UNITED STATES
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 MARCH 31, 2007

or

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

For the transition period from _____________ to _____________

Commission File Number 1-3548

ALLETE, INC.
(Exact name of registrant as specified in its charter)

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

30 WEST SUPERIOR STREET
DULUTH, MINNESOTA 55802-2093
(Address of principal executive offices)
(Zip Code)

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

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

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

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,
30,526,839 shares outstanding
as of April 30, 2007

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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
2006 Form 10-K	ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 2006
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, LLC
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
DOC	Minnesota Department of Commerce
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
FIN	FASB Interpretations
FPL	FPL Energy, LLC
GAAP	Accounting Principles Generally Accepted in the United States of America
Heating Degree Days	Measure of the extent to which the average daily temperature is below 65 degrees Fahrenheit, increasing demand for heating
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.
Moody's	Moody's Investors Service, Inc.
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 Park	Palm Coast Park development project in northeast Florida
Palm Coast Park District	Palm Coast Park Community Development District
PSCW	Public Service Commission of Wisconsin
Rainy River Energy	Rainy River Energy Corporation - Wisconsin
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
Standard & Poor's	Standard & Poor's Ratings Group, a division of McGraw-Hill Companies
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
Town Center	Town Center at Palm Coast development project in northeast 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, which are beyond our control and may cause actual results or outcomes to differ materially from those that may be projected. These statements are qualified in their entirety by reference to, and are accompanied by, the following important factors, in addition to any assumptions and other factors referred to specifically:

- our ability to successfully implement our strategic objectives;
- our ability to manage expansion and integrate acquisitions;
- prevailing governmental policies, regulatory actions, and legislation 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 capitl investments, present or prospective wholesale and retail competition (including but not limited to transmission costs), zoning and permitting of land held for resale and environmental regulation;
- effects of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with laws and policies;
- weather conditions;

- natural disasters and pandemic diseases;
- war and acts of terrorism;
- wholesale power market conditions;
- population growth rates and demographic patterns;
- effects of competition, including competition for retail and wholesale customers;
- changes in the real estate market;
- pricing and transportation of commodities;
- changes in tax rates or policies or in rates of inflation;
- unanticipated project delays or changes in project costs;
- availability of construction materials and skilled construction labor for capital projects;
- unanticipated changes in operating expenses and capital expenditures;
- global and domestic economic conditions;
- our ability to access capital markets and bank financing;
- changes in interest rates and the performance of the financial markets;
- our ability to replace a mature workforce, and retain qualified, skilled and experienced personnel; and
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

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

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
MILLIONS - UNAUDITED

	MARCH 31, 2007	DECEMBER 31, 2006
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 46.4	$ 44.8
Short-Term Investments	82.1	104.5
Accounts Receivable (Less Allowance of $1.1 at March 31, 2007 and December 31, 2006)	73.4	70.9
Inventories	44.3	43.4
Prepayments and Other	35.6	23.8
Deferred Income Taxes	-	0.3
Total Current Assets	281.8	287.7
Property, Plant and Equipment - Net	933.0	921.6
Investments	206.7	189.1
Other Assets	138.6	135.0
TOTAL ASSETS	$1,560.1	$1,533.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 39.4	$ 53.5
Accrued Taxes	39.2	23.3
Accrued Interest	6.4	8.6

Long-Term Debt Due Within One Year	32.3	29.7
Deferred Profit on Sales of Real Estate	3.2	4.1
Other	24.9	24.3
Total Current Liabilities	145.4	143.5
Long-Term Debt	359.3	359.8
Deferred Income Taxes	131.0	130.8
Other Liabilities	229.2	226.1
Minority Interest	7.5	7.4
Total Liabilities	872.4	867.6
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock Without Par Value, 43.3 Shares Authorized, 30.5 and 30.4 Shares Outstanding	442.9	438.7
Unearned ESOP Shares	(69.7)	(71.9)
Accumulated Other Comprehensive Loss	(8.6)	(8.8)
Retained Earnings	323.1	307.8
Total Shareholders' Equity	687.7	665.8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,560.1	$1,533.4

The accompanying notes are an integral part of these statements.

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

	QUARTER ENDED MARCH 31, 2007	2006
OPERATING REVENUE	$205.3	$192.5
OPERATING EXPENSES		
Fuel and Purchased Power	77.7	69.4
Operating and Maintenance	74.6	74.5
Depreciation	11.7	12.2
Total Operating Expenses	164.0	156.1
OPERATING INCOME FROM CONTINUING OPERATIONS	41.3	36.4
OTHER INCOME (EXPENSE)		
Interest Expense	(6.3)	(6.4)
Other	7.5	1.7
Total Other Income (Expense)	1.2	(4.7)
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND INCOME TAXES	42.5	31.7
MINORITY INTEREST	0.1	1.3
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	42.4	30.4
INCOME TAX EXPENSE	16.1	11.6
INCOME FROM CONTINUING OPERATIONS	26.3	18.8
LOSS FROM DISCONTINUED OPERATIONS	-	-
NET INCOME	$ 26.3	$ 18.8
AVERAGE SHARES OF COMMON STOCK		

Basic	28.1	27.6
Diluted	28.1	27.7
BASIC AND DILUTED EARNINGS PER SHARE OF COMMON STOCK		
Continuing Operations	$0.93	$0.68
Discontinued Operations	-	-
	$0.93	$0.68
DIVIDENDS PER SHARE OF COMMON STOCK	$0.4100	$0.3625

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
MILLIONS - UNAUDITED

	QUARTER ENDED MARCH 31, 2007	2006
OPERATING ACTIVITIES		
Net Income	$26.3	$18.8
Income from Equity Investments	(0.8)	-
Gain on Sale of Assets	(1.9)	-
Depreciation	11.7	12.2
Deferred Income Taxes	0.3	(1.7)
Minority Interest	0.1	1.3
Stock Compensation Expense	0.5	0.4
Bad Debt Expense	0.1	0.2
Changes in Operating Assets and Liabilities		
Accounts Receivable	0.4	12.9
Inventories	(0.9)	1.2
Prepayments and Other	(11.8)	6.8
Accounts Payable	(10.5)	(11.2)
Other Current Liabilities	10.7	14.6
Other Assets	(0.1)	(1.3)
Other Liabilities	2.1	2.6
Net Operating Activities for Discontinued Operations	-	(12.6)
Cash from Operating Activities	26.2	44.2
INVESTING ACTIVITIES		
Proceeds from Sale of Available-For-Sale Securities	32.9	126.3
Payments for Purchase of Available-For-Sale Securities	(10.5)	(170.9)
Changes to Investments	(15.9)	2.4
Additions to Property, Plant and Equipment	(25.5)	(13.6)
Proceeds from Sale of Assets	1.3	-
Other	(2.5)	4.4
Net Investing Activities from Discontinued Operations	-	2.2
Cash for Investing Activities	(20.2)	(49.2)
FINANCING ACTIVITIES		
Issuance of Common Stock	3.8	5.1
Issuance of Long-Term Debt	62.7	50.0
Payments of Debt	(60.6)	(51.4)
Dividends on Common Stock and Distributions to Minority Shareholders	(10.3)	(9.9)
Net Decrease in Book Overdrafts	-	(3.4)
Net Financing Activities for Discontinued Operations	-	-
Cash for Financing Activities	(4.4)	(9.6)
CHANGE IN CASH AND CASH EQUIVALENTS	1.6	(14.6)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	44.8	89.6
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$46.4	$75.0

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with our 2006 Form 10-K. In our opinion, all adjustments necessary for a fair statement of the results for the interim periods have been made and have occurred in the normal course of business. 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

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

INVENTORIES	MARCH 31, 2007	DECEMBER 31, 2006
MILLIONS		
Fuel	$20.2	$18.9
Materials and Supplies	24.1	24.5
Total Inventories	$44.3	$43.4

SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION. Amounts presented for 2006 have been revised to eliminate intercompany interest payments from cash paid during the period for Interest - Net of Amounts Capitalized.

CONSOLIDATED STATEMENT OF CASH FLOWS SUPPLEMENTAL DISCLOSURE FOR THE QUARTER ENDED MARCH 31	2007	2006
MILLIONS		
Cash Paid During the Period for		
Interest - Net of Amounts Capitalized	$9.2	$8.8
Income Taxes	$1.9	$3.7
Noncash Investing Activities		
Accounts Payable for Capital Additions to Property Plant and Equipment	$3.6	-

NEW ACCOUNTING STANDARDS. SFAS 157. In September 2006, the FASB issued SFAS 157, "Fair Value Measurements," to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It clarifies the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements, and the effect of certain measurements on earnings for the period. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and is applied on a prospective basis. We are currently evaluating the impact that the adoption of SFAS 157 would have on our consolidated financial position, results of operations and cash flows.

SFAS 159. In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which is an elective, irrevocable election to measure eligible financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The election may only be applied at specified election dates and to instruments in their entirety rather than to portions of instruments. Upon initial election, the entity reports the difference between the instruments' carrying value and their fair value as a cumulative-effect adjustment to the opening balance of retained earnings. At each subsequent reporting date, an entity shall report in earnings, unrealized gains and losses on items for which the fair value option has been elected. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and is applied on a prospective basis. Early adoption of SFAS 159 is permitted provided the entity also elects to adopt the provisions of SFAS 157 as of the early adoption date selected for SFAS 159. We are currently evaluating the impact that the adoption of SFAS 159 would have on our consolidated financial position, results of operations and cash flows.

NOTE 2. BUSINESS SEGMENTS

		ENERGY				
	CONSOLIDATED	REGULATED UTILITY	NONREGULATED ENERGY OPERATIONS	INVESTMENT IN ATC	REAL ESTATE	OTHER
MILLIONS						
FOR THE QUARTER ENDED MARCH 31, 2007						
Operating Revenue	$205.3	$180.2	$16.8	-	$8.2	$ 0.1
Fuel and Purchased Power	77.7	77.7	-	-	-	-
Operating and Maintenance	74.6	56.9	14.4	-	2.9	0.4
Depreciation Expense	11.7	10.6	1.1	-	-	-
Operating Income (Loss) from Continuing Operations	41.3	35.0	1.3	-	5.3	(0.3)
Interest Expense	(6.3)	(5.2)	(0.6)	-	-	(0.5)
Other Income	7.5	0.5	2.3	$2.9	-	1.8
Income from Continuing Operations Before Minority Interest and Income Taxes	42.5	30.3	3.0	2.9	5.3	1.0
Minority Interest	0.1	-	-	-	0.1	-
Income from Continuing Operations Before Income Taxes	42.4	30.3	3.0	2.9	5.2	1.0
Income Tax Expense	16.1	11.5	0.8	1.1	2.1	0.6
Income from Continuing Operations	26.3	$ 18.8	$ 2.2	$1.8	$3.1	$ 0.4
Loss from Discontinued Operations - Net of Tax	-					
Net Income	$ 26.3					
AT MARCH 31, 2007						
Total Assets	$1,560.1	$1,182.8	$79.5	$63.7	$90.6	$143.5
Property, Plant and Equipment - Net	$933.0	$880.5	$49.0	-	-	$3.5
Accumulated Depreciation	$817.5	$775.7	$40.1	-	-	$1.7
Capital Expenditures	$21.9	$21.9	-	-	-	-
FOR THE QUARTER ENDED MARCH 31, 2006						
Operating Revenue	$192.5	$162.4	$ 16.3	-	$13.7	$ 0.1
Fuel and Purchased Power	69.4	69.4	-	-	-	-
Operating and Maintenance	74.5	55.8	14.1	-	3.4	1.2
Depreciation Expense	12.2	11.1	1.1	-	-	-
Operating Income (Loss) from Continuing Operations	36.4	26.1	1.1	-	10.3	(1.1)
Interest Expense	(6.4)	(5.1)	(0.5)	-	-	(0.8)
Other Income	1.7	-	0.3	-	-	1.4
Income (Loss) from Continuing Operations Before Minority Interest and Income Taxes	31.7	21.0	0.9	-	10.3	(0.5)
Minority Interest	1.3	-	-	-	1.3	-
Income (Loss) from Continuing Operations Before Income Taxes	30.4	21.0	0.9	-	9.0	(0.5)
Income Tax Expense (Benefit)	11.6	8.0	-	-	4.0	(0.4)
Income (Loss) from Continuing Operations	18.8	$ 13.0	$ 0.9	-	$ 5.0	$(0.1)
Loss from Discontinued Operations - Net						

of Tax	-					
Net Income	$ 18.8					

AT MARCH 31, 2006

Total Assets	$1,404.0	$974.3	$105.2	-	$70.4	$254.1
Property, Plant and Equipment - Net	$862.3	$803.2	$54.3	-	-	$4.8
Accumulated Depreciation	$797.5	$760.8	$35.1	-	-	$1.6
Capital Expenditures	$13.6	$13.3	$0.3	-	-	-

NOTE 3. INVESTMENTS

SHORT-TERM INVESTMENTS. At March 31, 2007 and December 31, 2006, we held $82.1 million and $104.5 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 cost; however, their cost approximates fair value 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 March 31, 2007, 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.

We account for our investment in ATC under the equity method of accounting, pursuant to EITF 03-16, "Accounting for Investments in Limited Liability Companies," which requires the use of the equity method of accounting for investments in limited liability companies.

INVESTMENTS	MARCH 31, 2007	DECEMBER 31, 2006
MILLIONS		
Real Estate Assets	$ 90.6	$ 89.8
Debt and Equity Securities	43.4	36.4
Investment in ATC	63.7	53.7
Emerging Technology Investments	9.0	9.2
Total Investments	$206.7	$189.1

REAL ESTATE ASSETS	MARCH 31, 2007	DECEMBER 31, 2006
MILLIONS		
Land Held for Sale Beginning Balance	$58.0	$48.0
Additions during period:Capitalized Improvements	2.8	18.8
Purchases	-	1.4
Deductions during period: Cost of Real Estate Sold	(0.9)	(10.2)
Land Held for Sale Ending Balance	59.9	58.0
Long-Term Finance Receivables	17.1	18.3
Other <F1>	13.6	13.5
Total Real Estate Assets	$90.6	$89.8

<FN>
<F1> Consisted primarily of a shopping center.
</FN>

Finance receivables have maturities ranging up to 7 years, accrue interest at market-based rates and are net of an allowance for doubtful accounts of $0.2 million at March 31, 2007 ($0.2 million at December 31, 2006).

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. In May 2006, the PSCW reviewed and approved the request that allowed Rainy River Energy to invest in ATC. In 2007, we invested an additional $8.7 million ($51.4 million invested through December 31, 2006) in ATC, reaching our approximate $60 million investment commitment. As of March 31, 2007, our equity investment balance in ATC was $63.7 million ($53.7 million at December 31, 2006), representing an 8.5 percent ownership interest.

NOTE 4. SHORT-TERM AND LONG-TERM DEBT

On February 1, 2007, we issued $60 million in principal amount of First Mortgage Bonds, 5.99% Series due February 1, 2027, in the private placement market. Proceeds were used to retire $60 million in principal amount of First Mortgage Bonds, 7% Series due on February 15, 2007.

NOTE 5. OTHER INCOME (EXPENSE)

	QUARTER ENDED MARCH 31, 2007	2006
MILLIONS		
Loss on Emerging Technology Investments	$(0.9)	$(1.2)
Income from Investment in ATC (See Note 3)	2.9	-
Investment and Other Income	5.5	2.9
Total Other Income	$ 7.5	$ 1.7

NOTE 6. INCOME TAX EXPENSE

	QUARTER ENDED MARCH 31, 2007	2006
MILLIONS		
Current Tax Expense		
Federal	$11.9	$10.8
State	3.9	2.5
	15.8	13.3
Deferred Tax Expense (Benefit)		
Federal	0.2	(1.6)
State	0.4	0.2
	0.6	(1.4)
Deferred Tax Credits	(0.3)	(0.3)
Income Tax Expense from Continuing Operations	16.1	11.6
Income Tax Benefit from Discontinued Operations	-	-
Total Income Tax Expense	$16.1	$11.6

For the quarter ended March 31, 2007, the effective tax rate on income from continuing operations before minority interest was 37.9 percent (36.6 percent for the quarter ended March 31, 2006). The effective tax rate of 37.9 percent for the quarter ended March 31, 2007, deviated from the statutory rate, primarily due to deductions for Medicare health subsidies, domestic manufacturing deduction, allowance for funds used during construction and depletion.

UNCERTAIN TAX POSITIONS. Effective January 1, 2007, we adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109." As a result of the implementation of FIN 48, we recognized a $1.0 million increase in the liability for unrecognized tax benefits. The adoption of FIN 48 also resulted in a reduction in retained earnings of $0.7 million, a reduction of deferred tax liabilities of $0.8 million and an increase in accrued interest of $0.5 million. Subsequent to the implementation of FIN 48, ALLETE's gross unrecognized tax benefits were $10.4 million. Of this total, $6.8 million (net of federal tax benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate.

NOTE 6. INCOME TAX EXPENSE (CONTINUED)

Included in the liability for unrecognized tax benefits balance as of January 1, 2007, are $0.8 million (net of federal tax benefit on state issues) of tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of deductibility. Due to the impact of deferred tax accounting, other than the accounting for interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate. The disallowance would, however, accelerate the payment of cash to the taxing authority to an earlier period.

We recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses in the Consolidated Statement of Income. As of January 1, 2007, the Company had $1.3 million of accrued interest and $0 of accrued penalties related to unrecognized tax benefits included in the Consolidated Balance Sheet. The liability for the payment of interest and penalties did not materially change as of March 31, 2007.

We, along with our subsidiaries, file income tax returns in the U.S. federal and various state jurisdictions. With few exceptions, ALLETE is no longer subject to federal examination for years before 2003 or state examinations for years before 2001.

We expect that the amount of unrecognized tax benefits as of January 1, 2007, will change in the next 12 months; however, we do not expect the change to have a significant impact on our financial position, results of operations or cash flows.

NOTE 7. COMPREHENSIVE INCOME (LOSS)

For the quarter ended March 31, 2007, total comprehensive income (loss), net of tax, was $26.5 million ($19.1 million for the quarter ended March 31, 2006). Total comprehensive income (loss) includes net income (loss), unrealized gains and losses on securities classified as available-for-sale, and our unfunded pension liabilities.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX	MARCH 31, 2007	2006
MILLIONS		
Unrealized Gain on Securities	$ 4.2	$ 2.4
Defined Benefit Pension and Other Postretirement Plans	(12.8)	-
Additional Pension Liability	-	(14.9)
Total Accumulated Other Comprehensive Loss	$ (8.6)	$(12.5)

NOTE 8. 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 ended March 31, 2007, 0.1 million options to purchase shares of common stock were excluded from the computation of diluted earnings per share because the option exercise prices were greater than the average market prices, and therefore, their effect would be anti-dilutive. For the quarter ended March 31, 2006, no options to purchase shares of common stock were excluded from the computation of diluted earnings per share.

RECONCILIATION OF BASIC AND DILUTED EARNINGS PER SHARE	2007 BASIC	2007 DILUTIVE SECURITIES	2007 DILUTED	2006 BASIC	2006 DILUTIVE SECURITIES	2006 DILUTED
MILLIONS EXCEPT PER SHARE AMOUNTS						
FOR THE QUARTER ENDED MARCH 31,						
Income from Continuing Operations	$26.3	-	$26.3	$18.8	-	$18.8
Common Shares	28.1	-	28.1	27.6	0.1	27.7
Per Share from Continuing Operations	$0.93	-	$0.93	$0.68	-	$0.68

NOTE 9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

COMPONENTS OF NET PERIODIC BENEFIT EXPENSE	PENSION 2007	PENSION 2006	POSTRETIREMENT HEALTH AND LIFE 2007	POSTRETIREMENT HEALTH AND LIFE 2006
MILLIONS				
FOR THE QUARTER ENDED MARCH 31,				
Service Cost	$ 1.3	$ 2.3	$ 1.0	$ 1.1
Interest Cost	5.7	5.5	1.9	1.9
Expected Return on Plan Assets	(7.7)	(7.1)	(1.6)	(1.4)
Amortization of Prior Service Costs	0.2	0.2	-	-
Amortization of Net Loss	0.8	1.2	0.2	0.4
Amortization of Transition Obligation	-	-	0.6	0.6
Net Periodic Benefit Expense	$ 0.3	$ 2.1	$ 2.1	$ 2.6

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 payment in 2007 for 2006 credits.

EMPLOYER CONTRIBUTIONS. For the quarter ended March 31, 2007, $2.8 million of contributions were made to our postretirement health and life plans. We do not expect to make any additional contributions to fund our postretirement health and life plans in 2007. We do not expect to make any contributions to our defined benefit pension plans in 2007.

NOTE 10. 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 prior to 2006. Beginning in 2006, Minnkota Power exercised its option to reduce Minnesota Power's entitlement by approximately 5 percent annually. We received notices from Minnkota Power reducing our output entitlement by approximately 5 percent annually to 60 percent as of January 1, 2007, 55 percent on January 1, 2008, and 50 percent on January 1, 2009, and thereafter. Minnkota Power has no further option to reduce Minnesota Power's entitlement below 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 March 31, 2007, Square Butte had total debt outstanding of $297.6 million. Total annual debt service for Square Butte is expected to be approximately $26 million in each of the years 2007 through 2011. Variable operating costs include the price of coal purchased from BNI Coal, our subsidiary, under a long-term contract.

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 $8.2 million in 2007, $7.6 million in 2008, $7.0 million in 2009, $6.5 million in 2010, $6.0 million in 2011 and $51.2 million thereafter.

COAL, RAIL AND SHIPPING CONTRACTS. We have three coal supply agreements with various expiration dates ranging from December 2008 to December 2009. We also have rail and shipping agreements for the transportation of all of our coal, with various expiration dates ranging from December 2007 to December 2011. Our minimum annual payment obligations under these coal, rail and shipping agreements are currently $42.0 million in 2007, $16.4 million in 2008, $11.1 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.

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. We have committed to make additional investments in certain emerging technology venture capital funds. The total future commitment was $2.0 million at March 31, 2007 ($2.5 million at December 31, 2006), and will be invested in 2007. We do not have plans to make any additional investments beyond this commitment.

ENVIRONMENTAL MATTERS. Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Due to stricter environmental requirements through legislation and/or rulemaking in the future, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. 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. A report submitted in 2003 identified some MGP-like chemicals that were found in the soil near the former plant site. The on-site investigation continued through the fall of 2006. The final Phase II report is expected in May 2007. 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. 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 December 2006, the PSCW approved the recovery of an additional $186,000 of site investigation costs that were 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.

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 the eastern United States. The CAIR includes Minnesota as one of the 28 states it considers as "significantly contributing" to air quality standards non-attainment in other states. The EPA also announced the final Clean Air Mercury Rule (CAMR) that reduces and permanently caps electric utility mercury emissions nationwide. 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 a challenge to 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.

Minnesota Power petitioned the EPA to review their CAIR determinations affecting Minnesota. In July 2005, Minnesota Power also filed a Petition for Review with the U.S. Court of Appeals for the District of Columbia Circuit (Court of Appeals). In November 2005, the EPA agreed to reconsider certain aspects of the CAIR, including the Minnesota Power petition addressing emissions applied to air quality modeling used to determine Minnesota's inclusion in the CAIR region and our claims about inequities in the SO2 allowance methodology. In March 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 significantly lower compliance costs, consistent with the rules applicable to those states determined to not be "significant contributors" to air quality non-attainment as addressed under the CAIR. Resolution of the CAIR Petition for Review with the Court of Appeals is anticipated in 2008.

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, which are payable over 31 years (by May 1, 2036). The bond proceeds (less capitalized interest, a debt service reserve fund and cost of issuance) were used to pay for the construction of a portion of the major infrastructure improvements at Town Center. 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 were billed to Town Center 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 recognize the cost of our portion of these assessments, based upon our ownership of benefited property. At March 31, 2007, we owned 73 percent of the assessable land in the Town Center District.

PALM COAST PARK. In May 2006, the Palm Coast Park District issued $31.8 million of tax-exempt, 5.7% Special Assessment Bonds, Series 2006, which are payable over 31 years (by May 1, 2037). The bond proceeds (less capitalized interest, a debt service reserve fund and cost of issuance) are being used to pay for the construction of the major infrastructure improvements at Palm Coast Park and to mitigate traffic and environmental impacts. The bonds are payable from and secured by the revenue derived from assessments imposed, levied and collected by the Palm Coast Park District. The assessments represent an allocation of the costs of the improvements, including bond financing costs, to the lands within the Palm Coast Park District benefiting from the improvements. The assessments will be billed to Palm Coast Park landowners beginning in November 2007. To the extent that we still own land at the time of the assessment, in accordance with

EITF 91-10, we will recognize the cost of our portion of these assessments, based upon our ownership of benefited property. At March 31, 2007, we owned 97 percent of the assessable land in the Palm Coast Park 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 or have a material adverse effect on our financial condition.

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

The following discussion should be read in conjunction with our consolidated financial statements, notes to those statements, management discussion and analysis from the 2006 Form 10-K and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this Form 10-Q contain forward-looking information that involves risks and uncertainties. Readers are cautioned that forward-looking statements should be read in conjunction with our disclosures in this Form 10-Q under the headings: "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, page 24 of our 2006 Form 10-K. The risks and uncertainties described in this Form 10-Q and our 2006 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 is a diversified company providing fundamental products and services since 1906. This includes our two core businesses--ENERGY and REAL ESTATE, as well as our former operations in the water, paper, telecommunications and automotive industries.

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

- REGULATED UTILITY includes retail and wholesale rate regulated electric, natural gas and water 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.
- INVESTMENT IN ATC includes our equity ownership interest in ATC.

REAL ESTATE includes our Florida real estate operations.

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

EXECUTIVE SUMMARY (CONTINUED)

	QUARTER ENDED MARCH 31,	
KILOWATTHOURS SOLD	2007	2006
MILLIONS		

Regulated Utility		
Retail and Municipals		
Residential	341.6	308.0
Commercial	352.2	328.7
Municipals	266.4	219.3
Industrial	1,705.4	1,822.3
Other	22.2	20.0
Total Retail and Municipals	2,687.8	2,698.3
Other Power Suppliers	524.0	505.1
Total Regulated Utility	3,211.8	3,203.4
Nonregulated Energy Operations	63.7	65.6
	3,275.5	3,269.0

REAL ESTATE REVENUE AND SALES ACTIVITY	QUARTER ENDED MARCH 31, 2007 QUANTITY	2007 AMOUNT	2006 QUANTITY	2006 AMOUNT
DOLLARS IN MILLIONS				
Town Center Sales				
Commercial Sq. Ft.	-	-	80,000	$ 1.5
Other Land Sales				
Acres <F1>	367	$ 6.0	456	10.3
Contract Sales Price <F2>		6.0		11.8
Revenue Recognized from Previously Deferred Sales		1.3		1.5
Deferred Revenue		-		(0.7)
Adjustments <F3>		-		(0.1)
Revenue from Land Sales		7.3		12.5
Other Revenue		0.9		1.2
		$ 8.2		$ 13.7

<FN>
<F1> Acreage amounts are shown on a gross basis, including wetlands and minority interest.
<F2> Reflected total contract sales price on closed land transactions.
<F3> Contributed development dollars, which are credited to cost of real estate sold.
</FN>

NET INCOME

The following income discussion summarizes, by segment, a comparison of the quarter ended March 31, 2007, to the quarter ended March 31, 2006.

REGULATED UTILITY contributed income of $18.8 million in 2007 ($13.0 million in 2006). The increase in earnings for 2007 reflect:

- increased electric sales to Residential, Commercial and Municipal customers, as well as increased gas sales at SWL&P due to colder weather in the first quarter of 2007;
- rate increases effective January 1, 2007, at SWL&P; and
- increased sales to other power suppliers under long-term contract.

NONREGULATED ENERGY OPERATIONS reported income of $2.2 million in 2007 ($0.9 million income in 2006), reflecting a $1.2 million after tax gain on land sold that was part of the land received when we purchased Taconite Harbor.

INVESTMENT IN ATC contributed income of $1.8 million in 2007. Our initial investment in ATC was in May 2006.

REAL ESTATE contributed income of $3.1 million in 2007 ($5.0 million in 2006). Income was higher in 2006 due to the timing and mix of land sale transaction closings. The timing of the closing of real estate sales varies from period to period and impacts comparisons between years.

OTHER reflected net income of $0.4 million in 2007 ($0.1 million loss in 2006), primarily due to additional investment income.

COMPARISON OF THE QUARTERS ENDED MARCH 31, 2007 AND 2006

(SEE NOTE 2. BUSINESS SEGMENTS FOR FINANCIAL RESULTS BY SEGMENT.)

REGULATED UTILITY

OPERATING REVENUE increased $17.8 million, or 11 percent, from 2006 primarily due to increased fuel clause recoveries, increased kilowatthour sales to Retail, Commercial and Municipal customers, increased power marketing sales, and increased gas revenue at SWL&P.

Fuel clause recoveries increased $7.3 million in 2007 as a result of increased purchased power expenses (See Fuel and Purchased Power Expense discussion on the next page).

Residential, Commercial and Municipal kilowatthour sales increased 104.2 million, or 12 percent, from 2006 reflecting a 10 percent increase in heating degree days in our service territory and two existing municipal customers converting to full-energy requirements. The converting customers contributed an additional 34.4 million in kilowatthour sales.

Revenue from other power suppliers increased $2.1 million, or 9 percent, from 2006 primarily due to an increase in kilowatthour sales to an existing customer under a long-term contract expiring in 2010. (See Part 1, Item 3. - Quantitative and Qualitative Disclosures about Market Risk - Power Marketing.)

Natural gas revenue increased $0.9 million from 2006 primarily due to higher sales as a result of colder weather and rate increases at SWL&P. New rates became effective January 1, 2007, at SWL&P and reflect a 2.8 percent increase in electric rates, a 1.4 percent increase in gas rates and an 8.6 percent increase in water rates.

Revenue from electric sales to taconite customers accounted for 23 percent of consolidated operating revenue in 2007 (24 percent in 2006). Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in 2007 and 2006. Revenue from electric sales to pipelines accounted for 6 percent of consolidated operating revenue in 2007 (6 percent in 2006).

COMPARISON OF THE QUARTERS ENDED MARCH 31, 2007 AND 2006 (CONTINUED)

REGULATED UTILITY (CONTINUED)

OPERATING EXPENSES increased $8.9 million, or 7 percent, from 2006.

FUEL AND PURCHASED POWER EXPENSE increased $8.3 million from 2006 primarily due to a $26.3 million increase in purchased power, which was partially offset by lower fuel expense. The increase in purchased power was due to a 79 percent increase in kilowatthours purchased and higher energy prices. Low hydro generation, outages at Boswell Units 3 & 4, Laskin Unit 1 (relating to the AREA Plan environmental retrofits), and Square Butte contributed to lower fuel and higher purchased power expenses. The replacement power costs are recovered through the regulated utility fuel adjustment clause in Minnesota.

From mid-March to mid-April, output from Boswell Unit 4 was reduced approximately 20 percent, due to a malfunction of one or more generator stator coils. Boswell Unit 4 was removed from service in mid-April, and is expected to be back in service at full capacity in mid-May after the affected coils are replaced. The cost of the replacement coils are covered under the original manufacturer's warranty.

OPERATING AND MAINTENANCE EXPENSE increased $1.1 million, or 2 percent, from 2006 due to a $0.7 million increase in expenses associated with outages at Boswell Units 3 & 4 and a $0.5 million increase at SWL&P primarily due to increased natural gas purchases.

INTEREST EXPENSE increased $0.1 million, or 2 percent, from 2006.

NONREGULATED ENERGY OPERATIONS

OPERATING REVENUE increased $0.5 million, or 3 percent, from 2006 primarily due to increased coal sales at BNI.

OPERATING EXPENSES increased $0.3 million, or 2 percent, from 2006 due to a $0.7 million increase in fuel and tire expense at BNI, partially offset by lower natural gas prices at Rapids Energy Center.

OTHER INCOME increased $2.0 million from 2006 reflecting a $1.9 million gain on land sold which was part of the land received when we purchased Taconite Harbor.

INVESTMENT IN ATC

OTHER INCOME reflected $2.9 million of income in 2007 resulting from our pro-rata share of ATC's earnings as discussed in Note 3.

REAL ESTATE

OPERATING REVENUE decreased $5.5 million, or 40 percent, from 2006 due to the timing and mix of land sale transaction closings. Revenue from land sales in 2007 was $7.3 million which included $1.3 million in previously deferred revenue. In 2006, revenue from land sales was $12.5 million which included $1.5 million in previously deferred revenue. In 2007, 367 acres of other land was sold (456 acres in 2006). For the quarter ended March 31, 2007, there were no commercial square feet sold. (80,000 commercial square feet sold at Town Center in 2006).

OPERATING EXPENSES decreased $0.5 million, or 15 percent, from 2006 reflecting a decrease in the cost of real estate sold ($0.9 million in 2007; $1.9 million in 2006).

OTHER

OPERATING EXPENSES decreased $0.8 million from 2006 reflecting lower general and administrative expenses.

INTEREST EXPENSE decreased $0.3 million from 2006.

OTHER INCOME increased $0.4 million from 2006 primarily due to additional investment income.

INCOME TAXES

For the quarter ended March 31, 2007, the effective tax rate on income from continuing operations before minority interest was 37.9 percent (36.6 percent for the quarter ended March 31, 2006). The effective rate of 37.9 percent for the quarter ended March 31, 2007, deviated from the statutory rate (approximately 40 percent) primarily due to deductions for Medicare health subsidies, domestic manufacturing deduction, allowance for funds used during construction and depletion.

CRITICAL ACCOUNTING ESTIMATES

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, regulatory accounting, 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 Part II, Item 7 of our 2006 Form 10-K.

OUTLOOK

EARNINGS GUIDANCE. We expect ALLETE's diluted earnings per share from continuing operations to be in the range previously indicated in the 2006 10-K. The guidance stated that the Company's earnings are expected to be between $2.95 to $3.05. This earnings projection does not include an impact from any investment we may make in new growth opportunities.

ENERGY.

LARGE POWER CUSTOMERS. Electric power is a key component in the mining, taconite and paper production industries. Sales to our Large Power Customers within these industries represent more than half of Minnesota Power's regulated utility electric sales. On April 25, 2007, the MPUC approved our electric service agreement with PolyMet Mining, Inc. (PolyMet). In 2006, a contract for approximately 70 MW was successfully negotiated with PolyMet, a new industrial customer planning to start a copper, nickel and precious metals (non-ferrous) mining operation in late 2008. If PolyMet's environmental permits are received and start-up is achieved, the contract with PolyMet will run through at least 2018.

AREA AND BOSWELL 3 EMISSION REDUCTION PLAN. To date, we have spent $17.7 million of the expected $60 million on the AREA project. On April 15, 2007, Laskin Unit 1 was placed back in service and cost-recovery will begin May 1, 2007. A cost-recovery filing was made for Taconite Harbor Unit 2 on March 27, 2007, with expected cost-recovery beginning July 1, 2007, pending MPUC approval. On April 26, 2007, the DOC filed comments recommending approval of the cost-recovery filing for Taconite Harbor Unit 2. To date, we have spent $18.3 million of the expected $200 million on the Boswell Unit 3 emission reduction plan. In late March 2007, the Boswell Unit 3 project received the necessary construction permits. On April 25, 2007, the MPCA issued its assessment of the Boswell Unit 3 Emission Reduction Plan under the Mercury Emissions Reduction Act of 2006. The MPCA found that Minnesota Power's plan meets the statutory requirements and found it appropriate. We expect to begin construction in May 2007.

MINNESOTA FUEL CLAUSE INVESTIGATION. In June 2003, the MPUC initiated an investigation into the continuing usefulness of the fuel clause as a regulatory tool for electric utilities. Minnesota Power's initial comments on the proposed scope and procedure of the investigation were filed in July 2003. In November 2003, the MPUC approved the initial scope and procedure of the investigation. The investigation's purpose was to focus on whether the fuel clause continues to be an appropriate regulatory tool. Subsequent comments were filed during 2004. The Docket then became dormant while the MISO Day 2 Docket, which held many fuel clause considerations, became very active. In March 2007, the MPUC solicited comments on whether the original fuel clause investigation should continue and, if so, what issues should be pursued. Minnesota Power filed comments in April 2007, suggesting that if the investigation continued, it should focus on remaining key elements of the fuel clause, beyond the purchased power transactions examined in the MISO Day 2 proceeding, such as fuel purchases and outages. Additionally, Minnesota Power's comments suggested that more specialized fuel clause issues be addressed in separate dockets on an as needed basis.

RENEWABLE ENERGY. In February 2007, the Minnesota Legislature enacted a law requiring most electric utilities to generate 25 percent of their energy through renewable energy sources by 2025. Minnesota Power worked with other stakeholders to ensure the legislation included provisions for allowing regulatory assessment of the cost and feasibility on individual utilities of meeting the 25 percent standard on individual utilities. Minnesota Power was developing and making renewable supply additions as part of its generation planning strategy prior to this legislation and this activity will continue.

In December 2006, we began purchasing the output from a 50-MW wind facility located in North Dakota, Oliver Wind I, under a 25-year power purchase agreement with an affiliate of FPL Energy.

In January 2007, we filed with the MPUC a second 25-year wind power purchase agreement and related renewable resource rider to purchase an additional 48-MW of wind energy from Oliver Wind II, an expansion of Oliver Wind I located in North Dakota. The project is expected to be operational by the end of 2007, pending MPUC approval. The MPUC hearing on the Oliver Wind II project was scheduled for May 3, 2007.

In April 2007, we filed with the MPUC for approval of two 20-year Community-Based Energy Development (C-BED) Project power purchase agreements. The 2.5-MW Wing River Wind C-BED Project, with Wing River Wind, LLC is expected to be operational by the end of June 2007, pending MPUC approval. The 30-MW Bear Creek Wind Partners project, with Bear Creek Wind Partners, LLC is expected to be operational by the end of 2008, pending MPUC approval. Per Minnesota Statute, the power purchase agreements will be deemed approved unless objection is received within 30 days of the filing, which would be on May 29, 2007.

In the fall of 2007, pending MPUC approval of a wind facility site permit, we intend to begin construction of the 25-MW Taconite Ridge Wind Facility, to be located in Northeastern Minnesota. The Taconite Ridge Wind Facility is expected to become operational in mid-2008.

Minnesota Power continues to investigate additional renewable energy resources including biomass, hydroelectric and wind generation that will help it meet the Minnesota 25 percent renewable energy standard. The Company will submit plans regarding the additional renewable energy options currently under study as a part of its Resource Plan filing with the State of Minnesota by November 1, 2007. We will also make specific renewable project filings for regulatory approval as needed.

INVESTMENT IN ATC. In February 2007, we completed our $60 million investment in ATC. As of March 31, 2007 our equity investment was $63.7 million, representing an 8.5 percent ownership interest. As opportunities arise, we plan to make additional investments in ATC through general capital calls based upon our pro-rata ownership interest in ATC. (See Note 3.)

REAL ESTATE. In June 2005, we began selling property from our Town Center development project. In August 2006, we began selling property from our Palm Coast Park development project. 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. As of March 31, 2007, we had $3.2 million ($4.3 million revenue; $0.9 million cost of real estate sold; $0.2 million selling expense) of deferred profit on sales of real estate, before taxes and minority interest, on our consolidated balance sheet. The majority of deferred profit relates to sales at Town Center.

REAL ESTATE PENDING CONTRACTS	CONTRACT

AT MARCH 31, 2007	QUANTITY <F1>	SALES PRICE
DOLLARS IN MILLIONS		
Town Center		
Commercial Sq. Ft.	827,200	$ 26.1
Residential Units	1,040	16.2
Palm Coast Park		
Commercial Sq. Ft.	50,000	2.5
Residential Units	2,387	60.1
Other Land		
Acres	207	6.2
		$ 111.1

<FN>
<F1> 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.
</FN>

At March 31, 2007, total pending land sales under contract were $111.1 million and are anticipated to close at various times through 2012. Pending land sales under contract for properties at Town Center and Palm Coast Park totaled $42.3 million and $62.6 million, respectively. Prices on these contracts range from $20 to $60 per commercial square foot, $8,000 to $34,000 per residential unit and $11,000 to $127,000 per acre for all other properties. Prices per acre are stated on a gross acreage basis and are dependent on the type and location of the properties sold. The majority of the other properties under contract are zoned commercial or mixed use. In addition to minimum-base price contracts, certain contracts allow us to receive participation revenue from land sales to third parties if various formula-based criteria are achieved.

If a purchaser defaults under terms of a contract, our remedies generally include retention of the purchaser's deposit and the ability to remarket the property to other prospective buyers. In many cases, the purchaser has also incurred significant costs in planning, designing and marketing of the property under contract before the contract closes.

SUMMARY OF DEVELOPMENT PROJECTS FOR THE QUARTER ENDED MARCH 31, 2007	OWNERSHIP	TOTAL ACRES <F1>	RESIDENTIAL UNITS <F2>	COMMERCIAL SQ. FT. <F2><F3>
Town Center	80%			
At December 31, 2006		1,356	2,222	2,705,310
Change in Estimate <F1>		17	97	23,537
		1,373	2,319	2,728,847
Palm Coast Park	100%			
At December 31, 2006		4,337	3,760	3,156,800
Change in Estimate <F1>		112	-	-
		4,449	3,760	3,156,800
Ormond Crossings	100%			
At December 31, 2006		5,960	<F4>	<F4>
Change in Estimate <F1>		8		
		5,968		
		11,790	6,079	5,885,647

<FN>
<F1> 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.
<F2> Estimated and includes minority interest. The actual property breakdown at full build-out may be different than these estimates.
<F3> Includes industrial, office and retail square footage.
<F4> A development order approval from the city of Ormond Crossings was received in December 2006, for up to 3,700 residential units and 5 million commercial square feet. A development order from Flagler County is currently under review, and if approved, Ormond Crossings will receive entitlements for up to 700 additional residential units. Actual build-out, however, will consider market demand as well as infrastructure and mitigation costs.
</FN>

OUTLOOK (CONTINUED)

SUMMARY OF OTHER LAND INVENTORIES FOR THE QUARTER ENDED MARCH 31, 2007	OWNERSHIP	TOTAL	MIXED USE	RESIDENTIAL	COMMERCIAL	AGRICULTURAL
ACRES <F1>						
Palm Coast Holdings	80%					
At December 31, 2006		2,136	1,404	346	247	139
Change in Estimate		(666)	(474)	(244)	101	(49)
		1,470	930	102	348	90
Lehigh	80%					
At December 31, 2006		223	-	140	74	9
Change in Estimate		-	-	-	-	-
		223	-	140	74	9
Cape Coral	100%					
At December 31, 2006		30	-	1	29	-
Property Sold		(3)	-	-	(3)	-
		27	-	1	26	-
Other <F2>	100%					
At December 31, 2006		934	-	-	-	934
Property Sold		(364)	-	-	-	(364)
Change in Estimate		(113)	-	-	-	(113)
		457	-	-	-	457
		2,177	930	243	448	556

<FN>
<F1> 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.
<F2> Includes land located in Ormond Beach, Florida and other land located in Palm Coast, Florida not included in development projects.
</FN>

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITIES

We believe our financial condition is strong, as evidenced by cash and cash equivalents and short-term investments of $128.5 million, and a debt to total capital ratio of 36 percent at March 31, 2007.

OPERATING ACTIVITIES. Cash flows from operating activities were $26.2 million for the quarter ended March 31, 2007 ($44.2 million for the quarter ended March 31, 2006). Cash from operating activities was lower in 2007, primarily due to an $18.3 million change in cash flow from deferred fuel costs (included in Prepayments and Other) yet to be recovered through future billings. Deferred fuel costs increased due to generation outages, lower hydro generation and cooler weather in the first quarter of 2007 resulting in increased purchased power. Cash flow from accounts receivable collections in 2006 was higher due to the collection of deferred fuel cost billings related to outages in late 2005.

Cash used for discontinued operations was higher in 2006 due to payment of $12.6 million of accrued liabilities from 2005.

INVESTING ACTIVITIES. Cash flow used in investing activities was $20.2 million for the quarter ended March 31, 2007 ($49.2 million for the quarter ended March 31, 2006). Cash used for investing activities was lower in 2007 than 2006, primarily due to decreased activity within our short-term investment portfolio. In 2007, net proceeds of $22.4 million were received from the sale of short-term investments, while 2006 included $44.6 million of net purchases. Cash used for investing activities in 2007 reflected $8.7 million invested in ATC and an $11.9 million increase in additions to property, plant and equipment due to major environmental construction projects.

FINANCING ACTIVITIES. Cash flow used in financing activities was $4.4 million for the quarter ended March 31, 2007 ($9.6 million for the quarter ended March 31, 2006). The decrease in cash used for financing activities reflected a $2.7 million increase in borrowings under the line of credit at ALLETE Properties in 2007 and dividends paid of $0.4 million.

WORKING CAPITAL. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. We have 0.5 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 2012. 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.

SECURITIES

There have been no material changes from the securities disclosed under the heading "Securities" in Part II, Item 7 of our 2006 Form 10-K.

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements are summarized in our 2006 Form 10-K, with additional disclosure discussed in Note 10 of this Form 10-Q.

CAPITAL REQUIREMENTS

For the quarter ended March 31, 2007, capital expenditures for continuing operations totaled $21.9 million ($13.6 million in 2006), which were spent in the Regulated Utility segment. 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. Additional disclosure regarding the Town Center and Palm Coast Park district tax-exempt bonds is included in Note 10 of this Form 10-Q.

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 restrictive environmental requirements through legislation and/or rulemaking in the future, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. We are unable to predict the outcome of the matters discussed in Note 10 of this Form 10-Q.

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. As of March 31, 2007, our available-for-sale securities portfolio consisted 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. Our available-for-sale securities portfolio had a fair value of $109.9 million at March 31, 2007 ($130.1 million at December 31, 2006) and a total unrealized after-tax gain of $4.2 million at March 31, 2007 ($4.0 million at December 31, 2006).

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 share price trends and the impact of overall market conditions. As a result of our periodic assessments, we did not record any impairments on our available-for-sale securities for the quarter ended March 31, 2007.

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 investments in venture capital funds under the equity method and account for our direct investments 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 March 31, 2007 ($9.2 million at December 31, 2006). 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 March 31, 2007, and December 31, 2006.

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 resulted 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 typically 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 10 of this Form 10-Q, 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 2006 Form 10-K.

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

None.

ITEM 5. OTHER INFORMATION

Reference is made to our 2006 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to our 2006 Form 10-K.

Ref. Page 8 - Energy - Regulated Utility, Large Power Customer Contracts, First Full Paragraph

On December 12, 2006, Minnesota Power announced it reached an agreement with PolyMet to provide all of its electric service needs through 2018 at its proposed copper, nickel and precious metals mining operation located in northeastern Minnesota. PolyMet plans to begin commercial operations at its mine and process plant complex near Hoyt Lakes, Minnesota, by late 2008, pending completion of financing arrangements and receipt of regulatory approvals. Once fully operational, it is anticipated that PolyMet will require approximately 70 MW of electric power, becoming one of Minnesota Power's large industrial customers. The PolyMet electric service agreement was approved by the MPUC on April 25, 2007.

Ref. Page 8 - Energy - Regulated Utility, Large Power Customer Contracts - Fifth

Paragraph

MINIMUM REVENUE AND DEMAND UNDER CONTRACT AS OF MARCH 31, 2007	MINIMUM ANNUAL REVENUE <F1><F2>	MONTHLY MEGAWATTS
	MILLIONS	
2007	$96.9	625
2008	$31.4	180
2009	$25.9	148
2010	$25.8	148
2011	$19.0	106

<FN>
<F1> Based on past experience, we believe revenue from our large power customers will be substantially in excess of the minimum contract amounts.
<F2> Although several contracts have a feature that allows demand to go to zero after a two-year advance notice of a permanent closure, this minimum revenue summary does not reflect this occurrence happening in the forecasted period because we believe it is unlikely.
</FN>

ITEM 5. OTHER INFORMATION (CONTINUED)

Ref. Page 16 - Real Estate, Fifth Full Paragraph

In April 2007, Palm Coast Center, LLC, (a joint venture between Developers Realty Corporation "DRC" and Weingarten Realty Investors) and Target Corporation closed on the entire 50-acre power center site. The aggregate sales price was $12.6 million plus a $1.0 million contribution to pay a portion of the site preparation costs.

Ref. Page 49 - Credit Ratings, Fifth Full Paragraph

CREDIT RATINGS

As of April 20, 2007 our securities have been rated by Standard & Poor's and by Moody's. Rating agencies use both quantitative and qualitative measures in determining a company's credit rating. According to the rating agencies, some of these factors include business risk, liquidity risk, competitive position, capital mix, financial condition, predictability of cash flows, management strength and future direction. Some of the quantitative measures can be analyzed through a few key financial ratios, while the qualitative ones are more subjective. The disclosure of these credit ratings is not a recommendation to buy, sell or hold our securities. Ratings are subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

CREDIT RATINGS	STANDARD & POOR'S	MOODY'S
Issuer Credit Rating	BBB+	Baa2
Commercial Paper	A-2	P-2
Senior Secured		
First Mortgage Bonds	A-	Baa1
Pollution Control Bonds	A	Baa1
Unsecured Debt		
Collier County Industrial Development Revenue Bonds - Fixed Rate	BBB	-

Ref. Page 75 - Fuel Clause Recovery of MISO Day 2 Costs, Seventh Full Paragraph

On January 8, 2007, the Minnesota Office of Attorney General petitioned for reconsideration of the MPUC's December 20, 2006, order. Accordingly, Minnesota Power delayed implementation of the order and continued to recover MISO Day 2 costs consistent with previously issued interim orders. On February 15, 2007, the MPUC declined to address the Minnesota Office of Attorney General's request for reconsideration. On April 10, 2007, the Minnesota Office of Attorney General filed an appeal with the Minnesota Court of Appeals. The appeal does not alter current cost recovery of MISO charges in accordance with the MPUC's order. Minnesota Power timely responded to the Minnesota Office of Attorney General's notice of filing, and awaits the court's scheduling order setting forth a briefing schedule.

ITEM 6. EXHIBITS

EXHIBIT NUMBER	
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 May 4, 2007, announcing 2007 first quarter earnings. (THIS EXHIBIT HAS BEEN FURNISHED AND SHALL NOT BE DEEMED "FILED" FOR PURPOSES OF SECTION 18 OF THE SECURITIES EXCHANGE ACT OF 1934, NOR SHALL IT BE DEEMED INCORPORATED BY REFERENCE IN ANY FILING UNDER THE SECURITIES ACT OF 1933, EXCEPT AS SHALL BE EXPRESSLY SET FORTH BY SPECIFIC REFERENCE IN SUCH FILING.)

SIGNATURES

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

ALLETE, INC.

May 4, 2007

Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

May 4, 2007

Steven Q. DeVinck

Steven Q. DeVinck
Controller

EXHIBIT 31(a)
ALLETE First Quarter 2007 Form 10-Q

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 March 31, 2007, of ALLETE;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2007 Donald J. Shippar

Donald J. Shippar
Chairman, President and Chief Executive Officer

EXHIBIT 31(b)
ALLETE First Quarter 2007 Form 10-Q

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 March 31, 2007, of ALLETE;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2007 Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

SECTION 1350 CERTIFICATION OF PERIODIC REPORT
BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

1. The Quarterly Report on Form 10-Q of ALLETE for the quarterly period ended March 31, 2007, (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ALLETE.

Date: May 4, 2007 Donald J. Shippar

Donald J. Shippar
President and Chief Executive Officer

Date: May 4, 2007 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.

[ALLETE LOGO]

For Release: May 4, 2007
CONTACT: Eric Olson
218-723-3947
eolson@allete.com

INVESTOR CONTACT: Tim Thorp
218-723-3953
tthorp@allete.com

NEWS

ALLETE'S EPS CLIMBS 37% OVER FIRST QUARTER 2006

ALLETE, Inc. (NYSE: ALE) today reported first quarter 2007 earnings of 93 cents per share, a 37 percent increase over the 68 cents per share recorded in the first quarter of 2006.

ALLETE's net income in the first quarter of 2007 was $26.3 million on operating revenue of $205.3 million, compared to net income of $18.8 million on operating revenue of $192.5 million in the first quarter of 2006.

"We're pleased to begin the year on such a positive note," said Don Shippar, ALLETE's Chairman, President and Chief Executive Officer. "These results provide a solid foundation for what we expect will be another strong year financially. They're in line with our expectation of earning between $2.95 and $3.05 per share in 2007."

ALLETE's Regulated Utility net income climbed from $13.0 million in the first quarter of 2006 to $18.8 million in 2007. The increase was due, in part, to a ten percent jump in heating degree days from 2006 to 2007, which increased electricity sales to residential, commercial and municipal customers. Sales to industrial customers remained strong.

Nonregulated Energy Operations net income of $2.2 million in the first quarter of 2007 included a $1.2 million gain from a sale of property in northeastern Minnesota.

Net income from ALLETE's investment in ATC, which commenced in May of 2006, continued to grow, to $1.8 million during the first quarter of 2007. As of March 31, 2007, ALLETE had an investment balance of $63.7 million in ATC.

ALLETE's Real Estate segment recorded net income of $3.1 million during the quarter. The timing of real estate closings varies from quarter to quarter. As of March 31, 2007, ALLETE Properties had $111.1 million in sales under contract.

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.

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ALLETE, INC.
CONSOLIDATED STATEMENT OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2007 AND 2006
Millions Except Per Share Amounts

QUARTER ENDED

	2007	2006
OPERATING REVENUE	$205.3	$192.5
OPERATING EXPENSES		
Fuel and Purchased Power	77.7	69.4
Operating and Maintenance	74.6	74.5
Depreciation	11.7	12.2
Total Operating Expenses	164.0	156.1
OPERATING INCOME FROM CONTINUING OPERATIONS	41.3	36.4
OTHER INCOME (EXPENSE)		
Interest Expense	(6.3)	(6.4)
Other	7.5	1.7
Total Other Income (Expense)	1.2	(4.7)
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND INCOME TAXES	42.5	31.7
MINORITY INTEREST	0.1	1.3
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	42.4	30.4
INCOME TAX EXPENSE	16.1	11.6
INCOME FROM CONTINUING OPERATIONS	26.3	18.8
INCOME FROM DISCONTINUED OPERATIONS - NET OF TAX	-	-
NET INCOME	$ 26.3	$ 18.8
AVERAGE SHARES OF COMMON STOCK		
Basic	28.1	27.6
Diluted	28.1	27.7
BASIC AND DILUTED EARNINGS PER SHARE OF COMMON STOCK		
Continuing Operations	$0.93	$0.68
Discontinued Operations	-	-
	$0.93	$0.68
DIVIDENDS PER SHARE OF COMMON STOCK	$0.4100	$0.3625

CONSOLIDATED BALANCE SHEET
Millions

	MAR. 31, 2007	DEC. 31, 2006
ASSETS		
Cash and Short-Term Investments	$ 128.5	$ 149.3
Other Current Assets	153.3	138.4
Property, Plant and Equipment	933.0	921.6
Investments	206.7	189.1
Other	138.6	135.0
TOTAL ASSETS	$1,560.1	$1,533.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities	$ 145.4	$ 143.5
Long-Term Debt	359.3	359.8
Other Liabilities	367.7	364.3
Shareholders' Equity	687.7	665.8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,560.1	$1,533.4

ALLETE, INC.	QUARTER ENDED MARCH 31, 2007	2006
INCOME (LOSS) Millions		
Regulated Utility	$18.8	$13.0
Nonregulated Energy Operations	2.2	0.9
ATC	1.8	-
Real Estate	3.1	5.0
Other	0.4	(0.1)
Income from Continuing Operations	26.3	18.8

Income from Discontinued Operations	-	-
Net Income	$26.3	$18.8
DILUTED EARNINGS PER SHARE		
Continuing Operations	$0.93	$0.68
Discontinued Operations	-	-
	$0.93	$0.68

STATISTICAL DATA

CORPORATE		
Common Stock		
High	$49.69	$47.81
Low	$44.93	$42.99
Close	$46.62	$46.60
Book Value	$22.54	$20.48
KILOWATTHOURS SOLD		
Millions		
Regulated Utility		
Retail and Municipals		
Residential	341.6	308.0
Commercial	352.2	328.7
Municipals	266.4	219.3
Industrial	1,705.4	1,822.3
Other	22.2	20.0
Total Retail and Municipal	2,687.8	2,698.3
Other Power Suppliers	524.0	505.1
Total Regulated Utility	3,211.8	3,203.4
Nonregulated Energy Operations	63.7	65.6
Total Kilowatthours Sold	3,275.5	3,269.0
REAL ESTATE		
Town Center Development Project		
Commercial Square Footage Sold	-	80,000
Residential Units	-	-
Palm Coast Park Development Project		
Residential Units	-	-
Other Land		
Acres Sold	367	456
Lots Sold	-	-

[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.]