harbor for periods prior to the redirection are included in our Nonregulated Energy Operations segment.

		ENERGY			
	CONSOLIDATED	REGULATED UTILITY	NONREGULATED ENERGY OPERATIONS	REAL ESTATE	OTHER
MILLIONS					
FOR THE QUARTER ENDED JUNE 30, 2006					
Operating Revenue	$178.3	$146.5	$16.5	$15.2	$ 0.1
Fuel and Purchased Power	63.0	63.0	-	-	-
Operating and Maintenance	76.8	57.2	14.1	4.9	0.6
Depreciation Expense	12.2	11.1	1.0	-	0.1
Operating Income (Loss) from Continuing Operations	26.3	15.2	1.4	10.3	(0.6)
Interest Expense	(6.4)	(4.9)	(0.5)	-	(1.0)
Other Income	3.4	0.5	-	-	2.9
Income from Continuing Operations Before Minority Interest and Income Taxes	23.3	10.8	0.9	10.3	1.3
Minority Interest	0.8	-	-	0.8	-
Income from Continuing Operations Before Income Taxes	22.5	10.8	0.9	9.5	1.3
Income Tax Expense	8.9	4.0	-	3.9	1.0
Income from Continuing Operations	13.6	$ 6.8	$0.9	$ 5.6	$ 0.3
Loss from Discontinued Operations - Net of Tax	(0.4)				
Net Income	$ 13.2				
FOR THE QUARTER ENDED JUNE 30, 2005					
Operating Revenue	$174.4	$137.8	$26.5	$10.0	$ 0.1
Fuel and Purchased Power	68.9	63.2	5.7	-	-
Operating and Maintenance	71.7	47.9	17.6	5.0	1.2
Kendall County Charge	77.9	-	77.9	-	-
Depreciation Expense	11.9	9.8	2.1	-	-
Operating Income (Loss) from Continuing Operations	(56.0)	16.9	(76.8)	5.0	(1.1)
Interest Expense	(6.7)	(4.4)	(1.6)	(0.2)	(0.5)
Other Income	1.5	0.4	-	-	1.1
Income (Loss) from Continuing Operations Before Minority Interest and Income Taxes	(61.2)	12.9	(78.4)	4.8	(0.5)
Minority Interest	0.2	-	-	0.2	-
Income (Loss) from Continuing Operations Before Income Taxes	(61.4)	12.9	(78.4)	4.6	(0.5)
Income Tax Expense (Benefit)	(21.6)	5.1	(27.9)	1.8	(0.6)
Income (Loss) from Continuing Operations	(39.8)	$ 7.8	$(50.5)	$ 2.8	$ 0.1
Loss from Discontinued Operations - Net of Tax	(0.5)				
Net Loss	$(40.3)				

NOTE 2. BUSINESS SEGMENTS (CONTINUED)

MILLIONS	CONSOLIDATED	ENERGY			
		REGULATED UTILITY	NONREGULATED ENERGY OPERATIONS	REAL ESTATE	OTHER
FOR THE SIX MONTHS ENDED JUNE 30, 2006					
Operating Revenue	$370.8	$308.9	$32.8	$28.9	$ 0.2
Fuel and Purchased Power	132.4	132.4	-	-	-
Operating and Maintenance	151.3	113.0	28.2	8.3	1.8
Depreciation Expense	24.4	22.2	2.1	-	0.1
Operating Income (Loss) from Continuing Operations	62.7	41.3	2.5	20.6	(1.7)
Interest Expense	(12.8)	(10.0)	(1.0)	-	(1.8)
Other Income	5.1	0.5	0.3	-	4.3
Income from Continuing Operations Before Minority Interest and Income Taxes	55.0	31.8	1.8	20.6	0.8
Minority Interest	2.1	-	-	2.1	-
Income from Continuing Operations Before Income Taxes	52.9	31.8	1.8	18.5	0.8
Income Tax Expense	20.5	12.0	-	7.9	0.6
Income from Continuing Operations	32.4	$ 19.8	$ 1.8	$10.6	$ 0.2
Loss from Discontinued Operations - Net of Tax	(0.4)				
Net Income	$ 32.0				
AT JUNE 30, 2006					
Total Assets	$1,386.1	$995.0	$104.6	$72.4	$214.1
Property, Plant and Equipment - Net	$871.6	$813.6	$53.2	-	$4.8
Accumulated Depreciation	$807.4	$769.4	$36.4	-	$1.6
Capital Expenditures	$35.3	$34.5	$0.8	-	-
FOR THE SIX MONTHS ENDED JUNE 30, 2005					
Operating Revenue	$367.7	$285.4	$ 54.4	$27.7	$ 0.2
Fuel and Purchased Power	136.5	123.2	13.3	-	-
Operating and Maintenance	144.4	100.5	32.7	9.5	1.7
Kendall County Charge	77.9	-	77.9	-	-
Depreciation Expense	23.8	19.6	4.1	-	0.1
Operating Income (Loss) from Continuing Operations	(14.9)	42.1	(73.6)	18.2	(1.6)
Interest Expense	(13.5)	(8.7)	(2.9)	(0.2)	(1.7)
Other Income (Expense)	(2.7)	0.4	0.2	-	(3.3)
Income (Loss) from Continuing Operations Before Minority Interest and Income Taxes	(31.1)	33.8	(76.3)	18.0	(6.6)
Minority Interest	1.4	-	-	1.4	-
Income (Loss) from Continuing Operations Before Income Taxes	(32.5)	33.8	(76.3)	16.6	(6.6)
Income Tax Expense (Benefit)	(10.1)	13.1	(27.4)	6.9	(2.7)
Income (Loss) from Continuing Operations	(22.4)	$ 20.7	$(48.9)	$ 9.7	$(3.9)
Loss from Discontinued Operations - Net of Tax	(0.5)				
Net Loss	$(22.9)				
AT JUNE 30, 2005					
Total Assets	$1,353.4	$899.4	$178.6	$75.7	$150.2
Property, Plant and Equipment - Net	$849.3	$728.8	$115.5	-	$5.0
Accumulated Depreciation	$778.6	$733.6	$43.5	-	$1.5
Capital Expenditures	$24.2	$20.7	$1.9	-	-

Discontinued Operations represented $49.5 million of total assets and $1.6 million of capital expenditures in 2005.

NOTE 3. INVESTMENTS

SHORT-TERM INVESTMENTS. At June 30, 2006 and December 31, 2005, we held $120.4 million and $116.9 million, respectively, of short-term investments, consisting of auction rate bonds and variable rate demand notes classified as available-for-sale securities. Our investments in these securities are recorded at fair market value which equates to cost because the variable interest rates for these securities typically reset every 7 to 35 days. Despite the long-term nature of their stated contractual maturities, we have the ability to quickly liquidate these securities. As a result, we had no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from our short-term investments. All income generated from these short-term investments was recorded as interest income.

LONG-TERM INVESTMENTS. At June 30, 2006, Investments included the real estate assets of ALLETE Properties, our investment in ATC, debt and equity securities consisting primarily of securities held to fund employee benefits, and our emerging technology investments.

INVESTMENTS	JUNE 30, 2006	DECEMBER 31, 2005
MILLIONS		
Real Estate Assets	$ 72.4	$ 73.7
Debt and Equity Securities	34.9	34.8
Investment in ATC	11.5	-
Emerging Technology Investments	9.0	9.2
Total Investments	$127.8	$117.7

REAL ESTATE ASSETS	SIX MONTHS ENDED JUNE 30, 2006	YEAR ENDED DECEMBER 31, 2005
MILLIONS		
Land Held for Sale Beginning Balance	$48.0	$47.2
Additions during period: Capitalized Improvements	6.1	9.4
Deductions during period: Cost of Real Estate Sold	(4.6)	(8.6)
Land Held for Sale Ending Balance	49.5	48.0
Long-Term Finance Receivables	7.5	7.4
Other	15.4	18.3
Total Real Estate Assets	$72.4	$73.7

Consisted primarily of a shopping center.

Finance receivables have maturities ranging up to ten years, accrue interest at market-based rates and are net of an allowance for doubtful accounts of $0.4 million at June 30, 2006 ($0.6 million at December 31, 2005).

NOTE 4. SHORT-TERM AND LONG-TERM DEBT

In January 2006, we renewed, increased and extended a committed, syndicated, unsecured revolving credit facility (Line) with LaSalle Bank National Association, as Agent, for $150 million ($100 million at December 31, 2005). The Line matures on January 11, 2011, and requires an annual commitment fee of 0.125%. At our request and subject to certain conditions, the Line may be increased to $200 million and extended for two additional 12-month periods. The Line may be used for general corporate purposes, working capital and to provide liquidity in support of our commercial paper program. We may prepay amounts outstanding under the Line in whole or in part at our discretion without premium or penalty. Additionally, we may irrevocably terminate or reduce the size of the Line prior to maturity without premium or penalty. No funds were drawn under this Line at June 30, 2006.

In March 2006, we issued $50 million in principal amount of First Mortgage Bonds, 5.69% Series due March 1, 2036. Proceeds were used to redeem $50 million in principal amount of First Mortgage Bonds, 7% Series due March 1, 2008.

NOTE 4. SHORT-TERM AND LONG-TERM DEBT (CONTINUED)

On July 5, 2006, the Collier County Industrial Development Authority issued $27.8 million of Industrial Development Variable Rate Demand Refunding Revenue Bonds Series 2006 due 2025 (Refunding Bonds) on behalf of ALLETE. Proceeds from the Refunding Bonds and internally generated funds will be used to redeem $29.1 million of outstanding Collier County Industrial Development Refunding Revenue Bonds 6.5% Series 1996 due 2025 which were called on July 5, 2006, for redemption on August 9, 2006. As a result of an early redemption premium, we will recognize a $0.6 million charge to other expense in the third quarter of 2006.

NOTE 5. COMMON STOCK

SHAREHOLDER RIGHTS PLAN. In 1996, we adopted a rights plan that provides for a dividend distribution of one preferred share purchase right (Right) to be attached to each share of common stock. In July 2006, we amended the rights plan to extend the expiration of the Rights to July 11, 2009. The amendment also provides that the Company may not consolidate, merge, or sell a majority of its assets or earning power if doing so would be counter to the intended benefits of the Rights or would result in the distribution of Rights to the shareholders of the other parties to the transaction. Finally, the amendment provides for the creation of a committee of independent directors to annually review the terms and conditions of the amended rights plan (Rights Plan), as well as to consider whether termination or modification of the Rights Plan would be in the best interests of the shareholders and to make a recommendation based on such review to the Board of Directors.

The Rights, which are currently not exercisable or transferable apart from our common stock, entitle the holder to purchase one-and-a-half one-hundredths (three two-hundredths) of a share of ALLETE's Junior Serial Preferred Stock A, without par value. The purchase price, as defined in the Rights Plan, remains at $90. These Rights would become exercisable if a person or group acquires beneficial ownership of 15 percent or more of our common stock or announces a tender offer which would increase the person's or group's beneficial ownership interest to 15 percent or more of our common stock, subject to certain exceptions. If the 15 percent threshold is met, each Right entitles the holder (other than the acquiring person or group) to receive, upon payment of the purchase price, the number of shares of common stock (or, in certain circumstances, cash, property or other securities of ours) having a market value equal to twice the exercise price of the Right. If we are acquired in a merger or business combination, or 50 percent or more of our assets or earning power are sold, each exercisable Right entitles the holder to receive, upon payment of the purchase price, the number of shares of common stock of the acquiring or surviving company having a value equal to twice the exercise price of the Right. Certain stock acquisitions will also trigger a provision permitting the Board of Directors to exchange each Right for one share of our common stock.

The Rights are nonvoting and may be redeemed by us at a price of $0.005 per Right at any time they are not exercisable. One million shares of Junior Serial Preferred Stock A have been authorized and are reserved for issuance under the Rights Plan.

NOTE 6. KENDALL COUNTY CHARGE

On April 1, 2005, Rainy River Energy, a wholly-owned subsidiary of ALLETE, completed the assignment of its power purchase agreement with LSP-Kendall Energy, LLC, the owner of an energy generation facility located in Kendall County, Illinois, to Constellation Energy Commodities. Rainy River Energy paid Constellation Energy Commodities $73 million in cash to assume the power purchase agreement that remains in effect through mid-September 2017. The payment resulted in a charge to our operating income in the second quarter of 2005. The tax benefits of the payment will be realized through a capital loss carryback for federal income tax purposes and have been recorded as current deferred income tax assets. The tax benefits are expected to be realized in 2006. In addition, consent, advisory and closing costs of $4.9 million were incurred to complete the transaction. As a result of this transaction, ALLETE incurred a charge to operating expenses totaling $77.9 million ($50.4 million after tax, or $1.84 per diluted share) in the second quarter of 2005.

NOTE 7. OTHER INCOME (EXPENSE)

MILLIONS	QUARTER ENDED JUNE 30, 2006	QUARTER ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2006	SIX MONTHS ENDED JUNE 30, 2005
Gain (Loss) on Emerging Technology Investments	-	$0.1	$(1.2)	$(5.8)
Investment and Other Income	$3.4	1.4	6.3	3.1
Total Other Income (Expense)	$3.4	$1.5	$ 5.1	$(2.7)

NOTE 8. INCOME TAX EXPENSE

MILLIONS	QUARTER ENDED JUNE 30, 2006	QUARTER ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2006	SIX MONTHS ENDED JUNE 30, 2005
Current Tax Expense				
Federal	$ 9.6	$ 7.4	$20.4	$19.5
State	2.3	1.4	4.8	4.5
	11.9	8.8	25.2	24.0
Deferred Tax Benefit				
Federal	(1.9)	(29.5)	(3.5)	(32.6)
State	(0.7)	(0.5)	(0.5)	(0.8)
	(2.6)	(30.0)	(4.0)	(33.4)
Deferred Tax Credits	(0.4)	(0.4)	(0.7)	(0.7)
Income Tax Expense (Benefit) from Continuing Operations	8.9	(21.6)	20.5	(10.1)
Income Tax Benefit from Discontinued Operations	(0.3)	(0.1)	(0.3)	-
Total Income Tax Expense (Benefit)	$ 8.6	$(21.7)	$20.2	$(10.1)

Included a current federal tax benefit of $1.3 million, current state tax benefit of $0.4 million and deferred federal tax benefit of $25.8 million related to the Kendall County charge. (See Note 6.)

For the six months ended June 30, 2006, the effective rate for income taxes was 37.3 percent (32.5 percent benefit for the six months ended June 30, 2005). The increase in the effective rate over last year was primarily due to the emerging technology impairment and the Kendall County capital loss recorded in April 2005. The current benefit for these items was limited to the federal benefit as the state net capital loss carryforwards from 2005 are entirely reserved. The effective rate of 37.3 percent for the six months ended June 30, 2006, was less than the statutory rate primarily because of investment tax credits, and deductions for Medicare health subsidies and depletion.

NOTE 9. DISCONTINUED OPERATIONS

ENVENTIS TELECOM. On December 30, 2005, we sold all the stock of our telecommunications subsidiary, Enventis Telecom, to Hickory Tech Corporation of Mankato, Minnesota. In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we reported our telecommunications business in discontinued operations for the quarter and six months ended June 30, 2005.

WATER SERVICES. In early 2005, we completed the exit from our Water Services businesses with the sale of our wastewater assets in Georgia, which resulted in an immaterial gain. In 2005, the Florida Public Service Commission approved the transfer of 63 water and wastewater systems from Florida Water to Aqua Utilities Florida, Inc. (Aqua Utilities) and ordered a $1.7 million reduction to plant investment. The Company reserved for the reduction in 2005. On March 15, 2006, the Company paid Aqua Utilities the adjustment refund amount of $1.7 million.

For the quarter and six months ended June 30, 2006, financial results reflected additional legal and administrative expenses to exit the Water Services businesses.

DISCONTINUED OPERATIONS SUMMARY INCOME STATEMENT	QUARTER ENDED JUNE 30, 2006	2005	SIX MONTHS ENDED JUNE 30, 2006	2005
MILLIONS				
Operating Revenue - Enventis Telecom	-	$12.4	-	$26.1
Pre-Tax Income from Operations				
Enventis Telecom	-	$ 0.4	-	$ 1.5
Income Tax Expense				
Enventis Telecom	-	0.1	-	0.6
Total Income from Operations	-	0.3	-	0.9
Loss on Disposal				
Water Services	$(0.7)	(0.8)	$(0.7)	(1.8)
Enventis Telecom	-	(0.2)	-	(0.2)
	(0.7)	(1.0)	(0.7)	(2.0)
Income Tax Benefit				
Water Services	(0.3)	(0.1)	(0.3)	(0.5)
Enventis Telecom	-	(0.1)	-	(0.1)
	(0.3)	(0.2)	(0.3)	(0.6)
Net Loss on Disposal	(0.4)	(0.8)	(0.4)	(1.4)
Loss from Discontinued Operations	$(0.4)	$(0.5)	$(0.4)	$(0.5)

DISCONTINUED OPERATIONS SUMMARY BALANCE SHEET INFORMATION	DECEMBER 31, 2005
MILLIONS	
Assets of Discontinued Operations	
Other Current Assets	$0.4
Property, Plant and Equipment	$2.2
Liabilities of Discontinued Operations	
Current Liabilities	$13.0

NOTE 10. COMPREHENSIVE INCOME (LOSS)

For the quarter ended June 30, 2006, total comprehensive income (loss), net of tax, was comprehensive income of $13.2 million (a $40.4 million comprehensive loss, net of tax, for the quarter ended June 30, 2005). For the six months ended June 30, 2006, total comprehensive income (loss), net of tax, was comprehensive income of $32.3 million (a $22.9 million comprehensive loss, net of tax, for the six months ended June 30, 2005). Total comprehensive income (loss) includes net income (loss), unrealized gains and losses on securities classified as available-for-sale, and additional pension liability.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX	JUNE 30, 2006	2005
MILLIONS		
Unrealized Gain on Securities	$ 2.4	$ 1.5
Additional Pension Liability	(14.9)	(12.9)
	$(12.5)	$(11.4)

NOTE 11. EARNINGS PER SHARE

The difference between basic and diluted earnings per share arises from outstanding stock options and performance share awards granted under our Executive and Director Long-Term Incentive Compensation Plans. In accordance with SFAS 128, "Earnings Per Share," for the quarter and six months ended June 30, 2006, no options to purchase shares of common stock were excluded in the computation of diluted earnings per share because the average market prices were greater than the option exercise prices. In 2005, 0.1 million dilutive securities were excluded in the computation of diluted earnings per share because their effect would have been anti-dilutive due to our loss from continuing operations for the quarter ended June 30, 2005 (0.2 million for the six months ended June 30, 2005).

RECONCILIATION OF BASIC AND DILUTED EARNINGS PER SHARE	2006 BASIC	2006 DILUTIVE SECURITIES	2006 DILUTED	2005 BASIC	2005 DILUTIVE SECURITIES	2005 DILUTED
MILLIONS EXCEPT PER SHARE AMOUNTS						
FOR THE QUARTER ENDED JUNE 30,						
Income (Loss) from Continuing Operations	$13.6	-	$13.6	$(39.8)	-	$(39.8)
Common Shares	27.7	0.2	27.9	27.2	-	27.2
Per Share from Continuing Operations	$0.50	-	$0.49	$(1.46)	-	$(1.46)
FOR THE SIX MONTHS ENDED JUNE 30,						
Income (Loss) from Continuing Operations	$32.4	-	$32.4	$(22.4)	-	$(22.4)
Common Shares	27.6	0.2	27.8	27.2	-	27.2
Per Share from Continuing Operations	$1.18	-	$1.17	$(0.82)	-	$(0.82)

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

	PENSION		POSTRETIREMENT HEALTH AND LIFE	
COMPONENTS OF NET PERIODIC BENEFIT EXPENSE	2006	2005	2006	2005
MILLIONS				
FOR THE QUARTER ENDED JUNE 30,				
Service Cost	$2.3	$2.2	$1.1	$1.0
Interest Cost	5.6	5.3	1.8	1.6
Expected Return on Plan Assets	(7.2)	(7.1)	(1.4)	(1.2)
Amortization of Prior Service Costs	0.2	0.2	-	-
Amortization of Net Loss	1.2	0.8	0.5	0.2
Amortization of Transition Obligation	(0.1)	-	0.6	0.7
Net Periodic Benefit Expense	$2.0	$1.4	$2.6	$2.3
FOR THE SIX MONTHS ENDED JUNE 30,				
Service Cost	$4.6	$4.4	$2.2	$2.0
Interest Cost	11.1	10.6	3.7	3.3
Expected Return on Plan Assets	(14.3)	(14.2)	(2.8)	(2.4)
Amortization of Prior Service Costs	0.4	0.4	-	-
Amortization of Net Loss	2.4	1.6	0.9	0.4
Amortization of Transition Obligation	(0.1)	0.1	1.2	1.3
Net Periodic Benefit Expense	$4.1	$2.9	$5.2	$4.6

In 2005, we determined that our postretirement health care plans meet the requirements of the Centers for Medicare and Medicaid Services' (CMS) regulations, and enrolled with the CMS to begin recovering the subsidy. We expect to receive the first subsidy check in early 2007 for 2006 credits.

In July 2006, we made an $8.3 million contribution to the Company's defined benefit plan.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES

OFF-BALANCE SHEET ARRANGEMENTS. SQUARE BUTTE POWER PURCHASE AGREEMENT. Minnesota Power has a power purchase agreement with Square Butte that extends through 2026 (Agreement). It provides a long-term supply of low-cost energy to customers in our electric service territory and enables Minnesota Power to meet power pool reserve requirements. Square Butte, a North Dakota cooperative corporation, owns a 455-MW coal-fired generating unit (Unit) near Center, North Dakota. The Unit is adjacent to a generating unit owned by Minnkota Power, a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota Power serves as the operator of the Unit and also purchases power from Square Butte.

Minnesota Power was entitled to approximately 71 percent of the Unit's output under the Agreement. Beginning in 2006, Minnkota Power exercised its option to reduce Minnesota Power's entitlement by approximately 5 percent annually, to 66 percent. We received notices from Minnkota Power that they will further reduce our output entitlement by approximately 5 percent on January 1, 2007 and 2008, to 60 percent and 55 percent, respectively. Minnkota Power has the option to reduce Minnesota Power's entitlement to 50 percent. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Minnesota Power's payment obligation will be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At June 30, 2006, Square Butte had total debt outstanding of $304.6 million. Total annual debt service for Square Butte is expected to be approximately $26 million in each of the years 2006 through 2010. Variable operating costs include the price of coal purchased from BNI Coal, our subsidiary, under a long-term contract. Minnesota Power's payments to Square Butte are approved as a purchased power expense for ratemaking purposes by both the MPUC and the FERC.

LEASING AGREEMENTS. BNI Coal is obligated to make lease payments for a dragline totaling $2.8 million annually for the lease term which expires in 2027. BNI Coal has the option at the end of the lease term to renew the lease at a fair market rental, to purchase the dragline at fair market value, or to surrender the dragline and pay a $3.0 million termination fee. We lease other properties and equipment under operating lease agreements with terms expiring through 2013. The aggregate amount of minimum lease payments for all operating leases is $6.4 million in 2006, $5.9 million in 2007, $5.2 million in 2008, $4.7 million in 2009, $4.2 million in 2010 and $46.9 million thereafter.

COAL, RAIL AND SHIPPING CONTRACTS. We have three coal supply agreements with various expiration dates ranging from December 2006 to December 2009. We also have rail and shipping agreements for transportation of all of our coal, with various expiration dates ranging from December 2006 to December 2011. Our minimum annual payment obligations under these coal, rail and shipping agreements are currently $45.2 million in 2006, $9.5 million in 2007, $9.7 million in 2008, $5.8 million in 2009 and no specific commitments beyond 2009. Our minimum annual payment obligations will increase when annual nominations are made for coal deliveries in future years.

FUEL CLAUSE RECOVERY OF MISO DAY 2 COSTS. Minnesota Power filed a petition with the MPUC in February 2005 to amend its fuel clause to accommodate costs and revenue related to the MISO Day 2 energy market, the market through which Minnesota Power engages in wholesale energy transactions in MISO's day-ahead and real-time markets (MISO Day 2). On April 7, 2005, the MPUC approved interim accounting treatment of MISO Day 2 costs to be accounted for on a net basis and recovered through the fuel clause, subject to refund with interest. This interim treatment has continued while the MPUC has addressed the cost recovery petitions from Xcel Energy Inc., Otter Tail Power Company, Alliant Energy Corporation and Minnesota Power.

On December 21, 2005, the MPUC issued an order which denied recovery through the fuel clause of uplift charges, congestion revenue and expenses, and administrative costs related to Minnesota Power's MISO Day 2 market activities. Minnesota Power requested rehearing of the order in a filing made with the MPUC on January 10, 2006. The other three utilities affected by the order also filed for rehearing, as did the DOC and MISO. In a hearing on February 9, 2006, the MPUC granted rehearing of the MISO Day 2 docket and suspended the refund obligation for charges recovered through the fuel clause denied in the December 21, 2005 order. The MPUC requested that the affected utilities and interested parties provide a joint recommendation regarding the MISO Day 2 costs to determine which costs should be recovered on a current basis through the fuel clause and which costs are more appropriately deferred for

potential recovery through base rates. The requested joint report and recommendations were filed with the MPUC on June 23, 2006. The Company is unable to predict the outcome of this matter.

EMERGING TECHNOLOGY PORTFOLIO. We have investments in emerging technologies through minority investments in venture capital funds structured as limited liability companies, and direct investments in privately-held, start-up companies. The carrying value of our direct investments in privately-held, start-up companies was zero at June 30, 2006, and December 31, 2005. We have committed to make additional investments in certain emerging technology venture capital funds. The total future commitment was $2.5 million at June 30, 2006 ($3.1 million at December 31, 2005), and may be invested at various times through 2007. We do not have plans to make any additional investments beyond this commitment.

INVESTMENT IN ATC. In December 2005, we entered into an agreement with Wisconsin Public Service Corporation and WPS Investments, LLC that provides for our Wisconsin subsidiary, Rainy River Energy Corporation - Wisconsin, to invest $60 million in ATC. Our investment is expected to represent an estimated 9 percent ownership interest in ATC. On May 4, 2006, the PSCW reviewed and approved the request that allows us to invest in ATC. As of June 30, 2006, we had invested $11.5 million in ATC and anticipate investing an additional $48.5 million by the end of 2006.

ENVIRONMENTAL MATTERS. Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Due to future stricter environmental requirements through legislation and/or rulemaking, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. We review environmental matters on a quarterly basis. Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in the balance sheet at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. Costs related to environmental contamination treatment and cleanup are charged to expense unless recoverable in rates from customers.

SWL&P MANUFACTURED GAS PLANT. In May 2001, SWL&P received notice from the WDNR that the City of Superior had found soil contamination on property adjoining a former Manufactured Gas Plant (MGP) site owned and operated by SWL&P from 1889 to 1904. The WDNR requested SWL&P to initiate an environmental investigation. The WDNR also issued SWL&P a Responsible Party letter in February 2002. In February 2003, SWL&P submitted a Phase II environmental site investigation report to the WDNR. This report identified some MGP-like chemicals that were found in the soil near the former plant site. During March and April 2003, sediment samples were taken from nearby Superior Bay. The report on the results of this sampling was completed and sent to the WDNR during the first quarter of 2004. The next phase of the investigation was to determine any impact to soil or ground water between the former MGP site and Superior Bay. Site work for this phase of the investigation was performed during October 2004, and a report was sent to the WDNR in March 2005. Additional site investigation was performed during September and October 2005. The investigation will continue through the summer of 2006. It is anticipated that the final report for this portion of the investigation will be completed by the end of 2006. Although it is not possible to quantify the potential clean-up cost until the investigation is completed, a $0.5 million liability was recorded in December 2003 to address the known areas of contamination. The Company has recorded a corresponding dollar amount as a regulatory asset to offset this liability. The PSCW has approved SWL&P's deferral of these MGP environmental investigation and potential clean-up costs for future recovery in rates, subject to a regulatory prudency review. In May 2005, the PSCW approved the collection through rates of $150,000 of site investigation costs that had been incurred at the time SWL&P filed their 2005 rate request. In May 2006, SWL&P filed an application with the PSCW for authority to increase retail utility rates by an average of 5.2 percent. This filing includes a request to recover an additional $186,000 of site investigation costs that had been incurred through 2005. ALLETE maintains pollution liability insurance coverage that includes coverage for SWL&P. A claim has been filed with respect to this matter. The insurance carrier has issued a reservation of rights letter and the Company continues to work with the insurer to determine the availability of insurance coverage.

SQUARE BUTTE GENERATING FACILITY. On April 24, 2006, Minnkota Power announced a settlement agreement with the EPA and the State of North Dakota regarding emissions at the M.R. Young Station, which includes the Square Butte generating unit. In June 2002, Minnkota Power, the operator of Square Butte, received a Notice of Violation from the EPA regarding alleged New Source Review violations at the M.R. Young Station. The EPA claimed certain capital projects completed by Minnkota Power should have been reviewed pursuant to the New Source Review regulations, potentially resulting in new air permit operating conditions and possible significant capital expenditures to comply. As a result of the settlement agreement, the current Square Butte flue gas desulfurization system (FGD) will be upgraded in 2010 to increase its removal efficiency from 70 percent to 90 percent, and an over-fire air system will also be installed in 2007 to reduce NOx emissions. Capital expenditures for the emission control additions and modifications on Square Butte are estimated at $35 million. These estimated capital expenditures may be significantly offset by the sale of surplus SO2 allowance credits created by the early upgrade of the FGD system, which is being upgraded two years earlier than required by Federal rules. We expect Square Butte will utilize debt to finance such capital expenditures. Our future cost of purchased power from the Square Butte generating unit would include our pro rata share of this additional debt service. On April 24, 2006, a Complaint and a Consent Decree with respect to this settlement agreement were filed in U.S. District Court for the District of North Dakota (Court). The Consent Decree was open to public comment during which time one comment letter was received from the Dakota Resource Council. We believe the items raised in the letter will not compromise the agreement and Minnkota Power expects the final order will be issued by the Court constituting a final settlement of this issue. On July 25, 2006, the EPA filed a motion with the Court to approve the Consent Decree. When finalized, the Consent Decree settlement would also require Square Butte to pay approximately $0.6 million in administrative costs and penalties in 2006, and $3.3 million toward additional environmental projects including wind power installations or power purchase agreements. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to the output from the Square Butte generating unit.

EPA CLEAN AIR INTERSTATE RULE AND CLEAN AIR MERCURY RULE. In March 2005, the EPA announced the final Clean Air Interstate Rule (CAIR) that reduces and permanently caps emissions of SO2 and NOx in many states in the eastern United States. The CAIR includes Minnesota as one of the 28 states it considers an "eastern" state. The EPA also announced the final Clean Air Mercury Rule (CAMR) that reduces and permanently caps electric utility mercury emissions in the continental United States. The CAIR and the CAMR regulations have been challenged in the federal court system, which may delay implementation or modify provisions. Minnesota Power is participating in a legal challenge to the CAIR, but is not participating in the challenge of the CAMR. However, if the CAMR and the CAIR do go into effect, Minnesota Power expects to be required to: (1) make emissions reductions; (2) purchase mercury; SO2 and NOx allowances through the EPA's cap-and-trade system; or (3) use a combination of both.

We believe that the CAIR contains flaws in its methodology and application, which will cause Minnesota Power to incur higher compliance costs. Consequently, on July 11, 2005, Minnesota Power filed a Petition for Review with the U.S. Court of Appeals for the District of Columbia Circuit (Court of Appeals). On November 22, 2005, the EPA agreed to reconsider certain aspects of the CAIR, including the Minnesota Power petition addressing modeling used to determine Minnesota's inclusion in the CAIR region and our claims about inequities in the SO2 allowance methodology. On March 15, 2006, the EPA announced that it would not make any changes to the CAIR as a result of the petitions for reconsideration. Petitions for Review (including Minnesota Power's) remain pending at the Court of Appeals. If the Petitions for Review filed with the Court of Appeals are successful, we expect to incur lower compliance costs, consistent with the rules applicable to those states considered as "western" states under the CAIR. Resolution of the CAIR Petition for Review with the Court of Appeals is anticipated by mid-2007.

COMMUNITY DEVELOPMENT DISTRICT OBLIGATIONS. TOWN CENTER. In March 2005, the Town Center District issued $26.4 million of tax-exempt, 6% Capital Improvement Revenue Bonds, Series 2005, due May 1, 2036. The bonds were issued to fund a portion of the Town Center development project. Approximately $21 million of the bond proceeds will be used for construction of infrastructure improvements at Town Center, with the remaining funds to be used for capitalized interest, a debt service reserve fund and costs of issuance. The bonds are payable from and secured by the revenue derived from assessments imposed, levied and collected by the Town Center District. The assessments represent an allocation of the costs of the improvements, including bond financing costs, to the lands within the Town Center District benefiting from the improvements. The assessments will be included in the annual property tax bills of landowners beginning in November 2006. To the extent that we still own land at the time of the assessment, in accordance with EITF 91-10, we will recognize an expense for our pro rata portion of assessments, based upon our ownership of benefited property. At June 30, 2006, we owned approximately 85 percent of the assessable land in the Town Center District.

PALM COAST PARK. In May 2006, the Palm Coast District issued $31.8 million of tax-exempt, 5.7% Special Assessment Bonds, Series 2006, due May 1, 2037. The bonds were issued to fund a portion of the Palm Coast Park development project. Bond proceeds of $26.3 million will be used for the construction of environmental, traffic mitigation and infrastructure improvements, including utility extensions, roadways, parks, drainage, recreational facilities, landscaping and a multi-purpose trail system. The remaining funds will be used for capitalized interest, a debt service reserve fund and the costs of issuance. The bonds are payable from and secured by the revenue derived from assessments imposed, levied and collected by the Palm Coast District. The assessments represent an allocation of the costs of the improvements, including bond financing costs, to the lands within the Palm Coast District benefiting from the improvements. The assessments will be included in the annual property tax bills of landowners beginning in 2007. To the extent that we still own land at the time of the assessment, in accordance with EITF 91-10, we will recognize an expense for our pro rata portion of assessments, based upon our ownership of benefited property. At June 30, 2006, we owned all assessable land in the Palm Coast District.

OTHER. We are involved in litigation arising in the normal course of business. Also in the normal course of business, we are involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base and cost of service issues, among other things. While the resolution of such matters could have a material effect on earnings and cash flows in the year of resolution, none of these matters are expected to materially change our present liquidity position, nor have a material adverse effect on our financial condition.

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

The following discussion should be read in conjunction with our consolidated financial statements and notes to those statements and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Readers are cautioned that forward-looking statements should be read in conjunction with our disclosures in this Form 10-Q under the headings: "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" located on page 3 and "Risk Factors" located in Part I, Item 1A of our 2005 Form 10-K and Part II, Item 1A of our Quarterly Reports on Form 10-Q for 2006. The risks and uncertainties described in this Form 10-Q and our 2005 Form 10-K are not the only risks facing our Company. Additional risks and uncertainties that we are not presently aware of, or that we currently consider immaterial, may also affect our business operations. Our business, financial condition or results of operations could suffer if the concerns set forth are realized.

EXECUTIVE SUMMARY

ALLETE's operations focus on two core businesses - ENERGY and REAL ESTATE. In addition, we have other operations that provide earnings to the Company.

ENERGY is comprised of Regulated Utility, Nonregulated Energy Operations and will include Investment in ATC.

- REGULATED UTILITY includes retail and wholesale rate regulated electric, water and gas services in northeastern Minnesota and northwestern Wisconsin under the jurisdiction of state and federal regulatory authorities.

- NONREGULATED ENERGY OPERATIONS includes our coal mining activities in North Dakota, approximately 50 MW of nonregulated generation and Minnesota land sales.

  In 2005, Nonregulated Energy Operations also included nonregulated generation (non-rate base generation sold at market-based rates primarily to the wholesale market) from our Taconite Harbor facility in northern Minnesota, and generation secured through the Kendall County power purchase agreement. Effective January 1, 2006, Taconite Harbor was integrated into our Regulated Utility business to help meet forecasted base load energy requirements. In April 2005, the Kendall County power purchase agreement was assigned to Constellation Energy Commodities.

- INVESTMENT IN ATC includes our ownership interest in ATC. In December 2005, we entered into an agreement that provides for us to invest $60 million in ATC. As of June 30, 2006, we had invested $11.5 million in ATC and anticipate investing an additional $48.5 million by the end of 2006.

REAL ESTATE includes our Florida real estate operations.

OTHER includes our investments in emerging technologies, and earnings on cash, cash equivalents and short-term investments.

Financial results by segment for the periods presented and discussed in this Form 10-Q were impacted by the integration of our Taconite Harbor facility into the Regulated Utility segment effective January 1, 2006. The redirection of Taconite Harbor from our Nonregulated Energy Operations segment to our Regulated Utility segment was in accordance with the Company's Resource Plan, as approved by the MPUC. Under the terms of our Resource Plan, we have operated the Taconite Harbor facility as a rate-based asset within the Minnesota retail jurisdiction effective January 1, 2006. Prior to January 1, 2006, we operated our Taconite Harbor facility as nonregulated generation. Historical financial results of Taconite Harbor for periods prior to the redirection are included in our Nonregulated Energy Operations segment.

Financial results for the periods presented and discussed in this Form 10-Q were also impacted by the assignment of our Kendall County power purchase agreement to Constellation Energy Commodities, which was a key strategic accomplishment for the Company. As a result of this assignment, we incurred a charge to our operating expenses totaling $77.9 million ($50.4 million after tax, or $1.84 per diluted share) in the second quarter of 2005 (Kendall County Charge).

MILLIONS EXCEPT PER SHARE AMOUNTS	QUARTER ENDED JUNE 30, 2006	2005	SIX MONTHS ENDED JUNE 30, 2006	2005
Operating Revenue				
Regulated Utility	$146.5	$137.8	$308.9	$285.4
Nonregulated Energy Operations	16.5	26.5	32.8	54.4
Real Estate	15.2	10.0	28.9	27.7
Other	0.1	0.1	0.2	0.2
	$178.3	$174.4	$370.8	$367.7
Operating Expenses				
Regulated Utility	$131.3	$120.9	$267.6	$243.3
Nonregulated Energy Operations	15.1	103.3	30.3	128.0
Real Estate	4.9	5.0	8.3	9.5
Other	0.7	1.2	1.9	1.8
	$152.0	$230.4	$308.1	$382.6
Interest Expense				
Regulated Utility	$4.9	$4.4	$10.0	$ 8.7
Nonregulated Energy Operations	0.5	1.6	1.0	2.9
Real Estate	-	0.2	-	0.2
Other	1.0	0.5	1.8	1.7
	$6.4	$6.7	$12.8	$13.5
Other Income (Expense)				
Regulated Utility	$0.5	$0.4	$0.5	$ 0.4
Nonregulated Energy Operations	-	-	0.3	0.2
Other	2.9	1.1	4.3	(3.3)
	$3.4	$1.5	$5.1	$(2.7)
Income (Loss)				
Regulated Utility	$ 6.8	$ 7.8	$19.8	$ 20.7
Nonregulated Energy Operations	0.9	(50.5)	1.8	(48.9)
Real Estate	5.6	2.8	10.6	9.7
Other	0.3	0.1	0.2	(3.9)
Income (Loss) from Continuing Operations	13.6	(39.8)	32.4	(22.4)
Loss from Discontinued Operations	(0.4)	(0.5)	(0.4)	(0.5)
Net Income (Loss)	$13.2	$(40.3)	$32.0	$(22.9)
Diluted Average Shares of Common Stock	27.9	27.2	27.8	27.2
Diluted Earnings (Loss) Per Share of Common Stock				
Continuing Operations	$0.49	$(1.46)	$1.17	$(0.82)
Discontinued Operations	(0.02)	(0.02)	(0.02)	(0.02)
	$0.47	$(1.48)	$1.15	$(0.84)

Included operating expenses totaling $77.9 million ($50.4 million after tax, or $1.84 per diluted share) related to the assignment of the Kendall County power purchase agreement. (See Note 6.)

Net income for the quarter ended June 30, 2006, was $13.2 million, or $0.47 per diluted share (a $40.3 million, or $1.48 per diluted share, net loss for the quarter ended June 30, 2005). Net income was higher in 2006 due to the absence of the $50.4 million, or $1.84 per share, Kendall County Charge incurred in the second quarter of 2005, a $2.8 million increase in income from Real Estate and a $0.8 million increase in earnings on our excess cash.

Net income for the six months ended June 30, 2006, was $32.0 million, or $1.15 per diluted share (a $22.9 million, or $0.84 per diluted share, net loss for the six months ended June 30, 2005). Net income was higher in 2006 due to the absence of: (1) the $50.4 million, or $1.84 per share, Kendall County Charge incurred in the second quarter of 2005; (2) Kendall County operating losses ($1.9 million in 2005); and (3) emerging technology impairments ($3.3 million in 2005). Net income in 2006 also reflected a $0.9 million increase in income from Real Estate and a $1.3 million increase in earnings on our excess cash.

KILOWATTHOURS SOLD	QUARTER ENDED JUNE 30, 2006	2005	SIX MONTHS ENDED JUNE 30, 2006	2005
MILLIONS				
Regulated Utility				
Retail and Municipals				
Residential	229.1	229.9	537.1	549.7
Commercial	315.5	300.5	644.2	640.3
Industrial	1,769.9	1,746.9	3,592.2	3,524.0
Municipals	216.1	199.3	435.4	421.3
Other	18.6	18.1	38.6	38.5
	2,549.2	2,494.7	5,247.5	5,173.8
Other Power Suppliers	515.5	366.9	1,020.6	603.6
	3,064.7	2,861.6	6,268.1	5,777.4
Nonregulated Energy Operations	55.3	399.9	120.9	753.8
	3,120.0	3,261.5	6,389.0	6,531.2

REAL ESTATE REVENUE AND SALES ACTIVITY	QUARTER ENDED JUNE 30, 2006 QTY	2006 AMOUNT	2005 QTY	2005 AMOUNT	SIX MONTHS ENDED JUNE 30, 2006 QTY	2006 AMOUNT	2005 QTY	2005 AMOUNT
DOLLARS IN MILLIONS								
Town Center Sales								
Commercial Sq. Ft.	170,695	$ 4.7	397,000	$10.1	250,695	$ 6.2	397,000	$10.1
Residential Units	186	5.6	-	-	186	5.6	-	-
Other Land Sales								
Acres	10	5.2	54	6.9	466	15.5	537	24.5
Lots	-	-	-	-	-	-	7	0.4
Contract Sales Price		15.5		17.0		27.3		35.0
Revenue Recognized from Previously Deferred Sales		2.7		-		4.3		-
Deferred Revenue		(3.2)		(7.5)		(4.0)		(8.5)
Adjustments		(1.4)		(0.9)		(1.5)		(0.9)
Revenue from Land Sales		13.6		8.6		26.1		25.6
Other Revenue		1.6		1.4		2.8		2.1
		$15.2		$10.0		$28.9		$27.7

Reflected total contract sales price on closed land transactions.
Contributed development dollars, which are credited to cost of real estate sold.

NET INCOME

The following income discussion summarizes a comparison of the six months ended June 30, 2006, to the six months ended June 30, 2005, by segment.

REGULATED UTILITY contributed income of $19.8 million in 2006 ($20.7 million in 2005). Lower earnings in 2006 reflected higher operating expenses partially offset by an 8 percent increase in kilowatthour sales. Operating expenses were higher in 2006 due to the inclusion of Taconite Harbor, effective January 1, 2006, and increased planned maintenance, employee compensation and pension expenses. Electric sales increased 490.7 million kilowatthours, or 8 percent, primarily due to the inclusion of Taconite Harbor and its pre-existing wholesale energy sales obligation.

NONREGULATED ENERGY OPERATIONS reported income of $1.8 million in 2006 ($48.9 million loss in 2005). In April 2005, we completed the assignment of our Kendall County power purchase agreement to Constellation Energy Commodities. As a result of this transaction, we incurred a charge to operating expenses totaling $50.4 million after tax in the second quarter of 2005. In 2006, financial results reflected the absence of income from Taconite Harbor ($2.5 million in 2005) which is now reported as part of Regulated Utility and operating losses from Kendall County ($1.9 million in 2005). Net income from our coal operations was up $0.5 million from 2005 primarily due to a 2 percent increase in tons of coal sold.

NET INCOME (CONTINUED)

REAL ESTATE contributed income of $10.6 million in 2006 ($9.7 million in 2005). Income was higher in 2006 due to the timing and mix of land sale transaction closings, and increased earnings from prior and current year land sales at our Town Center development project which are accounted for under the percentage-of-completion method. The timing of the closing of real estate sales varies from period to period and impacts comparisons between years.

In 2005, we began selling property from our Town Center development project in northeast Florida. Since land is being sold before completion of the project infrastructure, revenue, cost of real estate sold and selling expenses are recorded using the percentage-of-completion method as development obligations are completed. As of June 30, 2006, we had $8.1 million ($11.2 million revenue; $2.7 million cost of real estate sold; $0.4 million selling expense) of deferred profit on sales of real estate, before taxes and minority interest, on our balance sheet. The majority of deferred profit relates to Town Center and we expect most will be reflected in income by the end of 2006.

At June 30, 2006, total pending land sales under contract were $128.9 million and are anticipated to close at various times through 2012. Pricing on these contracts range from $20 to $50 per commercial square foot, $8,600 to $40,000 per residential unit and $8,700 to $126,000 per acre for all other properties. The majority of the other properties under contract are zoned commercial or mixed use. Prices per acre are stated on a gross acreage basis and are dependent on the type and location of the properties sold. In addition, certain contracts allow us to receive participation revenue when gross revenue from land sales by our purchaser exceeds contractually defined price levels. Deposits have been made for all pending contracts; however, most pending contracts are subject to due diligence that allows the purchaser to terminate the contract for a period of time. One of the currently pending contracts is subject to an unexpired due diligence period. If a purchaser defaults under a contract, our remedy is limited to forfeiture of the deposit as liquidated and agreed upon damages.

REAL ESTATE

PENDING CONTRACTS AT JUNE 30, 2006	QUANTITY	CONTRACT SALES PRICE
DOLLARS IN MILLIONS		
Town Center		
Commercial Sq. Ft.	981,290	$ 30.5
Residential Units	1,214	22.7
Palm Coast Park		
Commercial Sq. Ft.	50,000	2.5
Residential Units	2,469	61.8
Other Land		
Acres	607	11.4
		$128.9

Acreage amounts are approximate and shown on a gross basis, including wetlands and minority interest. Acreage amounts may vary due to platting or surveying activity. Wetland amounts vary by property and are often not formally determined prior to sale. Commercial square feet and residential units are estimated and include minority interest. The actual property allocation at full build-out may be different than these estimates.

OTHER reflected net income of $0.2 million in 2006 (a $3.9 million loss in 2005). In 2006, a $1.3 million increase in earnings on excess cash offset equity losses related to emerging technology investments ($0.6 million in 2006; $0.2 million in 2005). In 2005, the Company recorded $3.3 million of impairments related to two privately-held emerging technology investments.

DISCONTINUED OPERATIONS included our Water Services businesses that we sold over the three-year period from 2003 to 2005, and Enventis Telecom, our telecommunications business that we sold in December 2005. In 2006, discontinued operations reflected a $0.4 million loss for additional legal and administrative expenses related to exiting the Water Services businesses. In 2005, $0.8 million of income from Enventis Telecom was offset by $1.3 million of administrative and other expenses incurred to support Florida Water transfer proceedings. (See Note 9.)

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2006 AND 2005

REGULATED UTILITY

OPERATING REVENUE was up $8.7 million, or 6 percent, from 2005, primarily due to increased kilowatthour sales. Electric sales increased 203.1 million kilowatthours, or 7 percent, due mostly to the addition of Taconite Harbor wholesale power agreements to the Regulated Utility segment effective January 1, 2006. The majority of Taconite Harbor sales are reflected in sales to other power suppliers which were up 148.6 million kilowatthours, or 41 percent, and $6.4 million. Absent the inclusion of pre-existing Taconite Harbor wholesale obligations, sales to other power suppliers were down reflecting less excess energy available for sale due to a planned outage at our Boswell Unit 4 generating facility in 2006. Electric sales to retail and municipal customers increased 54.5 million kilowatthours, or 2 percent, and $0.7 million, due to strong demand from commercial, industrial and municipal customers.

Revenue from electric sales to taconite customers accounted for 24 percent of consolidated operating revenue in 2006 (25 percent in 2005). Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in both 2006 and 2005.

OPERATING EXPENSES were up $10.4 million, or 9 percent, from 2005.

FUEL AND PURCHASED POWER EXPENSE. Fuel and purchased power expense was down $0.2 million from 2005 reflecting the inclusion of Taconite Harbor beginning in 2006 ($5.5 million) offset by reduced fuel expense, primarily at our Boswell Unit 4 generating facility due to a planned maintenance outage in 2006.

OTHER OPERATING EXPENSES. In total, other operating expenses were up $10.6 million from 2005. In total, plant maintenance expense increased $3.5 million from 2005 reflecting the inclusion of Taconite Harbor maintenance in 2006 ($0.7 million) and increased maintenance expense at other Company generating facilities, primarily due to a planned outage at our Boswell Unit 4 generating facility ($1.9 million). Employee compensation was up $3.1 million primarily due to the inclusion of Taconite Harbor, annual wage increases and the inclusion of union employees in our results sharing compensation awards program. Depreciation expense increased $1.3 million primarily due to the inclusion of Taconite Harbor. MISO expenses were up $0.8 million. Pension expense increased $0.6 million due to a reduction in the discount rate.

INTEREST EXPENSE was up $0.5 million, or 11 percent, from 2005 due to the inclusion of Taconite Harbor in 2006, partially offset by lower effective interest rates (5.91 percent in 2006; 6.19 percent in 2005).

NONREGULATED ENERGY OPERATIONS

OPERATING REVENUE was down $10.0 million, or 38 percent, from 2005 due to the absence of revenue from Taconite Harbor ($13.3 million in 2005). Effective January 1, 2006, Taconite Harbor is reported as part of the Regulated Utility segment. Coal revenue, realized under a cost-plus contract, was up $1.7 million from 2005 reflecting a 6 percent increase in the delivery price per ton due to higher coal production expenses (see operating expenses below), and a 10 percent increase in tons of coal sold in 2006. Tons of coal sold were lower in 2005 due to a plant outage at the Square Butte generating facility.

OPERATING EXPENSES were down $88.2 million, or 85 percent, from 2005 reflecting the absence of a $77.9 million charge related to the assignment of the Kendall County power purchase agreement to Constellation Energy Commodities on April 1, 2005, and expenses related to Taconite Harbor ($12.3 million in 2005). Expenses related to coal operations were up $1.3 million, mainly due to increased equipment leases and fuel expenses in 2006.

INTEREST EXPENSE was down $1.1 million, or 69 percent, from 2005 primarily due to the absence of Taconite Harbor in 2006.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2006 AND 2005 (CONTINUED)

REAL ESTATE

OPERATING REVENUE was up $5.2 million, or 52 percent, from 2005, due to the timing and mix of land sale transaction closings, and increased revenue from prior and current year land sales at our Town Center development project which are accounted for under the percentage-of-completion method. Revenue from land sales was $13.6 million in 2006 which included $2.7 million of previously deferred revenue. In 2005, revenue from land sales was $8.6 million. In 2006, 10 acres of other land were sold (54 acres in 2005). Sales at Town Center represented 186 residential units and the rights to build up to 170,695 square feet of commercial space in 2006 (397,000 commercial square feet in 2005). In 2006, revenue of $3.2 million ($7.5 million in 2005) was deferred and will be recognized on a percentage-of-completion basis as development obligations are completed.

OPERATING EXPENSES were down $0.1 million, or 2 percent, from 2005 reflecting a $0.5 million decrease in the cost of real estate sold ($2.7 million in 2006; $3.2 million in 2005) due to the mix of land sold, partially offset by a $0.3 million increase in selling expenses due to higher brokerage fees.

OTHER

OPERATING EXPENSES were down $0.5 million, or 42 percent, from 2005, reflecting lower general and administrative expenses in 2006.

OTHER INCOME (EXPENSE) reflected $1.8 million more income in 2006 primarily due to a $1.3 million increase in earnings on excess cash.

INCOME TAXES

For the quarter ended June 30, 2006, the effective rate for income taxes was 38.2 percent (35.3 percent benefit for the quarter ended June 30, 2005). The increase in the effective rate over last year was primarily due to the emerging technology impairment and the Kendall County capital loss recorded in April 2005. The current benefit for these items was limited to the federal benefit as the state net capital loss carryforwards from 2005 are entirely reserved. The effective rate of 38.2 percent for the quarter ended June 30, 2006, was less than the statutory rate, primarily because of investment tax credits, and deductions for Medicare health subsidies and depletion.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

REGULATED UTILITY

OPERATING REVENUE was up $23.5 million, or 8 percent, from 2005, primarily due to increased kilowatthour sales. Electric sales increased 490.7 million kilowatthours, or 8 percent, due mostly to the addition of Taconite Harbor wholesale power agreements to the Regulated Utility segment effective January 1, 2006. The majority of Taconite Harbor sales are reflected in sales to other power suppliers which were up 417.0 million kilowatthours or 69 percent, and $17.8 million. Absent the inclusion of pre-existing Taconite Harbor wholesale obligations, sales to other power suppliers were down reflecting less excess energy available for sale due to a planned outage at our Boswell Unit 4 generating facility in 2006. Electric sales to retail and municipal customers increased 73.7 million kilowatthours, or 1 percent, and $4.2 million, mainly due to strong demand from industrial customers.

Revenue from electric sales to taconite customers accounted for 24 percent of consolidated operating revenue in 2006 (23 percent in 2005). Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in both 2006 and 2005.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (CONTINUED)

REGULATED UTILITY (CONTINUED)

OPERATING EXPENSES were up $24.3 million, or 10 percent, from 2005.

FUEL AND PURCHASED POWER EXPENSE. Fuel and purchased power expense was up $9.2 million from 2005, reflecting the inclusion of Taconite Harbor operations beginning in 2006 ($10.8 million) and higher prices paid for purchased power, partially offset by lower fuel expense at our generating facilities due to planned outages.

OTHER OPERATING EXPENSES. In total, other operating expenses were up $15.1 million from 2005. Employee compensation was up $5.1 million primarily due to the inclusion of Taconite Harbor, annual wage increases and the inclusion of union employees in our results sharing compensation awards program. In total, plant maintenance expense increased $3.1 million from 2005 reflecting the inclusion of Taconite Harbor maintenance in 2006 ($2.2 million) and increased planned maintenance expense at Boswell Unit 4 ($2.1 million) partially offset by a decrease in maintenance expenses at Boswell Unit 3 ($2.3 million). In 2005, planned maintenance was performed at Boswell Unit 3 while the unit was down due to a cooling tower failure. Depreciation expense increased $2.6 million primarily due to the inclusion of Taconite Harbor. Pension expense increased $1.2 million due to a reduction in the discount rate. Vegetation management expenses were up $1.0 million reflecting more work performed in 2006. MISO expenses were up $0.6 million.

INTEREST EXPENSE was up $1.3 million, or 15 percent, from 2005, due to the inclusion of Taconite Harbor in 2006 partially offset by lower effective interest rates (5.94 percent in 2006; 6.13 percent in 2005).

NONREGULATED ENERGY OPERATIONS

OPERATING REVENUE was down $21.6 million, or 40 percent, from 2005 due to the absence of revenue from Taconite Harbor ($24.7 million in 2005) and Kendall County ($3.1 million in 2005). Effective January 1, 2006, Taconite Harbor is reported as part of Regulated Utility. Kendall County operations ceased to be included with our operations effective April 1, 2005, when the Company assigned the power purchase agreement to Constellation Energy Commodities. Coal revenue, realized under a cost-plus contract, was up $2.2 million from 2005 reflecting a 10 percent increase in the delivery price per ton due to higher coal production expenses (see operating expenses below) and a 2 percent increase in tons of coal sold in 2006. Tons of coal sold were lower in 2005 due to a plant outage at the Square Butte generating facility.

OPERATING EXPENSES were down $97.7 million, or 76 percent, from 2005 reflecting the absence of a $77.9 million charge related to the assignment of the Kendall County power purchase agreement to Constellation Energy Commodities on April 1, 2005, expenses related to Taconite Harbor ($19.0 million in 2005) and other expenses related to Kendall County ($6.3 million in 2005) that were incurred prior to April 1, 2005. Expenses related to coal operations were up $1.6 million mainly due to increased equipment leases and fuel expenses in 2006.

INTEREST EXPENSE was down $1.9 million, or 66 percent, from 2005 primarily due to the absence of Taconite Harbor in 2006.

REAL ESTATE

OPERATING REVENUE was up $1.2 million, or 4 percent, from 2005, due to the timing and mix of land sale transaction closings, and increased revenue from prior and current year land sales at our Town Center development project which are accounted for under the percentage-of-completion method. Revenue from land sales was $26.1 million in 2006 which included $4.3 million of previously deferred revenue. In 2005, revenue from land sales was $25.6 million. In 2006, 466 acres of other land were sold (537 acres and 7 lots in 2005). Sales at Town Center represented 186 residential units and the rights to build up to 250,695 square feet of commercial space in 2006 (397,000 commercial square feet in 2005). The first land sales for Town Center were recorded in June 2005. In 2006, revenue of $4.0 million ($8.5 million in 2005) was deferred and will be recognized on a percentage-of-completion basis as development obligations are completed.

OPERATING EXPENSES were down $1.2 million, or 13 percent, from 2005 reflecting a $1.2 million decrease in the cost of real estate sold ($4.6 million in 2006; $5.8 million in 2005), due to the mix of land sold.

OTHER

OTHER INCOME (EXPENSE) reflected $7.6 million more income in 2006 due to a $2.5 million increase in earnings on excess cash and the absence of emerging technology impairments. In 2005, the Company recorded $5.1 million of impairments related to two privately-held emerging technology investments. Other income (expense) also reflected equity losses related to emerging technology investments of $0.8 million in 2006 ($0.3 million in 2005).

INCOME TAXES

For the six months ended June 30, 2006, the effective rate for income taxes was 37.3 percent (32.5 percent benefit for the six months ended June 30, 2005). The increase in the effective rate over last year was primarily due to the emerging technology impairment and the Kendall County capital loss recorded in April 2005. The current benefit for these items was limited to the federal benefit as the state net capital loss carryforwards from 2005 are entirely reserved. The effective rate of 37.3 percent for the six months ended June 30, 2006, was less than the statutory rate primarily because of investment tax credits and deductions for Medicare health subsidies and depletion.

NON-GAAP FINANCIAL MEASURES

We prepare financial statements in accordance with GAAP. Along with this information, we disclose and discuss certain non-GAAP financial information in our quarterly earnings releases, on investor conference calls and during investor conferences and related events. Management believes that non-GAAP financial data supplements our GAAP financial statements by providing investors with additional information which enhances the investors' overall understanding of our financial performance and the comparability of our operating results from period to period. The presentation of this additional information is not meant to be considered in isolation or as a substitute for our results of operations prepared and presented in accordance with GAAP.

As earlier mentioned, our financial results for 2005 were significantly impacted by a $50.4 million after tax, or $1.84 per share, charge due to the assignment of the Kendall County power purchase agreement to Constellation Energy Commodities. (See Note 6.)

Since the Kendall County transaction significantly impacted the financial results from continuing operations in 2005, we believe that, for comparative purposes and a more accurate reflection of our ongoing operations, it is useful to present diluted earnings per share from continuing operations for each applicable period excluding the impact of this transaction. The table below reconciles actual reported diluted earnings per share from continuing operations to the adjusted results that exclude the Kendall County transaction in the respective periods.

NON-GAAP FINANCIAL MEASURES (CONTINUED)

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
DILUTED EARNINGS (LOSS) PER SHARE OF COMMON STOCK				
Continuing Operations - As Reported	$0.49	$(1.46)	$1.17	$(0.82)
Add: Kendall County Charge	-	1.84	-	1.84
Continuing Operations - As Adjusted	$0.49	$ 0.38	$1.17	$1.02

CRITICAL ACCOUNTING POLICIES

Certain accounting measurements under applicable 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: impairment of long-lived assets, pension and postretirement health and life actuarial assumptions, valuation of investments and provisions for environmental remediation. These policies are reviewed with the Audit Committee of our Board of Directors on a regular basis and summarized in our 2005 Form 10-K.

OUTLOOK

EARNINGS GUIDANCE. We continue to expect ALLETE's earnings per share from continuing operations to grow by 15 percent to 20 percent in 2006 as outlined in our 2005 Form 10-K. The growth is expected to come from continued strong electric sales, increased real estate sales and our investment in ATC. It also reflects the absence of operating losses from Kendall County and impairments related to our emerging technology investments which impacted the Company's financial results in 2005.

ENERGY. Over the next several years, we believe electric utilities will be facing the unfolding impacts of three major developments that occurred in 2005--changes in regional transmission operation, the development of rulemaking on the enactment of stricter environmental regulations and federal legislation impacting the structure and organization of the electric utility industry. We believe our energy businesses are well positioned to successfully deal with these issues and to compete successfully. Our access to and ownership of low-cost power are our greatest strengths. We anticipate that we will have ready access to sufficient capital for general business purposes.

RESOURCE PLAN. In 2006, the MPUC approved our Resource Plan, which detailed our retail energy demand projections and our energy sourcing options to meet projected demand. One of the key components of the Resource Plan was the redirection of our Taconite Harbor generating facility from nonregulated energy operations to regulated utility operations effective January 1, 2006. The Taconite Harbor generation will be supplemented with a 50-MW long-term power purchase agreement with Manitoba Hydro which extends from 2009 to 2015. This agreement was executed in June 2006 and will be filed for approval with the MPUC. Expansion of our renewable generating assets to meet Minnesota's Renewable Energy Objective was also approved. The Renewable Energy Objective seeks a 10 percent supply of qualified renewable energy resources for each Minnesota utility by 2015. In April 2006, construction began on a 50-MW wind facility in North Dakota and is expected to be completed by the end of 2006. We will purchase the output from this wind facility under a 25-year power purchase agreement with an affiliate of FPL Energy, LLC. We anticipate that retail demand by customers in our service territory will increase at an average annual rate of 1.5 percent to 2019. We project a load growth of approximately 150 MW by 2010, with another 200 MW of growth anticipated by 2015.

AREA AND BOSWELL 3 EMISSION REDUCTION PLANS. In May 2006, the MPUC approved our filing for cost recovery of planned expenditures to reduce emissions to meet pending federal requirements at Taconite Harbor and Laskin under the AREA plan. The approval allows Minnesota Power to recover costs for SO2, NOx and mercury emission reductions made at these facilities without a rate proceeding. Minnesota Power plans to complete installation of new equipment at the first of two Laskin units this fall, with the first of three Taconite Harbor unit installations anticipated to be completed by mid-2007. Work on all units is anticipated to be completed by the end of 2008. Cost recovery filings will be made 90 days prior to the anticipated in-service date for the equipment at each unit, with rate recovery beginning the month following the in-service date.

In May 2006, we announced plans to make emission reduction investments at our Boswell Unit 3 generating unit. Plans include reductions of particulate, SO2, NOx and mercury emissions to meet pending federal and state requirements. The estimated cost for these reductions is $200 million, which the Company expects to spend from 2007 through 2010. Recovery of capital costs and incremental operating and maintenance expenses, as well as a return on investment, will commence when the project is in service. In addition, Minnesota legislation allows for a cash return on investment for construction work in progress. We plan to file for MPCA and MPUC approval of these plans and related expenditures later this year. The MPUC filing would request approval for cost recovery and returns on these investments without a rate proceeding.

LARGE POWER CONTRACTS. Electric power is a key component in the production of taconite and paper, and these industries represent more than half of Minnesota Power's regulated utility electric sales. In March and April 2006, the MPUC approved new all-requirements agreements with Stora Enso Oyj's Duluth mills through August 31, 2013, and UPM-Kymmene Corporation's Blandin Paper mill in Grand Rapids through April 30, 2010. Three other long-term agreements were approved by the MPUC in 2005, extending contracts for an additional four to eight years. The extension of our electric supply contracts is an important achievement for our large power customers and Minnesota Power because it provides planning certainty for both our customers and us.

MISO AND FUEL CLAUSE. On February 24, 2006, the MPUC issued an order that granted rehearing of the MISO Day 2 docket and suspended the refund obligation. The Company worked with other Minnesota utilities, the DOC and other stakeholders to prepare a joint recommendation, required by the MPUC in its February 24, 2006 order, of which costs should be recovered on a current basis through the fuel clause and which costs are more appropriately deferred for potential recovery through base rates. The joint report and recommendations were filed with the MPUC on June 23, 2006. The MPUC is requesting public comments on the report and further action on the recommendation is anticipated later in 2006. (See Note 13.)

EXCELSIOR ENERGY INC. (Excelsior) has proposed to construct two 600 MW (net) coal-gasification generation units in northern Minnesota. The project is in the early development stages but may be an option for our long-term forecasted energy and capacity needs. Excelsior says the facility could be operational in 2011, but needs to obtain the necessary permits and financing. In 2003, the Minnesota legislature enacted several provisions that provide Excelsior with special considerations, including requiring utilities within the state to "consider" Excelsior before pursuing new resource additions within Minnesota. In December 2005, Excelsior filed a petition with the MPUC seeking approval of an unexecuted power purchase agreement with Xcel Energy Inc. In January 2006, Minnesota Power filed comments with the MPUC in Excelsior's proposed power purchase agreement proceeding, focusing on the importance to the state of maintaining a range of base load energy options, including multiple fuel types and generating technologies. In April 2006, the MPUC referred Excelsior's petition to an administrative law proceeding to further develop the record in the case for subsequent MPUC deliberations. Minnesota Power continues to be a participant in these proceedings, focusing its comments on energy policy and infrastructure impacts.

INVESTMENT IN ATC. On May 4, 2006, the PSCW reviewed and approved the request that allows us to invest $60 million in ATC. As of June 30, 2006, we had invested $11.5 million and anticipate investing an additional $48.5 million by the end of 2006.

OUTLOOK (CONTINUED)

RATE CASE. On May 1, 2006, SWL&P filed an application with the PSCW for authority to increase retail utility rates an average of 5.2 percent and is requesting an 11.7 percent return on common equity. Cost of service studies and rate designs for all retail customer classes were filed on June 1, 2006. The PSCW has set tentative dates of August 8, 2006, for the pre-hearing conference and November 21, 2006, for the hearing. The Company anticipates that new rates will become effective in January 2007.

REAL ESTATE. Progress continues on our three major planned development projects in Florida--Town Center, which will be a new downtown for Palm Coast; Palm Coast Park, which is located in northwest Palm Coast; and Ormond Crossings, which is located in Ormond Beach along Interstate 95.

TOWN CENTER. We began selling property from our Town Center development project in northeast Florida in 2005. Developers who have purchased land from us have started construction activities. Since land is being sold before completion of the project infrastructure, revenue and cost of real estate sold are recorded using a percentage-of-completion method. Pending land sales under contract for properties at Town Center totaled $53.2 million at June 30, 2006.

PALM COAST PARK. In May 2006, Palm Coast District issued $31.8 million of tax-exempt, special assessment bonds, the majority of which will be used to fund the construction of environmental, traffic mitigation and infrastructure improvements at Palm Coast Park. At June 30, 2006, pending land sales under contract for properties at Palm Coast Park totaled $64.3 million which included a contract for a $52.5 million sale of land that will be purchased in four phases, with closings to occur in 2007 through 2009. We have the opportunity to receive participation revenue as part of these sales contracts.

ORMOND CROSSINGS. We anticipate that the Development of Regional Impact approval process will be concluded in late 2006, at which time we would receive a Development Order from the City of Ormond Beach. Engineering, design and permitting will continue through 2007. It is not anticipated that any sales will be made at Ormond Crossings until 2008.

As of June 30, 2006, we had $8.1 million of deferred profit on sales of real estate, before taxes and minority interest, on our balance sheet. We expect most of this deferred profit will be reflected in income by the end of 2006.

ALLETE Properties occasionally provides seller financing, and outstanding finance receivables were $7.5 million at June 30, 2006, with maturities ranging up to seven years. Outstanding finance receivables accrue interest at market-based rates. These finance receivables are collateralized by the financed properties.

SUMMARY OF DEVELOPMENT PROJECTS INVENTORY FOR THE SIX MONTHS ENDED JUNE 30, 2006	OWNERSHIP	RESIDENTIAL UNITS	COMMERCIAL SQ. FT.
Town Center at Palm Coast	80%		
At December 31, 2005		2,833	2,927,700
Property Sold		(186)	(250,695)
Change in Estimate		87	6,375
		2,734	2,683,380
Palm Coast Park	100%	3,600	3,200,000
Ormond Crossings	100%		
		6,334	5,883,380

Estimated and includes minority interest. The actual property allocation at full build-out may be different than these estimates.
Includes industrial, office and retail square footage.
The Development of Regional Impact Application for Development Approval submitted in August 2005 proposed 4,400 residential units and 5 million square feet of commercial space, and is subject to approval by regulating governmental entities.

SUMMARY OF OTHER LAND INVENTORIES
FOR THE SIX MONTHS ENDED

JUNE 30, 2006	OWNERSHIP	TOTAL	MIXED USE	RESIDENTIAL	COMMERCIAL	AGRICULTURAL
ACRES						
Palm Coast Holdings	80%					
At December 31, 2005		2,566	1,692	346	281	247
Property Sold		(66)	(47)	-	(18)	(1)
Change in Estimate		(97)	-	-	-	(97)
		2,403	1,645	346	263	149
Lehigh	80%					
At December 31, 2005		613	390	140	74	9
Property Sold		(390)	(390)	-	-	-
		223	-	140	74	9
Cape Coral	100%					
At December 31, 2005		41	-	1	40	-
Property Sold		(10)	-	-	(10)	-
		31	-	1	30	-
Other	100%	944	-	-	-	944
		3,601	1,645	487	367	1,102

Acreage amounts are approximate and shown on a gross basis, including wetlands and minority interest. Acreage amounts may vary due to platting or surveying activity. Wetland amounts vary by property and are often not formally determined prior to sale. The actual property allocation at full build-out may be different than these estimates.

Includes land located in Ormond Beach, Florida, and other land located in Palm Coast, Florida not included in development projects.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITIES

A primary goal of our strategic plan is to improve cash flow from operations. Our strategy includes growing our businesses both internally by expanding facilities, services and operations (see Capital Requirements), and externally through acquisitions.

We believe our financial condition is strong, as evidenced by cash and cash equivalents and short-term investments of $183.2 million, and a debt to total capital ratio of 38 percent at June 30, 2006.

OPERATING ACTIVITIES. Cash flow from operating activities was $36.4 million for the six months ended June 30, 2006 (cash flow for operating activities of $20.0 million for the six months ended June 30, 2005). Cash from operating activities was higher in 2006, primarily due to the $77.9 million Kendall County charge in 2005. Cash used for inventories was $5.4 million higher in 2006 reflecting more coal purchases in anticipation of maintenance on some coal handling equipment in the fall of 2006. Cash used for discontinued operations was higher in 2006 due to the total payment of all 2005 accrued liabilities.

INVESTING ACTIVITIES. Cash flow for investing activities was $45.3 million for the six months ended June 30, 2006 (cash flow from investing activities of $58.4 million for the six months ended June 30, 2005). Cash used for investing activities was higher in 2006 than 2005, primarily due to activities within our short-term investments. In 2006, net purchases of $3.5 million were used for short-term investments, while 2005 included $87.6 million of net proceeds that were received from the sale of short-term investments. Gross proceeds from the sale of available-for-sale securities were $410.6 million in 2006 ($271.1 million in 2005) and purchases were $414.1 million ($183.5 million in 2005). Cash used for investing activities in 2006 reflected $11.5 million invested in ATC and a $12.7 million increase in additions to property, plant and equipment which vary from year to year.

FINANCING ACTIVITIES. Cash flow for financing activities was $17.9 million for the six months ended June 30, 2006 ($4.3 million for the six months ended June 30, 2005). Cash used for financing activities increased in 2006 due to an additional $5.3 million of dividends paid because of more shares outstanding and an increase in the dividend rate. Cash from financing activities was $4.0 million lower in 2006, primarily due to fewer shares issued under our long-term incentive compensation plan. In 2006, we refinanced $50 million of first mortgage bonds at a lower rate. The new bonds mature in 2036.

WORKING CAPITAL. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. We have 0.7 million original issue shares of our common stock available for issuance through INVEST DIRECT, our direct stock purchase and dividend reinvestment plan. We have bank lines of credit aggregating $170.0 million, the majority of which expire in January 2011. In January 2006, we renewed, increased and extended a committed, syndicated, unsecured revolving credit facility with LaSalle Bank National Association, as Agent, for $150 million (Line). The Line matures on January 11, 2011. At our request and subject to certain conditions, the Line may be increased to $200 million and extended for two additional 12-month periods. We may prepay amounts outstanding under the Line in whole or in part at our discretion without premium or penalty. Additionally, we may irrevocably terminate or reduce the size of the Line prior to maturity without premium or penalty. The Line may be used for general corporate purposes, working capital and to provide liquidity in support of our commercial paper program. The amount and timing of future sales of our securities will depend upon market conditions and our specific needs. We may sell securities to meet capital requirements, to provide for the retirement or early redemption of issues of long-term debt, to reduce short-term debt and for other corporate purposes.

In May 2006, Palm Coast District issued $31.8 million of tax-exempt, 5.7% Special Assessment Bonds, Series 2006, due May 1, 2037. The bonds were issued to fund a portion of the Palm Coast Park development project in Florida. Bond proceeds of $26.3 million will be used for the construction of environmental, traffic mitigation and infrastructure improvements, including utility extensions, roadways, parks, drainage, recreational facilities, landscaping and a multi-purpose trail system. The remaining funds will be used for capitalized interest, a debt service reserve fund and the costs of issuance. The bonds are payable from and secured by the revenue derived from assessments imposed, levied and collected by the Palm Coast District. The assessments represent an allocation of the costs of the improvements, including bond financing costs, to the lands within the Palm Coast District benefiting from the improvements. The assessments will be included in the annual property tax bills of landowners beginning in 2007.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

SECURITIES

In March 2001, ALLETE, ALLETE Capital II and ALLETE Capital III, jointly filed a registration statement with the SEC, pursuant to Rule 415 under the Securities Act of 1933. The registration statement, which has been declared effective by the SEC, relates to the possible issuance of a remaining aggregate amount of $387 million of securities, which may include ALLETE common stock, first mortgage bonds and other debt securities, and ALLETE Capital II and ALLETE Capital III preferred trust securities. ALLETE also previously filed a registration statement, which has been declared effective by the SEC, relating to the possible issuance of $25 million of first mortgage bonds and other debt securities. We may sell all or a portion of the remaining registered securities if warranted by market conditions and our capital requirements. Any offer and sale of the above-mentioned securities will be made only by means of a prospectus meeting the requirements of the Securities Act of 1933 and the rules and regulations thereunder.

In March 2006, we issued $50 million in principal amount of First Mortgage Bonds, 5.69% Series due March 1, 2036. Proceeds were used to redeem $50 million in principal amount of First Mortgage Bonds, 7% Series due March 1, 2008.

On July 5, 2006, the Collier County Industrial Development Authority issued $27.8 million of Industrial Development Variable Rate Demand Refunding Revenue Bonds Series 2006 due 2025 (Refunding Bonds) on behalf of ALLETE. Proceeds from the Refunding Bonds and internally generated funds will be used to redeem $29.1 million of outstanding Collier County Industrial Development Refunding Revenue Bonds 6.5% Series 1996 due 2025 which were called on July 5, 2006, for redemption on August 9, 2006. As a result of an early redemption premium, we will recognize a $0.6 million charge to other expense in the third quarter of 2006.

Long-term debt due within one year includes $60 million of first mortgage bonds due February 2007 that cannot be redeemed prior to maturity. We intend to refinance this debt on a long-term basis.

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements are summarized in our 2005 Form 10-K, with additional disclosure discussed in Note 13 of this Form 10-Q.

CAPITAL REQUIREMENTS

For the six months ended June 30, 2006, capital expenditures for continuing operations totaled $35.3 million ($22.6 million in 2005). Expenditures for the six months ended June 30, 2006, included $34.5 million for Regulated Utility and $0.8 million for Nonregulated Energy Operations. Internally-generated funds were the source of funding for these expenditures.

Real estate development expenditures are and will be funded with a revolving development loan and tax-exempt bonds issued by community development districts. The Town Center District issued $26.4 million of tax-exempt bonds in 2005. Approximately $21 million of the bond proceeds will be used for construction of infrastructure improvements at Town Center, with the remaining funds to be used for capitalized interest, a debt service reserve fund and costs of issuance. The Palm Coast District issued $31.8 million of tax-exempt bonds in May 2006. Bond proceeds of $26.3 million will be used for the construction of environmental, traffic mitigation and infrastructure improvements at Palm Coast Park, with the remaining funds to be used for capitalized interest, a debt service reserve fund and costs of issuance. Company expenditures related to our real estate developments in Florida increase the carrying value of our land assets, which are classified as Investments on our consolidated balance sheet.

ENVIRONMENTAL MATTERS AND OTHER

As previously discussed in our Critical Accounting Policies section, our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Due to future stricter environmental requirements through legislation and/or rulemaking, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. We are unable to predict the outcome of the issues discussed in Note 13.

NEW ACCOUNTING STANDARDS

New accounting standards are discussed in Note 1.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SECURITIES INVESTMENTS

AVAILABLE-FOR-SALE SECURITIES. Our available-for-sale securities portfolio consists of securities in a grantor trust established to fund certain employee benefits included in Investments, and various auction rate bonds and variable rate demand notes included in Short-Term Investments. Available-for-sale securities are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income (loss), net of tax. Unrealized losses that are other than temporary are recognized in earnings. Our short-term investments classified as available-for-sale securities are recorded at fair market value which equates to cost because the variable interest rates for these securities typically reset every 7 to 35 days. Despite the long-term nature of their stated contractual maturities, we have the ability to quickly liquidate these securities. As a result, we had no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from our short-term investments. All income generated from these short-term investments was recorded as interest income. Our available-for-sale securities portfolio had a fair value of $143.9 million at June 30, 2006 ($139.5 million at December 31, 2005) and a total unrealized after-tax gain of $2.4 million at June 30, 2006 ($2.1 million at December 31, 2005).

We use the specific identification method as the basis for determining the cost of securities sold. Our policy is to review on a quarterly basis available-for-sale securities for other than temporary impairment by assessing such factors as the share price trends and the impact of overall market conditions. As a result of our periodic assessments, we did not record any impairment of available-for-sale securities for the six months ended June 30, 2006.

EMERGING TECHNOLOGY PORTFOLIO. As part of our emerging technology portfolio, we have several minority investments in venture capital funds and direct investments in privately-held, start-up companies. We account for our investment in venture capital funds under the equity method and account for our direct investment in privately-held companies under the cost method based primarily on our ownership percentages. The total carrying value of our emerging technology portfolio was $9.0 million at June 30, 2006 ($9.2 million at December 31, 2005). Our policy is to review these investments quarterly for impairment by assessing such factors as continued commercial viability of products, cash flow and earnings. Any impairment would reduce the carrying value of the investment. Our basis in direct investments in privately-held companies included in the emerging technology portfolio was zero at June 30, 2006, and December 31, 2005.

COMMODITY PRICE RISK

Our regulated utility operations in Minnesota and Wisconsin incur costs for fuel (primarily coal), power and natural gas purchased for resale in our regulated service territories, and related transportation. Our regulated utilities' exposure to price risk for these commodities is significantly mitigated by the current ratemaking process and regulatory environment, which generally allows a fuel clause surcharge if costs are in excess of those in our last rate filing. Conversely, costs below those in our last rate filing result in a rate credit. We seek to prudently manage our customers' exposure to price risk by entering into contracts of various durations and terms for the purchase of coal and power (in Minnesota), power and natural gas (in Wisconsin), and related transportation costs.

POWER MARKETING

Our power marketing activities consist of: (1) purchasing energy in the wholesale market for resale in our regulated service territories when retail energy requirements exceed generation output; and (2) selling excess available generation and purchased power.

From time to time, our utility operations may have excess generation that is temporarily not required by retail and municipal customers in our regulated service territory. We actively sell this generation to the wholesale market to optimize the value of our generating facilities. This generation is generally sold in the MISO market at market prices.

Approximately 200 MW of generation from our Taconite Harbor facility in northern Minnesota has been sold through various long-term capacity and energy contracts. Long-term, we have entered into two capacity and energy sales contracts totaling 175 MW (201 MW including a 15 percent reserve), which were effective May 1, 2005, and expire on April 30, 2010. Both contracts contain fixed monthly capacity charges and fixed minimum energy charges. One contract provides for an annual escalator to the energy charge based on increases in our cost of coal, subject to a small minimum annual escalation. The other contract provides that the energy charge will be the greater of a fixed minimum charge or an amount based on the variable production cost of a combined-cycle, natural gas unit. Our exposure in the event of a full or partial outage at our Taconite Harbor facility is significantly limited under both contracts. When the buyer is notified at least two months prior to an outage, there is no exposure. Outages with less than two months' notice are subject to an annual duration limitation typical of this type of contract. We also have a 50-MW capacity and energy sales contract that extends through April 2008, with formula pricing based on variable production cost of a combustion-turbine, natural gas unit.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of management, including our chief executive officer and chief financial officer, as of the end of the period covered by this Form 10-Q. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective. While we continue to enhance our internal control over financial reporting, there has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Material legal and regulatory proceedings are included in the discussion of Other Information in Part II, Item 5 and/or Note 13, and are incorporated by reference herein.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed under the heading "Risk Factors" in Part I, Item 1A of our 2005 Form 10-K and Part II, Item 1A of our Form 10-Q for the Quarter Ended March 31, 2006.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) We held our Annual Meeting of Shareholders on May 9, 2006.

(b) Included in (c) below.

(c) The election of directors and the ratification of the appointment of PricewaterhouseCoopers LLP, as the Company's independent registered public accounting firm for 2006 were voted on at the Annual Meeting of Shareholders.

The results were as follows:

	VOTES FOR	VOTES WITHHELD
DIRECTORS		
Heidi J. Eddins	26,116,843	432,795
James J. Hoolihan	25,425,168	1,124,470
Peter J. Johnson	25,791,795	757,843
Madeleine W. Ludlow	26,067,724	481,914
George L. Mayer	26,091,618	458,020
Roger D. Peirce	26,002,438	547,200
Jack I. Rajala	25,734,994	814,644
Donald J. Shippar	25,765,280	784,358
Nick Smith	25,715,577	834,061
Bruce W. Stender	25,765,606	784,032

	VOTES FOR	VOTES AGAINST	ABSTENTIONS	BROKER NONVOTES
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM				
PricewaterhouseCoopers LLP	25,876,490	542,654	130,494	-

(d) Not applicable.

ITEM 5. OTHER INFORMATION

Reference is made to our 2005 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to our 2005 Form 10-K.

Ref. Page 12 - First, Second and Third Full Paragraphs

In May 2006, the MPUC approved our filing for cost recovery of planned expenditures to reduce emissions to meet pending federal requirements at Taconite Harbor and Laskin under the AREA plan. The approval allows Minnesota Power to recover costs for SO2, NOx and mercury emission reductions made at these facilities without a rate proceeding. Minnesota Power plans to complete installation of new equipment at the first of two Laskin units this fall, with the first of three Taconite Harbor unit installations anticipated to be completed by mid-2007. Work on all units is anticipated to be completed by the end of 2008. Cost recovery filings will be made 90 days prior to the anticipated in-service date for the equipment at each unit, with rate recovery beginning in the month following the in-service date.

Ref. Page 20 - Sixth Full Paragraph

On June 16, 2006, Minnesota Power filed an application with the MPCA for a variance from a clarified ash pond discharge standard for mercury included in its National Pollutant Discharge Elimination System (NPDES) permit for Laskin. The variance requests an extension for Laskin to meet mercury discharge requirements which become effective March 23, 2007, as set forth in Laskin's NPDES permit issued by the MPCA in May 2005. Currently there is no feasible technology available that would enable Laskin to meet the March 23, 2007 deadline to lower the mercury in its wastewater discharge. The Company is actively researching and testing treatment technology options, but is unable to predict the outcome of this matter.

Ref. Page 20 - Seventh Full Paragraph

Minnesota Power, the Fond du Lac Band of Lake Superior Chippewa and the U.S. Department of Interior (DOI) reached a settlement agreement to resolve each party's respective appeals of the St. Louis River Project hydroelectric license. In December 2004, Minnesota Power filed an application for an amendment to the St. Louis River Project license incorporating the settlement agreement. On June 22, 2006, the FERC issued an order modifying and approving Minnesota Power's application to amend the license consistent with the settlement agreement. The FERC declined a request by the DOI to vacate portions of the original license order as part of the license amendment process. The order by the FERC, otherwise adopts the material provisions of the settlement as part of the amended project license. The order became final and non-appealable on July 22, 2006.

ITEM 6. EXHIBITS

EXHIBIT NUMBER	
10(a)	First Amendment to Fourth Amended and Restated Committed Facility Letter dated June 19, 2006, by and among ALLETE and LaSalle Bank National Association, as Agent.
10(b)1	Financing Agreement between Collier County Industrial Development Authority and ALLETE dated as of July 1, 2006.
10(b)2	Letter of Credit Agreement, dated as of July 5, 2006, among ALLETE, Participating Banks and Wells Fargo Bank, National Association, as Administrative Agent and Issuing Bank.
31(a)	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Section 1350 Certification of Periodic Report by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99	ALLETE News Release dated July 28, 2006, announcing 2006 second 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.)

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.

July 28, 2006 Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

July 28, 2006 Steven Q. DeVinck

Steven Q. DeVinck
Controller

EXHIBIT INDEX

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FIRST AMENDMENT TO
FOURTH AMENDED AND RESTATED COMMITTED FACILITY LETTER

This First Amendment to Fourth Amended and Restated Committed Facility Letter is dated as of June 19, 2006, by and among ALLETE, INC., a Minnesota corporation (the "COMPANY"), the banks from time to time party to the Committed Facility Letter (as hereinafter defined) (each a "BANK" and collectively the "BANKS") and LASALLE BANK NATIONAL ASSOCIATION, in its capacity as agent for the Banks (in such capacity, the "AGENT").

WITNESSETH THAT:

WHEREAS, the Company, the Banks and the Agent are party to that certain Fourth Amended and Restated Committed Facility Letter dated as of January 11, 2006 (together with all exhibits, schedules, attachments, appendices and amendments thereof, the "COMMITTED FACILITY LETTER"); and

WHEREAS, the Company has requested that the Committed Facility Letter be amended as set forth herein and the Banks are agreeable to such request on the terms and subject to the conditions set forth herein;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company, the Banks and the Agent hereby agree as set forth below.

1. The Committed Facility Letter is hereby amended as follows:

(a) Section 4(b) is amended by deleting the proviso at the end of clause (ii) thereof and ending such Section after the words "be continuing";

(b) Section 5(d) is amended by deleting the last sentence thereof in its entirety and substituting the following new sentence therefor:

"There has not been, as of the Closing Date, any Material Adverse Change since the date of such interim financial statements."; and

(c) Section 7(a) is amended by deleting clause (vii) at the end thereof and substituting the semi-colon and word "or" appearing at the end of clause (vi)(5) with a period.

2. Except as expressly amended hereby, the Committed Facility Letter and all other documents executed in connection therewith shall remain in full force and effect in accordance with their respective terms. The Committed Facility Letter, as amended hereby, and all rights and powers created thereby and thereunder or under such other documents are in all respects ratified and confirmed. From and after the date hereof, the Committed Facility Letter shall be deemed to be amended and modified as herein provided and, except as so amended and modified, the Committed Facility Letter shall continue in full force and effect in accordance

with its terms and the Committed Facility Letter and this Amendment shall be read, taken and construed as one and the same instrument. On and after the date hereof the term "AGREEMENT" as used in the Committed Facility Letter and all other references to the Committed Facility Letter in the Committed Facility Letter, the other documents executed in connection therewith and/or herewith or any other instrument, document or writing executed by the Company or any other person or furnished to the Agent and/or the Banks by the Company, or any other person in connection herewith or therewith, shall be deemed to be a reference to the Committed Facility Letter as hereby amended.

3. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent:

(a) The Company and each Bank shall have executed and delivered this Amendment to Agent together with such other documents and instruments as Agent may reasonably require;

(b) No Default or Event of Default shall have occurred and be continuing; and

(c) Agent shall have received a certificate of the Secretary of the Company having attached an incumbency certificate showing the names and titles, and bearing the signatures of, the officers of the Company authorized to execute this Amendment.

4. On and as of the date hereof, the Company represents and warrants to the Agent and to the Banks that:

(a) The representations and warranties contained in this Amendment and the Committed Facility Letter are true and correct in all material respects, in each case as though made on and as of the date hereof, except to the extent such representations and warranties relate solely to an earlier date (and then as of such earlier date); and

(b) Both before and after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing or would result from the execution and delivery of this Amendment; and

(c) The Company is, and will be, in full compliance with all of the material terms, conditions and all other provisions of this Amendment and the Credit Documents; and

(d) This Amendment has been duly authorized, executed and delivered on its behalf, and both the Committed Facility Letter, both before being amended and supplemented hereby and as amended and supplemented hereby, and this Amendment constitute its legal, valid and binding obligation enforceable against it in accordance with their terms, except to the extent that a remedy or default may be determined by a court of competent jurisdiction to constitute a penalty and except to the extent that

enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to creditors' rights or by general principles of equity.

5. This Amendment shall be construed in accordance with and governed by the internal laws of the State of Illinois, without regard to its conflicts of laws principles.

6. This Amendment may be signed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Amendment may also be signed by facsimile, and any facsimile signature hereto shall for all purposes be deemed an original signature.

7. Except as otherwise specified herein, this Amendment embodies the entire agreement and understanding between the Company and the Banks with respect to the subject matter hereof and supersedes all prior agreements, consents and understandings relating to such subject matter.

8. This Amendment shall be binding upon and inure to the benefit of the Banks and their successors and assigns and the Company and its permitted successors and assigns.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to Fourth Amended and Restated Committed Facility Letter to be duly executed and delivered by their duly authorized officers as of the day and year first above written.

THE COMPANY:
- -----------

ALLETE, INC., a Minnesota corporation

By: /s/ James K. Vizanko

Name: James K. Vizanko

Title: Sr. VP - Finance & CFO

AGENT/BANKS:
- -----------

LASALLE BANK NATIONAL ASSOCIATION, in its individual capacity as a Bank and as Agent

By: /s/ David Bond

Name: David Bond

Title: Senior Vice President

By:

Name:

Title:

OTHER BANKS:

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Christopher W. Rupp
Name: Christopher W. Rupp
Title: Vice President

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Patrick McCue
Name: Patrick McCue
Title: Vice President & Senior Relationship Manager
Wells Fargo Bank, National Association

JPMORGAN CHASE BANK, N.A.

By: /s/ Gabriel Simon
Name: Gabriel Simon
Title: AVP

THE BANK OF TOKYO - MITSUBISHI, UFJ, LTD.,
Chicago Branch

By: /s/ Mathew Ross
Name: Mathew Ross
Title: Vice President & Manager

Exhibit 10(b)1

EXECUTION COPY

FINANCING AGREEMENT

between

COLLIER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

and

ALLETE, INC.

Dated as of July 1, 2006

Relating to

Industrial Development Variable Rate Demand Refunding Revenue Bonds
(ALLETE, Inc. Project)

The rights of the Collier County Industrial Development Authority hereunder (except for certain unassigned rights to payment of fees and expenses and indemnification and the right to consent to matters) have been assigned to U.S. Bank National Association, as Trustee under a Indenture of Trust, dated as of July 1, 2006, from the Collier County Industrial Development Authority, and is subject to the security interest of the Trustee thereunder.

TABLE OF CONTENTS

This table of contents is not part of the Financing Agreement, and is for convenience only. The captions herein are of no legal effect and do not vary the meaning or legal effect of any part of the Financing Agreement.

FINANCING AGREEMENT

THIS FINANCING AGREEMENT, dated as of July 1, 2006, between the COLLIER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY, a body corporate and politic of the State of Florida (as hereinafter defined, the "Issuer"), and ALLETE, INC., a Minnesota corporation (as hereinafter defined, the "Company").

W I T N E S S E T H:

WHEREAS, the Issuer is authorized and empowered by the provisions of Chapter 159, Parts II and III, and Section 163.01, Florida Statutes, as amended (as hereinafter defined, the "Act"), to issue refunding revenue bonds for the purpose of refunding revenue bonds previously issued under the Act for the purpose of providing funds to finance or refinance all or any part of the cost of one or more "projects" as defined in the Act, and to enter into interlocal agreements in respect thereof; and

WHEREAS, the Issuer proposes to issue and sell its revenue bonds to refund bonds it previously issued under the Act to refund a portion of the bonds issued to finance certain projects located in the jurisdiction of the Issuer and the Volusia County Industrial Development Authority and the Lee County Industrial Development Authority (collectively, the "Governmental Units"); and

WHEREAS, the Issuer and the Governmental Units have entered into a Interlocal Agreement, dated as of July 1, 2006 (as hereinafter defined, the "Interlocal Agreement"), authorizing the Issuer to issue revenue refunding bonds to refund such outstanding bonds; and

WHEREAS, the Issuer is further authorized and empowered under the Act to enter into a financing agreement providing for payments to it sufficient to pay when due the principal of, premium, if any, and interest on and the purchase price with respect to its revenue bonds.

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby and in consideration of the premises, DO HEREBY AGREE as follows:

ARTICLE I

DEFINITIONS; REFERENCES; CERTIFICATES AND OPINIONS;
GENERAL PROVISIONS

Section 1.01. DEFINITIONS. The terms defined in this Article I shall for all purposes of this Agreement have the meaning herein specified, unless the context clearly requires otherwise:

"Act" means Chapter 159, Parts II and III, and Section 163.01, Florida Statutes, as amended, and all acts supplemental thereto or amendatory thereof.

"Act of Bankruptcy" means, in respect of a Person, the filing of a voluntary or involuntary petition seeking relief as a debtor or against the Person under the United States

Bankruptcy Code or other applicable federal or state bankruptcy, insolvency, receivership, reorganization or similar law for the relief of debtors, now or hereafter in effect.

"Additional Bonds" means any Bonds issued under the Indenture, other than the Series 2006 Bonds.

"Agreement" means this Financing Agreement between the Issuer and the Company, and any and all modifications, alterations, amendments and supplements hereto entered into in accordance with the provisions hereof and of the Indenture.

"Alternate Letter of Credit" means (i) any letter of credit or other credit facility securing the payment of principal of and interest on the Bonds and the Purchase Price of Bonds tendered for purchase under Sections 306 or 307 of the Indenture delivered in accordance with Section 502 of the Indenture in substitution and replacement for a Letter of Credit or (ii) any Liquidity Facility.

"Bonds" means the Series 2006 Bonds and any Additional Bonds.

"Bond Purchase Fund" means the fund by that name created by Section 308 of the Indenture.

"Bond Counsel" means any legal counsel acceptable to the Issuer and the Trustee who shall be nationally recognized as expert in matters pertaining to the validity of obligations of governmental issuers and the exemption from federal income taxation of interest on such obligations.

"Bond Year," when used with respect to a series of Bonds, shall have the meaning given it in the Tax Compliance Certificate.

"Code" means the Internal Revenue Code of 1986, as amended, and, when appropriate, any statutory predecessor or successor thereto, and all applicable regulations (whether proposed, temporary or final) thereunder and any applicable official rulings, announcements, notices, procedures and judicial determinations relating to the foregoing.

"Company" means ALLETE, Inc., a Minnesota corporation, its successors and assigns, and any surviving, resulting or transferee corporation that may assume its obligations in accordance with Section 6.01 hereof.

"Company Representative" means the President, any Vice President or the Treasurer of the Company and such other person or persons at the time designated to act on behalf of the Company in matters relating to this Agreement and the Indenture as evidenced by a written certificate furnished to the Issuer and the Trustee containing the specimen signature of such person or persons and signed on behalf of the Company by its President, any Vice President or its Treasurer. Such certificate may designate an alternate or alternates each of whom shall be entitled to perform all duties of the Company Representative.

"Counsel" means an attorney designated by or acceptable to the Trustee, duly admitted to practice law before the highest court of any state; an attorney for the Company or the Issuer may be eligible for appointment as Counsel.

"Credit Agreement" means the Letter of Credit Agreement, dated as of July 5, 2006, between the Company, the Credit Bank and certain other participating banks, as originally executed and as from time to time amended and supplemented, and any similar agreement pursuant to which an Alternate Letter of Credit is issued, as originally executed and as such agreement may from time to time be amended and supplemented.

"Credit Bank" means initially Wells Fargo Bank, National Association, a national banking association, in its capacity as issuer of the initial Letter of Credit, and its successors and assigns, and if an Alternate Letter of Credit is issued, the issuer or provider of such Alternate Letter of Credit, and its successors and assigns.

"Debt Service Fund" means the fund by that name created by Section 401 of the Indenture.

"Determination of Taxability," when used with respect to the Series 2006 Bonds, means a final determination by the Internal Revenue Service or by a court of competent jurisdiction in the United States that, as a result of failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under this Agreement or as a result of the inaccuracy of any representation or agreement made by the Company under this Agreement, the interest payable on the Series 2006 Bonds is includable for federal income tax purposes in the gross income of the owners thereof (other than an owner who is a "substantial user" of the facilities refinanced thereby or a "related person" thereto within the meaning of Section 147(a) of the Code), which final determination follows proceedings of which the Company has been given written notice and in which the Company, at its sole expense and to the extent deemed sufficient by the Company, has been given an opportunity to participate, either directly or in the name of the owners of the Series 2006 Bonds.

"First Mortgage" shall mean the Mortgage and Deed of Trust, dated as of September 1, 1945, from the Company to The Bank of New York and W. T. Cunningham (successors to Irving Trust Company and Richard H. West), as trustees, as heretofore and hereafter amended and supplemented.

"Governmental Units" means the Volusia County Industrial Development Authority and the Lee County Industrial Development Authority.

"Indenture" means the Indenture of Trust, dated as of the date hereof, between the Issuer and the Trustee, and any and all modifications, alterations, amendments and supplements thereto entered into from time to time in accordance with the provisions thereof.

"Issuer" means the Collier County Industrial Development Authority, and any successors to its functions hereunder.

"Issuer Representative" means the Chairman of the Issuer, and such other person or persons at the time designated to act on behalf of the Issuer in matters relating to this Indenture

and the Financing Agreement as evidenced by a written certificate furnished to the Trustee containing the specimen signature of such person or persons and signed on behalf of the Issuer by its Chairman. Such certificate may designate an alternate or alternates, each of whom shall be entitled to perform all duties of the Issuer Representative.

"Interlocal Agreement" means the Interlocal Agreement, dated as of July 1, 2006, between the Issuer and the Governmental Units, as such may be amended from time to time in accordance with its terms.

"Letter of Credit" means initially the irrevocable direct-pay letter of credit issued by the Credit Bank to the Trustee pursuant to the Credit Agreement concurrently with the original issuance of the Series 2006 Bonds, and any extensions thereof, and upon the issuance and delivery of an Alternate Letter of Credit in accordance with Section 502 of the Indenture, "Letter of Credit" shall include such Alternate Letter of Credit, and any subsequent extensions or replacements thereof.

"Liquidity Facility" means any letter of credit, line of credit, standby bond purchase agreement or other credit facility securing the payment of the Purchase Price of Bonds tendered for purchase under Sections 306 or 307 of the Indenture (but not the payment of principal of or interest on the Bonds), delivered in accordance with Section 502 of the Indenture.

"Note" means the promissory note of even date herewith, executed by the Company in favor of the Issuer, to evidence and secure the obligations of the Company to pay the Taxability Premium, substantially in the form of EXHIBIT B hereto (which is hereby incorporated herein and made a part hereof).

"Outstanding" means with respect to Bonds, as of the date of determination, all Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation as provided in Section 209 of the Indenture;

(b) Bonds for whose payment or redemption money or Defeasance Obligations in the necessary amount have been deposited with the Trustee or any Paying Agent in trust for the owners of such Bonds as provided in Section 1101 of the Indenture, provided that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(c) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under this Indenture;

(d) Bonds alleged to have been destroyed, lost or stolen which have been paid as provided in Section 208 of the Indenture; and

(e) Untendered Bonds;

provided, however, that, in determining whether the Owners of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver under this Agreement, Bonds owned by the Issuer or by the Company or any Related Party thereto or Affiliate thereof shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be disregarded.

"Owner" means, in respect of a Bond, the Person or Persons in whose name the Bond is registered on the bond registration books maintained by the Trustee pursuant to Section 206 of the Indenture.

"Person" means any natural person, firm, association, corporation, partnership, limited liability company, limited liability partnership, joint stock company, joint venture, trust, unincorporated organization or firm, or a government or any agency or political subdivision thereof or other public body.

"Prior Bonds" means the following revenue bonds which were refinanced with proceeds of the Refunded Bonds: Lee County Industrial Authority, Florida $9,000,000 Utilities Revenue Bonds (Lehigh Utilities, Inc. Project), Series 1990; Collier County Industrial Development Authority $11,125,000 Water and Sewer Industrial Revenue Bonds, Series 1990 (Marco Island Utilities Project); Collier County Industrial Development Authority $8,325,000 Water and Sewer Industrial Development Revenue Bonds, Series 1992 (Marco Island Utilities Project); and Collier County Industrial Development Authority $10,290,000 Industrial Development Revenue Bonds (Southern States Utilities, Inc. Project), Series 1994.

"Purchase Price" means, when used with respect to the purchase of a Bond pursuant to Section 306 or 307 of the Indenture, an amount equal to the principal amount of such Bonds to be so purchased plus interest accrued and unpaid to, but not including, the applicable Tender Date; provided, however, that if such Tender Date is an Interest Payment Date for which money is available for the payment of such interest, accrued interest will not constitute a part of the Purchase Price but will be paid to the Owner in the ordinary manner.

"Refinanced Facilities" means the real and personal properties which comprise the Refinanced Facilities refinanced with proceeds of the Refunded Bonds, as further described in EXHIBIT A hereto (which is hereby incorporated herein and made a part hereof).

"Refunded Bonds" means that portion of the Series 1996 Bonds that financed or refinanced the Refinanced Facilities, which Refunded Bonds are outstanding under the Refunded Bonds Indenture in the principal amount of $29,097,986.86, of which $1,289,913.76 represents original issue discount on the Refunded Bonds.

"Refunded Bonds Financing Agreement" means the Financing Agreement, dated as of January 1, 1996, between the Issuer and Southern States Utilities, Inc., as amended and supplemented by a First Amendment to Financing Agreement, effective as of July 30, 2004, between the Issuer, Florida Water Services Corporation (f/k/a Southern States Utilities, Inc.) and the Company.

"Refunded Bonds Indenture" means the Indenture of Trust, dated as of January 1, 1996, between the Issuer and the Refunded Bonds Trustee.

"Refunded Bonds Trustee" means SunTrust Bank (f/k/a SunTrust Bank, Central Florida, National Association), as trustee under the Refunded Bonds Indenture.

"Remarketing Agent" means Wells Fargo Brokerage Services, LLC, a Delaware limited liability company, or any Person meeting the qualifications of and designated from time to time to act as Remarketing Agent for the Bonds under Section 812 of the Indenture.

"Remarketing Agreement" means the remarketing or other agreement between the Company and the Remarketing Agent as then in effect, describing the responsibilities of the Remarketing Agent.

"Revenues" means all amounts payable pursuant to Sections 3.02 and 3.03 hereof.

"Series 1996 Bonds" means the Industrial Development Refunding Revenue Bonds (Southern States Utilities, Inc. Project), dated as of January 1, 1996, and issued by the Issuer in the original principal amount of $35,105,000 pursuant to the Refunded Bonds Indenture, all of which are outstanding as of the date hereof.

"Series 2006 Bonds" means any bond or bonds of the series of Industrial Development Variable Rate Demand Refunding Revenue Bonds (ALLETE, Inc. Project), Series 2006, aggregating the principal amount of $27,800,000, to be issued, authenticated and delivered under and pursuant to the Indenture.

"State" means the State of Florida.

"Tax Compliance Agreement" means an Arbitrage and Rebate Agreement between the Issuer, the Company and the Trustee, executed upon the issuance of a series of Bonds, as such may be amended or supplemented from time to time in accordance with the provisions thereof.

"Tender Date" means any Mandatory Tender Date and any date on which Bonds are to be purchased at the option of the Owners thereof under Section 306 of the Indenture.

"Trustee" means U.S. Bank National Association, in Saint Paul, Minnesota, a national banking association organized under the laws of the United States, and its successors in trust and assigns under the Indenture.

"Untendered Bond" shall have the meaning assigned to it in Sections 306(d) and 307(h) of the Indenture.

In addition to the foregoing definitions, any terms not defined herein but defined in the Indenture shall have the same meanings herein unless the context hereof clearly requires otherwise.

Section 1.02. REFERENCES. All references in this Agreement to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions

of this Agreement as originally executed. The words "herein," "hereof," and "hereunder," and other words of similar import, refer to this Agreement as a whole and not to any particular Article, Section or other subdivision unless the context clearly indicates otherwise. The Article and Section headings herein and in the Table of Contents are for convenience only and shall not affect the construction hereof. Unless the context hereof clearly requires otherwise, the masculine shall include the feminine and vice versa and the singular shall include the plural and vice versa.

Section 1.03. CERTIFICATES AND OPINIONS. Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, Counsel or Bond Counsel. Any opinion of Counsel or Bond Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company.

Wherever in this Agreement, in connection with any request, certificate or report to the Issuer or the Trustee, it is provided that the Company shall deliver any document as a condition of the granting of such request, or as evidence of the Company's compliance with any term hereof, it is intended that the truth and accuracy at the time of the granting of such request or at the effective date of such certificate or report, as the case may be, of the facts and opinions stated in such document shall in each case be conditions precedent to the right of the Company to have such request granted or to the sufficiency of such certificate or report.

Section 1.04. NOTICES, ETC. TO TRUSTEE, ISSUER, COMPANY AND CREDIT BANK. Any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by this Agreement shall be sufficient for every purpose hereunder if in writing and mailed by certified mail, postage prepaid, or delivered by an express or overnight delivery service (with a copy to the other persons listed below), at the following addresses (or such other address as may be provided by any such person by notice):

To the Issuer:	Collier County Industrial Development Authority 4501 Tamiami Trail North, Suite 106 Naples, Florida 33940 Attention: Executive Secretary
To the Company:	ALLETE, Inc. 30 West Superior Street Duluth, Minnesota 55802 Attn: Chief Financial Officer
To the Trustee:	U.S. Bank National Association 60 Livingston Avenue St. Paul, Minnesota 55107 Attention: Corporate Trust Department
To the Credit Bank:	Wells Fargo Bank, National Association MAC N9305-031

6th and Marquette Avenue
Minneapolis, MN 55479
Attention: Patrick McCue

Section 1.05. SUCCESSORS AND ASSIGNS. All covenants and agreements in this Agreement by the Issuer or the Company shall bind their successors and assigns, whether so expressed or not.

Section 1.06. SEPARABILITY CLAUSE. In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.07. EXECUTION COUNTERPARTS. This Agreement may be executed in any number of counterparts. All such counterparts shall be deemed to be originals and shall together constitute one and the same instrument.

Section 1.08. CONSTRUCTION. This Agreement shall be construed in accordance with the laws of the State without giving effect to the conflicts-of-law principles thereof.

Section 1.09. BENEFIT OF AGREEMENT. Nothing in this Agreement, express or implied, shall give to any Person, other than the parties hereto, the Trustee and the Credit Bank, and their successors and assigns hereunder, any benefit or other legal or equitable right, remedy or claim under this Agreement.

Section 1.10. LIMITATION OF LIABILITY. This Agreement is entered into by the Issuer pursuant to the Act, and, notwithstanding any provisions hereof, the Issuer's obligations hereunder are subject in all respects to the limitations of the Act. No agreements or provisions contained in this Agreement nor any agreement, covenant or undertaking by the Issuer contained in any document executed by the Issuer or any Governmental Unit in connection with the Refinanced Facilities shall give rise to a charge against the general credit or taxing powers of the Issuer or Governmental Unit, or shall obligate the Issuer or the Governmental Units financially in any way except with respect to the application of Revenues and the proceeds of the Bonds. No failure of the Issuer to comply with any term, condition, covenant or agreement herein shall subject the Issuer to liability for any claim for damages, costs or other financial or pecuniary charge except to the extent that the same can be paid or recovered from the Revenues or proceeds of the Bonds; and no execution on any claim, demand, cause of action or judgment shall be levied upon or collected from the general credit, general funds or taxing powers of the Issuer or any Governmental Unit. Nothing herein shall preclude a proper party in interest from seeking and obtaining specific performance against the Issuer for any failure to comply with any term, condition, covenant or agreement herein; provided that no costs, expenses or other monetary relief shall be recoverable from the Issuer except as may be payable from the Revenues hereunder.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.01. REPRESENTATIONS OF THE ISSUER. The Issuer makes the following representations as the basis for the undertakings on the part of the Company herein contained:

(a) The Issuer is a body corporate and politic duly organized and validly existing under the Constitution and laws of the State.

(b) The Issuer has the power pursuant to the provisions of the Act and the Interlocal Agreement to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder and under the Indenture and the Bonds. By proper action of the Issuer, the Issuer has been duly authorized to execute and deliver this Agreement, the Interlocal Agreement, the Indenture and the Tax Compliance Agreement

(c) The refunding of the Refunded Bonds, the issuance and sale of the Bonds, the execution and delivery of this Agreement, the Interlocal Agreement and the Indenture and the performance of all covenants and agreements of the Issuer contained in this Agreement, the Interlocal Agreement and the Indenture and of all other acts and things required under the Constitution and laws of the State to make this Agreement, the Interlocal Agreement and the Indenture valid and binding special, limited obligations of the Issuer in accordance with their terms are authorized by the Act and have been duly authorized by resolutions of the governing body of the Issuer adopted at meetings thereof duly called and held by the affirmative vote of not less than a majority of its members.

(d) To refund the Refunded Bonds, and in anticipation of the collection of the payments to be made by the Company pursuant to this Agreement, the Issuer has duly authorized the Series 2006 Bonds in the principal amount of $27,800,000 to be issued upon the terms set forth in the Indenture, under the provisions of which certain of the Issuer's interests in this Agreement and the payments due hereunder are, as provided by the Act, pledged and a security interest therein granted to the Trustee as security for the payment of the principal of, premium, if any, and interest on, and the purchase price with respect to, the Bonds.

(e) The execution and delivery of this Agreement and the other agreements contemplated hereby to which the Issuer is a party, including without limitation the Indenture and the Interlocal Agreement, will not conflict with, or constitute on the part of the Issuer a breach of or a default under, any existing (i) law, or (ii) other legislative act, constitution or other proceeding establishing or relating to the establishment of the Issuer or its affairs or its resolutions, or (iii) agreement, indenture, mortgage, lease or other instrument to which the Issuer is subject or is a party or by which it is bound.

(f) No officer of the Issuer who is authorized to take part in any manner in making this Agreement, the Interlocal Agreement or the Indenture or any contract contemplated hereby or thereby has a personal financial interest in or has personally and

financially benefitted from this Agreement, the Interlocal Agreement or the Indenture or any such contract.

(g) There is not pending, or, to the best knowledge of the officers of the Issuer executing this Agreement, threatened, any suit, action or proceeding against or affecting the Issuer before or by any arbitrator, administrative agency or other governmental authority which court, materially and adversely affects the validity, as to the Issuer, of this Agreement, the Interlocal Agreement or the Indenture, any of its obligations hereunder or thereunder or any of the transactions contemplated hereby or thereby.

(h) The Issuer has not and hereby covenants that it will not pledge or otherwise transfer its right, title and interest in this Agreement other than to the Trustee to secure the Bonds.

Section 2.02. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company makes the following representations and warranties as the basis for the undertakings on the part of the Issuer herein contained:

(a) The Company is a corporation duly incorporated and in good standing under the laws of, and qualified to do business in, the State of Minnesota, and in good standing under the laws of, and qualified to do business in, the State.

(b) The Company has the power to enter into this Agreement, the Credit Agreement, the Remarketing Agreement and the Tax Compliance Agreement and to execute and deliver the Note and to perform and observe the agreements and covenants on its part contained herein and therein, and by proper corporate action has duly authorized the execution and delivery hereof and thereof.

(c) No consent, approval, authorization or other order of any regulatory body or administrative agency or other governmental body is legally required for the Company's participation in the transactions contemplated by this Agreement, the Note, the Credit Agreement or the Remarketing Agreement, except such as (i) have been obtained or (ii) may be required under state securities laws.

(d) The execution and delivery of this Agreement, the Note, the Credit Agreement, the Remarketing Agreement and the Tax Compliance Agreement by the Company do not, and consummation of the transactions contemplated hereby and thereby and fulfillment of the terms hereof and thereof will not, result in a breach of any of the material terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party or by which it is now bound, or the Articles of Incorporation or Bylaws of the Company, or any present order, rule or regulation applicable to the Company of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its properties, or any statute of any jurisdiction applicable to the Company.

(e) There is not pending or, to the best knowledge of the Company, threatened any suit, action or proceeding against or affecting the Company before or by any court,

arbitrator, administrative agency or other governmental authority that materially and adversely affects the validity, as to the Company, of any of the transactions contemplated by this Agreement, the Note, the Credit Agreement or the Remarketing Agreement or the ability of the Company to perform its obligations hereunder or thereunder or as contemplated hereby or thereby.

(f) The Company does not rely on any warranty of the Issuer, either express or implied, as to the Refinanced Facilities or the refunding of the Refunded Bonds or the adequacy of the loan made hereby for such refunding, and recognizes that, under the Act, the Issuer is not authorized to operate the Refinanced Facilities or to expend any funds thereon.

(g) The proceeds of the Series 2006 Bonds to be transferred in accordance with Section 403 of the Indenture will be sufficient, with other amounts provided by the Company, to pay the redemption price the Refunded Bonds upon the redemption thereof on August 9, 2006.

ARTICLE III

THE LOAN

Section 3.01. AMOUNT AND SOURCE OF LOAN. The Issuer agrees to lend to the Company, upon the terms and conditions herein specified, the proceeds received by the Issuer from the sale of each series of Bonds, by causing such proceeds to be transferred to the Trustee for disbursement in accordance with the Indenture. For this purpose the proceeds of the Bonds (and therefore the loan) shall be deemed to include the underwriting discount, if any, or other amount by which the amount received by or on behalf of the Issuer on the original sale of any Bonds to the initial purchaser is less than the principal amount of such Bonds. The obligation of the Issuer to lend such proceeds shall be discharged, and the obligation of the Company to repay the loan shall become effective, when such proceeds are received by the Trustee from the Issuer or the Original Purchaser thereof. The Company agrees that, pending the disbursement of the proceeds of the Bonds as provided herein and in the Indenture, the Trustee shall have a security interest in the proceeds of the Bonds.

Section 3.02. REPAYMENT OF THE LOAN. The Company agrees that it will repay with interest the loan made by the Issuer pursuant to Section 3.01 hereof by payments of the Company in amounts sufficient to pay in full the principal of, premium, if any, and interest on the Bonds when due, at maturity, upon call for redemption or upon acceleration of maturity under the Indenture; provided, however, that the obligation of the Company to make any payment hereunder shall be deemed satisfied and discharged to the extent of the corresponding payment made by the Credit Bank to the Trustee under the Letter of Credit. When a Letter of Credit other than a Liquidity Facility is in effect, and the Company receives notice from the Trustee, as provided in Section 404 of the Indenture, that at 12:00 noon, New York City time, on any Interest Payment Date, Stated Maturity, redemption date, or acceleration date, as the case may be, there is not sufficient Eligible Money in the Letter of Credit Account and the Eligible Money Account to pay all principal of, premium, if any, and interest on the Bonds due on such date, the

Company shall remit to the Trustee by 1:00 p.m., New York City time, on such date the amount of such deficiency in funds immediately available to the Trustee.

All payments required of the Company under this Section 3.02 (including payments under Section 5.02 hereof) shall be made directly to the Trustee at its principal corporate trust office, in funds immediately available to the Trustee, at or before 11:30 a.m., New York City time (or 1:00 p.m., New York City time, as provided in the second sentence of the immediately preceding paragraph), on each date on which any principal, premium or interest is due on the Bonds, for the account of the Issuer, and shall be credited to the Debt Service Fund. None of such payments need constitute Eligible Money. In the event the Company should fail to make any of the payments required in this Section 3.02 or in Section 5.02, the item so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company agrees to pay the same with interest thereon (including to the extent permitted by law interest on overdue installments of interest) at the rate borne by the Bonds as to which such default exists.

Section 3.03. PAYMENTS OF PURCHASE PRICE OF BONDS. (a) The Company shall pay the Purchase Price of any Bonds for which a notice has been delivered to the Remarketing Agent or that are otherwise subject to purchase pursuant to Sections 306 or 307 of the Indenture. The Company shall pay to the Tender Agent such amounts by such time so that there will be delivered to the Tender Agent immediately available funds in an amount equal to any insufficiency in proceeds of the remarketing of such tendered Bonds and draws under the Letter of Credit, if any, with respect to the Purchase Price of such Bonds prior to 3:30 p.m., New York City time, on the purchase date. The obligation of the Company to make any payment under this Section shall be deemed to be satisfied and discharged to the extent that proceeds of the remarketing of tendered Bonds are available therefor or of the corresponding payment made by the Credit Bank under the Letter of Credit.

(b) The Company shall provide for the payment of the amounts to be disbursed by the Tender Agent for purchase of Bonds pursuant to Section 306 and 307 of the Indenture by the delivery of the original Letter of Credit to the Trustee simultaneously with the original issuance and delivery of the Series 2006 Bonds. The Company hereby authorizes and directs the Trustee to draw money under the Letter of Credit in accordance with the provisions of the Indenture to the extent necessary and to provide money payable under Sections 306 and 307 of the Indenture when due, as provided in Section 308 of the Indenture. All moneys drawn under the Letter of Credit to pay the Purchase Price of Bonds shall be credited against the obligation of the Company to make the payments required by paragraph (a) of this Section 3.03.

Section 3.04. COMPANY'S OBLIGATIONS UNCONDITIONAL. All payments required of the Company hereunder shall be made without notice or demand and without setoff, counterclaim, abatement, deduction or defense. The Company will not suspend or discontinue any such payments, will perform and observe all of its other agreements in this Agreement, and, except as expressly permitted in this Agreement, will not terminate this Agreement for any cause, including but not limited to any acts or circumstances that may constitute failure of consideration, bankruptcy or insolvency of the Issuer, the Credit Bank or the Trustee, change in the tax or other laws or administrative rulings or actions of the United States of America or the State or any political subdivision thereof, or failure of the Issuer to perform and observe any

agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement or the Indenture.

Section 3.05. PAYMENTS DUE ON NON-BUSINESS DAYS. In any case where a payment to be made by the Company pursuant to this Agreement (including, but not limited to, a loan payment pursuant to Section 3.02 hereof) shall be due on a day that is not a Business Day, then such payment may be made on the next succeeding Business Day with the same force and effect as if made on the due date.

Section 3.06. COMPANY'S REMEDIES. Nothing contained in this Article shall be construed to release the Issuer from the performance of any of its agreements in this Agreement, and, if the Issuer should fail to perform any such agreement, the Company may institute such action against the Issuer as the Company may deem necessary to compel the performance, so long as such action shall not violate the Company's agreements in Section 3.04 hereof. The Company may at its own cost and expense, and in its own name, prosecute or defend any action or proceeding against third parties or take any other action which the Company deems reasonably necessary in order to secure or protect its interest in the Refinanced Facilities and right of possession, occupancy and use thereof under this Agreement. In this event, the Issuer agrees to cooperate fully with the Company in any such action or proceeding if the Company shall so request and agree to pay all expenses.

ARTICLE IV

THE REFINANCED FACILITIES, TAXES, LIENS

Section 4.01. COMPLETION AND LOCATION OF THE REFINANCED FACILITIES. The Company has caused the Refinanced Facilities to be acquired, constructed and installed in accordance with the plans and specifications therefor and the provisions of the Refunded Bonds Financing Agreement. As contemplated by the Refunded Bonds Financing Agreement, the Refinanced Facilities have been sold to the City of Marco Island, Florida, the Florida Governmental Utility Authority, and the City of Deltona, Florida, and are not owned or operated by the Company. Accordingly, the Company shall not have any obligation, as provided in Section 5.6 of the Refunded Bonds Financing Agreement, to insure, maintain or repair the Refinanced Facilities or any part thereof, except as provided in Section 4.02 hereof. Each of the Refinanced Facilities is located within the jurisdiction of the Governmental Unit or the Issuer, as the case may be.

Section 4.02. USE OF REFINANCED FACILITIES. So long as any Series 2006 Bonds are outstanding, the Company will cause the Refinanced Facilities to be used as facilities for the furnishing of water and sewage facilities within the meaning of Section 142(a)(4) and (5) of the Code, as applicable, or such other use as will not impair the status of the interest on the Series 2006 Bonds as not includable in gross income for purposes of federal income taxation.

Section 4.03. PAYMENT OF TAXES; DISCHARGE OF LIENS. The Company will:

(a) pay, or make provision for payment of, all lawful taxes and assessments, including income, profits, property or excise taxes, if any, levied or assessed by any

federal, state or municipal government or political body upon any amounts payable pursuant to Sections 3.02 and 3.03 hereof when the same shall become due; and

(b) pay or cause to be satisfied and discharged or make adequate provision to satisfy and discharge, within 60 days after the same shall accrue, any lien or charge upon any amounts payable pursuant to Sections 3.02 or 3.03 hereof, and all lawful claims or demands which, if unpaid, might be or become a lien upon such amounts; provided that the Company may in good faith contest any such lien or charge or claims or demands in appropriate legal proceedings, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom, unless the Issuer or the Trustee shall notify the Company in writing that, in the opinion of Counsel, by nonpayment of any such items the lien of the Indenture as to the amounts payable pursuant to Sections 3.02 or 3.03 hereof will be materially endangered, in which event the Company shall promptly pay and cause to be satisfied and discharged all such unpaid items.

ARTICLE V

REDEMPTION OF BONDS

Section 5.01. PREPAYMENT OF LOAN. The Company may at any time transmit funds directly to the Trustee, for deposit in the Debt Service Fund, in addition to amounts, if any, otherwise required at that time pursuant to this Agreement, and direct that said money be utilized by the Trustee for redemption of Bonds which are then or will be redeemable in accordance with their terms at the option of the Issuer upon the direction of the Company on a date specified by the Company, provided notice is properly given in accordance with Section 302 of the Indenture and such funds constitute Eligible Money.

Section 5.02. OBLIGATION TO PREPAY LOAN AND REDEEM SERIES 2006 BONDS UPON CERTAIN EVENTS. The Company shall be obligated to repay the loan from the proceeds of the Series 2006 Bonds in full, and the Trustee on behalf of the Issuer shall call for redemption and prepayment all of the outstanding Series 2006 Bonds on the earliest practicable date, upon written notice to the Company by the Trustee of the occurrence of a Determination of Taxability, as provided in Section 301(b) of the Indenture.

The prepayment of the loan required by the preceding paragraph, which shall be deposited on or prior to the redemption date, shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem all of the outstanding Series 2006 Bonds at a price equal to the principal amount thereof with interest accrued to the date of redemption, and to pay the Taxability Premium and, if no Bonds shall thereafter remain outstanding, to pay all reasonable and necessary fees and expenses of the Trustee and any Paying Agent, and all other liabilities of the Company, accrued and to accrue under this Agreement through the redemption date. The Company acknowledges and agrees that the Taxability Premium shall be owing with respect to Series 2006 Bonds outstanding during the Taxable Period but not outstanding on the redemption date prescribed by Section 301(b) of the Indenture and that the payment of the Taxability Premium will not be paid from a draw on the Letter of Credit. To evidence and secure its obligation to pay the Taxability Premium, the Company

agrees to deliver to the Issuer the Note, contemporaneously with the issuance of the Series 2006 Bonds.

ARTICLE VI

SPECIAL COVENANTS OF THE COMPANY

Section 6.01. MAINTENANCE OF CORPORATE EXISTENCE. Except as otherwise permitted in the First Mortgage, the Company covenants that it will maintain its corporate existence and qualification to do business in the State, will not dissolve or otherwise dispose of all or substantially all its assets and will not consolidate with or merge into or with another corporation or permit one or more other corporations to consolidate with or merge into it. In the event of any such acquisition of its assets, or merger or consolidation, as permitted by the First Mortgage, the acquirer of its assets or the corporation with which it shall consolidate or into which it shall merge shall assume in writing all of the obligations of the Company under this Agreement.

Section 6.02. ANNUAL STATEMENT. The Company will have an annual audit made by its regular independent certified public accountants and will furnish the Issuer and the Trustee (within 90 days after the close of the Company's fiscal year) with the Company's annual report to shareholders for the year then ended and the Trustee with a written statement at the same time as its annual report signed by a Company Representative and stating that the Company is not in default under the terms of this Agreement, or, if in default, specifying the nature thereof.

Section 6.03. INDEMNIFICATION; PERSONAL LIABILITY WAIVED. The Company agrees to indemnify and hold the Issuer, the Governmental Units and the Trustee harmless from, any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Refinanced Facilities.

The Company will indemnify and hold the Issuer, the Governmental Units and the Trustee free and harmless from any loss, claim, damage, tax, penalty, liability, disbursement, litigation expenses, attorneys' fees and expenses or court costs arising out of, or in any way relating to, the execution or performance of this Agreement, the issuance, sale or remarketing of the Bonds, actions taken under the Indenture or any other cause whatsoever pertaining to the Refinanced Facilities.

Under this Section 6.03, the Company shall also be deemed to release, indemnify and agree to hold harmless each employee, official, officer or agent of the Issuer or a Governmental Unit to the same extent as the Issuer or the Governmental Unit.

If any claim of the type described in this Section 6.03 is asserted against the Issuer, a Governmental Unit or the Trustee or any employee, official, officer or agent of any thereof, the Issuer, the Governmental Unit or the Trustee, as the case may be, agrees to give prompt written notice to the Company and the Company shall have authority to assume the defense thereof, with full power to litigate, compromise or settle the same in its sole discretion; it being understood that the Issuer, any Governmental Unit and the Trustee will not settle or consent to the settlement of the same without the consent of the Company.

Notwithstanding anything to the contrary contained herein or in any of the Bonds, or the Indenture, or in any other instrument or document executed by or on behalf of the Issuer or the Trustee in connection herewith, no stipulation, covenant, agreement or obligation contained herein or therein shall be deemed or constructed to be a stipulation, covenant, agreement, or obligation of any present or future member, officer, employee or agent of the Issuer or the Trustee, or of any incorporator, member, director, trustee, officer, employee or agent of any successor to the Issuer or the Trustee, in any such person's individual capacity, and no such person, in his individual capacity, shall be liable personally for any breach or non-observance of or for any failure to perform, fulfill or comply with any such stipulations, covenants, agreements or obligations, nor shall any recourse be had for the payment of the principal of, premium, if any, or interest on or Purchase Price with respect to any of the Bonds or for any claim based thereon or on any such stipulation, covenant, agreement, or obligation, against any such person, in his individual capacity, either directly or through the Issuer and the Trustee or any successor to the Issuer or the Trustee, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such person, in his individual capacity, is hereby expressly waived and released, except only for liability that results from intentional acts of any such individual.

The covenants in this Section 6.03 shall survive the payment of the Bonds, termination of the other provisions of this Agreement or the Interlocal Agreement and the discharge of the other obligations of the Company hereunder.

Section 6.04. ADDITIONAL PAYMENTS. In addition to any other payments required hereunder, the Company will pay the following amounts to the following persons:

(1) to the Trustee, when due, all reasonable fees and expenses of the Trustee for services rendered under the Indenture and all reasonable fees and expenses of the Tender Agent, Paying Agents, counsel, accountants, engineers and others incurred in the performance on request of the Trustee of services under the Indenture for which the Trustee and such other Persons are entitled to payment or reimbursement, but the Company may, without creating a default hereunder, contest in good faith the reasonableness of any such services, fees or expenses other than the Trustee's, the Tender Agent's and any Paying Agent's fees for ordinary services as set forth in the Indenture; and

(2) to the Issuer and each Governmental Unit, all reasonable and necessary expenses incurred by the Issuer or the Governmental Unit, with the prior written approval of the Company, with respect to this Agreement, the Interlocal Agreement, the Indenture and any transaction or event contemplated by this Agreement, the Interlocal Agreement or by the Indenture and which are not otherwise required to be paid by the Company under the terms of this Agreement.

In the event the Company should fail to make any of the payments required by this Section 6.04, the item in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company will pay the same with interest thereon at a rate per annum equal to one percent above the prime or reference rate from time to time publicly announced by and in effect for the largest commercial bank, as measured by assets, in

the Ninth Federal Reserve District (with each change in such prime or reference rate resulting in a corresponding change in the rate to be paid hereunder), or, if such rate or rates shall exceed the maximum rate then permitted by law, at the maximum rate permitted by law; provided that, with the exception of the Trustee's and any Paying Agent's fees, interest shall not accrue on such obligation until written notice has been given to the Company that such payment is due.

Section 6.05. ASSURANCE OF TAX EXEMPTION. (a) In order to ensure that the interest on the Series 2006 Bonds shall, at all times, be excludable from gross income for purposes of federal income taxation (other than by operation of Section 147(a) of the Code), the Company represents, covenants and agrees with the Issuer, the Trustee and all Owners of the Series 2006 Bonds that:

(1) The information and estimates heretofore furnished to the Issuer and Bond Counsel by the Company and contained in the Certificate as to Refinanced Facilities delivered in connection with the issuance of the Series 2006 Bonds and in the Tax Compliance Agreement with respect to the nature and use of the Refinanced Facilities and the expenditure of the proceeds of the Prior Bonds and the Refunded Bonds are true and correct and do not omit any statement, the omission of which would render any of the statements made therein misleading in the circumstances in which they are made. The Company has no reason to believe that the Tax Certificates delivered by the City of Marco Island, Florida and the City of Deltona, Florida, are not true and correct in all material respects or omit any statement, the omission of which would render any of the statements made therein misleading in the circumstances in which they are made.

(2) At least 95% of the proceeds of each series of the Prior Bonds (including transferred proceeds of the Series 1996 Bonds), including any investment earnings thereon, has been used for the payment of costs of "facilities for the furnishing of water" and "sewage facilities" within the meaning of Section 142(a)(4) and (5) and Section 142(e) of the Code and applicable Treasury Regulations, as applicable.

(3) At least 95% of the proceeds of each series of the Prior Bonds (including transferred proceeds of the Series 1996 Bonds), including any investment earnings thereon, has been used to provide either land or property of a character subject to the allowance for depreciation under Section 167 of the Code and all amounts paid from the proceeds of the Prior Bonds were, for federal income tax purposes, chargeable to the capital account of an Affiliate of the Company with respect to the Refinanced Facilities or would have been so chargeable either with a proper election by the Affiliate (for example, under Section 266 of the Code) or but for a proper election by the Affiliate to deduct such amounts.

(4) The Company will not use the proceeds of the Series 2006 Bonds or any other moneys in such a manner as to cause the Series 2006 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(5) The Company will not take any action, or permit any action (which is within its control) to be taken, which would otherwise cause the interest on the Series 2006 Bonds to become includable in gross income for purposes of federal income

taxation in the hands of the owners thereof (other than by operation of Section 147(a) of the Code).

(6) The Company will comply with any restrictions on the investment of moneys set forth in the Tax Compliance Agreement in respect of the Series 2006 Bonds.

(7) The Company will take no action, nor permit any action to be taken, which would render inaccurate or incorrect any of the representations or warranties made in this Section 6.05(a) or any of the representations or certifications otherwise given by or on behalf of the Company or Southern States Utilities, Inc. in connection with the issuance of the Prior Bonds, the Refunded Bonds or the Series 2006 Bonds.

(8) The Company will comply with and fulfill, or cause to be complied with and fulfilled, all other requirements and conditions of the Code and regulations and rulings issued pursuant thereto relating to the Refinanced Facilities and the operation thereof to the end that the interest on the Series 2006 Bonds shall at all times be excludable from gross income for purposes of federal income taxation in the hands of the owners thereof (other than by operation of Section 147(a) of the Code).

(9) The weighted average maturity of the Series 2006 Bonds does not exceed the weighted average maturity of the Refunded Bonds, determined as of the date of issuance of the Series 2006 Bonds (all within the meaning of Section 147(b) of the Code).

(10) None of the proceeds of the Prior Bonds, the Refunded Bonds or the Series 2006 Bonds has been or will be used to provide an airplane, skybox or other private luxury box, health club facility, or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(11) No obligations which are private activity bonds under Section 141 of the Code but bear interest which is excludable from gross income for purposes of federal income taxation, are sold at substantially the same time as the Series 2006 Bonds pursuant to the same plan of marketing which are payable in whole or in part by the Company or otherwise have with the Series 2006 Bonds any common or pooled security for the payment of debt service thereon.

(12) Not more than 25% of the proceeds of each series of the Prior Bonds or Refunded Bonds has been or will be used (directly or indirectly) to acquire land (or an interest therein) and none of the proceeds of the Prior Bonds or Refunded Bonds has been or will be used for the acquisition of any property (or an interest therein) unless the first use of such property was pursuant to such acquisition.

(13) The Refinanced Facilities do not include any property to be sold or any property to be affixed to or consumed in the production of property for sale, or any housing facility to be rented or used as a permanent residence.

(14) None of the proceeds of the Series 2006 Bonds will be used to pay "issuance costs" of the Bonds within the meaning of Section 147(g) of the Code.

(b) The Issuer and the Company covenant and certify to each other and to and for the benefit of the Owners of the Bonds that no use will be made of the proceeds of the Bonds or any other moneys, which would cause any Bonds to be arbitrage bonds within the meaning of Section 148 of the Code. Pursuant to such covenant, the Issuer and the Company jointly and severally obligate themselves to comply throughout the term of the issue of the Bonds with the requirements of Section 148 of the Code. The Issuer shall be conclusively presumed to have conformed to the requirements of this Section 6.05(b) to the extent it relies upon an Opinion of Bond Counsel.

The Company recognizes that the exemption from federal income taxation of the interest to be paid on the Series 2006 Bonds is dependent upon compliance with the provisions of Section 148 of the Code. The Company represents to and covenants with the Issuer, the Trustee and each Owner of Bonds that:

(1) If all "gross proceeds" (as defined in Section 148(f)(6)(B) of the Code) of the Series 2006 Bonds are not expended for the payment of principal of and interest on Refunded Bonds by the date which is 90 days after the date of issue of the Series 2006 Bonds, or if, notwithstanding that all gross proceeds are so expended by such date, gross proceeds arise at some later date, then the Company shall make the determinations and take the actions hereinafter required by this Section 6.05(e), on behalf of, and as agent for, the Issuer, and shall rebate to the United States, not later than 60 days after each installment computation date, an amount which ensures that at least 90% of the Rebate Amount (as hereinafter defined) at the time of such payment will have been paid to the United States, and within 60 days after the final computation date, an amount sufficient to pay the remaining balance of the Rebate Amount, all in the manner and as required by Section 148(f) of the Code. As used herein, "Rebate Amount" means the amount described in Section 148(f)(2) of the Code, computed in accordance with the provisions of said Section 148(f)(2) and the regulations now or hereafter promulgated thereunder, including Treasury Regulations, Sections 1.148-0 through 1.148-11 and 1.150-1.

(2) The Company shall determine the Rebate Amount within 30 days after the close of each bond year and upon payment or redemption of all principal of the Series 2006 Bonds, and shall furnish the Issuer and the Trustee upon each determination with a certificate of a Company Representative verifying such determination and with any supporting documentation required to calculate or evidence the Rebate Amount in accordance with the Code and applicable regulations. The Company shall retain records of such determinations until six years after final payment or redemption of principal of the Series 2006 Bonds. Upon each such determination, the Company shall set aside, or cause to be set aside, the Rebate Amount so determined, and shall separately account for, or cause to be separately accounted for, the earnings from the investment thereof, and such earnings shall become part of the Rebate Amount.

(c) The Company covenants and agrees that it will perform its covenants and agreements relating to the Refunded Bonds in respect of the calculation and payment to the United States of any rebatable arbitrage in respect of the Refunded Bonds under Section 148(f) of the Code, within 60 days after the date of final payment of the Refunded Bonds, so as to preserve the tax exemption of interest on the Refunded Bonds.

(d) The provisions of this Section 6.05 shall survive the retirement and payment of the Bonds and the discharge of the Issuer's and the Company's other obligations hereunder.

(e) Notwithstanding anything in this Agreement or the Indenture to the contrary, the provisions of this Section 6.05 may be amended by an instrument signed by the Issuer and the Company and delivered to the Trustee, accompanied by an Opinion of Bond Counsel stating in effect that the provisions of this Section 6.05, as so amended, if complied with by the Company, will not adversely affect the tax exclusion from gross income of interest on any Series 2006 Bond for purposes of federal income taxation.

Section 6.06. REDEMPTION OF REFUNDED BONDS; PAYMENT OF COSTS OF ISSUANCE. The Company covenants and agrees with the Issuer that it will cause the Refunded Bonds to be paid and discharged on or prior to the 90th day after the date of issuance of the Series 2006 Bonds. The Company also covenants and agrees to provide any moneys required for the payment and discharge of the Refunded Bonds on or prior to the date on which they are called for redemption. The Company further agrees that it will pay all reasonable Costs of Issuance promptly when due. It is acknowledged and agreed that $6,000,000 in principal amount of the Series 1996 Bonds do not constitute Refunded Bonds and will remain outstanding under the Refunded Bonds Indenture.

Section 6.07. LETTER OF CREDIT; ALTERNATE LETTER OF CREDIT. (a) The Company shall provide for the delivery of the original Letter of Credit to the Trustee simultaneously with the initial issuance and delivery of the Series 2006 Bonds. The Company hereby authorizes and directs the Trustee to submit draws under the Letter of Credit in accordance with the provisions of the Indenture to the extent necessary to pay the Purchase Price with respect to the Bonds as and when due and, if the Letter of Credit is not a Liquidity Facility, the principal of and interest on the Bonds when due.

(b) The Company shall cause the Letter of Credit to be maintained in full force and effect (except when not required pursuant to Article V of the Indenture) in an amount equal to the principal amount of the Outstanding Bonds plus the amount required for payment of interest and premium, if any, thereon as required by Section 503 of the Indenture, until all of the Bonds have been paid in full or their payment provided for in accordance with Article XI of the Indenture. When required by Article V of the Indenture, the Company will exercise its best efforts to extend the term of the Letter of Credit currently in effect or to cause an Alternate Letter of Credit to be delivered by the Credit Bank to the Trustee not less than 30 days prior to the termination date of the Letter of Credit then in effect pursuant to the provisions of Section 502 of the Indenture. The Company may at any time, subject to any applicable provisions of the Credit Agreement, arrange for the substitution of an Alternate Letter of Credit for an existing Letter of Credit, and the Trustee is to accept any Alternate Letter of Credit, subject to the limitations and upon the conditions contained in Section 502 of the Indenture.

(c) The Company shall give written notice to the Issuer, the Trustee, the Tender Agent and each Rating Service maintaining a rating on the Bonds not less than 60 days prior to the expiration or termination date of the Letter of Credit then in effect, specifying that the Company intends to replace the existing Letter of Credit with an Alternate Letter of Credit on or

before the expiration of the Letter of Credit then in effect, except when a Letter of Credit is not required under Article V of the Indenture.

(d) Except when not required under Article V of the Indenture, the Company shall cause to be delivered to the Trustee not less than 30 days prior to the expiration or termination date of the existing Letter of Credit (1) an Alternate Letter of Credit that is effective as of a date on or prior to the date of expiration of the then existing Letter of Credit, and (2) written notice from each Rating Service maintaining a rating on the Bonds stating whether the substitution of such Alternate Letter of Credit will result in a reduction or withdrawal of the rating then in effect on the Bonds. The Bonds will be subject to mandatory tender as provided in the Indenture, if either a Liquidity Facility is being provided in substitution for a Letter of Credit that is not a Liquidity Facility or such written notice from any Rating Service then having a rating in effect for the Bonds states that the replacement of the current Letter of Credit with the proposed Alternate Letter of Credit will result in a withdrawal or reduction of the Rating Service's then current rating for the Bonds.

(e) Except when a Letter of Credit is not required under Article V of the Indenture, when the Bonds are in a Daily, Weekly, Commercial Paper or Long-Term Rate Period, the Company shall exercise its best efforts to arrange for the delivery to the Trustee of an Alternate Letter of Credit to replace any Letter of Credit then in effect upon the expiration thereof prior to the end of any such rate period or upon the occurrence of any of the following events or circumstances:

(1) If the Credit Bank has rescinded, terminated or repudiated the Letter of Credit contrary to the terms of the Letter of Credit, or the Letter of Credit for any reason ceases to be valid and binding on the Credit Bank or is declared to be null and void, or the validity or enforceability of any provision of the Letter of Credit is denied by the Credit Bank or any governmental agency or authority, or the Credit Bank is denying further liability or obligation under the Letter of Credit, in all of the above cases contrary to the terms of the Letter of Credit.

(2) If the Credit Bank shall not extend the stated termination date with respect to the current Letter of Credit then in effect, but the term of such Alternate Letter of Credit need not (but may) begin prior to the stated termination date of the current Letter of Credit then in effect. The Company shall not terminate the current Letter of Credit and Credit Agreement until the term of the Alternate Letter of Credit has begun.

(3) Receipt by the Trustee of written notice from the Credit Bank that an "event of default" as such term is defined in the Credit Agreement has occurred and is continuing under the Credit Agreement and a direction to effect a mandatory tender of the Bonds.

(4) The Credit Bank has wrongfully failed to honor a properly presented draw made under and in compliance with the terms of the Letter of Credit which failure has not been cured.

(5) Receipt by the Trustee, within 10 days following a drawing under the Letter of Credit to pay interest on the Bonds on the due date, of written notice from the Credit Bank that the Credit Bank has not been reimbursed for such drawing on the Letter of Credit and the amount for such drawing has not been reinstated and directing mandatory tender of the Bonds.

(f) On or prior to the effective date of any Alternate Letter of Credit, the Company shall furnish to the Issuer and the Trustee: (1) an Opinion of Counsel stating that delivery of such Alternate Letter of Credit to the Trustee is authorized under this Indenture, and complies with the terms hereof, (2) an Opinion of Counsel from counsel to the Credit Bank issuing such Alternate Letter of Credit to the effect that the Alternate Letter of Credit is a valid and binding obligation of such issuer or provider, enforceable in accordance with its terms, subject to customary exceptions relating to bankruptcy and insolvency, and (3) an Opinion of Bond Counsel, which shall also be addressed and delivered to the Issuer, stating that the delivery of such Alternate Letter of Credit to the Trustee is authorized under the Indenture and complies with the terms thereof and does not adversely affect the tax-exempt status of the interest on the Bonds.

Section 6.08. CONTINUING DISCLOSURE. The Company represents that, so long as the Bonds are in a Daily Rate Period or a Weekly Rate Period, the Bonds are exempt from the continuing disclosure requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (17 C.F.R. ss. 240.15c2-12) (as in effect and interpreted from time to time, the "Rule"), but acknowledges that when the Bonds are in a Commercial Paper Rate Period, a Long-Term Rate Period or the Fixed Rate Period, the Bonds are subject to the continuing disclosure requirements of the Rule. The Company covenants and agrees that, when necessary to comply with the Rule, it will execute and deliver a continuing disclosure agreement, or a similar undertaking which in the Opinion of Counsel will satisfy the Rule, and the Company hereby covenants and agrees to observe and perform the covenants and agreements contained therein, unless amended or terminated in accordance with the provisions thereof, for the benefit of the Owners or beneficial owners from time to time of the Outstanding Bonds as therein provided. Notwithstanding any other provision of this Agreement, failure of the Company to comply with the continuing disclosure agreement or similar undertaking shall not be considered an event of default under this Agreement or under Indenture.

ARTICLE VII

ASSIGNMENT

Section 7.01. CONDITIONS. The Company's interest in this Agreement may be assigned in whole or in part, provided, however, that no assignment shall cause the Company to breach any of the covenants contained in Section 6.05 hereof or any of the representations or warranties contained in Section 2.02 hereof, or otherwise cause the interest payable on any Bonds to become includable in gross income for purposes of federal income taxation (other than by operation of Section 147(a) of the Code), nor relieve the Company from primary liability for its obligation to make the loan payments required by Section 3.02 hereof or other payments under Section 3.03 hereof or for any other of its obligations hereunder. Upon any such assignment or conveyance of assets, merger or consolidation permitted under Section 6.01, the Company shall

give prompt written notice to the Issuer and the Volusia County Industrial Development Authority.

Section 7.02. INSTRUMENT FURNISHED TO TRUSTEE. The Company shall, within 15 days after the delivery thereof, furnish to the Issuer and the Trustee a true and complete copy of the agreements or other documents effectuating any such assignment.

Section 7.03. LIMITATION. So long as any Bonds are Outstanding, this Agreement shall not be assigned, except as provided in this Article VII or in Section 6.01 hereof.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

Section 8.01. EVENTS OF DEFAULT. Any one or more of the following events is an Event or Default under this Agreement:

(1) if the Company shall fail to pay any amounts due under Sections 3.02 or 3.03 hereof when due;

(2) if the Company shall fail to observe its covenants in Section 6.05 or 6.07 hereof;

(3) if the Company shall fail to observe and perform, for reasons other than Force Majeure (as set forth in Section 8.02 hereof), any other covenant, condition or agreement on its part under this Agreement for a period of 60 days after written notice, specifying such default and requesting that it be remedied, is given to the Company by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration, or for such longer period as may be reasonably necessary to remedy such default, provided that the Company is proceeding with reasonable diligence to remedy the same;

(4) if the Company shall

(a) admit in writing its inability to pay its debts generally as they become due;

(b) consent to the appointment of a custodian (as that terms is defined in the Federal Bankruptcy Code) for, or assignment to a custodian of, the whole or any substantial part of the Company's property, or fail to stay, set aside or vacate within 90 days from the date of entry thereof any order or decree entered by a court of competent jurisdiction ordering such appointment or assignment; or

(c) commence any proceeding or file a petition under the provisions of the Federal Bankruptcy Code for liquidation, reorganization or adjustment of debts, or under any insolvency law or other statute or law providing for the modification or adjustment of the rights of creditors or fail to stay, set aside or vacate within 90 days from the date of entry thereof any order or decree entered

by a court of competent jurisdiction pursuant to any involuntary proceeding, whether under Federal or state law, providing for liquidation or reorganization of the Company or modification or adjustment of the rights of creditors; or

(5) if, as a result of an "event of default" under the First Mortgage, the principal of the First Mortgage Bonds of the Company issued thereunder has been declared or has become due.

Section 8.02. FORCE MAJEURE. The provisions of Section 8.01(3) hereof are subject to the following limitations: If by reason of acts of God, strikes, lockouts or other industrial disturbances, acts of public enemies, orders of any kind of the Government of the United States or of the State, or any department, agency, political subdivision, court or official of either of them, or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, tornados, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accident to machinery, partial or entire failure of utilities, or any cause or event not reasonably within the control of the Company, the Company is unable in whole or in part to carry out any one or more of its agreements or obligations contained in this Agreement, other than its obligations contained in Sections 3.02, 3.03, 6.01, 6.03, 6.05, 6.07 and 6.08 hereof, the Company shall not be deemed in default by reason of not carrying out said agreement or agreements or performing said obligation or obligations during the continuance of such inability. The Company agrees, however, to use its best efforts to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements; provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Company, unfavorable to the Company.

Section 8.03. REMEDIES. Whenever any Event of Default shall have happened and be subsisting, the Issuer may, with the prior written consent of the Trustee and with notice in writing to the Company, declare the remaining principal balance of the loan payable under Section 3.02 and any other amounts due hereunder (being an amount equal to that necessary to pay in full all Outstanding Bonds, assuming acceleration of the Bonds under the Indenture and to pay all other indebtedness thereunder) to be immediately due and payable, whereupon the same shall become immediately due and payable by the Company; and, in the event the Company does not, within three business days thereafter, deposit with the Trustee an amount sufficient to satisfy its obligations under the preceding clause, then the Issuer, or the Trustee on behalf of the Issuer, may take whatever action at law or in equity may appear necessary or appropriate to collect the balance then due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement. Notwithstanding the foregoing sentence, no notice of acceleration shall be given or effective unless the Credit Bank which is the issuer of a Letter of Credit other than a Liquidity Facility has given the Trustee its written consent to the giving of the notice of acceleration.

Any amounts collected pursuant to action taken under this Section 8.03 shall be paid into the Debt Service Fund and applied in accordance with the provisions of the Indenture.

Section 8.04. NO REMEDY EXCLUSIVE. No remedy conferred upon or reserved to the Issuer by this Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

Section 8.05. REIMBURSEMENT OF ATTORNEYS' FEES. If the Company shall default under any of the provisions of this Agreement and the Issuer or the Trustee shall employ attorneys or incur other reasonable expenses for the collection of payments due hereunder or for the enforcement of performance or observance of any obligation or agreement on the part of the Company contained in this Agreement, the Company will on demand therefor reimburse the Issuer or the Trustee, as the case may be, for the reasonable fees of such attorneys and such other reasonable expenses so incurred.

Section 8.06. WAIVER OF BREACH; EXERCISE OF RIGHTS BY TRUSTEE. In the event any obligation created by this Agreement shall be breached by either of the parties and such breach shall thereafter be waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. In view of the pledge of and grant of a security interest in the Issuer's rights in and under this Agreement to the Trustee under the Indenture, the Issuer shall have no power to waive any default hereunder by the Company without the consent of the Trustee, and the Trustee may exercise any of the rights of the Issuer hereunder.

Section 8.07. TRUSTEE'S EXERCISE OF THE ISSUER'S REMEDIES. Whenever any Event of Default shall have happened and be subsisting, the Trustee may, but except as otherwise provided in the Indenture shall not be obliged to, exercise any or all of the rights of the Issuer under this Article VIII, upon notice as required of the Issuer unless the Issuer has already given the required notice.

ARTICLE IX

MISCELLANEOUS

Section 9.01. TERMINATION. At any time when the principal of, premium, if any, and interest on all Bonds have been paid and arrangements satisfactory to the Trustee have been made for the discharge of all accrued liabilities under this Agreement, this Agreement, except as otherwise provided in Sections 6.04 and 6.05 hereof, shall terminate.

Section 9.02. ASSIGNMENT. This Agreement may not be assigned or a security interest granted herein by either the Issuer or the Company without the consent of the other, except that the Issuer may pledge and grant a security interest in its interest in this Agreement to the Trustee and the Company may assign its interest in this Agreement in accordance with Sections 6.01 or 7.01 hereof.

Section 9.03. AMENDMENTS, CHANGES AND MODIFICATIONS. Except as otherwise expressly provided in this Agreement or in the Indenture, subsequent to the original issuance of any Bonds and before the Indenture is satisfied and discharged in accordance with its terms, this Agreement may not be amended, changed or modified except in accordance with the provisions of Article X of the Indenture.

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names, all as of the date first above written.

COLLIER COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By /s/ J.R. Humphrey

(SEAL) Chairman

Attest: /s/ Alice J. Carlson

Secretary

ALLETE, INC.

By /s/ Mark A. Schober

Its Mark A. Schober, Sr.V.P. & CFO

EXHIBIT A
to the
Financing Agreement

DESCRIPTION OF THE REFINANCED FACILITIES

Certain improvements to water and wastewater systems at the time owned and operated by Southern States Utilities, Inc., an Affiliate of the Company (as used in this Exhibit A, the "Affiliate"), and located in Collier, Lee, and Volusia Counties, Florida, including, but not limited to the following:

COLLIER COUNTY PROJECTS

1. A four million gallon per day (MGD) reverse osmosis water treatment facility, including raw water supply wells, high pressure reverse osmosis membrane elements, chemical pretreatment and posttreatment, finish water transfer pumps and appurtenant facilities;

2. An injection well to be used for deep-well injection of concentrate from the water facilities and treated sanitary sewage effluent, consisting of a well casing and lining, an open hole, injection pumping equipment and appurtenant facilities;

3. Pollution control facilities for sewage collection, treatment and disposal, consisting of the expansion of an existing 2.5 MGD contact stabilization wastewater treatment tank to an approximate capacity of 3.5 MGD, including concrete and steel tankage, aeration equipment, sludge recirculation pumps, chemical feed chlorine contact facilities, final effluent filters, an odor control system and appurtenant facilities; and

4. Effluent pumps, replacement and enlargement of existing effluent transmission lines, installation of a 1611 diameter line suspended from the S.R. 951 bridge and enlargement of the existing percolation ponds in Unit 30.

The foregoing projects are located on Tracts "ID" and "IF" of MARCO BEACH UNIT FOUR and Tract "G" of MARCO BEACH UNIT TWENTY-FIVE, as recorded in the Public Records of Collier County, Florida.

LEE COUNTY PROJECT

1. Construction and/or improvement of pumping, treatment, transmission and disposal of facilities in the service area of the Affiliate's water and sewer utility system, including, but not limited to:

(i) a 500,000 gallons per day ("GPD") water treatment plant expansion;

(ii) a 1.0 million GPD sewage treatment plant expansion including a 1.0 million GPD effluent disposal system expansion; and

(iii) such machinery, equipment, fixtures and appurtenant facilities as are necessary for the operation of a water and sewer treatment system to service portions of that region in Lee

County, Florida, certified as the Affiliate's territorial service area in the Florida Public Service Commission Order No. 4937, issued September 9, 1970, extended by Order No. 12167, issued June 23, 1983.

The 500,000 GPD water treatment plant is located at 305 Coolidge Avenue, Lehigh Acres, Florida 33936, and the 1.0 million GPD sewer treatment plant is located at Construction Lane, Lehigh Acres, Florida 33936, and the machinery, equipment, fixtures and appurtenant facilities associated therewith are located within the Affiliate's certificated service area.

VOLUSIA COUNTY PROJECT

1. Purchase of an approximate six-acre parcel located in Deltona, Florida, in the vicinity of Normandy Boulevard and North Firewood Drive, at the north end of the dead end of Normandy Boulevard and approximately 500 feet North of the intersection of Normandy Boulevard and North Firewood Drive to be used on the site for a future water treatment plant; and

2. Improvements to the Affiliate's sludge stabilization facility located at 399 Fisher Drive, Deltona, Florida; and

3. Improvements and expansion of the Affiliate's water treatment plant located at 1372 Lombardy Drive, Deltona, Florida, to be used as the site of a water treatment plant; and

4. Improvements and expansion of the Affiliate's water treatment plant located at 720 Sagamore Drive, Deltona, Florida, to be used at the site of a water treatment plant; and

5. Improvements and expansion of the Affiliate's water treatment plant located at 1240 Saxon Boulevard, Deltona, Florida; and

6. Improvements of the Affiliate's wastewater treatment plant holding facilities located at 399 Fisher Drive, Deltona, Florida; and

7. Improvements of the Affiliate's water treatment tank located at 600 North Wellington Drive, Deltona, Florida; and

8. Relocation of utilities lines in Deltona, Florida, on the north side of Saxon Boulevard, in the right-of-way from Finland Drive, to Normandy Boulevard on the south side of Deltona Boulevard, in the right-of-way from Dartmouth Street to Normandy Boulevard, on the north side of Deltona Boulevard in the right-of-way from Dartmouth Street to Normandy Boulevard and the Cost side of Providence Boulevard in the right-of-way from West Chapel Drive to East Chapel Drive; and

9. Improvement of walls located at 660 North Wellington Drive and 720 Sagamore Drive, Deltona, Florida.

EXHIBIT B
to the
Financing Agreement

PROMISSORY NOTE

No. 1 Duluth, Minnesota

ALLETE, Inc. (the "Company"), a corporation organized and existing under the laws of the State of Minnesota, and authorized to conduct business in the State of Florida, acknowledges itself indebted and for value received hereby promises to pay to the Collier County Industrial Development Authority (the "Issuer") or assigns, the Taxability Premium (as defined in the Financing Agreement, dated as of July 1, 2006 (as amended or supplemented from time to time in accordance with its terms, the "Financing Agreement"), between the Issuer and the Company), when due under Section 5.02 of the Financing Agreement. Terms used with initial capital letters but not defined herein shall have the meanings given such terms in the Financing Agreement.

This Note is issued to evidence and secure the obligation of the Company to pay the Taxability Premium in the event of a Determination of Taxability with respect to the Series 2006 Bonds under and pursuant to, and shall be governed by and construed in accordance with the terms and conditions of, the Financing Agreement. Pursuant to the Financing Agreement, the Issuer has lent the Company the proceeds of the Series 2006 Bonds for the purpose of providing funds to be used, with other available funds of the Company, for the redemption of the Refunded Bonds of the Issuer. Certain rights of the Issuer under the Financing Agreement and to this Note have been pledged as security for the payment of Outstanding Bonds issued pursuant to the Indenture of Trust, dated as of July 1, 2006, between the Issuer and U.S. Bank National Association, as trustee.

Presentment for payment, notice of dishonor, protest and notice of protest are hereby waived by the Company.

This Note shall be construed in accordance with the laws of the State of Minnesota without giving effect to the conflicts-of-law principles thereof.

IN WITNESS WHEREOF, ALLETE, Inc. has caused this Note to be executed in its name and on its behalf by its ----------, all as of July 1, 2006.

ALLETE, INC.

By

Its

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LETTER OF CREDIT AGREEMENT

DATED AS OF JULY 5, 2006

AMONG

ALLETE, INC.
(FORMERLY KNOWN AS MINNESOTA POWER, INC.)

THE PARTICIPATING BANKS PARTY HERETO

AND

WELLS FARGO BANK, NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT AND ISSUING BANK

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LETTER OF CREDIT AGREEMENT

This Agreement is entered into as of July 5, 2006 by and among ALLETE, Inc., a Minnesota corporation (as more fully defined below, the "COMPANY"), Wells Fargo Bank, National Association, a national banking association, in its capacity as letter of credit issuer (in such capacity, the "ISSUING BANK") and as administrative agent for the Participating Banks hereunder (in such capacity, the "ADMINISTRATIVE AGENT"), and the financial institutions from time to time party hereto (each a "PARTICIPATING BANK").

At the request of the Company, the Collier County Industrial Authority, a public body corporate and politic organized and existing under the laws of the State of Florida (the "ISSUER") is issuing its Industrial Development Variable Rate Demand Refunding Revenue Bonds (ALLETE, Inc. Project), Series 2006 (the "BONDS") in the principal amount of $27,800,000 pursuant to an Indenture of Trust dated as of July 1, 2006 (as amended or supplemented in accordance with the terms hereof and thereof, the "INDENTURE") between the Issuer and U.S. Bank National Association, as trustee for the purchasers of the Bonds (the "TRUSTEE").

The Company and the Issuer have executed a Financing Agreement of even date herewith (as amended or supplemented in accordance with the terms hereof and thereof, the "FINANCING AGREEMENT"), under which the Issuer has agreed to lend the proceeds of the Bonds to the Company.

In order to induce purchase of the Bonds, the Company has requested that the Issuing Bank issue its irrevocable letter of credit for the benefit of the Trustee in the form of Exhibit A.

The Issuing Bank has agreed to issue the requested letter of credit, and the Participating Banks have agreed to participate in the risk of such letter of credit on the terms and subject to the conditions set forth herein.

ACCORDINGLY, in consideration of the mutual covenants contained herein and in related documents, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1 DEFINITIONS. As used in this Agreement:

"ADMINISTRATIVE AGENT" has the meaning specified in the preamble to this Agreement.

"AGREEMENT" means this Letter of Credit Agreement, as amended or supplemented from time to time.

"APPLICABLE MARGIN" means (i) 0.425% per annum for any day Level I Status exists; (ii) 0.500% per annum for any day Level II Status exists; (iii) 0.650% per annum for any day Level III Status exists; (iv) 1.025% per annum for any day Level IV Status exists; (v) 1.400% per annum for any day Level V Status exists; and (vi) 1.500% per annum for any day Level VI Status exists.

"AUTHORIZING ORDER" means any order of the MPUC or any other regulatory body having jurisdiction over the Company or any affiliate of the Company authorizing and/or restricting the indebtedness that may be created from time to time hereunder.

"AVAILABLE AMOUNT" means, at any time, the amount available for drawing under the Letter of Credit, after giving effect to any payments thereunder, reductions thereof, and reinstatements thereof.

"BANKS" means, collectively, the Issuing Bank, the Administrative Agent and the Participating Banks.

"BASE RATE" means for any day the greater of:

(i) the rate of interest announced by the Administrative Agent from time to time as its prime commercial rate for U.S. dollar loans as in effect on such day, with any change in the Base Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said prime commercial rate; or

(ii) the sum of (x) the rate determined by the Administrative Agent to be the prevailing rate (rounded upwards, if necessary, to the next higher 1/100 of 1%) at approximately 10:00 am. (or as soon thereafter as is practicable) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) for the purchase at face value of overnight federal funds in an amount equal or comparable to the principal amount owed to the Administrative Agent for which such rate is being determined, PLUS (y) 1/2 of 1% (0.50%),

"BOND DOCUMENTS" means the Indenture, the Financing Agreement and the Bonds.

"BONDS" has the meaning specified in the preamble to this Agreement.

"BUSINESS DAY" shall have the same meaning herein as the term "business day" in the Letter of Credit and, if the applicable Business Day relates to the borrowing or payment of a Drawing Loan in the first 180 days, means any day on which banks are dealing in U.S. dollar deposits in the interbank market in London, England.

"CAP INTEREST RATE" means a rate per annum of 12% calculated on the basis of a year of 365 days for the actual days elapsed.

"CODE" means the Internal Revenue Code of 1986, as amended, and the regulations, rulings and proclamations promulgated and proposed thereunder or under the predecessor Code.

"COMMISSION" means the Securities and Exchange Commission, or any entity succeeding to its responsibilities under the Public Utility Holding Company Act of 1935, as amended.

"COMMITMENT PERCENTAGE" means, as to each Participating Bank, the ratio, expressed as a percentage, of (a) such Lender's L/C Commitment to (b) the aggregate L/C Commitments of all of the Participating Banks.

"COMPANY" means ALLETE, Inc., a Minnesota corporation duly organized and validly existing under the laws of the State of Minnesota, and its lawful successors and assigns, to the extent permitted by this Agreement.

"CONSOLIDATED SUBSIDIARY" means at any date any Subsidiary or other entity the accounts of which would be consolidated with those of the Company in consolidated financial statements if such statements were prepared as of such date.

"CONTROLLED GROUP" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Company or any Subsidiary, are treated as a single employer under Section 414 of the Code.

"DATE OF ISSUANCE" means the date on which all conditions precedent under Article III hereof have been met or waived by the Administrative Agent and on which the Letter of Credit is issued.

"DRAWING LOAN" has the meaning specified in Section 2.3(b).

"ENVIRONMENTAL LAWS" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to the environment, the effect of the environment on human health or to emissions, discharges or releases of pollutants, contaminants, Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, Hazardous Substances or wastes or the clean-up or other remediation thereof, in each case as in effect and applicable to the Company and its Subsidiaries at the time the representation in Section 4.1(m) is made or deemed made or compliance with Section 5.4 is determined.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations issued thereunder, as from time to time in effect.

"EVENT OF DEFAULT" has the meaning specified in Section 6.1.

"FEDERAL FUNDS RATE" means the fluctuating interest rate per annum described in part (x) of clause (ii) of the definition of Base Rate.

"FINANCING DOCUMENTS" means this Agreement, the Letter of Credit, and any agreement or instrument relating thereto.

"FINANCING AGREEMENT" has the meaning specified in the preamble to this Agreement.

"FIRST MORTGAGE" means the Mortgage and Deed of Trust, dated as of September 1, 1945, from the Company to The Bank of New York and Douglas J. MacInnes (successors to Irving Trust Company and Richard H. West), as trustees, as heretofore and hereafter amended and supplemented.

"FUNDED DEBT" means, with respect to any Person, the sum (without duplication) of (i) all indebtedness of such Person for borrowed money; (ii) the deferred and unpaid balance of the purchase price owing by such Person on account of any assets or services purchased (other than trade payables and other accrued liabilities incurred in the ordinary course of business that are not overdue by more than 180 days unless being contested in good faith) if such purchase price is (A) due more than nine months from the date of incurrence of the obligation in respect thereof or (B) evidenced by a note or a similar written instrument; (iii) all capitalized lease obligations; (iv) all indebtedness secured by a Lien on any property owned by such Person, whether or not such indebtedness has been assumed by such Person or is nonrecourse to such Person; (v) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money (other than such notes or drafts from the deferred purchase price of assets or services to the extent such purchase price is excluded from clause (ii) above); (vi) indebtedness evidenced by bonds, notes or similar written instrument; (vii) the face amount of all letters of credit and bankers' acceptances issued for the account of such Person, and without duplication, all drafts drawn thereunder (other than such letters of credit, bankers' acceptances and drafts for the deferred purchase price of assets or services to the extent such purchase price is under interest rate agreements or currency agreements); (viii) guaranty obligations of such Person with respect to indebtedness for borrowed money of another Person(s) (including affiliates) in excess of $25,000,000 in the aggregate; PROVIDED, HOWEVER, that in no event shall any calculation of Funded Debt with respect to the Company include (a) deferred taxes, (b) securitized trade receivables, (c) deferred credits including regulatory assets and contributions in aid of construction, (d) the lease obligations for Lake Superior Paper, Inc. relating to paper mill equipment as provided for under an operating lease extending to 2012, or (e) more than 25% of the indebtedness associated with Square Butte.

"GOVERNMENTAL BODY" means any government, foreign, or domestic, any court or any foreign or domestic, federal, state, municipal or other governmental department, commission, board, bureau, agency, public authority or instrumentality.

"HAZARDOUS SUBSTANCES" means any toxic, radioactive, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

"INDENTURE" has the meaning set forth in the preamble to this Agreement.

"INTEREST DRAWING" means a drawing under the Letter of Credit resulting from the presentation of a certificate in the form of Annex F to the Letter of Credit.

"INTEREST PERIOD" means with respect to the LIBOR applicable to a Drawing Loan, a period commencing on a Business Day and ending on the day in the next succeeding month that immediately precedes the date which numerically corresponds to the first day of such Interest Period, except that (i) if such final month has no numerically corresponding day, then the Interest Period shall end on the last Business Day of such month, and (ii) if an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next following Business Day, unless such next following Business Day is the first Business Day of a month, in which case such Interest Period shall end on the next preceding Business Day.

"ISSUER" has the meaning specified in the preamble to this Agreement.

"ISSUING BANK" has the meaning set forth in the preamble to this Agreement.

"L/C COMMITMENT" means, as to any Participating Bank, (i) the amount set forth opposite such Participating Bank's name on Exhibit B hereto below the heading "L/C Commitment," or (ii) the obligation of such Participating Bank under Section 2.1(b) hereof to participate in the Letter of Credit, as the context may require.

"L/C DISBURSEMENT" means any payment or disbursement made by the Issuing Bank under the Letter of Credit.

"L/C MARGIN" means (i) 0.375% per annum for any day Level I Status exists; (ii) 0.475% per annum for any day Level II Status exists; (iii) 0.525% per annum for any day Level III Status exists; (iv) 0.750% per annum for any day Level IV Status exists; (v) 1.00% per annum for any day Level V Status exists; and (vi) 1.25% per annum for any day Level VI Status exists.

"L/C OBLIGATIONS" means, at any time, an amount equal to the sum of (a) the Available Amount at such time and (b) the aggregate amount of Reimbursement Obligations outstanding at such time.

"LETTER OF CREDIT" means the irrevocable transferable letter of credit issued by the Issuing Bank for the account of the Company in favor of the Trustee for the benefit of the owners from time to time of the Bonds pursuant to this Agreement in the form of Exhibit A with appropriate insertions, as amended.

"LETTER OF CREDIT FEE" means the fee payable by the Company under Section 2.8(a).

"LEVEL I STATUS" means the S&P Rating is A- or higher and the Moody's Rating is A3 or higher.

"LEVEL II STATUS" means Level I Status does not exist, but the S&P Rating is BBB+ or higher and the Moody's Rating is Baal or higher.

"LEVEL III STATUS" means neither Level I Status nor Level II Status exists, but the S&P Rating is BBB or higher and the Moody's Rating is Baa2 or higher.

"LEVEL IV STATUS" means none of Level I Status, Level II Status nor Level III Status exists, but the S & P Rating is BBB- or higher and the Moody's Rating is Baa3 or higher.

"LEVEL V STATUS" means none of Level I Status, Level II Status, Level III Status nor Level IV Status exists, but the S & P Rating is BB+ - or higher and the Moody's Rating is Baa1 or higher.

"LEVEL VI STATUS" means none of Level I Status, Level II Status, Level III Status nor Level IV Status exists.

"LIBO BASE RATE" means the rate per annum for United States dollar deposits quoted by the Administrative Agent as the Interbank Market Offered Rate, with the understanding that such rate is quoted by the Administrative Agent for the purpose of calculating effective rates of

interest for loans making reference thereto, on the first day of an Interest Period for delivery of funds on said date for a period of time approximately equal to the number of days in such Interest Period and in an amount approximately equal to the principal amount to which such Interest Period applies. The Company understands and agrees that the Administrative Agent may base its quotation of the Interbank Market Offered Rate upon such offers or other market indicators of the London interbank market as the Administrative Agent in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London interbank market.

"LIBOR" means, with respect to any Interest Period and any principal, an annual rate equal (a) the applicable LIBO Base Rate (rounded up to the nearest 1/16 of 1%) for funds to be made available on the first day of such Interest Period in an amount approximately equal to such principal and maturing at the end of such Interest Period, divided by (b) a number determined by subtracting from 1.00 the maximum reserve percentage for determining reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency liabilities, such rate to remain fixed for such Interest Period. The Administrative Agent's determination of LIBOR shall be conclusive, absent manifest error.

"LIEN" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind, or any other type of preferential arrangement that has the practical effect of creating a security interest, in respect of such asset; PROVIDED, HOWEVER, Lien shall not mean any Trading securities or Available-for-sale securities (as defined in the Notes to the Consolidated Financial Statements contained in the Company's 2005 Annual Report) pledged to secure or cover any hedging transaction in Trading securities or Available-for-sale securities. For the purposes of this Agreement, the Company or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sales agreement, capital lease or other title retention agreement relating to such asset.

"MAJORITY PARTICIPATING BANKS" mean Participating Banks holding at least 66 2/3% of the sum of (a) the aggregate unpaid principal amount of the Drawing Loans plus (b) the aggregate amount of all L/C Obligations.

"MATERIAL ADVERSE CHANGE" means any change in the business, organizations, assets, properties or condition (financial or other) of the Company which could materially and adversely affect the Company's ability to perform hereunder, including, without limitation, representations, warranties, covenants and payment of Obligations.

"MATERIAL SUBSIDIARY" means any Subsidiary of the Company that has assets that constitute more than 10% of the consolidated assets of the Company and its Subsidiaries as shown on the most recent financial statements delivered to the Administrative Agent pursuant to Section 5.1 hereof.

"MOODY'S RATING" means the rating assigned by Moody's Investors Service, Inc. and any successor thereto that is a nationally recognized rating agency to the outstanding senior secured non-credit enhanced long-term indebtedness of the Company (or if neither Moody's investors Service, Inc. nor any such successor shall be in the business of rating long-term indebtedness, a nationally recognized rating agency in the U.S. as mutually agreed between the Administrative

Agent and the Company). Any reference in this Agreement to any specific rating is a reference to such rating as currently defined by Moody's Investors Service, Inc. (or such a successor) and shall be deemed to refer to the equivalent rating if such rating system changes.

"MPUC" means the Minnesota Public Utilities Commission.

"MULTIEMPLOYER PLAN" means a plan described in Section 4001(a)(3) of ERISA to which the Company or any member of the Controlled Group contributed or has contributed during the last five years of such plan.

"OBLIGATIONS" means the Drawing Loans, fees relating to the Letter of Credit, any and all obligations of the Company to reimburse the Participating Banks for any drawings under the Letter of Credit and all other obligations of the Company to any Bank arising under or in relation to this Agreement.

"OFFICIAL STATEMENT" means the Official Statement relating to the Bonds, dated June 30, 2006.

"ORIGINAL STATED AMOUNT" has the meaning specified in Section 2.1.

"OUTSTANDING," "BONDS OUTSTANDING" or "BONDS THEN OUTSTANDING" shall have the same meaning as the terms "Outstanding Bonds," "Bonds Outstanding" or "Outstanding" in the Indenture.

"PBGC" means the Pension Benefit Guaranty Corporation or any Governmental Body succeeding to the functions thereof.

"PERSON" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

"PLAN" means, with respect to the Company and each Subsidiary thereof at any time, an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and either (i) is or has been maintained or contributed to by a member of the Controlled Group for employees of any member of the Controlled Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the Controlled Group for employees of any Person which was at such time a member of the Controlled Group.

"POTENTIAL DEFAULT" means an event which but for the lapse of time or the giving of notice, or both, would constitute an Event of Default.

"REFERENCE BANK" means Wells Fargo Bank, National Association.

"REGISTER" has the meaning specified in Section 7.20.

"REGULATION U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"REIMBURSEMENT OBLIGATION" means the Company's obligation to reimburse the Issuing Bank on account of any L/C Disbursement as provided in Section 2.3.

"RELATED DOCUMENTS" means the Bond Documents, this Agreement, the Letter of Credit, and any other agreement or instrument relating thereto.

"REMARKETING AGENT" means Wells Fargo Brokerage Services, LLC, as remarketing agent under the Indenture, and any successor remarketing agent.

"REPORTABLE EVENT" means any of the events set forth in Section 4043(b) of ERISA.

"S&P RATING" means the rating assigned by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. and any successor thereto that is a nationally recognized rating agency to the outstanding senior secured non-credit enhanced long-term indebtedness of the Company (or, if neither such division nor any successor shall be in the business of rating long-term indebtedness, a nationally recognized rating agency in the U.S. as mutually agreed between the Administrative Agent and the Company). Any reference in this Agreement to any specific rating is a reference to such rating as currently defined by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. (or such a successor) and shall be deemed to refer to the equivalent rating if such rating system changes.

"SPECIAL DEPOSIT ACCOUNT" has the meaning specified in Section 6.2(a).

"STATE" means the State of Minnesota.

"STATED EXPIRATION DATE" means July 5, 2011, or such later date to which the Stated Expiration Date may be extended from time to time pursuant to the Letter of Credit and Section 2.15.

"SUBSIDIARY" means any corporation organized under the laws of one of the States of the United States of America of which more than 50% of the voting stock (except directors qualifying shares) is owned or controlled, directly or indirectly, by the Company and/or one or more of its Subsidiaries.

"TERMINATION DATE" means the Expiration Date, as defined in the Letter of Credit.

"TOTAL CAPITAL" means the sum of retained earnings, stockholders' equity (including preferred stock and QUIPs), all determined with respect to the Company and its Subsidiaries on a consolidated basis in accordance with generally accepted accounting principles consistently applied, and Funded Debt.

"UNREIMBURSED DRAWING RATE" has the meaning specified in Section 2.5.

"U.S." means the United States of America.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. Any capitalized terms used herein which are not specifically defined herein shall have the same meaning herein as in the Indenture. All references in this Agreement to times of

day shall be references to Minneapolis, Minnesota time unless otherwise expressly provided herein.

ARTICLE II
LETTER OF CREDIT

SECTION 2.1 ISSUANCE OF LETTER OF CREDIT.

(a) The Issuing Bank agrees to issue on the Date of Issuance, upon the terms, subject to the conditions and relying upon the representations and warranties set forth in this Agreement, the Letter of Credit substantially in the form of Exhibit A. The Letter of Credit shall be in the Original Stated Amount of $28,211,287.67 (the "ORIGINAL STATED AMOUNT"), which is the sum of (i) the principal amount of the Bonds on the Date of Issuance, plus (ii) interest thereon at the Cap Interest Rate for a period of 45 days.

(b) Effective upon the issuance of the Letter of Credit and without further action on the part of any Bank, each Participating Bank shall automatically acquire a participation in the Issuing Bank's liability under the Letter of Credit in an amount equal to such Participating Bank's Commitment Percentage of the Original Stated Amount.

SECTION 2.2 LETTER OF CREDIT DRAWINGS.

The Trustee is authorized to make drawings under the Letter of Credit in accordance with the terms thereof. The Company hereby directs the Issuing Bank to make payments under the Letter of Credit in the manner therein provided. The Company hereby irrevocably approves reductions and reinstatements of the Available Amount as provided in the Letter of Credit. No further consent of, notice to or authorization by the Company shall be required in connection with any such reinstatement occurring from time to time as contemplated hereby.

SECTION 2.3 COMPANY REIMBURSEMENT OBLIGATIONS; PARTICIPATING BANK PAYMENTS IN RESPECT OF THE LETTER OF CREDIT; DRAWING LOANS.

(a) L/C DISBURSEMENTS TO BE REIMBURSED IMMEDIATELY. On the day of (i) each L/C Disbursement on account of an Interest Drawing, and (ii) each other L/C Disbursement made when the conditions precedent contained in Section 3.2 are not true or have not been satisfied, the Company will pay to the Administrative Agent, for the account of the Participating Banks or the Issuing Bank, as the case may be, the full amount of such L/C Disbursement, without notice or demand of any kind. If the Company fails to make any such payment when due, the unpaid amount thereof shall bear interest until paid by the Company at the rate specified in Section 2.13.

(b) OTHER L/C DISBURSEMENTS. Upon the occurrence of any L/C Disbursement not described in subsection (a), the Issuing Bank may request payment in the amount of such L/C Disbursement from the Participating Banks as provided in subsection (c). The amount so paid by each Participating Bank shall constitute a loan (a "DRAWING LOAN") to the Company by such Participating Bank, the proceeds of which Drawing Loan shall be remitted by the Participating Banks to the Administrative Agent and applied by the

Administrative Agent or the Issuing Bank to the payment of the corresponding Reimbursement Obligation. Each Drawing Loan shall be due and payable on demand and shall bear interest on the unpaid principal amount thereof from the date such Drawing Loan is made until it is paid in full, at a rate per annum equal to the Unreimbursed Drawing Rate.

(c) PAYMENTS BY PARTICIPATING BANKS. Upon any L/C Disbursement described in subsection (b), the Issuing Bank, directly or through the Administrative Agent, shall (and, at any time following any other L/C Disbursement, may) give each Participating Bank prompt notice (orally or in writing) of such L/C Disbursement, specifying (a) the amount of such L/C Disbursement, (b) the date such L/C Disbursement was or is to be made and (c) such Participating Bank's PRO RATA share of the amount of such L/C Disbursement (determined on the basis of such Participating Bank's Commitment Percentage). If so requested, each Participating Bank shall pay to the Administrative Agent, for the account of the Issuing Bank, an amount equal to such Participating Bank's Commitment Percentage of such L/C Disbursement, such payment to be made not later than 3:00 p.m. on the date on which such L/C Disbursement is made or to be made (if such Participating Bank was notified at or prior to 1:00 p.m. on such date) or on the next Business Day (if such Participating Bank was notified after such time). Each Participating Bank's obligation to make each such payment, and the right of the Administrative Agent and the Issuing Bank to receive the same, are absolute and unconditional and shall not be affected by any circumstance whatsoever, including (without limiting the effect of the foregoing or of Section 2.4) the occurrence or continuance of a Potential Default or Event of Default or the failure of any other Participating Bank to make any payment under this Section, and each Participating Bank further agrees that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Participating Bank shall indemnify and hold harmless the Administrative Agent and the Issuing Bank from and against any and all losses, liabilities (including, without limitation, liabilities for penalties), actions, suits, judgments, demands, costs and expenses (including reasonable attorneys' fees) resulting from any failure of such Participating Bank to provide, or from any delay in providing, the Administrative Agent with such Participating Bank's Commitment Percentage of such L/C Disbursement in accordance with the provisions of this Section, but no Participating Bank shall be so liable for any such failure on the part of any other Participating Bank.

(d) If any amount required to be paid by any Participating Bank to the Administrative Agent pursuant to Section 2.3(c) in respect of any unreimbursed portion of any L/C Disbursement is made after the date such payment is due, such Participating Bank shall additionally pay to the Administrative Agent, for the account of the Issuing Bank, on demand, an amount equal to the product of (i) such amount, times (ii) the Applicable Rate, as defined below, times (iii) a fraction the numerator of which is the number of days during the period commencing on such due date and ending on the date on which payment is made (the "DELINQUENCY PERIOD") and the denominator of which is 360. As used in this subsection, "Applicable Rate" means (x) if the Delinquency Period is 3 days or less, the daily average Federal Funds Rate during the Delinquency Period, and (y) in all other cases, the daily average Base Rate during the Delinquency Period. A

certificate of the Administrative Agent submitted to any Participating Bank with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error. For purposes of this subsection, payment by any Participating Bank to the Administrative Agent shall not be deemed made until such time as that payment is available to the Administrative Agent in immediately available funds.

(e) Whenever, at any time after the Issuing Bank has made an L/C Disbursement and has received from any Participating Bank (through the Administrative Agent) that Participating Bank's PRO RATA share of such L/C Disbursement in accordance with section 2.3(c), the Administrative Agent receives any payment on account of such L/C Disbursement (whether or not such L/C Disbursement has been treated as a Drawing Loan under subsection (c), and whether such payment is received directly from the Company or otherwise, including proceeds of collateral applied thereto by the Issuing Bank), or any payment of interest on account thereof, the Administrative Agent will distribute to such Participating Bank that Participating Bank's L/C Commitment Percentage of such payment.

SECTION 2.4 AGREEMENT OF THE COMPANY AND EACH PARTICIPATING BANK.

Without limiting the effect of subsection 2.3, the Company and each Participating Bank agree with the Issuing Bank that:

(a) The Issuing Bank is authorized to make payments under the Letter of Credit upon the presentation of the documents provided for therein and without regard to whether the Company has failed to fulfill any of its obligations with respect to any Related Document or any other default has occurred thereunder.

(b) The Issuing Bank is authorized to take such action on its behalf under the provisions of this Agreement and to exercise such powers and perform such duties as are specifically delegated to or required of the Issuing Bank by the terms hereof, together with such powers as are reasonably incidental thereto.

(c) The Issuing Bank shall be entitled to rely upon any certificate, notice, demand or other communication (whether by cable, telegram, telecopy, S.W.I.F.T., telex or other written communication) believed by it to be genuine and to have been signed or sent by the proper Person or Persons (and no such reliance or failure shall place the Issuing Bank under any liability to the Company or any Participating Bank or limit or otherwise affect the Company's or any Participating Bank's obligations under this Agreement).

(d) Any action, inaction or omission on the part of the Issuing Bank under or in connection with the Letter of Credit or the instruments or documents related thereto, if in good faith and in conformity with such laws, regulations or customs as the Issuing Bank may reasonably deem to be applicable, shall be binding upon the Company and each Participating Bank (and shall not place the Issuing Bank under any liability to the Company or any Participating Bank or limit or otherwise affect the Company's or any Participating Bank's obligations under this Agreement).

(e) Notwithstanding any change or modification, with or without the consent of the Company, in any instruments or documents called for in the Letter of Credit, including waiver of noncompliance of any such instruments or documents with the terms of the Letter of Credit, this Agreement shall be binding on the Company with regard to the Letter of Credit and to any action taken by the Issuing Bank relative thereto.

(f) The Company shall indemnify and hold harmless each Bank from any loss or expense arising from or in connection with the Letter of Credit (except to the extent that such loss or expense arises directly from the gross negligence or willful misconduct of the Issuing Bank).

SECTION 2.5 INTEREST RATES AND PAYMENT DATES.

Each Drawing Loan shall bear interest determined as follows (the "UNREIMBURSED DRAWING RATE"):

(a) through the third Business Day following the corresponding L/C Disbursement, at the Base Rate;

(b) thereafter for the immediately following 6 Interest Periods, at a rate per annum equal to the LIBOR applicable to such Interest Periods, plus the Applicable Margin;

(c) thereafter through the day preceding the first anniversary of such L/C Disbursement Date, at a rate per annum equal to the Base Rate; and

(d) thereafter, at a rate per annum equal to the Base Rate plus 2%.

Interest on all Drawing Loans shall be payable on demand or, if demand is not sooner made, on the last day of each calendar quarter.

SECTION 2.6 PAYMENTS.

(a) To the extent the Administrative Agent actually receives payment in respect of principal of or interest on any Pledged Bond, the Drawing Loan made in connection with the purchase of such Pledged Bond shall be deemed to have been reduced PRO TANTO, with the Issuing Bank crediting any interest payment on the Pledged Bond received by it to the payment of interest on the related Drawing Loan (and, after payment of all interest accrued on the related Drawing Loan, to the payment of principal of the related Drawing Loan) and crediting any principal repayment received to the principal thereof (and, after payment of all principal of the related Drawing Loan, to the payment of interest accrued on the related Drawing Loan); PROVIDED that if such interests or principal payments on such Pledged Bonds are derived from the Letter of Credit, any such payments shall not be credited against the Drawing Loans unless the Company has fully reimbursed the Issuing Bank for such amounts derived from the Letter of Credit. Prior to the occurrence of an Event of Default the Issuing Bank agrees that any amount actually received by it in respect of principal of or interest on such Pledged Bonds and not credited to the payment of principal of or interest on the related Drawing Loan as

provided in the preceding sentence shall be paid promptly to the Company unless such funds have been derived from a draw on the Letter of Credit which has not been fully reimbursed by the Company in which case only such amounts in excess of the amount necessary to fully reimburse the Issuing Bank for such payment from the Letter of Credit shall be returned to the Company. After the occurrence and during the continuance of an Event of Default any such excess shall be held as collateral for the Obligations pursuant to the terms of Section 6.2(a) and 6.3. Any such payment of a Drawing Loan will be subject, in the case of the first 180 days, to Section 2.16(a) hereof.

(b) Each payment (including each prepayment) by the Company on account of principal of and interest on the Obligations payable to the Participating Banks hereunder shall be made PRO RATA according to the respective outstanding principal amounts of the Obligations then held by the Participating Banks. The Administrative Agent shall distribute such payments to the Participating Banks promptly upon receipt in like funds as received.

(c) The Administrative Agent agrees that upon any payment of principal by the Company on a Drawing Loan (other than a payment deemed made pursuant to Section 2.6(a) above) the Administrative Agent will promptly thereafter direct the Trustee to transfer to the Company a corresponding amount of Pledged Bonds PROVIDED that the Administrative Agent shall only be obligated to transfer Pledged Bonds in an amount equal to Authorized Denominations.

(d) Unless the Administrative Agent shall have received notice from the Company no later than 12:00 noon on the date on which any payment is due to the Participating Banks hereunder that the Company will not make such payment in full, the Administrative Agent may assume that the Company will make such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Participating Bank on such due date an amount equal to the amount then due such Participating Bank. If and to the extent the Company shall not have so made such payment in full to the Administrative Agent, each Participating Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Participating Bank, together with interest thereon at the Federal Funds Rate for each day from the date such amount is distributed to such Participating Bank until the date such Participating Bank repays such amount to the Administrative Agent. A certificate of the Administrative Agent submitted to any Participating Bank with respect to any amounts owing by such Participating Bank under this paragraph (d) shall be conclusive and binding for all purposes absent manifest error.

SECTION 2.7 SECURITY INTEREST IN PLEDGED BONDS.

The Company hereby grants to the Administrative Agent, for the benefit of each of the Banks, a first priority security interest in all of its right, title and interest in and to all Pledged Bonds to secure the repayment of the Obligations. This Agreement shall constitute a security agreement for purposes of the Uniform Commercial Code. The Company hereby agrees from time to time, at the request of the Administrative Agent, to cause any financing statements to be filed, registered and recorded in such manner and in all places as may be required by law or reasonably

requested by the Administrative Agent in order to fully perfect and protect any lien and security interest created hereby and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed any and all continuation statements and further instruments that may be reasonably requested or required by the Administrative Agent for such perfection and protection. The Administrative Agent hereby appoints the Trustee as its bailee for purposes of perfecting its security interest in the Pledged Bonds.

SECTION 2.8 FEES.

The Company will pay, or cause to be paid, to the Administrative Agent:

(a) for the account of the Participating Banks in accordance with their respective Commitment Percentages, a letter of credit fee on the average daily Available Amount at a rate equal to the L/C Margin. Such fee shall be payable in arrears on the last day of each calendar quarter and on the Termination Date, unless the Letter of Credit is terminated in whole on any earlier date, in which event the letter of credit fee for the period to the date of such termination shall be paid on the date of such termination;

(b) for the account of the Issuing Bank, on demand, all administrative fees charged by the Issuing Bank in the ordinary course of business in connection with the honoring of drafts under the Letter of Credit, amendments thereto, transfers thereof and all other activity with respect to the Letter of Credit at the then current rates published by the Bank for such services rendered on behalf of customers of the Issuing Bank generally; and

(c) for the account of the Administrative Agent, on the date of each transfer of the Letter of Credit to a successor Trustee, a transfer fee in an amount equal to the Issuing Bank's then standard out-of-pocket fee for transfers in effect on such date.

SECTION 2.9 METHOD OF PAYMENT.

All payments to be made by the Company and the Participating Banks under this Agreement shall be made to the Administrative Agent at Wells Fargo Bank, National Association, ABA No. 121000248, reference: ALLETE, Inc., not later than 3:00 p.m., on the date when due and shall be made in lawful money of the United States of America (in freely transferable U.S. dollars) and in immediately available funds.

SECTION 2.10 LENDING OFFICES AND FUNDING.

Each Participating Bank may fund its Drawing Loans at such branch, office or affiliate as it may from time to time elect and designate in a written notice to the Administrative Agent and the Company. Notwithstanding any other provision of this Agreement, each Participating Bank shall be entitled to fund and maintain its funding of all or any part of each Drawing Loan in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder shall be made as if in the first 180 days the Issuing Bank had actually funded and maintained such Drawing Loan through the purchase of deposits in the eurodollar interbank market having a maturity corresponding to the Interest Periods applicable to such

Drawing Loan and bearing an interest rate equal to the applicable LIBOR for such Interest Periods.

SECTION 2.11 COMPUTATION OF INTEREST.

All computations of interest and fees payable by the Company under this Agreement shall be made on the basis of a 360-day year and actual days elapsed except where interest is computed using the Base Rate, in which case a year of 365 or 366 days and actual days elapsed shall be used. Interest shall accrue during each period during which interest is computed from and including the first day thereof to but excluding the last day thereof.

SECTION 2.12 PAYMENT DUE ON NON-BUSINESS DAY TO BE MADE ON NEXT BUSINESS DAY.

If any sum becomes payable pursuant to this Agreement on a day which is not a Business Day, the date for payment thereof shall be extended, without penalty, to the next succeeding Business Day, and such extended time shall be included in the computation of interest and fees. If the date for any payment of principal is extended by operation of law or otherwise, interest shall be payable for such extended time.

SECTION 2.13 LATE PAYMENTS.

Except as set forth in Section 2.5, if the principal amount of any Obligation is not paid when due, such Obligation shall bear interest from the due date thereof until paid in full at a rate per annum equal to the Base Rate from time to time in effect plus 2%, payable on demand.

SECTION 2.14 SOURCE OF FUNDS.

All payments made by the Issuing Bank pursuant to the Letter of Credit shall be made from funds of the Issuing Bank and not from funds obtained from any other Person.

SECTION 2.15 EXTENSION OF STATED EXPIRATION DATE.

(a) No later than 90 days before each anniversary date of this Agreement the Company may make a request for a one-year extension of the Stated Expiration Date in a written notice to the Administrative Agent. The Administrative Agent will promptly inform the Issuing Bank and the Participating Banks of any such request. Each of the Issuing Bank and each Participating Bank may, in its sole and absolute discretion, determine whether to consent to such request. If each of the Issuing Bank and each Participating Bank shall give irrevocable written notice to the Administrative Agent not later than 45 days prior to such Stated Expiration Date stating that it is so willing to extend the Stated Expiration Date, then, subject to any conditions precedent that the Administrative Agent may require in connection with such extension (e.g., the remaking of representations and warranties, no Potential Default or Event of Default having occurred or the delivery of a legal opinion and other appropriate documentation), the Stated Expiration Date shall be so extended, such extension to be effective as provided in Section 2.15(b) and the Administrative Agent shall promptly notify the Issuing Bank, the Participating Banks and the Company of such circumstance. Failure by the Issuing Bank or any Participating Bank to deliver such a notice to the Administrative Agent within

such time frame shall be deemed to be a denial of the Company's request by the Issuing Bank or such Participating Bank. If the Issuing Bank and each Participating Bank have not delivered written notices in accordance with the terms hereof consenting to the extension of the Stated Expiration Date, the Stated Expiration Date shall not be extended and the Administrative Agent shall promptly notify the Issuing Bank, the Participating Banks and the Company of such circumstance. Any date to which the Stated Expiration Date has been extended in accordance with this Section 2.15 may be extended in like manner.

(b) If the Stated Expiration Date is extended pursuant to Section 2.15(a), the Issuing Bank shall deliver to the Trustee an amendment (an "Extension Amendment") designating the date to which the Stated Expiration Date is being extended. Such extension of the Stated Expiration Date shall be effective, after receipt of such notice, on the Business Day following the date of delivery of such Extension Amendment, and thereafter all references in this Agreement to the Stated Expiration Date shall be deemed to be references to the date designated as such in the most recent Extension Amendment delivered to the Trustee. No later than 90 days prior to the then current Stated Expiration Date the Company shall notify the Issuing Bank as to whether it will provide the Trustee with an Alternate Letter of Credit or no credit enhancement.

SECTION 2.16 PROVISIONS APPLICABLE TO LIBOR DRAWING LOANS.

(a) FUNDING LOSSES. If the Company makes any payment or prepayment of principal with respect to any Drawing Loan in the first 180 days on any day other than the last day of an Interest Period applicable to such Drawing Loan, the Company shall reimburse each Participating Bank, within 15 days after demand, for any resulting loss or expense incurred by it (or by any existing or prospective participant in the related Drawing Loan) including, without limitation, any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after such payment or failure to borrow or prepay; PROVIDED, HOWEVER, that such Participating Bank shall have delivered to the Company a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

(b) BASIS FOR DETERMINING INTEREST RATE UNAVAILABLE. If on or prior to the first day of any Interest Period deposits in dollars (in the applicable amounts) are not being offered to a Participating Bank in the London interbank market for such Interest Period, such Participating Bank shall forthwith give notice thereof to the Administrative Agent and the Company, whereupon the obligation of the Banks to make a Drawing Loan at LIBOR shall be suspended until that Participating Bank notifies the Company that the circumstances giving rise to such suspension no longer exist. Such Participating Bank shall instead make such Drawing Loan at the Base Rate for the first 365 days.

(c) ILLEGALITY. If after the Date of Issuance the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Participating Bank with any request or directive (whether or not having the force of law)

of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Participating Bank to make, maintain or fund its Drawing Loans at LIBOR, such Participating Bank shall forthwith so notify the Administrative Agent and the Company, whereupon such Participating Bank's obligation to fund any Drawing Loans at LIBOR shall be suspended. If any Participating Bank shall determine that it may not lawfully continue to maintain and fund any of its outstanding Drawing Loans bearing interest at LIBOR to maturity and shall so specify in such notice, the Company shall immediately prepay in full the then outstanding principal amount of each such Drawing Loan bearing interest at LIBOR, together with accrued interest thereon. Concurrently with prepaying each such Drawing Loan, the Company may borrow a Drawing Loan at the Base Rate in an equal principal amount for a period coincident with the remaining term of the Interest Period applicable to such Drawing Loan.

SECTION 2.17 RESCISSION OF PAYMENTS.

If, following the payment of any Reimbursement Obligation or any interest thereon by the Company to the Administrative Agent pursuant to Section 2.6, any portion of such Reimbursement Obligation and/or interest shall he rescinded or must otherwise be restored by the Issuing Bank, then each Participating Bank, upon notice to it by the Administrative Agent of such rescission or restoration, shall pay to the Administrative Agent its Commitment Percentage of the amount so rescinded or restored.

ARTICLE III
CONDITIONS PRECEDENT

SECTION 3.1 CONDITIONS PRECEDENT TO ISSUANCE OF LETTER OF CREDIT.

As conditions precedent to the obligation of the Issuing Bank to issue the Letter of Credit:

(a) the Company shall provide to the Administrative Agent on or before the Date of Issuance, in form and substance satisfactory to the Administrative Agent and its counsel:

(i) a written opinion of counsel to the Company dated the Date of Issuance;

(ii) the written opinion of Bond Counsel, dated the Date of Issuance;

(iii) a certificate of the Company signed by an authorized officer of the Company, dated the Date of Issuance and stating that:

(A) the representations and warranties of the Company contained in Article IV are correct on and as of the Date of Issuance as though made on such date;

(B) no Event of Default has occurred and is continuing, or would result from the issuance of the Letter of Credit or the execution and

delivery of this Agreement, and no event has occurred and is continuing which would constitute an Event of Default or a Potential Default; and

(C) no event of default has occurred or is continuing on the part of the Company under any of its existing debt agreements.

(iv) a copy of resolutions of the board of directors (or a committee thereof) of the Company certified as of the Date of Issuance by the Secretary or an Assistant Secretary of the Company, authorizing, among other things, the execution, delivery and performance by the Company of this Agreement and authorizing the Company to obtain the issuance of the Letter of Credit and to borrow Drawing Loans;

(v) certified copies of the Company's by-laws and articles of incorporation;

(vi) a certificate of the Secretary or any Assistant Secretary of the Company certifying the name and true signatures of the officers of the Company authorized to sign this Agreement;

(vii) evidence of the status of the Company as a duly organized and validly existing corporation under the laws of the State of Minnesota;

(viii) evidence that the Remarketing Agent has acknowledged and accepted in writing its appointment as Remarketing Agent under the Indenture and its duties and obligations thereunder;

(ix) true and correct copies of the Related Documents;

(x) reliance letters with respect to the opinion delivered in connection with (ii) above; and

(xi) such other documents, certificates and opinions as the Administrative Agent or its counsel may reasonably request;

(b) no law, regulation or ruling of the United States or any political subdivision or authority therein or thereof shall be in effect or shall have occurred, the effect of which would be to prevent any Bank from fulfilling its obligations under this Agreement; and

(c) all legal requirements provided herein incident to the execution, delivery and performance of this Agreement and the Related Documents and the transaction contemplated hereby and thereby, shall be reasonably satisfactory to the Administrative Agent and its counsel.

SECTION 3.2 CONDITIONS PRECEDENT TO DRAWING LOANS.

Upon payment by the Issuing Bank of any drawing under the Letter of Credit, such drawing shall constitute a Drawing Loan to the Company only if on the date of payment of such drawing the following statements shall be true:

(a) the representations and warranties of the Company contained in Article IV are correct in all material respects on and as of the date of such payment as though made on and as of such date; PROVIDED, HOWEVER, with respect to subsection 4.1(e) the references shall be deemed to refer to the Company's most recent annual report filed on Form 10-K and 10-Q and with respect to subsection 4.1(h), the references shall be deemed to be with respect to the consolidated financial statements of the Company and its consolidated subsidiaries contained in the Company's most recent annual report filed on Form 10-K and the most recent quarterly report filed on Form 10-Q, as applicable; and

(b) no event has occurred and is continuing, or would result from such payment, which constitutes a Potential Default or Event of Default.

Unless the Company shall have previously advised the Administrative Agent in writing that one or both of the above statements is no longer true, the Company shall be deemed to have represented and warranted on the date of such payment that both of the above statements are true and correct.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

SECTION 4.1 COMPANY'S REPRESENTATIONS.

In order to induce the Banks to enter into this Agreement, the Company represents and warrants as of the Date of Issuance that:

(a) The Company is duly incorporated, validly existing and in good standing under the laws of the State of Minnesota, has all requisite power and authority to own its property and to carry on its business as now conducted, and is in good standing and authorized to do business in each jurisdiction in which the character of the property owned or leased by it therein or the transaction of its business makes such qualification necessary and where failure to so qualify could reasonably (either individually or in the aggregate) result in a Material Adverse Change.

(b) The Company has full corporate power and authority to enter into, execute, deliver and carry out its obligations under this Agreement and the Related Documents to which the Company is a party, and to incur the obligations provided for herein and therein, all of which have been duly authorized by all proper and necessary corporate action and are in full compliance with the Company's articles of incorporation and by-laws. No consent or approval of, or exemption by, or notice to or filing with any Person is required in respect of the Company to authorize the execution, delivery and performance of, or as a condition to the validity or enforceability of, this Agreement, the

Related Documents to which the Company is a party or any other agreement of the Company delivered in connection herewith or therewith, except those which have been obtained and except those which are required under the securities or blue sky laws of any jurisdiction. Without limiting the generality of the foregoing, the MPUC has issued its Authorizing Order authorizing the issuance of securities of the Company and the incurrence by the Company of debt so long as (1) the Company's total capitalization does not exceed $1,690,000,000 (or any higher amount so long as total capitalization does not exceed $1,690,000,000 for more than 60 days without prior MPUC approval) and (2) the Company's equity ratio falls in the range between 49.27 and 66.65 percent (or any higher or lower percentages so long as the equity ratio does not deviate from this range for more than 60 days without prior MPUC approval). Such Authorizing Order is in effect through the earlier of (i) April 30, 2007, or (ii) the date at which a subsequent Authorizing Order is issued. The L/C Obligations incurred hereunder will constitute debt for purposes of such Authorizing Order. As of the date hereof, the Company's total capitalization (including Obligations hereunder in an aggregate amount equal to the aggregate L/C Commitments) does not exceed $1,690,000,000 and Company's equity ratio is within the range of 49.27 to 66.65 percent.

(c) The officers of the Company who have executed this Agreement, who have requested the issuance of the Letter of Credit and who have executed or will execute the Related Documents to which the Company is a party and all other documents, instruments and agreements required to be delivered or contemplated hereunder or thereunder was and are properly in office and was and are duly authorized to execute the same.

(d) This Agreement and the Related Documents to which the Company is a party each constitutes the valid and legally binding obligations of the Company enforceable in accordance with their terms except that the enforceability thereof may be limited by applicable bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and by equitable principles.

(e) Except as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, there are no actions, suits or arbitration proceedings pending or, to the knowledge of the Company, threatened against the Company, at law or in equity, before any Governmental Body which individually or in the aggregate, if adversely determined, would materially and adversely affect the financial condition of the Company or materially impair the ability of the Company to perform its obligations under this Agreement, the Related Documents to which the Company is a party, or any other document, instrument or agreement required to be delivered or contemplated hereunder or thereunder. There are no proceedings pending or, to the knowledge of the Company, threatened against the Company which call into question the validity or enforceability of this Agreement, the Related Documents to which the Company is a party or any agreement of the Company delivered in connection herewith or therewith.

(f) The execution, delivery and performance by the Company of this Agreement and the Related Documents to which the Company is a party (i) do not violate any provision of the articles of incorporation or by-laws of the Company, (ii) do not violate any order, decree or judgment, or any provision of any statute, rule or regulation applicable to or binding on the Company or affecting any of its property, (iii) do not violate or conflict with, result in a breach of or constitute (with notice or lapse of time, or both) a default under any shareholder agreement or stock preference agreement or under any material mortgage, indenture, contract or other agreement to which the Company is a party or by which any of its property is bound and (iv) do not result in the creation or imposition of any lien upon any material property of the Company.

(g) The Company has filed all United States tax returns and all other tax returns, if any, which are required to be filed by the Company, and has paid all taxes due, if any, as shown on said returns, or pursuant to any assessment received by the Company, except such taxes, if any, as are being contested in good faith and by appropriate proceedings.

(h) The consolidated financial statements of the Company and its consolidated subsidiaries as of December 31, 2004 and December 31, 2005 contained in the Company's Annual Report on Form 10-K for the years ended on those dates, copies of which have been furnished to the Banks, present fairly the consolidated financial position of the Company and its Consolidated Subsidiaries as of those dates and the results of their operations for the two years ended December 31, 2005, in conformity with generally accepted accounting principles consistently applied. The consolidated financial statements contained in the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2006, copies of which have been furnished to the Bank, present fairly the consolidated financial position of the Company and its Consolidated Subsidiaries as of the dates thereof and have been prepared in conformity with generally accepted accounting principles applied on the basis consistent with that used in the audited consolidated financial statements for the year ended December 31, 2005 (subject to normal year-end and audit adjustments). The Company has no contingent liabilities which are required by generally accepted accounting principles to be shown on the financial statements of the Company other than as indicated on said financial statements and since December 31, 2005, there has been no Material Adverse Change.

(i) To the best knowledge of the Company, the Company is not in default with respect to any judgment, order, writ, injunction, decree or decision of any Governmental Body which default could reasonably constitute, cause or result in a Material Adverse Change.

(j) The Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U. No part of the proceeds of the Bonds or any Drawing Loan will be used, directly or indirectly, by the Company for a purpose which violates any law, rule, or regulation of any Governmental Body, including, without limitation, the provisions of Regulation U or X of the Board of Governors of the Federal Reserve System, as amended.

(k) No Potential Default or Event of Default has occurred and is continuing or would result from the obligations incurred by the Company hereunder or by the actions contemplated hereby.

(l) The representations and warranties of the Company in the Related Documents to which it is a party are true and correct in every material respect, and the Company has furnished the Administrative Agent a true and correct copy of all the Related Documents as in effect on the date hereof.

(m) In the ordinary course of its business, the Company conducts an ongoing review of the effect of Environmental Laws on the business, operations and properties of the Company and its Subsidiaries, in the course of which it identifies and evaluates liabilities and costs arising under or imposed by Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up or closure of properties presently or previously owned, any capital or operating expenditures required to achieve or maintain compliance with environmental protection standards imposed by Environmental Law, any related constraints on operating activities, including any periodic or permanent shutdown of any facility or reduction in the level of or change in the nature of operations conducted in such place, any costs or liabilities in connection with off-site disposal of wastes or Hazardous Substances, and any actual or potential liabilities to third parties, including employees). On the basis of this review, the Company has no reason to conclude that such liabilities and costs arising under, including the costs of compliance with, Environmental Laws, could reasonably constitute, cause or result in a Material Adverse Change.

(n) No Plan has been terminated nor have any proceedings been instituted to terminate any Plan; the Company has not withdrawn from any Multiemployer Plan in a complete or partial withdrawal nor has a condition occurred which if continued would result in a complete or partial withdrawal; the Company has not incurred any withdrawal liability under Section 4201 or 4204 of ERISA with respect to any Multiemployer Plan; the Company has not incurred any liability to PBGC other than for required insurance premiums which have been paid when due; no Reportable Event with respect to any Plan has occurred; and no Plan has an accumulated funding deficiency under Section 302 of ERISA or Section 412 of the Code. Each employee benefit plan (as defined in Section 3(3) of ERISA) maintained by the Company is in compliance with ERISA, except where the failure so to comply could not reasonably constitute, cause or result in a Material Adverse Change.

ARTICLE V
COVENANTS

The Company covenants and agrees with the Banks that it will do the following so long as any amounts may be drawn under the Letter of Credit, and thereafter, so long as any amounts remain outstanding or Obligations remain unfulfilled under this Agreement, unless the Majority Participating Banks shall otherwise consent in writing:

SECTION 5.1 INFORMATION.

The Company will deliver to each Bank:

(a) as soon as available and in any event within 120 days after the end of each fiscal year of the Company, the annual report of the Company and its Subsidiaries filed with the Commission on Form 10-K for such year, together with a certificate of the treasurer, chief financial officer or controller of the Company showing the Company's compliance with Section 5.9 hereof;

(b) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Company, the quarterly report of the Company and its Subsidiaries filed with the Commission on Form 10-Q for such quarter, together with a certificate of the treasurer, chief financial officer or controller of the Company showing the Company's compliance with Section 5.9 hereof;

(c) within five days after any officer of the Company obtains knowledge of any Potential Default or Event of Default, if such Potential Default or Event of Default is then continuing, a certificate of the treasurer or the controller of the Company setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto;

(d) promptly upon the mailing thereof to the shareholders of the Company, copies of all financial statements, reports and proxy statements so mailed;

(e) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Form 8-K (or its equivalent) which the Company shall have filed with the Commission;

(f) if and when any member of the Controlled Group (i) gives notice to the PBGC of any "REPORTABLE EVENT" with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given notice of any such Reportable Event, a copy of the notice of such Reportable Event given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Section 4201 or 4204 of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated under Section 4241, 4245 or 4041A of ERISA, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or Multiemployer Plan or makes any amendment to any Plan which has resulted or which may reasonably be expected to result in the

imposition of a lien or the posting of a bond or other security under Section 401(a)(29) or 412(n) of the Code, or Section 302(f) or 307 of ERISA, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth details as to such occurrence and action, if any, which the Company or applicable member of the Controlled Group is required or proposes to take;

(g) from time to time such additional information regarding the financial position or business of the Company and its Subsidiaries as the any Bank may reasonably request;

(h) (i) copies of each of the notices, reports and certificates which are required to be given to the Trustee by the Company under any of the Bond Documents and (ii) upon request of any Bank, copies of each of the notices, reports and certificates which are required to be given to the holders of the Bonds by the Trustee under the Indenture to the extent (A) received by the Company and (B) not delivered to the Banks by the Trustee; and

(i) as promptly as possible and in any event within ten Business Days after the Company has knowledge thereof, notice of any downgrade in the S&P Rating or the Moody's Rating.

SECTION 5.2 MAINTENANCE OF PROPERTY; INSURANCE.

(a) The Company will keep, and will cause each of its Subsidiaries to keep, all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted.

(b) The Company will, and will cause each of its Subsidiaries to, maintain (either in the name of the Company or in such Subsidiary's own name) with financially sound and responsible insurance companies, insurance on all their properties in at least such amounts, against at least such risks and with no greater than such risk retention as are customarily maintained, insured against or retained, as the case may be, in the same general area by companies of established repute engaged in the same or a similar business; and will furnish to the Administrative Agent, upon reasonable request from the Administrative Agent, information presented in reasonable detail as to the insurance so carried.

SECTION 5.3 MAINTENANCE OF EXISTENCE.

The Company will preserve, renew and keep in full force and effect, and will cause each Material Subsidiary to preserve, renew and keep in full force and effect their corporate existence and their rights, privileges and franchises necessary or desirable in the normal conduct of business; PROVIDED that neither the Company nor any Material Subsidiary shall be required to preserve any such right, privilege or franchise if the Company's or such Subsidiary's Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company or such Subsidiary; and PROVIDED FURTHER that nothing in this Section 5.3 shall prohibit (i) any transaction expressly permitted under Section 5.8, (ii) the merger of a Subsidiary into the Company or the merger or consolidation of a Subsidiary with or into another

Person if the corporation surviving such consolidation or merger is a Subsidiary and if, in each case, after giving effect thereto, no Event of Default shall have occurred and be continuing, (iii) the transfer of assets, rights, privileges, licenses, franchises or businesses from one Subsidiary to another Subsidiary or (iv) the termination of the corporate existence of any Subsidiary if the Company in good faith determines that such termination is in the best interest of the Company and is not materially disadvantageous to the Issuing Bank or the Participating Banks.

SECTION 5.4 COMPLIANCE WITH LAWS.

The Company will comply, and cause each Subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder) except where the necessity or fact of compliance therewith is contested in good faith by appropriate proceedings.

SECTION 5.5 INSPECTION OF PROPERTY, BOOKS AND RECORDS.

The Company will keep, and will cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each Subsidiary to permit, representatives of the Administrative Agent at the Administrative Agent's expense to visit and inspect any of their properties, to examine and make abstracts from any of their books and records and to discuss their affairs, finances and accounts with their officers, employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

SECTION 5.6 USE OF PROCEEDS.

None of the proceeds of any drawing under the Letter of Credit will be used, directly or indirectly, by the Company for the purpose, whether immediate, incidental or ultimate, of buying or carrying any "margin stock" within the meaning of Regulation U.

SECTION 5.7 NEGATIVE PLEDGE.

The Company will not create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except (a) liens in existence on the date hereof and set forth on SCHEDULE 5.7, (b) Liens created pursuant to the First Mortgage and (c) other liens so long as the amount secured by such other liens does not exceed, in the aggregate, five percent (5%) of Funded Debt.

SECTION 5.8 PROHIBITION OF FUNDAMENTAL CHANGES.

The Company shall not:

(a) enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); or

(b) convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or a substantial portion of its business or property without the prior written consent of the Majority Participating Banks, which consent shall not be unreasonably withheld.

Notwithstanding the foregoing provisions of this Section 5.8, the Company may merge or consolidate with any other Person if the Company is the surviving corporation or the surviving corporation assumes the liabilities of the Company by operation of law or otherwise.

SECTION 5.9 MAXIMUM RATIO OF FUNDED DEBT TO TOTAL CAPITAL.

The Company shall maintain a maximum ratio of Funded Debt to Total Capital of ..65 to 1.0.

SECTION 5.10 BOND DOCUMENTS.

The Company will perform and comply in all material respects with all terms, covenants and conditions of each of the Bond Documents to which it is a party.

SECTION 5.11 OFFICIAL STATEMENT.

The Company will not refer to the Issuing Bank in any representation, official statement or offering memorandum, except for the Official Statement, or make any changes in reference to the Issuing Bank in any revision of the Official Statement or other remarketing materials for the Bonds, except for updated descriptions provided by the Issuing Bank. The Administrative Agent shall use reasonable efforts to provide the Company information necessary to update the description of the Issuing Bank in the Official Statement or such marketing materials.

SECTION 5.12 OPTIONAL REDEMPTIONS.

The Company will not permit an optional redemption or purchase for purposes of cancellation of the Bonds, without the prior written consent of the Majority Participating Banks; PROVIDED, HOWEVER, that if the Company has deposited with the Issuing Bank or the Trustee an amount equal to the principal amount of the Bonds to be redeemed or purchased, the Participating Banks shall consent to such optional redemption or purchase to the extent of such amounts.

SECTION 5.13 CONVERSION.

The Company shall not (i) convert the Bonds to a Fixed Rate without giving the Issuing Bank at least 30 days' prior written notice, or (ii) cause the Bonds to bear interest at the Commercial Paper Rate or Long-Term Rate without a letter of credit securing the Bonds without giving the Issuing Bank at least 30 days' prior written notice.

SECTION 5.14 PARI PASSU.

The Obligations hereunder shall rank PARI PASSU with all of the Company's other senior unsecured indebtedness.

SECTION 5.15 PATRIOT ACT COMPLIANCE

The Company will ensure that no person who owns a controlling interest in or otherwise controls the Company or any Subsidiary is or shall be (i) listed on the Specially Designated Nationals and Blocked Person List maintained by the Office of Foreign Assets Control ("OFAC"), Department of the Treasury, and/or any other similar lists maintained by OFAC pursuant to any authorizing statute, Executive Order or regulation or (ii) a person designated under Section 1(b), (c) or (d) of Executive Order No. 13224 (September 23, 2001), any related enabling legislation or any other similar Executive Orders, (c) without limiting clause (a) above, comply, and cause the Company and each Subsidiary to comply, with all applicable Bank Secrecy Act ("BSA") and anti-money laundering laws and regulations.

ARTICLE VI
EVENTS OF DEFAULT

SECTION 6.1 EVENTS OF DEFAULT.

"EVENT OF DEFAULT", wherever used herein, means any one of the following events:

(a) any material representation or warranty made by the Company in this Agreement or the Bond Documents or in any certificate, agreement, instrument or statement contemplated by or made or delivered pursuant to or in connection herewith or therewith, shall prove to have been false or misleading in any material respect when made;

(b) an Event of Default (as defined in any Related Document)shall have occurred;

(c) default in payment by the Company of (i) any Obligations (other than interest or any Letter of Credit Fee) required to be paid or reimbursed under this Agreement to any Bank when and as the same shall become due and payable as herein provided (or, to the extent that such Obligations are payable on demand, on demand)or (ii) any interest or Letter of Credit Fee within five days after the same is due (or, to the extent that such interest is payable on demand, on demand);

(d) default in any respect in the due observance or performance by the Company of any covenant set forth in Section 5.7, 5.8, 5.9, 5.12 or 5.13;

(e) default in any material respect in the due observance or performance by the Company of any other term, covenant or agreement set forth in this Agreement and such default has not been remedied within 30 days after receiving notice from the Administrative Agent;

(f) any material provision of this Agreement, or any of the Bond Documents shall cease to be valid and binding, or the Company or any governmental authority shall contest the validity or binding effect of any such provision, or the Company, or any agent

or trustee on behalf of the Company, shall deny that the Company has any or further liability under this Agreement or any of the Bond Documents;

(g) (i) the Company makes an assignment for the benefit of creditors, files a petition in bankruptcy, is unable generally to pay its debts as they come due, is adjudicated insolvent or bankrupt or there is entered any order or decree granting relief in any involuntary case commenced against the Company under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or (ii) the Company petitions or applies to any tribunal for any receiver, trustee, liquidator, assignee or custodian or other similar official of the Company, or commences any proceeding in a court of law for a reorganization, arrangement, dissolution, liquidation or other similar procedure under any bankruptcy law or laws for the relief of debtors, whether now or hereafter in effect, or (iii) there is commenced against the Company any such proceeding in a court of law which remains undismissed or shall not be discharged, vacated or stayed, or such jurisdiction shall not be relinquished, within 60 days after commencement, or the Company by any act, indicates its consent to, approval of, or acquiescence in any such proceeding in a court of law, or to an order for relief in an involuntary case commenced against the Company under any such law, or the appointment of any receiver, trustee, liquidator, assignee, custodian or other similar official for the Company, or (iv) the Company suffers any such receivership, trusteeship, liquidation, assignment or custodianship or other similar procedure to continue undischarged for a period of 60 days after commencement or if the Company takes any action for the purposes of effecting the foregoing;

(h) the maturity of any indebtedness of the Company under any agreement or obligation in an aggregate principal amount exceeding $20,000,000 shall be accelerated, or any default shall occur under one or more agreements or instruments under which such indebtedness may be issued or created and such default shall continue for a period of time sufficient to permit the holder or beneficiary of such indebtedness or a trustee therefor to cause the acceleration of the maturity of such indebtedness or any mandatory unscheduled prepayment, purchase or funding thereof;

(i) judgments or orders for the payment of money in excess of $20,000,000 shall be rendered against the Company and such judgments or orders shall continue unsatisfied and unstayed for a period of 30 days;

(j) the Trustee shall fail to have a valid and enforceable pledge and assignment of the Trust Estate; or

(k) the institution by the Company of steps to terminate any Plan if in order to effectuate such termination, the Company would have to make a contribution to such Plan, or would incur a liability or obligation to such Plan in excess of $1,000,000 or the institution by the PBGC of steps to terminate any Plan.

SECTION 6.2 REMEDIES.

Upon the occurrence of any Event of Default, the Administrative Agent may and, at the written request of the Majority Participating Banks, shall, exercise any one or more of the following rights and remedies in addition to any other remedies herein or by law provided:

(a) by notice to the Company, require that the Company immediately pay to the Administrative Agent, in immediately available funds, for deposit in one or more accounts to be maintained by the Administrative Agent (collectively, the "SPECIAL DEPOSIT ACCOUNT"), an amount equal to the Available Amount (such amount to be held by the Administrative Agent in accordance with Section 6.3); PROVIDED, HOWEVER, that in the case of an Event of Default described in Section 6.1(g), the Company shall pay such amount to the Administrative Agent immediately, without any notice;

(b) without limiting the right of the Administrative Agent to demand payment of certain Obligations at any time, declare the principal of and interest on the Obligations owing hereunder immediately due and payable, and such amounts shall thereupon become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company; PROVIDED, HOWEVER, that upon the occurrence of an Event of Default under Section 6.1(g) such acceleration shall automatically occur;

(c) give notice of the occurrence of an Event of Default to the Trustee and instruct the Trustee to accelerate the Bonds;

(d) pursue any rights and remedies it may have under the Related Documents; or

(e) pursue any other remedy available at law or in equity.

SECTION 6.3 PLEDGE OF SPECIAL DEPOSIT ACCOUNT.

The Company hereby pledges, and grants the Administrative Agent, as agent for the Issuing Bank and the Participating Banks, a security interest in, all sums held in the Special Deposit Account from time to time and all proceeds thereof as security for the payment of the Obligations. The Administrative Agent may, at any time and from time to time, apply funds then held in the Special Deposit Account to the payment of such Obligations (in such order as the Administrative Agent may elect) as shall have become or shall become due and payable by the Company to the Banks under this Agreement. Following expiration of the Letter of Credit in accordance with its terms, and the payment of all amounts payable by the Company to the Banks under this Agreement, any funds remaining in the Special Deposit Account shall be returned by the Administrative Agent to the Company or paid to whomever may be legally entitled thereto. The Administrative Agent shall have full ownership and control of the Special Deposit Account, and, except as set forth in the preceding sentence, the Company shall have no right to withdraw the funds maintained in the Special Deposit Account.

ARTICLE VII
MISCELLANEOUS

SECTION 7.1 TAXES.

(a) For the purposes of this Section 7.1, the following terms have the following meanings:

"TAXES" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by the Company pursuant to this Agreement and all penalties and interest with respect thereto, excluding (i) taxes imposed on its income, and franchise or similar taxes imposed on it, by a jurisdiction under the laws of which any Bank is organized or in which its principal executive office is located, in which its applicable lending office is located or in which it would be subject to tax due to some connection other than that created by this Agreement and (ii) any United States withholding tax imposed on such payments but only to the extent that such Bank is subject to United States withholding tax on the Date of Issuance.

"OTHER TAXES" means any present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies and all penalties and interest with respect thereto, which arise from the making of any payment pursuant to this Agreement or from the execution or delivery of this Agreement or the Letter of Credit.

(b) Any and all payments by the Company to or for the account of any Bank hereunder shall be made without deduction for any Taxes or Other Taxes; PROVIDED that, if the Company shall be required by law to deduct any Taxes or Other Taxes from any such payments, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the applicable Bank receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Company shall make such deductions, (iii) the Company shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Company shall furnish to the Banks, the original or a certified copy of a receipt evidencing payment thereof.

(c) The Company agrees to indemnify each Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes on amounts payable under this Section) paid by such Bank. This indemnification shall be paid within 15 days after any Bank makes appropriate demand therefor.

(d) On or prior to the date of its execution and delivery of this Agreement, and from time to time thereafter if requested in writing by the Company (but only so long as each Bank remains lawfully able to do so), each Bank shall provide the Company with Internal Revenue Service form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Bank is entitled to

benefits under an income tax treaty to which the United States is a party which exempts such Bank from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Bank or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States.

(e) For any period with respect to which any Bank has failed to provide the Company with the appropriate form pursuant to Section 7.1(d) (unless such failure is due to a change in treaty, law or regulation occurring subsequent to the date on which such form originally was required to be provided), such Bank shall not be entitled to indemnification under Section 7.1(b) or (c) with respect to Taxes imposed by the United States; PROVIDED that, if such Bank, which is otherwise exempt from or subject to a reduced rate of withholding tax, becomes subject to Taxes because of its failure to deliver a form required hereunder, the Company shall take such steps (at the expense of such Bank) as such Bank shall reasonably request to assist such Bank to recover such Taxes.

(f) If the Company is required to pay additional amounts to or for the account of any Bank pursuant to this Section, then such Bank will change the jurisdiction of its applicable lending office if, in the judgment of such Bank, such change (i) will eliminate or reduce any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous to such Bank in its sole judgment.

SECTION 7.2 INCREASED COSTS.

(a) If after the Date of Issuance any change in any applicable law, treaty, regulation, guideline or directive (including, without limitation, regulations and guidelines with respect to capital adequacy and Regulation D promulgated by the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect) or any new law, treaty, regulation, guideline or directive, or any interpretation of any of the foregoing by any authority charged with the administration or interpretation thereof or any central bank of other fiscal, monetary or other authority having jurisdiction over any Bank or the transactions contemplated by this Agreement (whether or not having the force of law) (all of the foregoing being referred to as a "REGULATORY CHANGE") shall:

(i) subject such Bank to any tax, deduction or withholding with respect to the Bonds, the Letter of Credit or this Agreement, or any amount paid or to be paid by such Bank as the issuer of the Letter of Credit (other than any tax measured by or based upon the overall net income of such Bank imposed by any jurisdiction having control over such Bank);

(ii) impose, modify, require, make or deem applicable to any Bank, any reserve requirement (other than reserves against "EUROCURRENCY LIABILITIES" under paragraph (b) below), capital requirement, special deposit requirement, insurance assessment or similar requirement against any assets held by, deposits with or for the account of, or loans, letters of credit or commitments by, an office of such Bank;

(iii) change the basis of taxation of payments due any Bank under this Agreement or the Bonds (other than by a change in taxation of the overall net income of such Bank);

(iv) cause or deem letters of credit to be assets held by such Bank and/or as deposits on its books; or

(v) impose upon such Bank any other condition with respect to such amount paid or payable to or by such Bank or with respect to this Agreement, the Letter of Credit or the Bonds;

and the result of any of the foregoing is to increase the cost to any Bank of making any payment or maintaining the Letter of Credit, or to reduce the amount of any payment (whether of principal, interest or otherwise) receivable by such Bank, or to reduce the rate of return on the capital of such Bank (taking into consideration such Bank's policies with respect to capital adequacy) or to require such Bank to make any payment on or calculated by reference to the gross amount of any sum received by it, or to increase the cost to such Bank of making or maintaining any Drawing Loan at LIBOR, or to reduce the amount of any sum received or receivable by such Bank under this Agreement with respect thereto, in each case by an amount which such Bank in its reasonable judgment deems material, then:

(A) such Bank shall promptly notify the Company in writing of the happening of such event and will designate a different lending office if such designation will avoid the need for, or reduce the amount of such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank;

(B) such Bank shall promptly deliver to the Company a certificate stating the change which has occurred or the reserve requirements or other costs or conditions which have been imposed on such Bank or the request, direction or requirement with which it has complied, together with the date thereof, the amount of such increased cost, reduction or payment and a reasonably detailed description of the way in which such amount has been calculated, and such Bank's determination of such amounts, absent fraud or manifest error, shall be conclusive (in determining such amount, such Bank may use any reasonable averaging and attribution methods); and

(C) the Company shall pay to each Bank, from time to time as specified by such Bank, such amount as will compensate such Banks, for such additional cost, reduction or payment.

The protection of this paragraph shall be available to each Bank regardless of any possible contention of invalidity or inapplicability of the law, regulation or condition which has been imposed; PROVIDED, HOWEVER, that if it shall later be determined by such

Bank that any amount so paid by the Company pursuant to this Section 7.2 is in excess of the amount payable under the provisions hereof, such Bank shall refund such excess amount to the Company.

(b) Without limiting the effect of the foregoing, the Company shall pay to the Issuing Bank and each Participating Bank on the last day of each Interest Period so long as such Bank is maintaining reserves against "EUROCURRENCY LIABILITIES" under Regulation D (or so long as such Bank is, by reason of any Regulatory Change, maintaining reserves against any other category of liabilities that includes deposits by reference to which the interest rate on Drawing Loans bearing interest at LIBOR is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Bank that includes any Drawing Loans bearing interest at LIBOR) an additional amount (determined by such Bank and notified to the Company) equal to the product of the following for each such Drawing Loan for each day during such Interest Period:

(i) the principal amount of such Drawing Loan outstanding on such day;

(ii) the remainder of (x) a fraction the numerator of which is the rate (expressed as a decimal) at which interest accrues on such Drawing Loan for such Interest Period as provided in this Agreement and the denominator of which is one minus the effective rate (expressed as a decimal) at which such reserve requirements are imposed on such Bank on such day minus (y) such numerator; and

(iii) 1/360.

SECTION 7.3 RIGHT OF SETOFF; OTHER COLLATERAL.

(a) In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence of any Event of Default, each Bank is hereby authorized by the Company at any time or from time to time, without notice to the Company or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, including, but not limited to, indebtedness evidenced by certificates of deposit, whether matured or unmatured, and in whatever currency denominated) and any other indebtedness at any time held or owing by such Bank or that subsequent holder to or for the credit or the account of the Company, whether or not matured, against and on account of the obligations and liabilities of the Company to such Bank or that subsequent holder hereunder, including, but not limited to, all claims of any nature or description arising out of or connected with this Agreement and the Related Documents, irrespective of whether or not (a) the Administrative Agent shall have made any demand hereunder or (b) the principal or the interest on the Drawing Loans and other amounts due hereunder shall have become due and payable and although said obligations and liabilities, or any of them, may be contingent or unmatured.

(b) Each of the Issuing Bank and each Participating Bank agrees with each other party hereto that if such Bank shall receive and retain any payment, whether by set-off or application of deposit balances or otherwise, hereunder in excess of its ratable share of payments on all such obligations then outstanding to the Banks, then such Bank shall purchase for cash at face value, but without recourse, ratably from each of the other Banks such amount of the Obligations, or participations therein, held by each such other Banks (or interest therein) as shall be necessary to cause such Bank to share such excess payment ratably with all the other Banks; PROVIDED, HOWEVER, that if any such purchase is made by any Bank, and if such excess payment or part thereof is thereafter recovered from such purchasing Bank, the related purchases from the other Banks shall be rescinded ratably and the purchase price restored as to the portion of such excess payment so recovered, but without interest.

(c) The rights of any Bank under this Section 7.3 are in addition to, in augmentation of, and, except as specifically provided in this Section 7.3, do not derogate from or impair other rights and remedies (including, without limitation, other rights of setoff) which such Bank may have.

SECTION 7.4 INDEMNITY; COSTS AND EXPENSES.

(a) The Company hereby agrees to indemnify each Bank, its affiliates and the respective directors, officers, agents and employees of the foregoing (each an "INDEMNITEE") and hold each Indemnitee harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened relating to this Agreement, the Letter of Credit, the Drawing Loans, any drawing under the Letter of Credit or any actual or proposed use of proceeds of the drawings under the Letter of Credit; except, only if, and to the extent that any such claim, damage, loss, liability, cost or expense shall be caused by the willful misconduct or gross negligence of such Indemnitee in performing or failing to perform its obligations under this Agreement or in making payment against a drawing presented under the Letter of Credit which does not comply with the terms thereof (it being understood and agreed by the parties hereto that in making such payment the Issuing Bank's exclusive reliance on the documents presented to the Issuing Bank in accordance with the terms of the Letter of Credit as to any and all matters set forth therein, whether or not any statement or any document presented pursuant to the Letter of Credit proves to be forged, fraudulent, invalid or insufficient in any respect or any statement therein proves to be untrue or inaccurate in any respect whatsoever shall not be deemed willful misconduct or gross negligence of the Issuing Bank).

(b) The Company shall pay (i) all reasonable costs and out-of-pocket expenses of the Issuing Bank and the Administrative Agent, including, without limitation, costs in connection with the negotiation, documentation and execution of this Agreement and any and all documents, agreements and instruments related thereto, reasonable fees and disbursements of special counsel for the Issuing Bank and the Administrative Agent, in

connection with any waiver or consent hereunder or any amendment hereof or any Potential Default or Event of Default hereunder and (ii) if an Event of Default occurs, all reasonable out-of-pocket expenses incurred by the Issuing Bank and the Administrative Agent, including (without duplication) the reasonable fees and disbursements of outside counsel and the allocated cost of inside counsel, in connection with such Event of Default and investigation, collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(c) The Company hereby agrees to indemnify, defend and hold each Indemnitee harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnitee including reasonable expenses of investigating a claim, arising out of or in any way connected with, or as a result of the following:

(i) the issuance, offering and sale of the Bonds;

(ii) any acquisition or attempted acquisition of stock or assets of another Person or entity by the Company, or the use of any of the proceeds of any transaction contemplated hereunder by the Company for the making or furtherance of any such acquisition or attempted acquisition;

(iii) any breach or alleged breach by the Company of, or any liability or alleged liability of the Company under, any Environmental Laws, or any liability or alleged liability incurred by any Indemnitee under any Environmental Laws in connection with this Agreement, any Related Documents or the transactions contemplated hereunder or thereunder;

(iv) the negotiation, preparation, execution, delivery, administration, and enforcement of this Agreement, the Related Documents and any other document required hereunder or thereunder, including, without limitation, any amendment, supplement, modification or waiver of or to any of the foregoing or the consummation or failure to consummate the transactions contemplated hereby or thereby, or the performance by the parties of their obligations hereunder or thereunder, and the transfer of or payment or failure to pay under this Agreement or any of the Related Documents; or

(v) any claim, litigation, investigation or proceedings related to any of the foregoing, whether or not the Indemnitee is a party thereto;

PROVIDED, HOWEVER, that such indemnity shall not apply to any such losses, claims, damages, liabilities or related expenses arising from (A) any unexcused breach by the Administrative Agent of its obligations under this Agreement or (B) any commitment made by the Administrative Agent to a person other than the Company which would be breached by the performance of the obligations under this Agreement. Nothing in this subsection is intended to limit the payment and reimbursement obligations of the Company contained in this Agreement.

(d) The Company agrees to indemnify the Indemnitees and each person, if any, who controls the Administrative Agent within the meaning of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, against all losses, claims, damages, liabilities and expenses (including, without limitation, reasonable attorneys' fees and expenses, including the fees and expenses of in-house counsel, and including reasonable expenses of investigating a claim) incurred by an indemnified party arising out of in any way connected with, or as a result of:

(i) the assertion that any materials used in connection with the offering and sale of the Bonds (except for the materials provided by the Administrative Agent for such use) contain an alleged untrue statement of a material fact or an alleged omission to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; or

(ii) the failure to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Financing Agreement or the Indenture under the Trust Indenture Act of 1939, as amended.

(e) The foregoing agreements and indemnities shall remain operative and in full force and effect regardless of termination of this Agreement, the consummation of or failure to consummate either the transactions contemplated by this Agreement or any amendment, supplement, modification or waiver, the drawing of any draft and reimbursement of the Issuing Bank therefor, the invalidity or unenforceability of any term or provision of this Agreement, any Related Documents, or any other document required hereunder or thereunder, any investigation made by or on behalf of the Administrative Agent, or the Company or the content or accuracy of any representation or warranty made under this Agreement, any Related Documents or any other document required hereunder or thereunder.

SECTION 7.5 NON-CONTROLLED PERSONS,

The Issuing Bank does not control, either directly or indirectly through one or more intermediaries, the Company. Nor does the Company control, either directly or indirectly through one or more intermediaries, the Issuing Bank. The Issuing Bank and the Company shall provide written notice to the Trustee, Remarketing Agent and the Owners at least 30 days prior to the consummation of any transaction that would result in the Company controlling or being controlled by the Issuing Bank.

SECTION 7.6 OBLIGATIONS ABSOLUTE.

The obligations of the Company under this Agreement including, without limitation, all fees to be paid hereunder, shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances whatsoever.

SECTION 7.7 LIABILITY OF THE ISSUING BANK.

The Company assumes all risks of the acts or omissions of the Trustee, the Remarketing Agent, any Paying Agent or any agent of the Trustee, the Remarketing Agent or any Paying Agent and any transferee of the Letter of Credit with respect to their use of the Letter of Credit. Neither the Issuing Bank nor any of its officers or directors shall be liable or responsible for (a) the use of the Letter of Credit or for any acts or omissions of the Trustee and any transferee in connection therewith, (b) the validity or genuineness of documents, or of any endorsement thereon, even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged, (c) payment by the Issuing Bank against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit, or (d) any other circumstances whatsoever in making or failing to make payment under the Letter of Credit; PROVIDED, HOWEVER, that the Company shall have a claim against the Issuing Bank, and the Issuing Bank shall be liable to the Company, to the extent of any direct, as opposed to consequential, damages suffered by the Company which the Company proves were caused by (i) the Issuing Bank's willful misconduct or gross negligence in determining whether documents presented under the Letter of Credit comply with the terms of the Letter of Credit or (ii) the Issuing Bank's wrongful failure to make lawful payment under the Letter of Credit after the presentation to the Issuing Bank by the Trustee or a successor trustee under the Indenture of a draft and certificate strictly complying with the terms and conditions of the Letter of Credit (it being understood that in making such payment the Issuing Bank's exclusive reliance on the documents presented to the Issuing Bank in accordance with the terms of the Letter of Credit as to any and all matters set forth therein, whether or not any statement or any document presented pursuant to the Letter of Credit proves to forged, fraudulent, invalid or insufficient in any respect or any statement whatsoever, shall not be deemed willful misconduct or gross negligence of the Issuing Bank). The Issuing Bank is hereby expressly authorized and directed to honor any demand for payment which is made under the Letter of Credit without regard to, and without any duty on its part to inquire into the existence of, any disputes or controversies between the Issuer, the Company, the Remarketing Agent, the Trustee, any Paying Agent, or any other person or the respective rights, duties or liabilities of any of them, or whether any facts or occurrences represented in any of the documents presented under the Letter of Credit are true and correct.

SECTION 7.8 PARTICIPANTS, ETC.

(a) Each Participating Bank shall have the right at any time, with the written consent of the Company (which consent shall not be unreasonably withheld) and the Issuing Bank (which consent shall be granted in the sole discretion of the Issuing Bank), to assign all or any part of its L/C Commitment (including the corresponding portion of its Commitment Percentage) to one or more other Persons; PROVIDED that such assignment is in an amount of at least $5,000,000 or the entire L/C Commitment of such Participating Bank, and if such assignment is not for such Participating Bank's entire L/C Commitment then such Participating Bank's L/C Commitment after giving effect to such assignment shall not be less than $5,000,000. Each such assignment shall set forth the assignees address for notices to be given hereunder. Upon any such assignment, delivery to the Administrative Agent of an executed copy of such assignment agreement and the forms referred to in Section 7.1 hereof, if applicable, and the payment of a $3,500 recordation

fee to the Administrative Agent, the assignee shall become a Participating Bank hereunder, and the Participating Bank granting such assignment shall have its L/C Commitment (including the corresponding portion of its Commitment Percentage), and its obligations and rights in connection therewith, reduced by the amount of such assignment.

(b) Each Participating Bank shall have the right at its own cost to grant participations (to be evidenced by one or more agreements or certificates of participation) in the L/C Commitments, and its corresponding participation obligation in the Letter of Credit, held by such Participating Bank at any time; PROVIDED that (i) no such participation shall relieve any Participating Bank of any of its obligations under this Agreement, (ii) no such participant shall have any rights under this Agreement except as provided in this Section 7.8(b), and (iii) neither the Issuing Bank nor the Administrative Agent shall have any obligation or responsibility to such participant. Any party to which such a participation has been granted shall have the benefits of Sections 7.1, 7.2, 7.3, 7.4 and 7.15, but shall not be entitled to receive any greater payment under such Sections than the Participating Bank granting such participation would have been entitled to receive in connection with the rights transferred. Any agreement pursuant to which any Participating Bank may grant such a participating interest shall provide that such Participating Bank shall retain the sole right and responsibility to enforce the obligations of the Company hereunder, including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; PROVIDED that such participation agreement may provide that such Participating Bank will not agree to any modification, amendment or waiver of this Agreement that would (A) increase or extend any L/C Commitment of such Participating Bank if such increase or extension would also increase or extend the participant's obligations, (B) forgive any amount of or postpone the date for payment of any principal of or interest on any Obligation payable hereunder in which such participant has an interest or (C) reduce the stated rate at which interest or fees in which such participant has an interest accrue hereunder.

SECTION 7.9 SURVIVAL OF THIS AGREEMENT.

All covenants, agreements, representations and warranties made in this Agreement shall survive the issuance by the Issuing Bank of the Letter of Credit and shall continue in full force and effect so long as the Letter of Credit shall be unexpired or any sums drawn or due hereunder shall be outstanding and unpaid, regardless of any investigation made by any person. Wherever in this Agreement the Issuing Bank is referred to, such reference shall be deemed to include the successors and assigns of the Issuing Bank and all covenants, promises and agreements by or on behalf of the Company which are contained in this Agreement shall inure to the benefit of the successors and assigns of the Issuing Bank. The rights and duties of the Company, however, may not he assigned or transferred, except as specifically provided in this Agreement or with the prior written consent of the Administrative Agent, and all obligations of the Company hereunder shall continue in full force and effect notwithstanding any assignment by the Company of any of its rights or obligations under any of the Bond Documents or any entering into, or consent by the Company, to any supplement or amendment to any of the Bond Documents.

SECTION 7.10 AMENDMENTS AND WAIVERS.

Neither this Agreement nor any other Financing Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. The Majority Participating Banks may, or, with, but only with, the written consent of the Majority Participating Banks, the Administrative Agent or the Issuing Bank, as applicable, may, from time to time, (a) enter into with the Company written amendments, supplements or modifications hereto and to the other Financing Documents for the purpose of adding any provisions to this Agreement or the other Financing Documents or changing in any manner the rights of the Participating Banks or of the Company hereunder or thereunder or (b) waive, on such terms and conditions as the Majority Participating Banks or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of an Event of Default and its consequences; PROVIDED, HOWEVER, that no such waiver and no such amendment, supplement or modification shall, without the consent of each Participating Bank, (i) reduce the amount or extend the scheduled date of maturity of any Obligation or any installment thereof, or reduce the stated rate of any interest or fee payable hereunder or extend the scheduled date of any payment thereof or increase the amount or extend the Stated Expiration Date, in each case without the consent of each Participating Bank affected thereby, or (ii) amend, modify or waive any provision of this subsection or reduce the percentage specified in the definition of Majority Participating Banks, or consent to the assignment or transfer by the Company of any of its rights and obligations under this Agreement and the other Financing Documents, in each case without the written consent of all the Participating Banks, or (iii) amend, modify or waive any provision of Article VIII or any provision hereunder affecting the rights or obligations of the Issuing Bank without the written consent of the Administrative Agent or the Issuing Bank, respectively. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Participating Banks and shall be binding upon the Company, the Participating Banks, the Issuing Bank and the Administrative Agent. In the case of any waiver, the Company, the Participating Banks, the Issuing Bank and the Administrative Agent shall be restored to their former positions and rights hereunder and under the other Financing Documents, and any Potential Default or Event of Default waived shall be deemed to be cured and not continuing; no such waiver shall extend to any subsequent or other Potential Default or Event of Default or impair any right consequent thereon.

SECTION 7.11 WAIVER OF RIGHTS BY THE BANKS.

No course of dealing or failure or delay on the part of any Bank in exercising any right, power or privilege hereunder or under the Letter of Credit shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise, or the exercise of any other right or privilege. The rights of the Banks under this Agreement and the Letter of Credit are cumulative and not exclusive of any rights or remedies which the Banks would otherwise have.

SECTION 7.12 SEVERABILITY.

In case any one or more of the provisions contained in this Agreement shall be held or deemed to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The

parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7.13 GOVERNING LAW; SUBMISSION TO JURISDICTION.

This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. The Company hereby submits to the nonexclusive jurisdiction of the United States District Court for the District of Minnesota and of any State court sitting in Hennepin County, Minnesota for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Company irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

SECTION 7.14 NOTICES.

(a) Except as otherwise specified herein, all notices hereunder shall be given by United States certified or registered mail, by telegram or by other telecommunication device capable of creating written record of such notice and its receipt. Notices hereunder shall be effective when received and shall be addressed:

If to the Issuing Bank and/or the Administrative Agent, to

Wells Fargo Bank, National Association
MAC N9305-031
6th and Marquette Avenue
Minneapolis, MN 55479
Attention: Patrick McCue
Telephone: 612-667-0700
Facsimile: 612-667-2276

and to:

Faegre & Benson LLP
2200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402
Attention: James M. Pfau
Telephone: 612-766-7000
Facsimile: 612-766-1600

If to the Company, to

ALLETE, Inc.
30 West Superior Street
Duluth, Minnesota 55802
Attention: Treasurer
Telephone: 218-723-3942
Facsimile: 218-723-3912

If to the Remarketing Agent, to

Wells Fargo Brokerage Services, LLC
MAC N9303 105
608 Second Avenue South
Minneapolis, Minnesota 55402
Attention: Remarketing Desk
Telephone: 612-667-9435
Facsimile: 612-667-1593

If to the Trustee, to

U.S. Bank National Association
60 Livingston Avenue
St. Paul, Minnesota 55107
Attention: Corporate Trust Department
Telephone: 651-495-3915
Facsimile: 651-495-8097

Any party may change its address for purposes hereof by notice to the other parties.

(b) The Issuing Bank agrees to give immediate notice, promptly confirmed in writing, to the Remarketing Agent of any notice of an Event of Default given to the Trustee by the Issuing Bank.

SECTION 7.15 SURVIVAL OF CERTAIN OBLIGATIONS.

The obligation of the Company to reimburse the Banks pursuant to Sections 7.1, 7.2 and 7.4 shall survive the payment of the Bonds and the termination of this Agreement.

SECTION 7.16 TAXES AND EXPENSES.

Any transfer, stamp, documentary or other similar taxes payable or ruled payable by any Governmental Body in respect of this Agreement, the Letter of Credit or the Bonds shall be paid by the Company, together with interest and penalties, if any; PROVIDED, HOWEVER, that the Company may reasonably contest any such taxes with the prior written consent of the Administrative Agent, which consent shall not be unreasonably withheld.

SECTION 7.17 PLEADINGS.

The table of contents and captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

SECTION 7.18 COUNTERPARTS.

This Agreement may be executed in two or more counterparts, each of which shall constitute an original but both or all of which, when taken together, shall constitute one instrument, and shall become effective when copies hereof bearing the signatures of each of the parties hereto shall be delivered to the Company and the Administrative Agent.

SECTION 7.19 WAIVER OF JURY TRIAL.

Each of the Company and each Bank hereby irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

SECTION 7.20 REGISTER.

The Administrative Agent, on behalf of the Company, shall maintain at the address of the Administrative Agent referred to in subsection 7.14 a register (the "REGISTER") for the recordation of the names and addresses of the Participating Banks and the Commitment Percentages of, and principal amount of the Obligations owing to, each Participating Bank from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Company, the Administrative Agent and the Participating Banks may treat each Person whose name is recorded in the Register as the owner of an Obligation hereunder and the other Financing Documents, notwithstanding any notice to the contrary. The Register shall be available for inspection by the Company or any Participating Bank at any reasonable time and from time to time upon reasonable prior notice.

SECTION 7.21 ADJUSTMENTS; SET-OFF.

If any Participating Bank (a "BENEFITED PARTICIPATING BANK") shall at any time receive any payment of all or part of the Obligations owing to it, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set off, or otherwise), in a greater proportion than any such payment to or collateral received by any other Participating Bank, if any, in respect of such other Participating Bank's Obligations owing to it, or interest thereon, such benefited Participating Bank shall purchase for cash from the other Participating Banks a participating interest in such portion of each such other Participating Bank's Commitment Percentage or the Obligations owing to it, or shall provide such other Participating Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefited Participating Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Participating Banks; PROVIDED, HOWEVER, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefited Participating Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest.

SECTION 7.22 PATRIOT ACT NOTICE

As required by the USA Patriot Act (Title III of Pub. L. 107-56, signed into law October 26, 2001) (the "Act"), the Banks hereby notify the Company that pursuant to the requirements of the Act, and the Banks' policies and practices, the Banks are required to obtain, verify and record certain information and documentation that identifies the Company, which information includes the name and address of the Company and such other information that will allow the Banks to identify the Company in accordance with the Act.

ARTICLE VIII
THE ADMINISTRATIVE AGENT

SECTION 8.1 APPOINTMENT AND AUTHORIZATION OF ADMINISTRATIVE AGENT.

Each Participating Bank hereby appoints Wells Fargo Bank, National Association, as the Administrative Agent under this Agreement and hereby authorizes the Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto. The relationship between the Administrative Agent and the Participating Bank is and shall be that of agent and principal only, and nothing contained in this Agreement or the Letter of Credit shall be construed to constitute the Administrative Agent as a trustee or fiduciary for any Participating Bank or the Company.

SECTION 8.2 ADMINISTRATIVE AGENT AND ITS AFFILIATES.

The Administrative Agent shall have the same rights and powers under this Agreement as any other Participating Bank and may exercise or refrain from exercising the same as though it were not the Administrative Agent, and the Administrative Agent and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Company or any affiliate of the Company as if it were not the Administrative Agent hereunder. The term "PARTICIPATING BANK" as used herein, unless the context otherwise clearly requires, includes the Administrative Agent in its individual capacity as a Participating Bank.

SECTION 8.3 ACTION BY ADMINISTRATIVE AGENT.

If the Administrative Agent delivers to the Company a written notice of an Event of Default hereunder, the Administrative Agent shall promptly give each of the Participating Banks written notice thereof. The obligations of the Administrative Agent hereunder are only those expressly set forth herein. Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action hereunder with respect to any Potential Default or Event of Default. In no event, however, shall the Administrative Agent be required to take any action in violation of applicable law or of this Agreement, and the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder or under the Letter of Credit unless it shall be first indemnified to its reasonable satisfaction by the Participating Banks against any and all costs, expense, and liability which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall be entitled to assume that no Potential Default or Event of Default exists unless notified to the contrary by a Participating Bank or the Company. In all cases in which this Agreement and the Letter of Credit do not require the Administrative Agent to take certain actions, the Administrative Agent shall be fully justified in using its discretion in failing to take or in taking any action hereunder and thereunder.

SECTION 8.4 CONSULTATION WITH EXPERTS.

The Administrative Agent may consult with legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

SECTION 8.5 LIABILITY OF ADMINISTRATIVE AGENT; CREDIT DECISION.

Neither the Administrative Agent nor any of its directors, officers, agents, or employees shall be liable for any action taken or not taken by it in connection transactions contemplated by this Agreement (i) with the consent or at the request of the Majority Participating Banks or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement or the Letter of Credit; (ii) the performance or observance of any of the covenants or agreements of the Company or any other party contained herein or in the Letter of Credit; (iii) the satisfaction of any condition specified in Section 3.1 or 3.2 hereof, except receipt of items required to be delivered to the Administrative Agent; or (iv) the validity, effectiveness, genuineness, enforceability, perfection, value, worth or collectibility hereof or of any other documents or writing furnished in connection herewith; and the Administrative Agent makes no representation of any kind or character with respect to any such matter mentioned in this sentence. The Administrative Agent may execute any of its duties under this Agreement or the Letter of Credit by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Participating Banks, the Company, or any other Person for the default or misconduct of any such agents or attorneys-in-fact selected with reasonable care. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, other document or statement (whether written or oral) believed by it to he genuine or to be sent by the proper party or parties. Each Participating Bank acknowledges that it has independently and without reliance on the Administrative Agent or any other Participating Bank, and based upon such information, investigations and inquiries as it deems appropriate, made its own credit analysis and decision to extend credit to the Company in the manner set forth herein. It shall be the responsibility of each Participating Bank to keep itself informed as to the creditworthiness of the Company and any other relevant Person, and the Administrative Agent shall have no liability to any Participating Bank with respect thereto.

SECTION 8.6 INDEMNITY.

The Participating Banks shall ratably, in accordance with their respective Commitment Percentage, indemnify and hold the Administrative Agent, and its directors, officers, employees, agents and representatives harmless from and against any liabilities, losses, costs or expenses suffered or incurred by it hereunder or in connection with the transactions contemplated hereby, regardless of when asserted or arising, except to the extent they are promptly reimbursed for the same by the Company and except to the extent that any event giving rise to a claim was caused by the gross negligence or willful misconduct of the party seeking to be indemnified. The obligations of the Participating Banks under this Section 8.6 shall survive termination of this Agreement.

SECTION 8.7 RESIGNATION OF ADMINISTRATIVE AGENT AND SUCCESSOR ADMINISTRATIVE AGENT.

The Administrative Agent may resign at any time by giving written notice thereof to the Participating Banks and the Company. Upon any such resignation of the Administrative Agent, the Majority Participating Banks shall have the right to appoint a successor Administrative Agent with the consent of the Company. If no successor Administrative Agent shall have been so

appointed by the Majority Participating Banks, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent's giving of notice of resignation, then the retiring Administrative Agent may, on behalf of the Participating Banks, appoint a successor Administrative Agent, which shall be any Participating Bank hereunder or any commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $200,000,000. Upon the acceptance of its appointment as the Administrative Agent hereunder, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring or removed Administrative Agent hereunder, and the retiring Administrative Agent shall be discharged from its duties and obligations thereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 8.7 and all protective provisions hereof shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

SIGNATURE PAGES FOLLOW.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above-written.

ALLETE, INC.

By /s/ Mark A. Schober

Its Senior Vice President and
Chief Financial Officer

By /s/ Donald W. Stellmaker

Its Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT, AS ISSUING
BANK AND AS A PARTICIPATING BANK

By /s/ Patrick McCue

Patrick McCue
Its Vice President

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
CHICAGO BRANCH, AS A PARTICIPATING
BANK

By /s/ Mathew A. Ross

Its Vice President & Manager

SIGNATURE PAGE FOR LETTER OF CREDIT AGREEMENT

EXHIBIT A

IRREVOCABLE LETTER OF CREDIT

July 5, 2006
Letter of Credit No. NZS569069

U.S. Bank National Association
60 Livingston Avenue
St. Paul, Minnesota 55107
Attention: Corporate Trust Department

Ladies and Gentlemen:

At the request and for the account of ALLETE, Inc., we hereby establish in your favor as Trustee under the Indenture (as defined below), our irrevocable letter of credit in the amount of U.S. $28,211,287.67 (Twenty Eight Million Two Hundred Eleven Thousand Two Hundred Eighty Seven and 67/100 Dollars) in connection with the Bonds (as defined below) available with ourselves by sight payment against presentation of one or more signed and dated demands addressed by you to Wells Fargo Bank, N.A., Letter of Credit Operations Office, San Francisco, California, each in the form of Annex A (an "A Drawing"), Annex B (a "B Drawing"), Annex C (a "C Drawing"), Annex D (a "D Drawing"), Annex E (an "E Drawing"), or Annex F (an "F Drawing") hereto, with all instructions in brackets therein being complied with. Each such demand must be presented to us in its original form or by facsimile transmission of such original form.

Each such presentation must be made at or before 5:00 p.m. San Francisco time on a Business Day (as hereinafter defined) to our Letter of Credit Operations Office in San Francisco, California (presently located at One Front Street, 21st Floor, San Francisco, California 94111)

This Letter of Credit expires at our Letter of Credit Operations Office in San Francisco, California on July 5, 2011 or, if such date is not a Business Day, then on the first (1st) succeeding Business Day thereafter (the "Expiration Date").

As used herein the term "Business Day" shall mean a day on which our San Francisco Letter of Credit Operations Office is open for business.

The amount of any demand presented hereunder will be the amount inserted in numbered Paragraph 4 of said demand. By honoring any such demand we make no representation as to the correctness of the amount demanded.

We hereby agree with you that each demand presented hereunder in full compliance with the terms hereof will be duly honored by our payment to you of the amount of such demand, in immediately available funds of Wells Fargo Bank, National Association:

(i) not later than 10:00 a.m., San Francisco time, on the Business Day following the Business Day on which such demand is presented to us as aforesaid if such presentation is made to us at or before noon, San Francisco time.

OR

(ii) not later than 10:00 a.m., San Francisco time, on the second Business Day following the Business Day on which such demand is presented to us as aforesaid, if such presentation is made to us after noon, San Francisco time.

Notwithstanding the foregoing, any demand presented hereunder, in full compliance with the terms hereof, for a C Drawing or D Drawing will be duly honored (i) not later than 12:00 noon, San Francisco time, on the Business Day on which such demand is presented to us as aforesaid if such presentation is made to us at or before 9:00 a.m., San Francisco time, and (ii) not later than 12:00 noon, San Francisco time, on the Business Day following the Business Day on which such demand is presented to us as aforesaid if such presentation is made to us after 9:00 a.m., San Francisco time.

If the remittance instructions included with any demand presented under this Letter of Credit require that payment is to be made by transfer to an account with us or with another bank, we and/or such other bank may rely solely on the account number specified in such instructions even if the account is in the name of a person or entity different from the intended payee.

With respect to any demand that is honored hereunder, the total amount of this Letter of Credit shall be reduced as follows:

(A) With respect to any A Drawing or B Drawing, the total amount of this Letter of Credit shall be reduced, as to all demands subsequent to the applicable demand, by the amount of the applicable demand as of the time of presentation of such demand and shall not be reinstated;

(B) With respect to any C Drawing or D Drawing, the total amount of this Letter of Credit shall be reduced, as to all demands subsequent to the applicable demand, by the amount of the applicable demand as of the time of presentation of such demand; provided, however, that such amount shall be reinstated in full or in part, if and to the extent, prior to the Expiration Date, we are reimbursed from remarketing proceeds for all or a portion of such demand, at which time we shall advise you in writing of such reinstatement and the amount reinstated; and

(C) With respect to any F Drawing, the total amount of this Letter of Credit shall be reduced, as to all demands subsequent to the applicable demand, by the amount of the applicable demand as of the time of presentation of such demand; PROVIDED, HOWEVER, that such amount shall be automatically reinstated on the eighth (8th) Business Day following the date such demand is honored by us, unless (i) you shall have received notice from us by express courier, authenticated SWIFT message, facsimile transmission, or registered mail no later than seven (7) Business Days after such demand is honored by us that there shall be no such reinstatement, or (ii) such eighth (8th) Business Day falls after the Expiration Date.

Upon presentation to us of an E Drawing in compliance with the terms of this Letter of Credit, no further demand whatsoever may be presented hereunder.

An F Drawing shall not be presented to us (i) more than once during any twenty-seven (27) calendar day period, or (ii) with respect to any single F Drawing, for an amount more than U.S. $411,287.67.

Except as otherwise provided herein, this Letter of Credit shall be governed by and construed in accordance with the Uniform Customs and Practice for Documentary Credits (1993 Revision), Publication No. 500 of the International Chamber of Commerce (the "UCP"); provided, however, that Article 41, paragraphs d, e, f, g, h, i and j of Article 48 and the second sentence of Article 17 shall not apply to this Letter of Credit. Furthermore, as provided in the first sentence of Article 17 of the UCP, we assume no liability or responsibility for consequences arising out of the interruption of our business by Acts of God, riots, civil commotions, insurrections, wars or any other causes beyond our control, or strikes or lockouts. With respect to matters related to this Letter of Credit which are not covered by the UCP such matters shall be governed by the laws of the State of California, including, without limitation, the Uniform Commercial Code as in effect in the State of California, except to the extent such laws are inconsistent with the UCP or made inapplicable by this Letter of Credit.

This Letter of Credit is transferable and may be transferred more than once, but in each case only in the amount of the full unutilized balance hereof to any single transferee who you shall have advised us pursuant to Annex G has succeeded U.S. Bank National Association or a successor trustee as Trustee under the Indenture dated as of July 1, 2006 as supplemented from time to time (the "Indenture") between Collier County Industrial Development Authority (the "Issuer") and U.S. Bank National Association, as Trustee, pursuant to which $27,800,000 in aggregate principal amount of the Issuer's Variable Rate Demand Refunding Bonds (ALLETE, Inc. Project), Series 2006 (the "Bonds") were issued. Transfers may be effected without charge to the transferor and only through ourselves and only upon presentation to us of a duly executed instrument of transfer in the form attached hereto as Annex G. Any transfer of this Letter of Credit as aforesaid must be endorsed by us on the reverse hereof and may not change the place of presentation of demands from our Letter of Credit Operations Office in San Francisco, California.

All payments hereunder shall be made from our own funds.

This Letter of Credit sets forth in full our undertaking, and such undertaking shall not in any way be modified, amended, amplified or limited by reference to any document, instrument or agreement referred to herein (including, without limitation, the Bonds and the Indenture), except the UCP to the extent the UCP is not inconsistent with or made inapplicable by this Letter of Credit; and any such reference shall not be deemed to incorporate herein by reference any document, instrument or agreement except the UCP.

WELLS FARGO BANK, NATIONAL ASSOCIATION

By ----------
Authorized Signature

Letter of Credit Operations Office
Telephone No.: 1-800-798-2815 (Option 1)
Facsimile No.: (415) 296-8905

ANNEX A TO WELLS FARGO BANK, N.A.
IRREVOCABLE LETTER OF CREDIT
NO. NZS569069

Wells Fargo Bank, N.A.
Letter of Credit Operations Office
One Front Street, 21st Floor
San Francisco, California 94111

For the Urgent Attention of Letter of Credit Manager.

[INSERT NAME OF BENEFICIARY] (the "Trustee") hereby certifies to Wells Fargo Bank, N.A. (the "Bank") with reference to Irrevocable Letter of Credit No. NZS569069 (the "Letter of Credit"; the terms the "Bonds", "Business Day" and the "Indenture" used herein shall have their respective meanings set forth in the Letter of Credit) that:

(1) The Trustee is the trustee or a successor trustee under the Indenture.

(2) The Trustee is making a demand for payment under the Letter of Credit with respect to the payment of principal upon an optional and/or mandatory redemption of less than all of the Bonds currently outstanding.

(3) The amount of this demand for payment was computed in accordance with the terms and conditions of the Bonds and the Indenture and is demanded in accordance with the Indenture, which amount please remit to the undersigned as follows:

[INSERT REMITTANCE INSTRUCTIONS].

(4) The amount hereby demanded under the Letter of Credit is U.S. $[INSERT AMOUNT].

(5) The Trustee has contacted or attempted to contact by telephone an officer of the Bank's letter of credit office in San Francisco, California regarding the amount of this demand and the date and time by which payment is demanded.

(6) If this demand is received by you at or before noon, San Francisco time on a Business Day, you must make payment on this demand at or before 10.00 a.m., San Francisco time, on the next Business Day. If this demand is received by you after noon, San Francisco time, on a Business Day, you must make payment on this demand at or before 10:00 a.m., San Francisco time, on the second Business Day following such Business Day.

[INSERT NAME OF BENEFICIARY]
[INSERT SIGNATURE AND DATE]

ANNEX B TO WELLS FARGO BANK, N.A.
IRREVOCABLE LETTER OF CREDIT
NO. NZS569069

Wells Fargo Bank, N.A.
Letter of Credit Operations Office
One Front Street, 21st Floor
San Francisco, California 94111

For the Urgent Attention of Letter of Credit Manager.

[INSERT NAME OF BENEFICIARY] (the "Trustee") hereby certifies to Wells Fargo Bank, N.A. (the "Bank") with reference to Irrevocable Letter of Credit No. NZS569069 (the "Letter of Credit"; the terms the "Bonds", "Business Day" and the "Indenture" used herein shall have their respective meanings set forth in the letter of credit) that:

(1) The Trustee is the trustee or a successor trustee under the Indenture.

(2) The Trustee is making a demand for payment under the Letter of Credit with respect to the payment of unpaid interest upon an optional and/or mandatory redemption of less than all of the Bonds currently outstanding.

(3) The amount of this demand for payment was computed in accordance with the terms and conditions of the Bonds and the Indenture and is demanded in accordance with the Indenture, which amount please remit to the undersigned as follows:

[INSERT REMITTANCE INSTRUCTIONS].

(4) The amount hereby demanded under the Letter of Credit is U.S. $[INSERT AMOUNT].

(5) The Trustee has contacted or attempted to contact by telephone an officer of the Bank's letter of credit office in San Francisco, California regarding the amount of this demand and the date and time by which payment is demanded.

(6) If this demand is received by you at or before noon, San Francisco time on a Business Day, you must make payment on this demand at or before 10:00 a.m., San Francisco time, on the next Business Day. If this demand is received by you after noon, San Francisco time, on a Business Day, you must make payment on this demand at or before 10:00 a.m., San Francisco time, on the second Business Day following such Business Day.

[INSERT NAME OF BENEFICIARY]
[INSERT SIGNATURE AND DATE]

ANNEX C TO WELLS FARGO BANK, N.A.
IRREVOCABLE LETTER OF CREDIT
NO. NZS569069

Wells Fargo Bank, N.A.
Letter of Credit Operations Office
One Front Street, 21st Floor
San Francisco, California 94111

For the Urgent Attention of Letter of Credit Manager.

[INSERT NAME OF BENEFICIARY] (the "Trustee") hereby certifies to Wells Fargo Bank, N.A. (the "Bank") with reference to Irrevocable Letter of Credit No. NZS569069 (the "Letter of Credit"; the terms the "Bonds", "Business Day" and the "Indenture" used herein shall have their respective meanings set forth in the Letter of Credit) that:

(1) The Trustee is the trustee or a successor trustee under the Indenture.

(2) The Trustee is making a demand for payment under the Letter of Credit with respect to the payment of the principal amount of those Bonds which the remarketing agent (as defined in the Indenture) has been unable to remarket within the time limits established in the Indenture.

(3) The amount of this demand for payment was computed in accordance with the terms and conditions of the Bonds and the Indenture and is demanded in accordance with the Indenture, which amount please remit to the undersigned as follows:

[INSERT REMITTANCE INSTRUCTIONS].

(4) The amount hereby demanded under the Letter of Credit is U.S. $[INSERT AMOUNT].

(5) The Trustee has contacted or attempted to contact by telephone and telefacsimile an officer of the Bank's letter of credit office in San Francisco, California regarding the amount of this demand and the date and time by which payment is demanded.

(6) If this demand is received by you at or before 9:00 a.m., San Francisco time on a Business Day, you must make payment on this demand at or before 12:00 noon, San Francisco time, on said Business Day. If this demand is received by you after 9:00 a.m., San Francisco time, on a Business Day, you must make payment on this demand at or before 12:00 noon, San Francisco time, on the Business Day following said Business Day.

[INSERT NAME OF BENEFICIARY]
[INSERT SIGNATURE AND DATE]

ANNEX D TO WELLS FARGO BANK, N.A.
IRREVOCABLE LETTER OF CREDIT
NO. NZS569069

Wells Fargo Bank, N.A.
Letter of Credit Operations Office
One Front Street, 21st Floor
San Francisco, California 94111

For the Urgent Attention of Letter of Credit Manager.

[INSERT NAME OF BENEFICIARY] (the "Trustee") hereby certifies to Wells Fargo Bank, N.A. (the "Bank") with reference to Irrevocable Letter of Credit No. NZS569069 (the "Letter of Credit"; the terms the "Bonds", "Business Day" and the "Indenture" used herein shall have their respective meanings set forth in the Letter of Credit) that:

(1) The Trustee is the trustee or a successor trustee under the Indenture.

(2) The Trustee is making a demand for payment under the Letter of Credit with respect to the payment of the unpaid interest on those Bonds which the remarketing agent (as defined in the Indenture) has been unable to remarket within the time limits established in the Indenture.

(3) The amount of this demand for payment was computed in accordance with the terms and conditions of the Bonds and the Indenture and is demanded in accordance with the Indenture, which amount please remit to the undersigned as follows:

[INSERT REMITTANCE INSTRUCTIONS].

(4) The amount hereby demanded under the Letter of Credit is U.S. $[INSERT AMOUNT].

(5) The Trustee has contacted or attempted to contact by telephone and telefacsimile an officer of the bank's letter of credit office in San Francisco, California regarding the amount of this demand and the date and time by which payment is demanded.

(6) If this demand is received by you at or before 9:00 a.m., San Francisco time on a Business Day, you must make payment on this demand at or before 12:00 noon, San Francisco time, on said Business Day. If this demand is received by you after 9:00 a.m., San Francisco time, on a Business Day, you must make payment on this demand at or before 12:00 noon, San Francisco time, on the Business Day following said Business Day.

[INSERT NAME OF BENEFICIARY]
[INSERT SIGNATURE AND DATE]

ANNEX E TO WELLS FARGO BANK, N.A.
IRREVOCABLE LETTER OF CREDIT
NO. NZS569069

Wells Fargo Bank, N.A.
Letter of Credit Operations Office
One Front Street, 21st. Floor
San Francisco, California 94111

For the Urgent Attention of Letter of Credit Manager.

[INSERT NAME OF BENEFICIARY] (the "Trustee") hereby certifies to Wells Fargo Bank, N.A. (the "Bank") with reference to Irrevocable Letter of Credit No. NZS569069 (the "Letter of Credit"; the terms the "Bonds", "Business Day" and the "Indenture" used herein shall have their respective meanings set forth in the Letter of Credit) that:

(1) The Trustee is the trustee or a successor trustee under the Indenture.

(2) The Trustee is making a demand for payment under the Letter of Credit with respect to the payment, at stated maturity, upon acceleration following an event of default, or upon redemption as a whole, of the total unpaid principal of, and unpaid interest on, all of the Bonds which are presently outstanding.

(3) The amount of this demand for payment was computed in accordance with the terms and conditions of the Bonds and the Indenture and is demanded in accordance with the Indenture, which amount please remit to the undersigned as follows:

[INSERT REMITTANCE INSTRUCTIONS].

(4) The amount hereby demanded under the Letter of Credit is U.S. $[INSERT AMOUNT WHICH IS THE SUM OF THE TWO AMOUNTS SET FORTH IN PARAGRAPH 5, BELOW].

(5) The amount of this demand is equal to the sum of (a) U.S. $[insert amount] being drawn in respect of the payment of unpaid principal of the Bonds and (b) U.S. $[INSERT AMOUNT] being drawn in respect of the payment of unpaid interest on the Bonds.

(6) The Trustee has contacted or attempted to contact by telephone an officer of the Bank's letter of credit office in San Francisco, California regarding the amount of this demand and the date and time by which payment is demanded.

(7) If this demand is received by you at or before noon, San Francisco time on a Business Day, you must make payment on this demand at or before 10:00 a.m., San Francisco time, on the next Business Day. If this demand is received by you after noon, San Francisco time, on a Business Day, you must make payment on this demand at or before 10:00 a.m., San Francisco time, on the second Business Day following such Business Day.

[INSERT NAME OF BENEFICIARY]
[INSERT SIGNATURE AND DATE]

ANNEX F TO WELLS FARGO BANK, N.A.
IRREVOCABLE LETTER OF CREDIT
NO. NZS569069

Wells Fargo Bank, N.A.
Letter of Credit Operations Office
One Front Street, 21st Floor
San Francisco, California 94111

For the Urgent Attention of Letter of Credit Manager.

[INSERT NAME OF BENEFICIARY] (the "Trustee") hereby certifies to Wells Fargo Bank, N.A. (the "Bank") with reference to Irrevocable Letter of Credit No. NZS569069 (the "Letter of Credit"; the terms the "Bonds", "Business Day" and the "Indenture" used herein shall have their respective meanings set forth in the Letter of Credit) that:

(1) The Trustee is the trustee or a successor trustee under the Indenture.

(2) The Trustee is making a demand for payment under the Letter of Credit with respect to the payment, on an Interest Payment Date (as defined in the Indenture), of unpaid interest with respect to the Bonds.

(3) The amount of this demand for payment was computed in accordance with the terms and conditions of the Bonds and the Indenture and is demanded in accordance with the Indenture, which amount please remit to the undersigned as follows:

[INSERT REMITTANCE INSTRUCTIONS].

(4) The amount hereby demanded under the Letter of Credit is U.S. $[INSERT AMOUNT].

(5) The Trustee has contacted or attempted to contact by telephone an officer of the Bank's letter of credit office in San Francisco, California regarding the amount of this demand and the date and time by which payment is demanded.

(6) If this demand is received by you at or before noon, San Francisco time on a Business Day, you must make payment on this demand at or before 10:00 a.m., San Francisco time, on the next Business Day. If this demand is received by you after noon, San Francisco time, on a Business Day, you must make payment on this demand at or before 10:00 a.m., San Francisco time, on the second Business Day following such Business Day.

[INSERT NAME OF BENEFICIARY]
[INSERT SIGNATURE AND DATE]

ANNEX G TO WELLS FARGO BANK, N.A.
IRREVOCABLE LETTER OF CREDIT
NO. NZS569069

Wells Fargo Bank, N.A.
Letter of Credit Operations Office
One Front Street, 21st Floor
San Francisco, California 94111

[INSERT DATE]

Subject: Your Letter of Credit No. NZS569069

Ladies and Gentlemen:

For value received, we hereby irrevocably assign and transfer all of our rights under the above-captioned Letter of Credit, as heretofore and hereafter amended, extended, increased or reduced to:

[Name of Transferee]

[Address of Transferee]

By this transfer, all of our rights in the Letter of Credit are transferred to the transferee, and the transferee shall have sole rights as beneficiary under the Letter of Credit, including sole rights relating to any amendments, whether increases or extensions or other amendments, and whether now existing or hereafter made. You are hereby irrevocably instructed to advise future amendment(s) of the Letter of Credit to the transferee without our consent or notice to us.

The original Letter of Credit is returned with all amendments to this date. Please notify the transferee in such form as you deem advisable of this transfer and of the terms and conditions to this Letter of Credit, including amendments as transferred.

You are hereby advised that the transferee named above has succeeded U.S. Bank National Association or a successor trustee, as Trustee under the Indenture dated as of July 1, 2006 as supplemented from time to time (the "Indenture") between Collier County Industrial Development Authority (the "Issuer") and U.S. Bank National Association, as Trustee, pursuant to which $27,800,000 in aggregate principal amount of Issuer's Variable Rate Demand Refunding Bonds (ALLETE, Inc. Project), Series 2006 were issued.

Very truly yours,

[INSERT NAME OF TRANSFEROR]

By:

[INSERT NAME AND TITLE]

TRANSFEROR'S SIGNATURE GUARANTEED

By:

[Bank Name]

By:

[INSERT NAME AND TITLE]

By its signature below, the undersigned transferee acknowledges that it has duly succeeded U.S. Bank National Association or a successor trustee as Trustee under the Indenture.

[INSERT NAME OF TRANSFEREE]

By:

[INSERT NAME AND TITLE]

EXHIBIT B

L/C COMMITMENTS

PARTICIPATING BANK	L/C COMMITMENT
Wells Fargo Bank, National Association	$16,211,287.67
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	$12,000,000.00

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, Donald J. Shippar, Chairman, President and Chief Executive Officer of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2006, 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: July 27, 2006

Donald J. Shippar

Donald J. Shippar
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, Mark A. Schober, Senior Vice President and Chief Financial Officer of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2006, 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: July 27, 2006

Mark A. Schober

Mark A. Schober
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 quarterly period ended June 30, 2006, (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: July 27, 2006 Donald J. Shippar

Donald J. Shippar
President and Chief Executive Officer

Date: July 27, 2006 Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

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

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

EXHIBIT 99

[ALLETE LOGO]

For Release: July 28, 2006
CONTACT: Eric Olson
218-723-3947
eolson@allete.com

INVESTOR CONTACT: Tim Thorp
218-723-3953
tthorp@allete.com

NEWS

ALLETE REPORTS SECOND QUARTER 2006 EARNINGS

EARNINGS PER SHARE FROM CONTINUING OPERATIONS INCREASE 29%, EXCLUDING ONE-TIME 2005 CHARGE

ALLETE (NYSE: ALE) today reported second quarter 2006 earnings from continuing operations of $0.49 per diluted share compared to a loss of $1.46 in the second quarter of 2005. The results a year ago were impacted by a $1.84 per share charge related to the assignment of a Kendall County, Ill. power purchase agreement. Excluding that one-time charge, ALLETE's second quarter earnings per share from continuing operations are 29 percent higher in 2006 than in 2005.

"Halfway though the year, ALLETE's earnings are where we expected them to be," said CEO Don Shippar. "We anticipate our 2006 earnings per share from continuing operations, as we projected earlier, will increase 15 percent to 20 percent over 2005."

During the quarter, income from ALLETE's real estate segment was driven by contract closings at the Town Center at Palm Coast development in northeast Florida. ALLETE Properties net income doubled from $2.8 million in 2005 to $5.6 million in 2006. As of June 30, 2006, ALLETE had a total of $128.9 million of land sales under contract, up from $85.3 million at the end of March 2006. Those contracts are expected to close over the next several years.

Earnings from ALLETE's energy businesses were $7.7 million in the second quarter of 2006, the same as the comparable period a year ago, excluding the one-time Kendall charge. Plant maintenance at Minnesota Power generating facilities resulted in $1.1 million of additional after-tax operating and maintenance expense during the quarter compared to 2005.

In late May, ALLETE made its initial investment in the American Transmission Company and as of June 30, had invested a total of $11.5 million. Shippar said the income contribution from ATC will accelerate as ALLETE continues to make additional investments during the year. He noted that the company intends to invest an additional $48.5 million in ATC by year-end, giving ALLETE an ownership interest of approximately nine percent.

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

THE STATEMENTS CONTAINED IN THIS RELEASE AND STATEMENTS THAT ALLETE MAY MAKE ORALLY IN CONNECTION WITH THIS RELEASE THAT ARE NOT HISTORICAL FACTS, ARE FORWARD-LOOKING STATEMENTS. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, AND INVESTORS ARE DIRECTED TO THE RISKS DISCUSSED IN DOCUMENTS FILED BY ALLETE WITH THE SECURITIES AND EXCHANGE COMMISSION.

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ALLETE, INC.
CONSOLIDATED STATEMENT OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2006 AND 2005
Millions Except Per Share Amounts

	QUARTER ENDED		YEAR TO DATE	
	2006	2005	2006	2005
OPERATING REVENUE	$178.3	$174.4	$370.8	$367.7
OPERATING EXPENSES				
Fuel and Purchased Power	63.0	68.9	132.4	136.5
Operating and Maintenance	76.8	71.7	151.3	144.4
Kendall County Charge	-	77.9	-	77.9
Depreciation	12.2	11.9	24.4	23.8
Total Operating Expenses	152.0	230.4	308.1	382.6
OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS	26.3	(56.0)	62.7	(14.9)
OTHER INCOME (EXPENSE)				
Interest Expense	(6.4)	(6.7)	(12.8)	(13.5)
Other	3.4	1.5	5.1	(2.7)
Total Other Expense	(3.0)	(5.2)	(7.7)	(16.2)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND INCOME TAXES	23.3	(61.2)	55.0	(31.1)
MINORITY INTEREST	0.8	0.2	2.1	1.4
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	22.5	(61.4)	52.9	(32.5)
INCOME TAX EXPENSE (BENEFIT)	8.9	(21.6)	20.5	(10.1)
INCOME (LOSS) FROM CONTINUING OPERATIONS	13.6	(39.8)	32.4	(22.4)
LOSS FROM DISCONTINUED OPERATIONS - NET OF TAX	(0.4)	(0.5)	(0.4)	(0.5)
NET INCOME (LOSS)	$ 13.2	$ (40.3)	$ 32.0	$(22.9)
AVERAGE SHARES OF COMMON STOCK				
Basic	27.7	27.2	27.6	27.2
Diluted	27.9	27.2	27.8	27.2
BASIC EARNINGS (LOSS) PER SHARE OF COMMON STOCK				
Continuing Operations	$0.50	$(1.46)	$1.18	$(0.82)
Discontinued Operations	(0.02)	(0.02)	(0.02)	(0.02)
	$0.48	$(1.48)	$1.16	$(0.84)
DILUTED EARNINGS (LOSS) PER SHARE OF COMMON STOCK				
Continuing Operations	$0.49	$(1.46)	$1.17	$(0.82)
Discontinued Operations	(0.02)	(0.02)	(0.02)	(0.02)
	$0.47	$(1.48)	$1.15	$(0.84)
DIVIDENDS PER SHARE OF COMMON STOCK	$0.3625	$0.3150	$0.7250	$0.6150

CONSOLIDATED BALANCE SHEET
Millions

	JUN. 30, 2006	DEC. 31, 2005
ASSETS		
Cash and Cash Equivalents	$ 62.8	$ 89.6
Short-Term Investments	120.4	116.9
Other Current Assets	157.8	167.0
Property, Plant and Equipment	871.6	860.4
Investments	127.8	117.7
Discontinued Operations	-	2.6
Other	45.7	44.6

TOTAL ASSETS	$1,386.1	$1,398.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities	$ 79.5	$ 104.0
Current Maturities	61.6	2.7
Long-Term Debt	326.9	387.8
Other Liabilities	290.3	288.5
Discontinued Operations	-	13.0
Shareholders' Equity	627.8	602.8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,386.1	$1,398.8

ALLETE, INC.	QUARTER ENDED JUNE 30, 2006	2005	YEAR TO DATE JUNE 30, 2006	2005
INCOME (LOSS)				
Millions				
Regulated Utility	$ 6.8	$ 7.8	$19.8	$ 20.7
Nonregulated Energy Operations	0.9	(50.5)	1.8	(48.9)
Real Estate	5.6	2.8	10.6	9.7
Other	0.3	0.1	0.2	(3.9)
Income (Loss) from Continuing Operations	13.6	(39.8)	32.4	(22.4)
Loss from Discontinued Operations	(0.4)	(0.5)	(0.4)	(0.5)
Net Income (Loss)	$13.2	$(40.3)	$32.0	$(22.9)
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing Operations	$0.49	$(1.46)	$1.17	$(0.82)
Discontinued Operations	(0.02)	(0.02)	(0.02)	(0.02)
	$0.47	$(1.48)	$1.15	$(0.84)

In 2006, financial results for ALLETE's Taconite Harbor Energy Center are included in the Regulated Utility segment. In 2005, Taconite Harbor is included in the Nonregulated Energy Operations segment.
In April 2005, ALLETE recorded a $50.4 million, or $1.84 per diluted share, charge related to the assignment of the Kendall County power purchase agreement.

	QUARTER ENDED JUNE 30, 2006	2005	YEAR TO DATE JUNE 30, 2006	2005
STATISTICAL DATA				
CORPORATE				
Common Stock				
High	$48.55	$50.33	$48.55	$50.33
Low	$44.34	$40.12	$42.99	$35.65
Close	$47.35	$49.90	$47.35	$49.90
Book Value	$20.70	$19.22	$20.70	$19.22
KILOWATTHOURS SOLD				
Millions				
Regulated Utility				
Retail and Municipals				
Residential	229.1	229.9	537.1	549.7
Commercial	315.5	300.5	644.2	640.3
Industrial	1,769.9	1,746.9	3,592.2	3,524.0
Municipals	216.1	199.3	435.4	421.3
Other	18.6	18.1	38.6	38.5
	2,549.2	2,494.7	5,247.5	5,173.8
Other Power Suppliers	515.5	366.9	1,020.6	603.6
	3,064.7	2,861.6	6,268.1	5,777.4
Nonregulated Energy Operations	55.3	399.9	120.9	753.8
	3,120.0	3,261.5	6,389.0	6,531.2
REAL ESTATE				
Town Center Development Project				
Commercial Square Footage Sold	170,695	397,000	250,695	397,000
Residential Units	186	-	186	-
Other Land				
Acres Sold	10	54	466	537
Lots Sold	-	-	-	7