

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended **June 30, 2018**

or

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

Commission File Number **1-3548**

ALLETE, Inc.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0418150

(IRS Employer Identification No.)

30 West Superior Street

Duluth, Minnesota 55802-2093

(Address of principal executive offices)

(Zip Code)

(218) 279-5000

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

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

Common Stock, without par value,
51,360,616 shares outstanding
as of June 30, 2018

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Definitions

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

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

<u>Abbreviation or Acronym</u>	<u>Term</u>
Montana-Dakota Utilities	Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
NAAQS	National Ambient Air Quality Standards
NDPSC	North Dakota Public Service Commission
NOL	Net Operating Loss
NO ₂	Nitrogen Dioxide
NO _x	Nitrogen Oxides
Northern States Power	Northern States Power Company, a subsidiary of Xcel Energy Inc.
Northshore Mining	Northshore Mining Company, a wholly-owned subsidiary of Cleveland-Cliffs Inc.
Note ____	Note ____ to the Consolidated Financial Statements in this Form 10-Q
NPDES	National Pollutant Discharge Elimination System
NTEC	Nemadji Trail Energy Center
Oliver Wind I	Oliver Wind I Energy Center
Oliver Wind II	Oliver Wind II Energy Center
Palm Coast Park District	Palm Coast Park Community Development District in Florida
PolyMet	PolyMet Mining Corp.
PPA / PSA	Power Purchase Agreement / Power Sales Agreement
PPACA	Patient Protection and Affordable Care Act of 2010
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
Silver Bay Power	Silver Bay Power Company, a wholly-owned subsidiary of Cleveland-Cliffs Inc.
SO ₂	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative, a North Dakota cooperative corporation
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
TCJA	Tax Cuts and Job Act of 2017 (Public Law 115-97)
Tenaska	Tenaska Energy, Inc. and Tenaska Energy Holdings, LLC
Tonka Water	Tonka Equipment Company
Town Center District	Town Center at Palm Coast Community Development District in Florida
UPM Blandin	UPM, Blandin Paper Mill owned by UPM-Kymmene Corporation
U.S.	United States of America
U.S. Water Services	U.S. Water Services Holding Company and its subsidiaries
USS Corporation	United States Steel Corporation
WTG	Wind Turbine Generator

Forward-Looking Statements

Statements in this report that are not statements of historical facts are considered “forward-looking” and, accordingly, involve risks and uncertainties that could cause actual results to differ materially from those discussed. Although such forward-looking statements have been made in good faith and are based on reasonable assumptions, there can be no assurance that the expected results will be achieved. Any statements that express, or involve discussions as to, future expectations, risks, beliefs, plans, objectives, assumptions, events, uncertainties, financial performance, or growth strategies (often, but not always, through the use of words or phrases such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “projects,” “likely,” “will continue,” “could,” “may,” “potential,” “target,” “outlook” or words of similar meaning) are not statements of historical facts and may be forward-looking.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are providing this cautionary statement to identify important factors that could cause our actual results to differ materially from those indicated in forward-looking statements made by or on behalf of ALLETE in this Form 10-Q, in presentations, on our website, in response to questions or otherwise. These statements are qualified in their entirety by reference to, and are accompanied by, the following important factors, in addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements that could cause our actual results to differ materially from those indicated in the forward-looking statements:

- our ability to successfully implement our strategic objectives;
- global and domestic economic conditions affecting us or our customers;
- changes in and compliance with laws and regulations;
- changes in tax rates or policies or in rates of inflation;
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements;
- weather conditions, natural disasters and pandemic diseases;
- our ability to access capital markets and bank financing;
- changes in interest rates and the performance of the financial markets;
- project delays or changes in project costs;
- changes in operating expenses and capital expenditures and our ability to raise revenues from our customers in regulated rates or sales price increases at our Energy Infrastructure and Related Services businesses;
- the impacts of commodity prices on ALLETE and our customers;
- our ability to attract and retain qualified, skilled and experienced personnel;
- effects of emerging technology;
- war, acts of terrorism and cybersecurity attacks;
- our ability to manage expansion and integrate acquisitions;
- population growth rates and demographic patterns;
- wholesale power market conditions;
- federal and state regulatory and legislative actions that impact regulated utility economics, including our allowed rates of return, capital structure, ability to secure financing, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities and utility infrastructure, recovery of purchased power, capital investments and other expenses, including present or prospective environmental matters;
- effects of competition, including competition for retail and wholesale customers;
- effects of restructuring initiatives in the electric industry;
- the impacts on our Regulated Operations segment of climate change and future regulation to restrict the emissions of GHG;
- effects of increased deployment of distributed low-carbon electricity generation resources;
- the impacts of laws and regulations related to renewable and distributed generation;
- pricing, availability and transportation of fuel and other commodities and the ability to recover the costs of such commodities;
- our current and potential industrial and municipal customers’ ability to execute announced expansion plans;
- real estate market conditions where our legacy Florida real estate investment is located may not improve;
- the success of efforts to realize value from, invest in, and develop new opportunities in, our Energy Infrastructure and Related Services businesses; and
- factors affecting our Energy Infrastructure and Related Services businesses, including fluctuations in the volume of customer orders, unanticipated cost increases, changes in legislation and regulations impacting the industries in which the customers served operate, the effects of weather, creditworthiness of customers, ability to obtain materials required to perform services, and changing market conditions.

Forward-Looking Statements (Continued)

Additional disclosures regarding factors that could cause our results or performance to differ from those anticipated by this report are discussed in Part I, Item 1A. Risk Factors of ALLETE's 2017 Form 10-K, and in Part II, Item 1A. Risk Factors in this Form 10-Q. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by ALLETE in this Form 10-Q and in other reports filed with the SEC that attempt to identify the risks and uncertainties that may affect ALLETE's business.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Unaudited

	June 30, 2018	December 31, 2017
Millions		
Assets		
Current Assets		
Cash and Cash Equivalents	\$121.9	\$98.9
Accounts Receivable (Less Allowance of \$2.3 and \$2.1)	132.4	135.1
Inventories – Net	145.4	95.9
Prepayments and Other	24.3	37.6
Total Current Assets	424.0	367.5
Property, Plant and Equipment – Net	3,809.3	3,822.4
Regulatory Assets	374.5	384.7
Investment in ATC	123.6	118.7
Other Investments	52.5	53.1
Goodwill and Intangible Assets – Net	225.8	225.9
Other Non-Current Assets	105.0	107.7
Total Assets	\$5,114.7	\$5,080.0
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	\$105.0	\$136.3
Accrued Taxes	42.0	50.0
Accrued Interest	18.0	17.6
Long-Term Debt Due Within One Year	56.7	64.1
Other	128.5	83.2
Total Current Liabilities	350.2	351.2
Long-Term Debt	1,462.2	1,439.2
Deferred Income Taxes	228.5	230.5
Regulatory Liabilities	516.0	532.0
Defined Benefit Pension and Other Postretirement Benefit Plans	175.2	191.8
Other Non-Current Liabilities	274.4	267.1
Total Liabilities	3,006.5	3,011.8
Commitments, Guarantees and Contingencies (Note 13)		
Shareholders' Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 51.4 and 51.1 Shares Issued and Outstanding	1,415.4	1,401.4
Accumulated Other Comprehensive Loss	(27.6)	(22.6)
Retained Earnings	720.4	689.4
Total Shareholders' Equity	2,108.2	2,068.2
Total Liabilities and Shareholders' Equity	\$5,114.7	\$5,080.0

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF INCOME
Unaudited

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Millions Except Per Share Amounts				
Operating Revenue				
Contracts with Customers – Utility	\$257.8	\$264.9	\$528.0	\$546.5
Contracts with Customers – Non-utility	80.4	82.5	162.4	160.6
Other – Non-utility	5.9	5.9	11.9	11.8
Total Operating Revenue	344.1	353.3	702.3	718.9
Operating Expenses				
Fuel, Purchased Power and Gas – Utility	96.5	93.1	197.4	189.7
Transmission Services – Utility	16.8	17.6	35.2	34.2
Cost of Sales – Non-utility	37.0	38.4	69.9	69.9
Operating and Maintenance	86.8	85.9	173.3	170.3
Depreciation and Amortization	56.1	50.1	101.9	100.6
Taxes Other than Income Taxes	14.4	14.2	30.7	28.6
Total Operating Expenses	307.6	299.3	608.4	593.3
Operating Income	36.5	54.0	93.9	125.6
Other Income (Expense)				
Interest Expense	(17.1)	(16.7)	(34.0)	(33.9)
Equity Earnings in ATC	4.3	5.3	9.0	11.4
Other	2.2	1.6	4.3	3.2
Total Other Expense	(10.6)	(9.8)	(20.7)	(19.3)
Income Before Income Taxes	25.9	44.2	73.2	106.3
Income Tax Expense (Benefit)	(5.4)	7.3	(9.1)	20.4
Net Income	\$31.3	\$36.9	\$82.3	\$85.9
Average Shares of Common Stock				
Basic	51.3	50.9	51.2	50.5
Diluted	51.5	51.1	51.4	50.7
Basic Earnings Per Share of Common Stock	\$0.61	\$0.73	\$1.61	\$1.70
Diluted Earnings Per Share of Common Stock	\$0.61	\$0.72	\$1.60	\$1.69
Dividends Per Share of Common Stock	\$0.56	\$0.535	\$1.12	\$1.07

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Millions				
Net Income	\$31.3	\$36.9	\$82.3	\$85.9
Other Comprehensive Income (Loss)				
Currency Translation Adjustments	—	(0.2)	—	(0.2)
Unrealized Gain (Loss) on Securities				
Net of Income Tax Expense of \$-, \$0.2, \$- and \$0.5	—	0.4	(0.1)	0.7
Defined Benefit Pension and Other Postretirement Benefit Plans				
Net of Income Tax Expense of \$0.1, \$0.2, \$0.2 and \$0.3	0.3	0.2	0.7	0.4
Total Other Comprehensive Income	0.3	0.4	0.6	0.9
Total Comprehensive Income	\$31.6	\$37.3	\$82.9	\$86.8

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

Six Months Ended
June 30,
2018 **2017**

Millions		
Operating Activities		
Net Income	\$82.3	\$85.9
AFUDC – Equity	(0.5)	(0.4)
Income from Equity Investments – Net of Dividends	(0.4)	(2.5)
Change in Fair Value of Contingent Consideration	—	(0.4)
Depreciation Expense	99.2	97.9
Amortization of PSAs	(11.9)	(11.8)
Amortization of Other Intangible Assets and Other Assets	5.0	5.3
Deferred Income Tax Expense	(9.5)	20.2
Share-Based and ESOP Compensation Expense	3.3	3.3
Defined Benefit Pension and Postretirement Benefit Expense	4.3	5.0
Provision for Interim Rate Refund	8.8	—
Provision for Tax Reform Refund	6.7	—
Bad Debt Expense	0.7	—
Changes in Operating Assets and Liabilities		
Accounts Receivable	1.7	2.4
Inventories	(3.2)	0.8
Prepayments and Other	2.8	4.3
Accounts Payable	8.1	(12.6)
Other Current Liabilities	(1.3)	(12.8)
Cash Contributions to Defined Benefit Pension Plans	(15.0)	(1.7)
Changes in Regulatory and Other Non-Current Assets	5.8	6.7
Changes in Regulatory and Other Non-Current Liabilities	7.5	(5.2)
Cash from Operating Activities	194.4	184.4
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	7.2	1.0
Payments for Purchase of Available-for-sale Securities	(9.8)	(1.6)
Investment in ATC	(3.9)	(5.0)
Additions to Property, Plant and Equipment	(133.4)	(81.1)
Other Investing Activities	1.4	2.0
Cash for Investing Activities	(138.5)	(84.7)
Financing Activities		
Proceeds from Issuance of Common Stock	10.7	74.4
Proceeds from Issuance of Long-Term Debt	72.0	86.2
Repayments of Long-Term Debt	(57.9)	(127.0)
Acquisition-Related Contingent Consideration Payments	—	(19.7)
Dividends on Common Stock	(57.4)	(54.0)
Other Financing Activities	(0.6)	(1.4)
Cash for Financing Activities	(33.2)	(41.5)
Change in Cash, Cash Equivalents and Restricted Cash	22.7	58.2
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	110.1	38.3
Cash, Cash Equivalents and Restricted Cash at End of Period	\$132.8	\$96.5

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Unaudited

	Total Shareholders' Equity	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock
Millions				
Balance as of December 31, 2017	\$2,068.2	\$689.4	\$(22.6)	\$1,401.4
Adjustments to Opening Balance – Net of Income Taxes (a)	0.5	6.1	(5.6)	—
Balance as of January 1, 2018	2,068.7	695.5	(28.2)	1,401.4
Comprehensive Income				
Net Income	82.3	82.3	—	—
Other Comprehensive Income – Net of Income Taxes				
Unrealized Loss on Debt Securities	(0.1)	—	(0.1)	—
Defined Benefit Pension and Other Postretirement Plans	0.7	—	0.7	—
Total Comprehensive Income	82.9			
Common Stock Issued	14.0	—	—	14.0
Dividends Declared	(57.4)	(57.4)	—	—
Balance as of June 30, 2018	\$2,108.2	\$720.4	\$(27.6)	\$1,415.4

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

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and do not include all of the information and notes required by GAAP for complete financial statements. Similarly, the December 31, 2017, Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, these unaudited financial statements include all adjustments necessary for a fair statement of financial results. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Operating results for the six months ended June 30, 2018, are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2018. For further information, refer to the Consolidated Financial Statements and notes included in our 2017 Form 10-K.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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

Cash, Cash Equivalents and Restricted Cash	June 30, 2018	December 31, 2017	June 30, 2017	December 31, 2016
Millions				
Cash and Cash Equivalents	\$121.9	\$98.9	\$84.2	\$27.5
Restricted Cash included in Prepayments and Other	2.3	2.6	3.7	2.2
Restricted Cash included in Other Non-Current Assets	8.6	8.6	8.6	8.6
Cash, Cash Equivalents and Restricted Cash on the Consolidated Statement of Cash Flows	\$132.8	\$110.1	\$96.5	\$38.3

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

Inventories – Net	June 30, 2018	December 31, 2017
Millions		
Fuel (a)	\$31.4	\$34.8
Materials and Supplies	44.3	46.5
Construction of Wind Energy Facility (b)	54.1	—
Raw Materials	3.0	2.8
Work in Progress	4.4	4.2
Finished Goods	9.1	8.3
Reserve for Obsolescence	(0.9)	(0.7)
Total Inventories – Net	\$145.4	\$95.9

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

(b) On February 28, 2018, Montana-Dakota Utilities exercised its option to purchase the Thunder Spirit II wind energy facility upon completion, resulting in a reclassification of the project costs from Property, Plant and Equipment – Net to Inventories – Net as ALLETE Clean Energy will not own the facility upon completion.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Non-Current Assets	June 30, 2018	December 31, 2017
Millions		
Contract Assets (a)	\$30.9	\$31.6
Finance Receivable	10.9	11.0
Other	63.2	65.1
Total Other Non-Current Assets	\$105.0	\$107.7

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

Other Current Liabilities	June 30, 2018	December 31, 2017
Millions		
Provision for Interim Rate Refund (a)	\$32.5	—
Contract Liabilities (b)	24.3	\$8.7
PSAs	18.4	24.5
Provision for Tax Reform Refund (c)	6.7	—
Contingent Consideration (d)	5.6	—
Other	41.0	50.0
Total Other Current Liabilities	\$128.5	\$83.2

(a) Provision for Interim Rate Refund is expected to be refunded to Minnesota Power's regulated retail customers in the first quarter of 2019 and includes \$16.7 million of discounts provided to EITE customers that will be offset against interim rate refunds as of June 30, 2018 (\$8.6 million as of December 31, 2017). (See Note 6. Regulatory Matters.)

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

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

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

Other Non-Current Liabilities	June 30, 2018	December 31, 2017
Millions		
Asset Retirement Obligation	\$143.2	\$122.7
PSAs	83.1	89.5
Contingent Consideration (a)	—	5.4
Other	48.1	49.5
Total Other Non-Current Liabilities	\$274.4	\$267.1

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

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**Supplemental Statement of Cash Flows Information.**

Six Months Ended June 30,	2018	2017
Millions		
Cash Paid for Interest – Net of Amounts Capitalized	\$33.0	\$32.5
Noncash Investing and Financing Activities		
Decrease in Accounts Payable for Capital Additions to Property, Plant and Equipment	\$(39.4)	\$(0.4)
Reclassification of Property, Plant and Equipment to Inventory (a)	\$46.3	—
Capitalized Asset Retirement Costs	\$20.8	\$19.7
AFUDC–Equity	\$0.5	\$0.4
ALLETE Common Stock Contributed to the Pension Plans	—	\$13.5

(a) On February 28, 2018, Montana-Dakota Utilities exercised its option to purchase the Thunder Spirit II wind energy facility upon completion, resulting in a reclassification of the project costs from Property, Plant and Equipment – Net to Inventories – Net as ALLETE Clean Energy will not own the facility upon completion.

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

Revenue.

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

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

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

Revenue Recognition

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

Nature of Revenue Streams**Utility**

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

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue (Continued)**

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

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

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

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

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

Non-utility***ALLETE Clean Energy***

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

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

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue (Continued)

U.S. Water Services

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

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

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

Corporate and Other

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

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

Payment Terms

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

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

We recognize as an asset the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We expense incremental costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. As of June 30, 2018, we have \$30.9 million of assets recognized for costs incurred to obtain contracts with our customers (\$31.6 million as of December 31, 2017). Management determined the amount of costs to be recognized as assets based on actual costs incurred and paid to obtain and fulfill these contracts to provide goods and services to our customers. Assets recognized to obtain contracts are amortized on a straight-line basis over the contract term as a non-cash reduction to revenue. For the six months ended June 30, 2018, and 2017, we recognized \$1.3 million of non-cash amortization.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements.

Recently Adopted Pronouncements

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

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. In March 2017, the FASB issued an accounting standard update to improve the presentation of net periodic pension and postretirement benefit costs. Under the guidance, an entity is required to present the service cost component of the net periodic benefit cost in the same income statement line as other employee compensation costs arising from services rendered during the period. The guidance also allows only the service cost component of the periodic cost to be eligible for capitalization on a prospective basis. The other components of net periodic expense must be presented separately from the line item that includes the service cost and must be excluded from the operating income subtotal. The Company adopted the guidance in the first quarter of 2018 and retrospectively adjusted the presentation of the service cost component and the other components of net periodic costs in the Consolidated Statement of Income. The retrospective adjustments for the quarter and six months ended June 30, 2017, were as follows: Operating and Maintenance increased \$1.0 million and \$2.1 million, respectively, Cost of Sales – Non-utility remained unchanged and decreased \$0.1 million, respectively, resulting in an increase of \$1.0 million and \$2.0 million, respectively to Other Income (Expense) – Other. There was no impact to net income as a result of adoption.

Financial Instruments. In 2016, the FASB issued an accounting standard update which requires entities to measure equity investments at fair value and recognize any changes in fair value in net income unless the investments qualify for the practicability exception. The practicability exception will be available for equity investments that do not have readily determinable fair values. The update was adopted by the Company in the first quarter of 2018 which resulted in a cumulative-effect transition adjustment reducing Retained Earnings by \$0.1 million, including the tax effect, for the previously unrealized loss on available-for-sale equity securities in Accumulated Other Comprehensive Loss as of December 31, 2017.

Classification of Certain Cash Receipts and Cash Payments. In 2016, the FASB issued an accounting standard update which addressed the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments of this update were adopted by the Company in the first quarter of 2018. There was no impact to the Consolidated Statement of Cash Flows as a result of adoption.

Statement of Cash Flows: Restricted Cash. In 2016, the FASB issued an accounting standard update related to the presentation of restricted cash in the Company's Consolidated Statement of Cash Flows. The update requires that the Consolidated Statement of Cash Flows explain the change during the period in cash, cash equivalents and restricted cash. Restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statement of Cash Flows. This guidance update was adopted by the Company in the first quarter of 2018 and was applied retrospectively to the periods presented in the Consolidated Statement of Cash Flows which resulted in a net increase in cash from financing activities of \$1.5 million for the six months ended June 30, 2017. Additional disclosure, including a reconciliation of the beginning-of-period and end-of-period cash on hand to the statement of cash flows, is included in this note. (See *Cash, Cash Equivalents and Restricted Cash.*)

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

Revenue from Contracts with Customers. In 2014, the FASB issued amended revenue recognition guidance that clarifies the principles for recognizing revenue from contracts with customers by providing a single comprehensive model to determine the measurement of revenue and timing of recognition. The guidance requires an entity to recognize revenue in a manner that depicts the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled to in exchange for those goods or services. The guidance requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures regarding customer contracts, significant judgments and changes in those judgments, and the assets recognized from the costs to obtain or fulfill a contract are required. The Company adopted this accounting guidance in the first quarter of 2018 and elected to apply the modified retrospective method of adoption to all contracts as of the date of initial application. The financial impact to the consolidated financial statements as a result of adoption of the new standard is immaterial. Based on the nature of the contracts with our customers and our related performance obligations which transfer control, a \$0.5 million after-tax cumulative-effect transition adjustment was made to increase the opening balance of Retained Earnings. We have included additional disclosures in the notes to the consolidated financial statements including additional information on the Company's revenue streams and related performance obligations required to be satisfied in order to recognize revenue. (See *Revenue Recognition*.)

Practical Expedients

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

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

Recently Issued Pronouncements

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

Leases. In 2016, the FASB issued an accounting standard update which revises the existing guidance for leases. Under the revised guidance, lessees will be required to recognize a "right-of-use" asset and a lease liability for all leases with a term greater than 12 months. The new standard also requires additional quantitative and qualitative disclosures by lessees and lessors to enable users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The accounting for leases by lessors and the recognition, measurement, and presentation of expenses and cash flows from leases are not expected to significantly change as a result of the new guidance. We expect to make approximately \$80 million in minimum lease payments due in future years (undiscounted). The revised guidance is effective for the Company beginning in the first quarter of 2019 with early adoption permitted. We are currently evaluating the impact of the revised lease guidance on our Consolidated Financial Statements.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

NOTE 2. INVESTMENTS

Investments. As of June 30, 2018, the investment portfolio included the legacy real estate assets of ALLETE Properties, debt and equity securities consisting primarily of securities held in other postretirement plans to fund employee benefits, the cash equivalents within these plans and other assets consisting primarily of land in Minnesota.

Other Investments	June 30, 2018	December 31, 2017
Millions		
ALLETE Properties	\$25.9	\$26.4
Available-for-sale Securities (a)	21.4	19.1
Cash Equivalents	1.5	3.8
Other	3.7	3.8
Total Other Investments	\$52.5	\$53.1

(a) As of June 30, 2018, the aggregate amount of available-for-sale corporate and governmental debt securities maturing in one year or less was \$1.1 million, in one year to less than three years was \$3.9 million, in three years to less than five years was \$2.5 million and in five or more years was \$1.1 million.

Available-for-Sale Securities. We account for our available-for-sale securities portfolio in accordance with the guidance for certain investments in debt and equity securities. Our available-for-sale securities portfolio consisted primarily of securities held in other postretirement plans to fund employee benefits. Gross realized and unrealized gains and losses on our available-for-sale securities were immaterial for the quarter and six months ended June 30, 2018, and 2017.

NOTE 3. ACQUISITIONS

The following acquisition is consistent with ALLETE's stated strategy of investing in energy infrastructure and related services businesses to complement its regulated businesses, balance exposure to business cycles and changing demand, and provide potential long-term earnings growth. The pro forma impact of the following acquisitions was not significant, either individually or in the aggregate, to the results of the Company for the six months ended June 30, 2018, and 2017.

2017 Activity.

Tonka Water. In September 2017, U.S. Water Services acquired 100 percent of Tonka Water. Total consideration for the transaction was \$19.2 million, including a working capital adjustment. Consideration of \$19.0 million was paid in cash on the acquisition date and a working capital adjustment of \$0.2 million was paid in the fourth quarter of 2017. Tonka Water is a supplier of municipal and industrial water treatment systems and will expand U.S. Water Services' geographic and customer markets.

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

The acquisition was accounted for as a business combination and the purchase price was allocated based on the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition. The purchase price accounting, which was finalized in 2018, is reflected in the following table. Fair value measurements were valued primarily using the discounted cash flow method and replacement cost basis.

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

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

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

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

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

The aggregate carrying amount of goodwill was \$148.5 million as of June 30, 2018, and \$148.3 million as of December 31, 2017.

Balances of intangible assets, net, excluding goodwill as of June 30, 2018, are as follows:

	December 31, 2017	Additions	Amortization	June 30, 2018
Millions				
Intangible Assets				
Definite-Lived Intangible Assets				
Customer Relationships	\$54.7	\$0.2	\$(2.1)	\$52.8
Developed Technology and Other (a)	6.3	2.2	(0.6)	7.9
Total Definite-Lived Intangible Assets	61.0	2.4	(2.7)	60.7
Indefinite-Lived Intangible Assets				
Trademarks and Trade Names	16.6	—	n/a	16.6
Total Intangible Assets	\$77.6	\$2.4	\$(2.7)	\$77.3

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

Customer relationships have a remaining useful life of approximately 20 years, and developed technology and other have remaining useful lives ranging from approximately 1 year to approximately 11 years (weighted average of approximately 6 years). The weighted average remaining useful life of all definite-lived intangible assets as of June 30, 2018, is approximately 18 years.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS (Continued)

Amortization expense for intangible assets was \$1.3 million and \$2.7 million for the quarter and six months ended June 30, 2018, respectively (\$1.4 million and \$2.8 million for the quarter and six months ended June 30, 2017, respectively). Accumulated amortization was \$17.5 million as of June 30, 2018 (\$14.8 million as of December 31, 2017). The estimated amortization expense for definite-lived intangible assets for the remainder of 2018 is \$2.8 million. Estimated annual amortization expense for definite-lived intangible assets is \$5.2 million in 2019, \$5.0 million in 2020, \$4.9 million in 2021, \$4.6 million in 2022 and \$38.2 million thereafter.

NOTE 5. FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs, which are used to measure fair value, are prioritized through the fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Descriptions of the three levels of the fair value hierarchy are discussed in Note 9. Fair Value to the Consolidated Financial Statements in our 2017 Form 10-K.

The following tables set forth by level within the fair value hierarchy our assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2018, and December 31, 2017. Each asset and liability is classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, which may affect the valuation of these assets and liabilities and their placement within the fair value hierarchy levels. The estimated fair value of Cash and Cash Equivalents listed on the Consolidated Balance Sheet approximates the carrying amount and therefore is excluded from the recurring fair value measures in the following tables.

Recurring Fair Value Measures	Fair Value as of June 30, 2018			Total
	Level 1	Level 2	Level 3	
Millions				
Assets				
Investments (a)				
Available-for-sale – Equity Securities	\$12.8	—	—	\$12.8
Available-for-sale – Corporate and Governmental Debt Securities	—	\$8.6	—	8.6
Cash Equivalents	1.5	—	—	1.5
Total Fair Value of Assets	\$14.3	\$8.6	—	\$22.9
Liabilities				
Deferred Compensation (b)	—	\$20.5	—	\$20.5
U.S. Water Services Contingent Consideration (c)	—	—	\$5.6	5.6
Total Fair Value of Liabilities	—	\$20.5	\$5.6	\$26.1
Total Net Fair Value of Assets (Liabilities)	\$14.3	\$(11.9)	\$(5.6)	\$(3.2)

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

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

(c) Included in Other Current Liabilities on the Consolidated Balance Sheet.

NOTE 5. FAIR VALUE (Continued)

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

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

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

The Level 3 liability in the preceding tables is the result of the 2015 acquisition of U.S. Water Services. Changes in the U.S. Water Services Contingent Consideration can result from modifications to the shareholder agreement, changes in discount rates, timing of milestones that trigger payment, or the timing and amount of earnings estimates. The following table provides a reconciliation of the beginning and ending balances of the U.S. Water Services Contingent Consideration measured at fair value using Level 3 measurements as of June 30, 2018. Management analyzes the fair value of the contingent liability on a quarterly basis and makes adjustments as appropriate.

Recurring Fair Value Measures

Activity in Level 3

Millions	
Balance as of December 31, 2017	\$5.4
Accretion	0.2
Balance as of June 30, 2018	\$5.6

For the six months ended June 30, 2018, and the year ended December 31, 2017, there were no transfers in or out of Levels 1, 2 or 3.

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

Financial Instruments	Carrying Amount	Fair Value
Millions		
Long-Term Debt, Including Long-Term Debt Due Within One Year		
June 30, 2018	\$1,528.8	\$1,572.8
December 31, 2017	\$1,513.3	\$1,627.6

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. Non-financial assets such as equity method investments, goodwill, intangible assets, land inventory, and property, plant and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment is recognized. For the quarter and six months ended June 30, 2018, and the year ended December 31, 2017, there were no triggering events or indicators of impairment for these non-financial assets.

NOTE 6. REGULATORY MATTERS

Regulatory matters are summarized in Note 4. Regulatory Matters to our Consolidated Financial Statements in our 2017 Form 10-K, with additional disclosure provided in the following paragraphs.

Electric Rates. Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, PSCW or FERC. As authorized by the MPUC, Minnesota Power also recognizes revenue under cost recovery riders for transmission, renewable, and environmental investments and expenditures. (See *Transmission Cost Recovery Rider*, *Renewable Cost Recovery Rider* and *Environmental Improvement Rider*.) Revenue from cost recovery riders was \$28.0 million and \$52.1 million for the quarter and six months ended June 30, 2018, respectively (\$24.4 million and \$48.6 million for the quarter and six months ended June 30, 2017, respectively).

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

In February 2017, Minnesota Power filed an additional request to further reduce its requested interim rate increase. In an April 2017 order, the MPUC approved Minnesota Power's updated retail rate request resulting in a reduction in the annual interim rate increase to \$32.2 million beginning in May 2017. As a result of working with intervenors and further developments as the rate review progressed, Minnesota Power's final rate request was adjusted to approximately \$49 million on an annualized basis. In an order dated March 12, 2018, the MPUC affirmed determinations made at a hearing on January 18, 2018, regarding Minnesota Power's general rate case including allowing a return on common equity of 9.25 percent and a 53.81 percent equity ratio. Upon commencement of final rates, we expect additional revenue of approximately \$13 million on an annualized basis. Final rates are expected to commence in the fourth quarter of 2018; interim rates will be collected through this period which are fully offset by the recognition of a corresponding reserve. Minnesota Power has recorded a reserve for an interim rate refund of \$49.2 million as of June 30, 2018 (\$32.3 million as of December 31, 2017). The MPUC also disallowed Minnesota Power's regulatory asset for deferred fuel adjustment clause costs due to the anticipated adoption of a forward-looking fuel adjustment clause methodology resulting in a \$19.5 million pre-tax charge to Fuel, Purchased Power and Gas – Utility in the fourth quarter of 2017.

As part of its decision in Minnesota Power's 2016 general rate case, the MPUC extended the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2050 primarily to mitigate rate increases for our customers, and shortened the depreciable lives of Boswell Unit 1 and Unit 2 to 2022, resulting in a net decrease to depreciation expense of approximately \$25 million in the fourth quarter of 2017.

On April 2, 2018, Minnesota Power filed a petition with the MPUC requesting reconsideration of certain decisions in the MPUC's order dated March 12, 2018, collectively representing approximately \$20 million to \$25 million in additional revenue on an annualized basis. Minnesota Power's petition included requesting reconsideration of the allowed return on common equity, recovery of the prepaid pension asset in rate base, certain disallowed expenses, and certain transmission revenue adjustments. In an order dated May 29, 2018, the MPUC denied Minnesota Power's petition for reconsideration and accepted a Minnesota Department of Commerce request for reconsideration reducing the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035 while utilizing the benefits of the lower federal income tax rate enacted as part of the TCJA to mitigate the impact on customer rates.

Energy-Intensive Trade-Exposed Customer Rates. An EITE customer ratemaking law was enacted in 2015, which established a Minnesota energy policy to have competitive rates for certain industries such as mining and forest products. In 2015, Minnesota Power filed a rate schedule petition with the MPUC for EITE customers and a corresponding rider for EITE cost recovery. In a March 2016 order, the MPUC dismissed the petition without prejudice. In June 2016, Minnesota Power filed a revised EITE petition with the MPUC which included additional information on the net benefits analysis, limits on eligible customers and term lengths for the EITE discount. The rate adjustments were intended to be revenue and cash flow neutral to Minnesota Power. The MPUC approved a reduction in rates for EITE customers in a December 2016 order and subsequently approved cost recovery in an April 2017 order; collection of the discount was subject to the MPUC's review of Minnesota Power's compliance filing implementing approval of a recovery mechanism, with the subsequent order issued in October 2017 that modified the April 2017 order. During 2017, Minnesota Power provided discounts of \$8.6 million that were recorded as a regulatory asset.

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

In September 2017, Minnesota Power informed its EITE customers that it had suspended the EITE discount due to a concern that it was not revenue and cash flow neutral to Minnesota Power based on an MPUC decision at a hearing in September 2017, as well as the interim rate reduction and decisions in its 2016 general rate case. Based on the MPUC's decisions at a hearing on January 18, 2018, as part of Minnesota Power's 2016 general rate case, Minnesota Power reinstated the EITE discount effective January 1, 2018. Minnesota Power expects the discount to EITE customers to be approximately \$15 million annually based on EITE customer current operating levels. While interim rates are in effect for Minnesota Power's 2016 general rate case, discounts provided to EITE customers will offset interim rate refund reserves for non-EITE customers. Minnesota Power provided \$3.8 million and \$8.1 million of discounts to EITE customers during the quarter and six months ended June 30, 2018, respectively (\$3.6 million and \$5.9 million for the quarter and six months ended June 30, 2017, respectively).

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

Minnesota Power's wholesale electric contract with the Nashwauk Public Utilities Commission is effective through at least December 31, 2032. No termination notice may be given for this contract prior to July 1, 2029. The wholesale electric service contracts with SWL&P and another municipal customer are effective through at least August 31, 2021, and through June 30, 2019, respectively. Under the agreement with SWL&P, no termination notice has been given. The other municipal customer provided termination notice for its contract in 2016. Minnesota Power currently provides approximately 29 MW of average monthly demand to this customer. The rates included in these three contracts are set each July 1 based on a cost-based formula methodology, using estimated costs and a rate of return that is equal to Minnesota Power's authorized rate of return for Minnesota retail customers. The formula-based rate methodology also provides for a yearly true-up calculation for actual costs incurred.

Minnesota Power's wholesale electric contracts with 14 municipal customers are effective through varying dates ranging from 2024 through 2029 with a majority effective through at least December 31, 2024. No termination notices may be given prior to three years before maturity. These contracts include fixed capacity charges through 2018; beginning in 2019, the capacity charge will be determined using a cost-based formula methodology with limits on the annual change from the previous year's capacity charge. The base energy charge for each year of the contract term will be set each January 1, subject to monthly adjustment, and will also be determined using a cost-based formula methodology.

Transmission Cost Recovery Rider. Minnesota Power has an approved cost recovery rider for certain transmission investments and expenditures. In a 2016 order, the MPUC approved Minnesota Power's updated customer billing rates allowing Minnesota Power to charge retail customers on a current basis for the costs of constructing certain transmission facilities plus a return on the capital invested. As a result of the MPUC approval of the certificate of need for the GNTL in 2015, the project is eligible for cost recovery under the existing transmission cost recovery rider. Minnesota Power is funding the construction of the GNTL with a subsidiary of Manitoba Hydro (see *Great Northern Transmission Line*), and anticipates including its portion of the investments and expenditures for the GNTL in future transmission bill factor filings.

Renewable Cost Recovery Rider. Minnesota Power has an approved cost recovery rider for investments and expenditures related to Bison. The cost recovery rider allows Minnesota Power to charge retail customers on a current basis for the costs of certain renewable investments plus a return on the capital invested. Updated customer billing rates for the renewable cost recovery rider were approved by the MPUC in a November 2017 order. On June 5, 2018, Minnesota Power made a renewable resources factor filing. Upon approval of the filing, Minnesota Power will be authorized to include updated billing rates on customer bills.

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

Environmental Improvement Rider. Minnesota Power has an approved environmental improvement rider for investments and expenditures related to the implementation of the Boswell Unit 4 mercury emissions reduction plan completed in 2015. Updated customer billing rates for the environmental improvement rider were provisionally approved by the MPUC in an order dated June 20, 2018, subject to further review by the MPUC.

NOTE 6. REGULATORY MATTERS (Continued)

Electric Rates (Continued)

Fuel Adjustment Clause Reform. In a December 2017 order, the MPUC adopted a three-year program to implement certain procedural reforms to the Minnesota utilities' automatic fuel adjustment clause (FAC) for fuel and purchased power. The order will change the method of accounting for all Minnesota electric utilities to a monthly budgeted, forward-looking FAC with an annual prudence review and true-up to actual allowed costs. The MPUC is seeking input from Minnesota electric utilities and other stakeholders on the implementation and transition accounting needed to adopt the change. The three-year program is expected to begin in 2019.

Tax Cuts and Jobs Act of 2017. In December 2017, the MPUC opened a docket to review the effects of the TCJA on electric and natural gas rates and services in Minnesota, including the legislation's impact on tax rates and utilities' deferred income tax assets and liabilities. On March 2, 2018, Minnesota Power submitted an initial filing to the MPUC regarding the impacts of the TCJA on Minnesota Power. As part of Minnesota Power's rate case, in an order dated May 29, 2018, the MPUC directed Minnesota Power to utilize the benefits of lower federal income tax rates enacted as part of the TCJA to offset a reduction in the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035 that would have otherwise resulted in an increase in customer rates. The treatment of the impact of the TCJA on Minnesota Power's deferred income tax assets and liabilities is still subject to this regulatory proceeding.

On January 10, 2018, the PSCW opened a docket to review the effects of the TCJA and directed Wisconsin utilities to defer its impacts until further direction was provided by the PSCW. On February 9, 2018, SWL&P filed comments with the PSCW regarding the impacts of the TCJA on SWL&P. In this filing, SWL&P proposed deferring the benefits of the TCJA and incorporating any deferred refunds or credits into its next general rate case. In an order dated May 24, 2018, the PSCW directed SWL&P to refund the benefits of the lower federal income tax rates enacted as part of the TCJA on customer bills beginning in July 2018. Any changes in deferred income taxes will be adjusted as part of SWL&P's rate filing. (See *2018 Wisconsin General Rate Case*.)

We have recorded the impact of the remeasurement of deferred income tax assets and liabilities in 2017 resulting from the TCJA for Minnesota Power and SWL&P as regulatory assets and liabilities as the benefits are deferred pending the outcome of regulatory proceedings. Most of the benefits for Minnesota Power and SWL&P are expected to be passed back to customers over time primarily based upon the normalization provisions of the U.S. Internal Revenue Code over the life of the related property, plant and equipment with the remainder expected to be passed back based upon the outcome of regulatory proceedings. We are unable to predict the outcome of these regulatory proceedings.

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

2018 Wisconsin General Rate Case. On May 25, 2018, SWL&P filed a rate increase request with the PSCW requesting an average increase of 2.7 percent for retail customers (2.0 percent increase in electric rates; 2.3 percent increase in natural gas rates; and 8.3 percent increase in water rates). The filing seeks an overall return on equity of 10.5 percent and a 55.41 percent equity ratio. On an annualized basis, this filing is expected to result in additional revenue of approximately \$2.4 million.

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

NOTE 6. REGULATORY MATTERS (Continued)
Integrated Resource Plan (Continued)

In July 2017, Minnesota Power submitted a resource package to the MPUC requesting approval of PPAs for the output of a 250 MW wind energy facility and a 10 MW solar energy facility as well as approval of a 250 MW natural gas energy PPA. These agreements are subject to MPUC approval of the construction of NTEC, a 525 MW to 550 MW combined-cycle natural gas-fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE. Minnesota Power would purchase approximately 50 percent of the facility's output starting in 2025. In a September 2017 order, the MPUC approved Minnesota Power's request to extend the next IRP filing deadline until October 1, 2019, and Minnesota Power's request that approval for the natural gas energy PPA be decided through a contested case process. On July 2, 2018, an administrative law judge issued a recommendation that the MPUC deny approval of the NTEC agreements; the recommendation is not binding on the MPUC. On July 23, 2018, Minnesota Power filed exceptions to the administrative law judge's recommendation. The MPUC is expected to hold a hearing in the fourth quarter of 2018 on NTEC. On June 18, 2018, Minnesota Power filed a separate petition for approval of the PPA for the output of a 10 MW solar energy facility located in central Minnesota. The MPUC has not taken any action regarding the wind energy PPA which will be refiled separately from the natural gas energy PPA.

Great Northern Transmission Line. Minnesota Power is constructing the GNTL, an approximately 220-mile 500-kV transmission line between Manitoba and Minnesota's Iron Range that was proposed by Minnesota Power and Manitoba Hydro. In 2015, a certificate of need was approved by the MPUC. Based on this approval, Minnesota Power's portion of the investments and expenditures for the project are eligible for cost recovery under its existing transmission cost recovery rider and are anticipated to be included in future transmission cost recovery filings. (See *Transmission Cost Recovery Rider*.) Also in 2015, the FERC approved our request to recover on construction work in progress related to the GNTL from Minnesota Power's wholesale customers. In a 2016 order, the MPUC approved the route permit for the GNTL which largely follows Minnesota Power's preferred route, including the international border crossing, and in 2016, the U.S. Department of Energy issued a presidential permit to cross the U.S.-Canadian border, which was the final major regulatory approval needed before construction in the U.S. could begin. Site clearing and pre-construction activities commenced in the first quarter of 2017 with construction expected to be completed in 2020. To date, most of the right-of-way has been cleared while foundation installation and transmission tower construction have commenced. The total project cost in the U.S., including substation work, is estimated to be between \$560 million and \$710 million, of which Minnesota Power's portion is expected to be between \$300 million and \$350 million; the difference will be recovered from a subsidiary of Manitoba Hydro as non-shareholder contributions to capital. Total project costs of \$248.8 million have been incurred through June 30, 2018, of which \$129.2 million has been recovered from a subsidiary of Manitoba Hydro.

Manitoba Hydro must obtain regulatory and governmental approvals related to a new transmission line in Canada known as the Manitoba-Minnesota Transmission Project (MMTP) that will connect with the GNTL. In 2015, Manitoba Hydro submitted the final preferred route and EIS for the MMTP to the Manitoba Conservation and Water Stewardship for siting and environmental approval, which remains pending. In 2016, Manitoba Hydro filed an application with the Canadian National Energy Board (NEB) requesting authorization to construct and operate the MMTP. The NEB determined that Manitoba Hydro's application was complete in December 2017, and held public hearings in June 2018. The NEB is required to make a decision on the MMTP by March 2019, but is not precluded from making a decision prior to that date. Approval of the Canadian federal cabinet is also required.

The MMTP is subject to legal and regulatory challenges which Minnesota Power is actively monitoring. Manitoba Hydro has informed Minnesota Power that it continues to work towards completing the MMTP on schedule. In order to meet the transmission in-service requirements in PPAs with Minnesota Power, Manitoba Hydro has indicated that it would need to start construction of the MMTP in December 2018. We are unable to predict the outcome of the Canadian regulatory review process, including the timing thereof or whether any onerous conditions may be imposed, or the timing of the completion of the MMTP, including the impact of any delays that may result in construction schedule adjustments. Any significant delays in the MMTP construction schedule may result in Minnesota Power adjusting the GNTL construction schedule and impact the timing of capital expenditures and associated cost recovery under our transmission cost recovery rider.

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

NOTE 6. REGULATORY MATTERS (Continued)

Conservation Improvement Program. Minnesota requires electric utilities to spend a minimum of 1.5 percent of gross operating revenues, excluding revenue received from exempt customers, from service provided in the state on energy CIPs each year. On April 2, 2018, Minnesota Power submitted its 2017 CIP consolidated filing, which detailed Minnesota Power's CIP program results and requested a CIP financial incentive of \$3.3 million based upon MPUC procedures. In 2017, the CIP financial incentive of \$5.5 million was recognized in the second quarter upon approval by the MPUC of Minnesota Power's 2016 CIP consolidated filing in a June 2017 order. Approval of Minnesota Power's 2017 CIP consolidated filing and related financial incentive is expected in the third quarter of 2018. CIP financial incentives are recognized in the period in which the MPUC approves the filing.

MISO Return on Equity Complaints. MISO transmission owners, including ALLETE and ATC, have an authorized return on equity of 10.32 percent, or 10.82 percent including an incentive adder for participation in a regional transmission organization.

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

Minnesota Solar Energy Standard. Minnesota law requires at least 1.5 percent of total retail electric sales, excluding sales to certain customers, to be generated by solar energy by the end of 2020. At least 10 percent of the 1.5 percent mandate must be met by solar energy generated by or procured from solar photovoltaic devices with a nameplate capacity of 40 kW or less and community solar garden subscriptions. In a 2016 order, the MPUC approved Camp Ripley, a 10 MW utility scale solar project at the Camp Ripley Minnesota Army National Guard base and training facility near Little Falls, Minnesota, as eligible to meet the solar energy standard and for current cost recovery. Camp Ripley was completed in the fourth quarter of 2016. In a 2016 order, the MPUC approved a community solar garden project in northeastern Minnesota, which is comprised of a 1 MW solar array owned and operated by a third party with the output purchased by Minnesota Power and a 40 kW solar array that is owned and operated by Minnesota Power. Minnesota Power believes Camp Ripley and the community solar garden arrays will meet approximately one-third of the overall mandate. Additionally, in a February 2017 order, the MPUC approved Minnesota Power's proposal to increase the amount of solar rebates available for customer-sited solar installations and recover costs of the program through Minnesota Power's renewable cost recovery rider. The proposal to incentivize customer-sited solar installations and community solar garden subscriptions is expected to meet a portion of the required small scale solar mandate.

Regulatory Assets and Liabilities. Our regulated utility operations are subject to accounting guidance for the effect of certain types of regulation. Regulatory assets represent incurred costs that have been deferred as they are probable for recovery in customer rates. Regulatory liabilities represent obligations to make refunds to customers and amounts collected in rates for which the related costs have not yet been incurred. The Company assesses quarterly whether regulatory assets and liabilities meet the criteria for probability of future recovery or deferral. No regulatory assets or liabilities are currently earning a return. The recovery, refund or credit to rates for these regulatory assets and liabilities will occur over the periods either specified by the applicable regulatory authority or over the corresponding period related to the asset or liability.

NOTE 6. REGULATORY MATTERS (Continued)

Regulatory Assets and Liabilities	June 30, 2018	December 31, 2017
Millions		
Non-Current Regulatory Assets		
Defined Benefit Pension and Other Postretirement Benefit Plans	\$216.7	\$220.3
Income Taxes	109.3	112.8
Asset Retirement Obligations	31.0	29.6
Manufactured Gas Plant	8.0	8.1
PPACA Income Tax Deferral	5.0	5.0
Conservation Improvement Program	—	3.3
Other	4.5	5.6
Total Non-Current Regulatory Assets	\$374.5	\$384.7
Current Regulatory Liabilities (a)		
Provision for Interim Rate Refund (b)	\$32.5	—
Provision for Tax Reform Refund (c)	6.7	—
Total Current Regulatory Liabilities	39.2	—
Non-Current Regulatory Liabilities		
Income Taxes	401.4	\$411.2
Wholesale and Retail Contra AFUDC	60.2	57.9
Plant Removal Obligations	23.0	20.3
Cost Recovery Riders	16.8	2.2
North Dakota Investment Tax Credits	14.4	14.1
Provision for Interim Rate Refund (b)	—	23.7
Other	0.2	2.6
Total Non-Current Regulatory Liabilities	516.0	532.0
Total Regulatory Liabilities	\$555.2	\$532.0

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

(b) This amount is expected to be refunded to Minnesota Power's regulated retail customers in the first quarter of 2019 and includes \$16.7 million of discounts provided to EITE customers that will be offset against interim rate refunds as of June 30, 2018 (\$8.6 million as of December 31, 2017). (See 2016 Minnesota General Rate Case and Energy-Intensive Trade-Exposed Customer Rates.)

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

NOTE 7. INVESTMENT IN ATC

Our wholly-owned subsidiary, ALLETE Transmission Holdings, owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in portions of Wisconsin, Michigan, Minnesota and Illinois. We account for our investment in ATC under the equity method of accounting. As of June 30, 2018, our equity investment in ATC was \$123.6 million (\$118.7 million at December 31, 2017). In the first six months of 2018, we invested \$3.9 million in ATC, and on July 31, 2018, we invested an additional \$1.2 million. We expect to make additional investments of \$1.3 million in 2018.

ALLETE's Investment in ATC

Millions	
Equity Investment Balance as of December 31, 2017	\$118.7
Cash Investments	3.9
Equity in ATC Earnings	9.0
Distributed ATC Earnings	(8.6)
Amortization of the Remeasurement of Deferred Income Taxes (a)	0.6
Equity Investment Balance as of June 30, 2018	\$123.6

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

NOTE 7. INVESTMENT IN ATC (Continued)

ATC's authorized return on equity is 10.32 percent, or 10.82 percent including an incentive adder for participation in a regional transmission organization.

In 2016, a federal administrative law judge ruled on a complaint proposing a reduction in the base return on equity to 9.70 percent, or 10.20 percent including an incentive adder for participation in a regional transmission organization, subject to approval or adjustment by the FERC. A final decision from the FERC on the administrative law judge's recommendation is pending.

NOTE 8. SHORT-TERM AND LONG-TERM DEBT

The following tables present the Company's short-term and long-term debt as of June 30, 2018, and December 31, 2017:

June 30, 2018	Principal	Unamortized Debt Issuance Costs	Total
Millions			
Short-Term Debt	\$57.1	\$(0.4)	\$56.7
Long-Term Debt	1,471.7	(9.5)	1,462.2
Total Debt	\$1,528.8	\$(9.9)	\$1,518.9

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

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

Financial Covenants. Our long-term debt arrangements contain customary covenants. In addition, our lines of credit and letters of credit supporting certain long-term debt arrangements contain financial covenants. Our compliance with financial covenants is not dependent on debt ratings. The most restrictive financial covenant requires ALLETE to maintain a ratio of indebtedness to total capitalization (as the amounts are calculated in accordance with the respective long-term debt arrangements) of less than or equal to 0.65 to 1.00, measured quarterly. As of June 30, 2018, our ratio was approximately 0.42 to 1.00. Failure to meet this covenant would give rise to an event of default if not cured after notice from the lender, in which event ALLETE may need to pursue alternative sources of funding. Some of ALLETE's debt arrangements contain "cross-default" provisions that would result in an event of default if there is a failure under other financing arrangements to meet payment terms or to observe other covenants that would result in an acceleration of payments due. ALLETE has no significant restrictions on its ability to pay dividends from retained earnings or net income. As of June 30, 2018, ALLETE was in compliance with its financial covenants.

NOTE 9. INCOME TAX EXPENSE

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Millions				
Current Income Tax Expense (Benefit) (a)				
Federal	—	—	—	—
State	\$(0.3)	\$0.1	\$0.4	\$0.2
Total Current Income Tax Expense (Benefit)	\$(0.3)	\$0.1	\$0.4	\$0.2
Deferred Income Tax Expense (Benefit)				
Federal (b)	\$(7.4)	\$3.8	\$(14.2)	\$11.1
State	2.4	3.6	5.0	9.5
Investment Tax Credit Amortization	(0.1)	(0.2)	(0.3)	(0.4)
Total Deferred Income Tax Expense (Benefit)	\$(5.1)	\$7.2	\$(9.5)	\$20.2
Total Income Tax Expense (Benefit)	\$(5.4)	\$7.3	\$(9.1)	\$20.4

(a) For the quarter and six months ended June 30, 2018, and 2017, the federal and state current tax expense was minimal due to NOLs which resulted from the bonus depreciation provisions of the Protecting Americans from Tax Hikes Act of 2015, the Tax Increase Prevention Act of 2014 and the American Taxpayer Relief Act of 2012.

(b) For the quarter and six months ended June 30, 2018, the federal tax benefit is primarily due to the reduction of the federal statutory tax rate from 35 percent to 21 percent enacted as part of the TCJA, and production tax credits.

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

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Reconciliation of Taxes from Federal Statutory				
Rate to Total Income Tax Expense				
Millions				
Income Before Non-Controlling Interest and Income Taxes	\$25.9	\$44.2	\$73.2	\$106.3
Statutory Federal Income Tax Rate	21%	35%	21%	35%
Income Taxes Computed at Statutory Federal Rate	\$5.4	\$15.5	\$15.4	\$37.2
Increase (Decrease) in Income Tax Due to:				
State Income Taxes – Net of Federal Income Tax Benefit	1.6	2.4	4.2	6.3
Production Tax Credits	(11.2)	(10.0)	(25.6)	(23.0)
Other	(1.2)	(0.6)	(3.1)	(0.1)
Total Income Tax Expense (Benefit)	\$(5.4)	\$7.3	\$(9.1)	\$20.4

For the six months ended June 30, 2018, the effective tax rate was a benefit of 12.4 percent (expense of 19.2 percent for the six months ended June 30, 2017).

Uncertain Tax Positions. As of June 30, 2018, we had gross unrecognized tax benefits of \$1.7 million (\$1.7 million as of December 31, 2017). Of the total gross unrecognized tax benefits, \$0.8 million represents the amount of unrecognized tax benefits included on the Consolidated Balance Sheet that, if recognized, would favorably impact the effective income tax rate. The unrecognized tax benefit amounts have been presented as reductions to the tax benefits associated with NOL and tax credit carryforwards on the Consolidated Balance Sheet.

ALLETE and its subsidiaries file a consolidated federal income tax return as well as combined and separate state income tax returns in various jurisdictions. ALLETE has no open federal or state audits, and is no longer subject to federal examination for years before 2014, or state examination for years before 2013.

NOTE 10. RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE LOSS

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

For the quarter and six months ended June 30, 2018, and 2017, reclassifications out of accumulated other comprehensive loss for the Company were not material. Changes in accumulated other comprehensive loss for the six months ended June 30, 2018, are presented on the Consolidated Statement of Shareholders' Equity.

NOTE 11. EARNINGS PER SHARE AND COMMON STOCK

We compute basic earnings per share using the weighted average number of shares of common stock outstanding during each period. The difference between basic and diluted earnings per share, if any, arises from outstanding stock options, non-vested restricted stock units and performance share awards granted under our Executive Long-Term Incentive Compensation Plan. For the quarter and six months ended June 30, 2018, and 2017, no options to purchase shares of ALLETE common stock were excluded from the computation of diluted earnings per share.

Reconciliation of Basic and Diluted Earnings Per Share	2018			2017		
	Basic	Dilutive Securities	Diluted	Basic	Dilutive Securities	Diluted
Millions Except Per Share Amounts						
Quarter ended June 30,						
Net Income	\$31.3		\$31.3	\$36.9		\$36.9
Average Common Shares	51.3	0.2	51.5	50.9	0.2	51.1
Earnings Per Share	\$0.61		\$0.61	\$0.73		\$0.72
Six Months Ended June 30,						
Net Income	\$82.3		\$82.3	\$85.9		\$85.9
Average Common Shares	51.2	0.2	51.4	50.5	0.2	50.7
Earnings Per Share	\$1.61		\$1.60	\$1.70		\$1.69

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Components of Net Periodic Benefit Cost	Pension		Other Postretirement	
	2018	2017	2018	2017
Millions				
Quarter Ended June 30,				
Service Cost	\$2.8	\$2.6	\$1.3	\$1.1
Non-Service Cost Components (a)				
Interest Cost	7.4	8.2	1.8	1.9
Expected Return on Plan Assets	(11.1)	(10.6)	(2.8)	(2.7)
Amortization of Prior Service Credits	—	—	(0.5)	(0.5)
Amortization of Net Loss	3.0	2.4	0.2	0.1
Net Periodic Benefit Cost (Income)	\$2.1	\$2.6	—	\$(0.1)
Six Months Ended June 30,				
Service Cost	\$5.5	\$5.1	\$2.5	\$2.2
Non-Service Cost Components (a)				
Interest Cost	14.8	16.3	3.6	3.8
Expected Return on Plan Assets	(22.1)	(21.2)	(5.5)	(5.3)
Amortization of Prior Service Credits	—	—	(0.9)	(1.0)
Amortization of Net Loss	6.0	4.9	0.4	0.2
Net Periodic Benefit Cost (Income)	\$4.2	\$5.1	\$0.1	\$(0.1)

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

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

Employer Contributions. For the six months ended June 30, 2018, we contributed \$15.0 million in cash to the defined benefit pension plans (\$1.7 million in cash and \$13.5 million in ALLETE common stock for the six months ended June 30, 2017); we do not expect to make additional contributions to our defined benefit pension plans in 2018. For the six months ended June 30, 2018, and 2017, we made no contributions to our other postretirement benefit plans; we do not expect to make any contributions to our other postretirement benefit plans in 2018.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES

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

Our PPAs are summarized in Note 11. Commitments, Guarantees and Contingencies to our Consolidated Financial Statements in our 2017 Form 10-K, with additional disclosure provided in the following paragraphs.

Square Butte PPA. Minnesota Power has a PPA with Square Butte that extends through 2026 (Agreement). Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on its entitlement to the output of Square Butte's 455 MW coal-fired generating unit. Minnesota Power's output entitlement under the Agreement is 50 percent for the remainder of the Agreement, subject to the provisions of the Minnkota Power PSA. (See *Minnkota Power PSA*.) Square Butte's costs consist primarily of debt service, operating and maintenance, depreciation and fuel expenses. As of June 30, 2018, Square Butte had total debt outstanding of \$311.4 million. Fuel expenses are recoverable through Minnesota Power's fuel adjustment clause and include the cost of coal purchased from BNI Energy under a long-term contract.

Minnesota Power's cost of power purchased from Square Butte during the six months ended June 30, 2018, was \$37.7 million (\$40.7 million for the six months ended June 30, 2017). This reflects Minnesota Power's pro rata share of total Square Butte costs based on the 50 percent output entitlement. Included in this amount was Minnesota Power's pro rata share of interest expense of \$4.6 million (\$4.7 million for the same period in 2017). Minnesota Power's payments to Square Butte are approved as a purchased power expense for ratemaking purposes by both the MPUC and the FERC.

Minnkota Power PSA. Minnesota Power has a PSA with Minnkota Power, which commenced in 2014. Under the PSA, Minnesota Power is selling a portion of its entitlement from Square Butte to Minnkota Power, resulting in Minnkota Power's net entitlement increasing and Minnesota Power's net entitlement decreasing until Minnesota Power's share is eliminated at the end of 2025. Of Minnesota Power's 50 percent output entitlement, it sold to Minnkota Power approximately 28 percent in 2018 and in 2017.

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

Coal, Rail and Shipping Contracts. Minnesota Power has coal supply agreements providing for the purchase of a significant portion of its coal requirements through December 2018 and a portion of its coal requirements through December 2021. Minnesota Power also has coal transportation agreements in place for the delivery of a significant portion of its coal requirements through December 2018. The estimated minimum payments under these supply and transportation agreements is \$16.7 million for the remainder of 2018, \$1.7 million in 2019, and none thereafter. The costs of fuel and related transportation costs for Minnesota Power's generation are recoverable from Minnesota Power's utility customers through the fuel adjustment clause.

Leasing Agreements. BNI Energy is obligated to make lease payments for a dragline totaling \$2.8 million annually during the lease term, which expires in 2027. BNI Energy has the option at the end of the lease term to renew the lease at fair market value, to purchase the dragline at fair market value, or to surrender the dragline and pay a \$3.0 million termination fee. We also lease other properties and equipment under operating lease agreements with a majority of terms expiring by 2024. The aggregate amount of minimum lease payments for all operating leases is \$7.1 million for the remainder of 2018, \$12.8 million in 2019, \$9.5 million in 2020, \$7.3 million in 2021, \$6.1 million in 2022 and \$30.0 million thereafter.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

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

Great Northern Transmission Line. As a condition of the 250-MW long-term PPA entered into with Manitoba Hydro, construction of additional transmission capacity is required. As a result, Minnesota Power is constructing the GNTL, an approximately 220-mile 500-kV transmission line between Manitoba and Minnesota's Iron Range that was proposed by Minnesota Power and Manitoba Hydro in order to strengthen the electric grid, enhance regional reliability and promote a greater exchange of sustainable energy.

In 2015, a certificate of need was approved by the MPUC. Based on this approval, Minnesota Power's portion of the investments and expenditures for the project are eligible for cost recovery under its existing transmission cost recovery rider and are anticipated to be included in future transmission cost recovery filings. (See Note 6. Regulatory Matters.) Also in 2015, the FERC approved our request to recover on construction work in progress related to the GNTL from Minnesota Power's wholesale customers. In a 2016 order, the MPUC approved the route permit for the GNTL which largely follows Minnesota Power's preferred route, including the international border crossing, and in 2016, the U.S. Department of Energy issued a presidential permit to cross the U.S.-Canadian border, which was the final major regulatory approval needed before construction in the U.S. could begin. Site clearing and pre-construction activities commenced in the first quarter of 2017 with construction expected to be completed in 2020. To date, most of the right-of-way has been cleared while foundation installation and transmission tower construction have commenced. The total project cost in the U.S., including substation work, is estimated to be between \$560 million and \$710 million, of which Minnesota Power's portion is expected to be between \$300 million and \$350 million; the difference will be recovered from a subsidiary of Manitoba Hydro as non-shareholder contributions to capital. Total project costs of \$248.8 million have been incurred through June 30, 2018, of which \$129.2 million has been recovered from a subsidiary of Manitoba Hydro.

Manitoba Hydro must obtain regulatory and governmental approvals related to a new transmission line in Canada known as the Manitoba-Minnesota Transmission Project (MMTP) that will connect with the GNTL. In 2015, Manitoba Hydro submitted the final preferred route and EIS for the MMTP to the Manitoba Conservation and Water Stewardship for siting and environmental approval, which remains pending. In 2016, Manitoba Hydro filed an application with the Canadian National Energy Board (NEB) requesting authorization to construct and operate the MMTP. The NEB determined that Manitoba Hydro's application was complete in December 2017, and held public hearings in June 2018. The NEB is required to make a decision on the MMTP by March 2019, but is not precluded from making a decision prior to that date. Approval of the Canadian federal cabinet is also required.

The MMTP is subject to legal and regulatory challenges which Minnesota Power is actively monitoring. Manitoba Hydro has informed Minnesota Power that it continues to work towards completing the MMTP on schedule. In order to meet the transmission in-service requirements in PPAs with Minnesota Power, Manitoba Hydro has indicated that it would need to start construction of the MMTP in December 2018. We are unable to predict the outcome of the Canadian regulatory review process, including the timing thereof or whether any onerous conditions may be imposed, or the timing of the completion of the MMTP, including the impact of any delays that may result in construction schedule adjustments. Any significant delays in the MMTP construction schedule may result in Minnesota Power adjusting the GNTL construction schedule and impact the timing of capital expenditures and associated cost recovery under our transmission cost recovery rider.

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

Environmental Matters.

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

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters (Continued)

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

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

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

New Source Review (NSR). In 2014, Minnesota Power reached a settlement with the EPA and entered into a Consent Decree regarding certain Notices of Violation received in 2008 and 2011 that asserted violations of the NSR requirements of the Clean Air Act, which was approved by the U.S. District Court for the District of Minnesota. The Consent Decree provided for, among other requirements, more stringent emissions limits at all affected units, the option of refueling, retrofitting or retiring certain small coal units, and the addition of 200 MW of wind energy. Provisions of the Consent Decree require that, by no later than December 31, 2018, Boswell Units 1 and 2 must be retired, refueled, repowered, or emissions rerouted through existing emission control technology at Boswell. In 2016, Minnesota Power announced that Boswell Units 1 and 2 will be retired in 2018 as part of its *EnergyForward* strategic plan. We believe that costs to retire Boswell Units 1 and 2 will be eligible for recovery in rates over time, subject to regulatory approval in a rate proceeding.

Cross-State Air Pollution Rule (CSAPR). The CSAPR requires certain states in the eastern half of the U.S., including Minnesota, to reduce power plant emissions that contribute to ozone or fine particulate pollution in other states. The CSAPR does not require installation of controls but does require facilities have sufficient allowances to cover their emissions on an annual basis. These allowances are allocated to facilities from each state's annual budget, and can be bought and sold. Based on our review of the NO_x and SO₂ allowances issued and pending issuance, we currently expect generation levels and emission rates will result in continued compliance with the CSAPR.

Mercury and Air Toxics Standards (MATS) Rule. Under Section 112 of the Clean Air Act, the EPA is required to set emission standards for hazardous air pollutants (HAPs) for certain source categories. The final MATS rule addressed such emissions from coal-fired utility units greater than 25 MW and established categories of HAPs, including mercury, trace metals other than mercury, and acid gases. The EPA established emission limits for these categories of HAPs and work practice standards for the remaining categories. Construction on the project to implement the Boswell Unit 4 mercury emissions reduction plan to position the unit for MATS compliance was completed in 2015. Investments and compliance work previously completed at Boswell Unit 3, including emission reduction investments completed in 2009, meet the requirements of the MATS rule. The conversion of Laskin Units 1 and 2 to operate on natural gas in 2015 positioned those units for MATS compliance.

Minnesota Mercury Emissions Reduction Act/Rule. Minnesota Power was required to implement a mercury emissions reduction project for Boswell Unit 4 by December 31, 2018. The Boswell Unit 4 environmental upgrade discussed above (see *Mercury and Air Toxics Standards (MATS) Rule*) fulfills the requirements of the Minnesota Mercury Emissions Reduction Act.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters (Continued)

National Ambient Air Quality Standards (NAAQS). The EPA is required to review the NAAQS every five years. If the EPA determines that a state's air quality is not in compliance with the NAAQS, the state is required to adopt plans describing how it will reduce emissions to attain the NAAQS. Four NAAQS have either recently been revised or are currently proposed for revision, as described below.

- *Ozone NAAQS.* All areas of Minnesota currently meet the new standard based on the most recent available ambient monitoring data; however, some areas in the metropolitan Twin Cities and southwest portion of the state are close to exceeding the standard. As a result, voluntary efforts to reduce ground-level ozone continue in the state. No additional costs for compliance are anticipated at this time.
- *Particulate Matter NAAQS.* The EPA has designated the entire state of Minnesota as unclassifiable/attainment; however, Minnesota sources may ultimately be required to reduce their emissions to assist with attainment in neighboring states. In 2016, environmental groups filed a lawsuit against the EPA in the U.S. District Court for the Northern District of California alleging the EPA had failed to fully implement the PM_{2.5} standards in certain states, including Minnesota, by not enforcing states' submittals of required infrastructure implementation plans for the 2012 PM_{2.5} NAAQS. The outcome of this litigation is uncertain, and as such, any costs for complying with the final Particulate Matter NAAQS cannot be estimated at this time.
- *NO₂ NAAQS.* Ambient monitoring data indicates that Minnesota is likely in compliance with the one-hour NAAQS standard for NO₂. In July 2017, the EPA proposed retaining the current one-hour and annual NO₂ NAAQS. Additional compliance costs for the one-hour NO₂ NAAQS are not expected at this time.
- *SO₂ NAAQS.* In 2015, the EPA finalized the SO₂ data requirements rule (DRR) for the 2010 one-hour NAAQS to assist the states in implementing the standard. The MPCA initially informed Minnesota Power that compliant SO₂ modeling completed at Minnesota Power's Boswell and Taconite Harbor facilities would satisfy the DRR obligations and no further modeling would be required; however, the DRR also required facilities have federally-enforceable permit limits at which the one-hour SO₂ NAAQS compliance was modeled by January 2017. Taconite Harbor was issued an amended air permit in 2016, containing the new modeling limits at that facility. The MPCA did not meet the January 2017, deadline to amend the Boswell permit. The MPCA is in discussions with the EPA on alternate compliance pathways to use existing completed modeling at current limits. On June 8, 2018, the EPA formally proposed in the Federal Register to retain the current primary SO₂ one-hour NAAQS. Compliance costs for the one-hour SO₂ NAAQS are not expected to be material.

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

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

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

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters (Continued)

In 2014, the U.S. Supreme Court invalidated the aspect of the Tailoring Rule that established higher permitting thresholds for GHG than for other pollutants subject to PSD; however, the court also upheld the EPA's ability to require best available control technology (BACT) for GHG from sources already subject to regulation under PSD. Minnesota Power's coal-fired generating facilities are already subject to regulation under PSD, so we anticipate that ultimately PSD for GHG will apply to our facilities, but the timing of the promulgation of a replacement for the Tailoring Rule is uncertain. The PSD applies to existing facilities only when they undertake a major modification that increases emissions.

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

In 2014, the EPA announced a proposed rule under Section 111(d) of the Clean Air Act for existing power plants entitled "Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Generating Units", also referred to as the Clean Power Plan (CPP). The EPA issued the final CPP in 2015, together with a proposed federal implementation plan and a model rule for emissions trading. In 2016, the U.S. Supreme Court issued an order staying the effectiveness of the rule until after the appellate court process is complete. In 2016, the U.S. Court of Appeals for the District of Columbia heard oral arguments and is currently deliberating. If the CPP is upheld at the completion of the appellate process, all of the CPP regulatory deadlines are expected to be reset based on the length of time that the appeals process takes. The EPA is precluded from enforcing the CPP while the U.S. Supreme Court stay is in force; however, the MPCA has been holding a series of meetings on the CPP for educational and planning purposes in the interim. Minnesota Power has been actively involved in these MPCA meetings, and is closely monitoring the appeals process.

If upheld, the CPP would establish uniform CO₂ emission performance rates for existing fossil fuel-fired and natural gas-fired combined cycle generating units, setting state-specific goals for CO₂ emissions from the power sector. State goals were determined based on CPP source-specific performance emission rates and each state's mix of power plants. The EPA filed a motion with the U.S. Court of Appeals for the District of Columbia Circuit to hold CPP-related litigation in suspension while the EPA is reviewing the rule. In October 2017, the EPA issued a notice of proposed rulemaking, proposing to repeal the CPP. In December 2017, an Advanced Notice of Proposed Rulemaking for a CPP replacement rule was published in the Federal Register.

Minnesota Power is currently evaluating the CPP rescission and recent proposal for a CPP replacement rule as it relates to the state of Minnesota as well as its potential impact on the Company. Minnesota has already initiated several measures consistent with those called for under the CPP. Minnesota Power is implementing its *EnergyForward* strategic plan that provides for significant emission reductions and diversifying its electricity generation mix to include more renewable and natural gas energy. (See Note 6. Regulatory Matters.)

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

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

Clean Water Act - Aquatic Organisms. In 2014, EPA regulations under Section 316(b) of the Clean Water Act setting standards applicable to cooling water intake structures for the protection of aquatic organisms became effective. The regulations apply to the following facilities: Boswell, Taconite Harbor, Laskin, Rapids Energy Center, Hibbard Renewable Energy Center and portions of the DC transmission line that runs from Center, North Dakota, to Duluth, Minnesota. The Section 316(b) rule will be implemented through NPDES permits issued to covered facilities. No NPDES permits for Minnesota Power facilities have been re-issued containing Section 316(b) requirements since the final rule became effective. Should the MPCA require significant modifications to Minnesota Power's intake structures, a preliminary assessment indicates that Minnesota Power could incur costs of compliance up to \$15 million over the next five years. Minnesota Power would seek recovery of additional costs through a rate proceeding.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters (Continued)

Steam Electric Power Generating Effluent Guidelines. In 2015, the EPA issued revised federal effluent limit guidelines (ELG) for steam electric power generating stations under the Clean Water Act. It set effluent limits and prescribed BACT for several wastewater streams, including flue gas desulfurization (FGD) water, bottom ash transport water and coal combustion landfill leachate. In September 2017, the EPA announced a two-year postponement of the ELG compliance date of November 1, 2018, to November 1, 2020, while the agency reconsiders the bottom ash transport water and FGD wastewater provisions.

The final ELG rule's potential impact on Minnesota Power operations is primarily at Boswell. Boswell currently discharges bottom ash contact water through its NPDES permit, and also has a closed-loop FGD system that does not discharge, but may do so in the future. Under the existing ELG rule, bottom ash transport water discharge must cease no later than December 31, 2023. Bottom ash contact water will either need to be re-used in a closed-loop process, routed to a FGD scrubber, or the bottom ash handling system will need to be converted to a dry process. If FGD wastewater is discharged in the future, it will require additional wastewater treatment. The ELG rule provision regarding these two waste-streams are being reconsidered and may change prior to November 1, 2020. Efforts have been underway at Boswell to reduce the amount of water discharged and evaluate potential re-use options in its plant processes.

At this time, we cannot estimate what compliance costs we might incur related to these or other potential future water discharge regulations; however, the costs could be material, including costs associated with retrofits for bottom ash handling, pond dewatering, pond closure, and wastewater treatment and re-use. Minnesota Power would seek recovery of additional costs through a rate proceeding.

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

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

Coal Combustion Residuals from Electric Utilities (CCR). In 2015, the EPA published the final rule regulating CCR as nonhazardous waste under Subtitle D of the Resource Conservation and Recovery Act (RCRA) in the Federal Register. The rule includes additional requirements for new landfill and impoundment construction as well as closure activities related to certain existing impoundments. Costs of compliance for Boswell and Laskin are expected to occur primarily over the next 15 years and be between approximately \$65 million and \$100 million. The EPA has indicated to Minnesota Power that the Taconite Harbor landfill, which has been idled and has a temporary landfill cover in place, is a CCR unit, based on the EPA's interpretation of the CCR rule language. Minnesota Power has agreed to post the required CCR information for the Taconite Harbor landfill on Minnesota Power's website while the CCR issue is resolved. Compliance costs, if any, for CCR at Taconite Harbor cannot be estimated at this time. Minnesota Power would seek recovery of additional costs through a rate proceeding.

Minnesota Power continues to work on minimizing costs through evaluation of beneficial re-use and recycling of CCR and CCR-related waters. In September 2017, the EPA announced its intention to formally reconsider the CCR rule under Subtitle D of the RCRA and on March 15, 2018, published the first phase of the proposed rule revisions in the Federal Register. On July 17, 2018, the EPA finalized revisions to elements of the CCR rule, including extending certain deadlines by two years, the establishment of alternative groundwater protection standards for certain constituents and the potential for risk-based management options at facilities based on site characteristics.

Other Environmental Matters

Manufactured Gas Plant Site. We are reviewing and addressing environmental conditions at a former manufactured gas plant site located in Superior, Wisconsin, and formerly operated by SWL&P. SWL&P has been working with the Wisconsin Department of Natural Resources (WDNR) in determining the extent and location of contamination at the site and surrounding properties. In December 2017, the WDNR authorized SWL&P to transition from site investigation into the remedial design process. As of June 30, 2018, we have recorded a liability of approximately \$7 million for remediation costs at this site (approximately \$8 million as of December 31, 2017), and an associated regulatory asset as we expect recovery of these remediation costs to be allowed by the PSCW. We expect to incur these costs over the next four years.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Other Matters.

ALLETE Clean Energy. ALLETE Clean Energy's wind energy facilities have PSAs in place for their entire output and expire in various years between 2018 and 2032. As of June 30, 2018, ALLETE Clean Energy has \$16.2 million outstanding in standby letters of credit.

U.S. Water Services. As of June 30, 2018, U.S. Water Services has no outstanding standby letters of credit.

BNI Energy. As of June 30, 2018, BNI Energy had surety bonds outstanding of \$49.9 million and a letter of credit for an additional \$0.6 million related to the reclamation liability for closing costs associated with its mine and mine facilities. Although its coal supply agreements obligate the customers to provide for the closing costs, additional assurance is required by federal and state regulations. BNI Energy's total reclamation liability is currently estimated at \$47.5 million. BNI Energy does not believe it is likely that any of these outstanding surety bonds or the letter of credit will be drawn upon.

ALLETE Properties. As of June 30, 2018, ALLETE Properties had surety bonds outstanding and letters of credit to governmental entities totaling \$8.6 million primarily related to development and maintenance obligations for various projects. The estimated cost of the remaining development work is \$6.1 million. ALLETE Properties does not believe it is likely that any of these outstanding surety bonds or letters of credit will be drawn upon.

Community Development District Obligations. As of June 30, 2018, we owned 70 percent of the assessable land in the Town Center District (70 percent as of December 31, 2017) and 27 percent of the assessable land in the Palm Coast Park District (33 percent as of December 31, 2017). As of June 30, 2018, ownership levels, our annual assessments related to capital improvement and special assessment bonds for the ALLETE Properties projects within these districts are approximately \$1.4 million for Town Center at Palm Coast and \$0.6 million for Palm Coast Park. As we sell property at these projects, the obligation to pay special assessments will pass to the new landowners. In accordance with accounting guidance, these bonds are not reflected as debt on our Consolidated Balance Sheet.

Legal Proceedings.

We are involved in litigation arising in the normal course of business. Also in the normal course of business, we are involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, and compliance with regulations, rate base and cost of service issues, among other things. We do not expect the outcome of these matters to have a material effect on our financial position, results of operations or cash flows.

U.S. Water Services is involved in on-going patent defense litigation it brought against a company for infringement of two patents held by U.S. Water Services. As of June 30, 2018, U.S. Water Services has recognized approximately \$2 million of patent defense costs as an intangible asset. Management expects that U.S. Water Services will prevail, but in the event of an unfavorable outcome, the patent defense costs would be recognized as an expense in the period of resolution.

NOTE 14. BUSINESS SEGMENTS

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

Regulated Operations includes three operating segments which consist of our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC. ALLETE Clean Energy is our business focused on developing, acquiring and operating clean and renewable energy projects. U.S. Water Services is our integrated water management company. The ALLETE Clean Energy and U.S. Water Services reportable segments comprise our Energy Infrastructure and Related Services businesses. We also present Corporate and Other which includes two operating segments, BNI Energy, our coal mining operations in North Dakota, and ALLETE Properties, our legacy Florida real estate investment, along with other business development and corporate expenditures, unallocated interest expense, a small amount of non-rate base generation, approximately 4,000 acres of land in Minnesota, and earnings on cash and investments.

NOTE 14. BUSINESS SEGMENTS (Continued)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Millions				
Operating Revenue (a)				
Regulated Operations				
Residential	\$30.7	\$27.6	\$71.4	\$67.1
Commercial	36.2	33.7	72.8	71.9
Municipal	13.7	12.3	27.7	30.5
Industrial	115.3	121.6	230.2	243.3
Other Power Suppliers	42.7	41.7	86.4	82.9
CIP Financial Incentive (b)	—	5.5	—	5.5
Other	19.2	22.5	39.5	45.3
Total Regulated Operations	257.8	264.9	528.0	546.5
Energy Infrastructure and Related Services				
ALLETE Clean Energy				
Long-term PSA	12.4	13.7	31.0	31.5
Other	5.9	5.9	11.9	11.8
Total ALLETE Clean Energy	18.3	19.6	42.9	43.3
U.S. Water Services				
Point-in-Time	25.7	23.9	48.0	45.7
Contract	9.5	8.8	19.0	17.7
Capital Project	6.3	5.7	12.7	7.1
Total U.S. Water Services	41.5	38.4	79.7	70.5
Corporate and Other				
Long-term Contract	22.7	23.2	42.7	45.3
Other	3.8	7.2	9.0	13.3
Total Corporate and Other	26.5	30.4	51.7	58.6
Total Operating Revenue	\$344.1	\$353.3	\$702.3	\$718.9
Net Income (Loss)				
Regulated Operations				
	\$26.0	\$32.4	\$69.9	\$75.9
Energy Infrastructure and Related Services				
ALLETE Clean Energy	6.8	3.8	14.9	10.5
U.S. Water Services	0.2	0.6	(1.2)	0.3
Corporate and Other				
	(1.7)	0.1	(1.3)	(0.8)
Total Net Income	\$31.3	\$36.9	\$82.3	\$85.9

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

(b) See Note 6. Regulatory Matters.

NOTE 14. BUSINESS SEGMENTS (Continued)

	June 30, 2018	December 31, 2017
Millions		
Assets		
Regulated Operations	\$3,898.2	\$3,886.6
Energy Infrastructure and Related Services		
ALLETE Clean Energy	620.2	600.5
U.S. Water Services	291.8	292.4
Corporate and Other	304.5	300.5
Total Assets	\$5,114.7	\$5,080.0

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

The following discussion should be read in conjunction with our Consolidated Financial Statements and notes to those statements, Management's Discussion and Analysis of Financial Condition and Results of Operations from the 2017 Form 10-K, and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this Form 10-Q contain forward-looking information that involves risks and uncertainties. Readers are cautioned that forward-looking statements should be read in conjunction with our disclosures in this Form 10-Q and our 2017 Form 10-K under the headings: "Forward-Looking Statements" located on page 6 and "Risk Factors" located in Part I, Item 1A, beginning on page 25 of our 2017 Form 10-K. The risks and uncertainties described in this Form 10-Q and our 2017 Form 10-K are not the only risks facing our Company. Additional risks and uncertainties that we are not presently aware of, or that we currently consider immaterial, may also affect our business operations. Our business, financial condition or results of operations could suffer if the risks are realized.

Regulated Operations includes our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC, a Wisconsin-based regulated utility that owns and maintains electric transmission assets in portions of Wisconsin, Michigan, Minnesota and Illinois. Minnesota Power provides regulated utility electric service in northeastern Minnesota to approximately 145,000 retail customers. Minnesota Power also has 16 non-affiliated municipal customers in Minnesota. SWL&P is a Wisconsin utility and a wholesale customer of Minnesota Power. SWL&P provides regulated utility electric, natural gas and water service in northwestern Wisconsin to approximately 15,000 electric customers, 13,000 natural gas customers and 10,000 water customers. Our regulated utility operations include retail and wholesale activities under the jurisdiction of state and federal regulatory authorities. (See Note 6. Regulatory Matters.)

ALLETE Clean Energy focuses on developing, acquiring, and operating clean and renewable energy projects. ALLETE Clean Energy currently owns and operates, in four states, approximately 535 MW of nameplate capacity wind energy generation that is contracted under PSAs of various durations. ALLETE Clean Energy also engages in the development of wind energy facilities to operate under long-term PSAs or for sale to others upon completion.

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

Corporate and Other is comprised of BNI Energy, our coal mining operations in North Dakota, ALLETE Properties, our legacy Florida real estate investment, other business development and corporate expenditures, unallocated interest expense, a small amount of non-rate base generation, approximately 4,000 acres of land in Minnesota, and earnings on cash and investments.

ALLETE is incorporated under the laws of Minnesota. Our corporate headquarters are in Duluth, Minnesota. Statistical information is presented as of June 30, 2018, unless otherwise indicated. All subsidiaries are wholly-owned unless otherwise specifically indicated. References in this report to "we," "us" and "our" are to ALLETE and its subsidiaries, collectively.

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

Financial Overview

The following net income discussion summarizes a comparison of the six months ended June 30, 2018, to the six months ended June 30, 2017.

Net income for the six months ended June 30, 2018, was \$82.3 million, or \$1.60 per diluted share, compared to \$85.9 million, or \$1.69 per diluted share, for the same period in 2017. Earnings per share dilution was \$0.02 due to additional shares of common stock outstanding as of June 30, 2018.

Regulated Operations net income was \$69.9 million for the six months ended June 30, 2018, compared to \$75.9 million for the same period in 2017. Net income at Minnesota Power was lower than 2017 primarily due to reserves for an interim rate refund, lower transmission revenue, the timing of financial incentives under the Minnesota conservation improvement program and higher property taxes. These decreases were partially offset by lower operating and maintenance expense, higher sales to residential customers due to more favorable weather conditions, and higher sales to industrial customers due to the start-up of Keetac in March 2017. Net income at SWL&P was higher than 2017 due to the implementation of updated rates in August 2017 and more favorable weather conditions in 2018. Our after-tax equity earnings in ATC for the six months ended June 30, 2018, were consistent with 2017.

ALLETE Clean Energy net income was \$14.9 million for the six months ended June 30, 2018, compared to \$10.5 million for the same period in 2017. Net income in 2018 included \$4.5 million after-tax of additional production tax credits generated as ALLETE Clean Energy continues to execute its refurbishment strategy and a lower federal income tax rate due to the TCJA. Of the \$4.5 million after-tax in additional production tax credits, \$2.6 million resulted from the retrospective qualification of additional WTGs in 2016 and 2017. These increases were partially offset by higher operating and maintenance expenses, and lower revenue resulting from lower wind resources.

U.S. Water Services net loss was \$1.2 million for the six months ended June 30, 2018, compared to a net income of \$0.3 million for the same period in 2017. The net loss in 2018 includes higher operating expenses, partially offset by increased revenue primarily resulting from the September 2017 acquisition of Tonka Water. The first six months of 2018 were also impacted by the timing of capital project sales and unfavorable weather conditions reducing chemical sales. The net loss in 2018 also included \$0.5 million of after-tax expense recognized as cost of sales related to purchase accounting for sales backlog.

Corporate and Other net loss was \$1.3 million for the six months ended June 30, 2018, compared to a net loss of \$0.8 million for the same period in 2017. Results in 2018 decreased primarily due to additional income tax expense recorded in 2018 as GAAP requires the recognition of quarterly income tax expense at the estimated annual effective tax rate, partially offset by lower operating and maintenance expenses at ALLETE Properties.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2018 AND 2017

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

Regulated Operations

Quarter Ended June 30,	2018	2017
Millions		
Operating Revenue – Utility	\$257.8	\$264.9
Fuel, Purchased Power and Gas – Utility	96.5	93.1
Transmission Services – Utility	16.8	17.6
Operating and Maintenance	54.9	57.3
Depreciation and Amortization	44.5	39.0
Taxes Other than Income Taxes	13.0	12.7
Operating Income	32.1	45.2
Interest Expense	(15.1)	(14.5)
Equity Earnings in ATC	4.3	5.3
Other Income	1.0	1.2
Income Before Income Taxes	22.3	37.2
Income Tax Expense (Benefit)	(3.7)	4.8
Net Income	\$26.0	\$32.4

Operating Revenue – Utility decreased \$7.1 million, or 3 percent, from 2017 reflecting interim retail rate refund reserves, lower financial incentives under the Minnesota conservation improvement program and lower transmission revenue, partially offset by higher revenue from kWh sales, cost recovery rider revenue, conservation improvement program recoveries and fuel clause adjustment recoveries.

Interim rates, net of reserves, decreased \$7.8 million from 2017 as interim rate refund reserves were recognized during 2018 due to the regulatory outcome of the MPUC's decisions in Minnesota Power's 2016 general rate case. (See Note 6. Regulatory Matters.)

Financial incentives under the Minnesota conservation improvement program were lower \$5.5 million from 2017 due to the timing of MPUC approval. The conservation improvement program financial incentive was recognized in the second quarter of 2017 upon approval by the MPUC of Minnesota Power's 2016 CIP consolidated filing in a June 2017 order. Approval of Minnesota Power's 2017 CIP consolidated filing is expected in the third quarter of 2018.

Transmission revenue decreased \$4.4 million primarily due to lower MISO-related revenue. (See *Operating Expenses - Transmission Services – Utility*.)

Revenue from kWh sales increased \$4.4 million from 2017 primarily due to higher sales to Residential, Commercial and Municipal customers in 2018. Sales to Residential, Commercial and Municipal customers increased from 2017 primarily due to more favorable weather conditions in 2018. Sales to Industrial customers decreased 1.9 percent primarily due to lower sales to paper, pulp and secondary wood product customers as a result of the closure of the smaller of UPM Blandin's two paper machines in the fourth quarter of 2017. Sales to Other Power Suppliers were comparable to 2017, while revenue increased due to higher pricing. Sales to Other Power Suppliers are sold at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2018 AND 2017 (Continued)
Regulated Operations (Continued)

Kilowatt-hours Sold			Quantity	%
Quarter Ended June 30,	2018	2017	Variance	Variance
Millions				
Regulated Utility				
Retail and Municipal				
Residential	243	229	14	6.1 %
Commercial	339	328	11	3.4 %
Industrial	1,781	1,816	(35)	(1.9)%
Municipal	188	181	7	3.9 %
Total Retail and Municipal	2,551	2,554	(3)	(0.1)%
Other Power Suppliers	1,005	1,004	1	0.1 %
Total Regulated Utility Kilowatt-hours Sold	3,556	3,558	(2)	(0.1)%

Revenue from electric sales to taconite and iron concentrate customers accounted for 22 percent of consolidated operating revenue in 2018 (22 percent in 2017). Revenue from electric sales to paper, pulp and secondary wood product customers accounted for 5 percent of consolidated operating revenue in 2018 (5 percent in 2017). Revenue from electric sales to pipelines and other industrial customers accounted for 6 percent of consolidated operating revenue in 2018 (7 percent in 2017).

Cost recovery rider revenue increased \$3.6 million primarily due to higher expenditures related to the construction of the GNTL.

Conservation improvement program recoveries increased \$1.9 million from 2017 primarily due to an increase in related expenditures. (See *Operating Expenses - Operating and Maintenance*.)

Fuel adjustment clause recoveries increased \$1.6 million due to higher fuel and purchased power costs attributable to retail and municipal customers.

Operating Expenses increased \$6.0 million, or 3 percent, from 2017.

Fuel, Purchased Power and Gas – Utility expense increased \$3.4 million, or 4 percent, from 2017 primarily due to higher purchased power prices, partially offset by lower fuel costs. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause.

Transmission Services – Utility expense decreased \$0.8 million, or 5 percent, from 2017 primarily due to lower MISO-related expense. (See *Operating Revenue – Utility*.)

Operating and Maintenance expense decreased \$2.4 million, or 4 percent, from 2017 primarily due to lower salary and benefit expenses, partially offset by a \$1.9 million increase in conservation improvement program expenses in 2018. Conservation improvement program expenses are recovered from certain retail customers. (See *Operating Revenue – Utility*.)

Depreciation and Amortization expense increased \$5.5 million, or 14 percent, from 2017 primarily due to modifications of the depreciable lives for Boswell as part of Minnesota Power's general rate case. As part of its order dated March 12, 2018, affirming determinations made at a hearing on January 18, 2018, the MPUC extended the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2050, and shortened the depreciable lives of Boswell Unit 1 and Unit 2 to 2022, resulting in a net decrease to depreciation expense in the first quarter of 2018. Subsequently, in an order dated May 29, 2018, the MPUC modified its March 12, 2018 order, reducing the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035 resulting in an increase to depreciation expense in the second quarter of 2018. (See Note 6. Regulatory Matters.)

Equity Earnings in ATC decreased \$1.0 million, or 19 percent, from 2017 primarily due to the federal income tax rate change due to the TCJA, partially offset by additional investments in ATC. (See Note 7. Investment in ATC.)

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2018 AND 2017 (Continued)
Regulated Operations (Continued)

Income Tax Expense decreased \$8.5 million from 2017 primarily due to the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA, and lower pre-tax income. (See Note 6. Regulatory Matters.)

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

ALLETE Clean Energy

Quarter Ended June 30,	2018	2017
Millions		
Operating Revenue	\$18.3	\$19.6
Net Income	\$6.8	\$3.8

Operating Revenue decreased \$1.3 million, or 7 percent, from 2017 primarily due to lower kWh sales at most of ALLETE Clean Energy's wind energy facilities resulting from lower wind resources.

Production and Operating Revenue	Quarter Ended June 30,			
	2018		2017	
	kWh	Revenue	kWh	Revenue
Millions				
Wind Energy Facilities				
Lake Benton	49.0	\$2.8	58.4	\$3.1
Storm Lake II	31.7	2.3	35.0	2.3
Condon	24.0	1.9	20.6	1.7
Storm Lake I	41.3	2.9	49.4	3.0
Chanarambie/Viking	59.4	3.3	64.6	3.5
Armenia Mountain	55.5	5.1	62.5	6.0
Total Production and Operating Revenue	260.9	\$18.3	290.5	\$19.6

Net Income increased \$3.0 million, or 79 percent, from 2017. Net income in 2018 included \$3.9 million after-tax of additional production tax credits generated as ALLETE Clean Energy continues to execute its refurbishment strategy and a lower federal income tax rate due to the TCJA. Of the \$3.9 million after-tax in additional production tax credits, \$2.6 million resulted from the retrospective qualification of additional WTGs in 2016 and 2017 and \$0.6 million resulted from the qualification of additional WTGs in the first quarter of 2018. These increases were partially offset by higher operating and maintenance expenses, and lower revenue resulting from lower wind resources.

U.S. Water Services

Quarter Ended June 30,	2018	2017
Millions		
Operating Revenue	\$41.5	\$38.4
Net Income	\$0.2	\$0.6

Operating Revenue increased \$3.1 million, or 8 percent, from 2017 primarily due to the acquisition of Tonka Water in September 2017. Revenue from chemical sales and related services was \$35.2 million in 2018 compared to \$32.7 million in 2017. Revenue from capital projects was \$6.3 million for 2018 compared to \$5.7 million in 2017; capital project sales can significantly fluctuate from period to period.

Net Income decreased \$0.4 million from 2017. Net income in 2018 included higher operating expenses, partially offset by increased revenue primarily resulting from the September 2017 acquisition of Tonka Water. The second quarter of 2018 was also negatively impacted by the timing of capital project sales. Net income in 2018 also included \$0.2 million of after-tax expense recognized as cost of sales related to purchase accounting for sales backlog.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2018 AND 2017 (Continued)

Corporate and Other

Operating Revenue decreased \$3.9 million, or 13 percent, from 2017 primarily due to lower land sales at ALLETE Properties and lower revenue at BNI Energy, which operates under cost-plus fixed fee contracts, as a result of lower expenses in 2018 compared to 2017.

Net Loss was \$1.7 million in 2018 compared to net income of \$0.1 million in 2017. Results in 2018 decreased primarily due to additional income tax expense recorded in 2018 as GAAP requires the recognition of quarterly income tax expense at the estimated annual effective tax rate. The estimated annual effective tax rate can differ from what a quarterly effective tax rate would otherwise be on a stand-alone basis, and this may cause quarter to quarter differences in the timing of income taxes. Results in 2018 also included lower revenue at ALLETE Properties. The net loss at ALLETE Properties was \$0.7 million in 2018 compared to a net loss of \$0.4 million in 2017. Net income at BNI Energy was \$1.8 million in 2018 compared to net income of \$2.0 million in 2017.

Income Taxes – Consolidated

For the quarter ended June 30, 2018, the effective tax rate was a benefit of 20.8 percent (expense of 16.5 percent for the quarter ended June 30, 2017). The decrease from 2017 was primarily due to the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA and lower pre-tax income. (See *Regulated Operations - Income Tax Expense*.)

We expect our annual effective tax rate in 2018 to be lower than 2017 due to a reduction of the federal income tax rate as part of the TCJA, and lower pre-tax income. The effective rate deviated from the combined statutory rate of approximately 28 percent primarily due to production tax credits. (See Note 9. *Income Tax Expense*.) The estimated annual effective tax rate can differ from what a quarterly effective tax rate would otherwise be on a stand-alone basis, and this may cause quarter to quarter differences in the timing of income taxes.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

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

Regulated Operations

Six Months Ended June 30,	2018	2017
Millions		
Operating Revenue – Utility	\$528.0	\$546.5
Fuel, Purchased Power and Gas – Utility	197.4	189.7
Transmission Services – Utility	35.2	34.2
Operating and Maintenance	110.4	113.4
Depreciation and Amortization	78.8	78.7
Taxes Other than Income Taxes	28.1	25.9
Operating Income	78.1	104.6
Interest Expense	(30.0)	(28.5)
Equity Earnings in ATC	9.0	11.4
Other Income	2.6	2.5
Income Before Income Taxes	59.7	90.0
Income Tax Expense (Benefit)	(10.2)	14.1
Net Income	\$69.9	\$75.9

Operating Revenue – Utility decreased \$18.5 million, or 3 percent, from 2017 reflecting interim retail rate refund reserves, lower transmission revenue, provision for tax reform refund related to income tax changes resulting from the TCJA, lower financial incentives under the Minnesota conservation improvement program and lower FERC formula-based rates, partially offset by higher revenue from kWh sales, conservation improvement program recoveries and cost recovery rider revenue.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (Continued)

Regulated Operations (Continued)

Interim rates, net of reserves, decreased \$16.6 million from 2017 as interim rate refund reserves were recognized during 2018 due to the regulatory outcome of the MPUC's decisions in Minnesota Power's 2016 general rate case. (See Note 6. Regulatory Matters.)

Transmission revenue decreased \$7.0 million primarily due to lower MISO-related revenue. (See *Operating Expenses - Transmission Services – Utility.*)

Provision for tax reform refund of \$6.7 million related to income tax changes resulting from the TCJA was recognized during 2018. We have recorded the impact of these income tax changes for Minnesota Power and SWL&P as regulatory liabilities pending the outcome of regulatory proceedings with the MPUC and PSCW. (See Note 6. Regulatory Matters.)

Financial incentives under the Minnesota conservation improvement program were lower by \$5.5 million from 2017 due to the timing of MPUC approval. The conservation improvement program financial incentive was recognized in the second quarter of 2017 upon approval by the MPUC of Minnesota Power's 2016 CIP consolidated filing in a June 2017 order. Approval of Minnesota Power's 2017 CIP consolidated filing and related financial incentive is expected in the third quarter of 2018.

Revenue from wholesale customers under FERC formula-based rates decreased \$1.6 million from 2017 primarily due to lower rates.

Revenue from kWh sales increased \$10.1 million from 2017 primarily due to higher sales to Residential, Commercial, Industrial and Municipal customers in 2018. Sales to Industrial customers increased 1.3 percent primarily due to increased taconite production. USS Corporation restarted production at its Keetac plant in March 2017. Sales to Residential, Commercial and Municipal customers increased in 2018 primarily due to more favorable weather conditions in 2018 compared to 2017. Sales to Other Power Suppliers decreased 1.8 percent from 2017 as a result of increased sales to Industrial customers, which was more than offset by higher pricing on PSAs with these customers. Sales to Other Power Suppliers are sold at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations.

Kilowatt-hours Sold			Quantity	%
Six Months Ended June 30,	2018	2017	Variance	Variance
Millions				
Regulated Utility				
Retail and Municipal				
Residential	585	552	33	6.0 %
Commercial	706	697	9	1.3 %
Industrial	3,624	3,578	46	1.3 %
Municipal	407	396	11	2.8 %
Total Retail and Municipal	5,322	5,223	99	1.9 %
Other Power Suppliers	2,008	2,045	(37)	(1.8)%
Total Regulated Utility Kilowatt-hours Sold	7,330	7,268	62	0.9 %

Revenue from electric sales to taconite and iron concentrate customers accounted for 21 percent of consolidated operating revenue in 2018 (22 percent in 2017). Revenue from electric sales to paper, pulp and secondary wood product customers accounted for 5 percent of consolidated operating revenue in 2018 (5 percent in 2017). Revenue from electric sales to pipelines and other industrial customers accounted for 7 percent of consolidated operating revenue in 2018 (7 percent in 2017).

Conservation improvement program recoveries increased \$4.2 million from 2017 primarily due to an increase in related expenditures. (See *Operating Expenses - Operating and Maintenance.*)

Cost recovery rider revenue increased \$2.6 million primarily due to higher expenditures related to the construction of the GNTL.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (Continued)
Regulated Operations (Continued)

Operating Expenses increased \$8.0 million or 2 percent from 2017.

Fuel, Purchased Power and Gas – Utility expense increased \$7.7 million, or 4 percent, from 2017 primarily due to increased kWh sales and higher purchased power prices, partially offset by lower fuel costs. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause.

Transmission Services – Utility expense increased \$1.0 million, or 3 percent, from 2017 primarily due to higher MISO-related expense. (See *Operating Revenue – Utility*.)

Operating and Maintenance expense decreased \$3.0 million, or 3 percent, from 2017 primarily due to lower salary and benefit expenses, and lower materials purchased for generation facilities, partially offset by a \$4.2 million increase in conservation improvement program expenses in 2018. Conservation improvement program expenses are recovered from certain retail customers. (See *Operating Revenue – Utility*.)

Taxes Other than Income Taxes increased \$2.2 million, or 8 percent, from 2017 primarily due to higher property tax expenses resulting from higher taxable plant.

Interest Expense increased \$1.5 million, or 5 percent, from 2017 primarily due to higher average long-term debt balances and interest rates. We record interest expense for Regulated Operations primarily based on rate base and authorized capital structure, and allocate the balance to Corporate and Other.

Equity Earnings in ATC decreased \$2.4 million, or 21 percent, from 2017 primarily due to the federal income tax rate change due to the TCJA, partially offset by additional investments in ATC. (See Note 7. Investment in ATC.)

Income Tax Expense decreased \$24.3 million from 2017 primarily due to the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA, and lower pre-tax income. (See Note 6. Regulatory Matters.)

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

ALLETE Clean Energy

Six Months Ended June 30,	2018	2017
Millions		
Operating Revenue	\$42.9	\$43.3
Net Income	\$14.9	\$10.5

Operating Revenue decreased \$0.4 million, or 1 percent, from 2017 primarily due to lower kWh sales at most of ALLETE Clean Energy's wind energy facilities resulting from lower wind resources.

Production and Operating Revenue	Six Months Ended June 30,			
	2018		2017	
	kWh	Revenue	kWh	Revenue
Millions				
Wind Energy Facilities				
Lake Benton	119.4	\$6.2	134.2	\$6.6
Storm Lake II	79.6	5.2	83.2	5.2
Condon	58.3	4.7	44.8	3.7
Storm Lake I	103.8	6.2	119.1	6.4
Chanarambie/Viking	138.1	7.2	145.5	7.4
Armenia Mountain	147.0	13.4	150.2	14.0
Total Production and Operating Revenue	646.2	\$42.9	677.0	\$43.3

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (Continued)

ALLETE Clean Energy (Continued)

Net Income increased \$4.4 million, or 42 percent, from 2017. Net income in 2018 included \$4.5 million after-tax of additional production tax credits generated as ALLETE Clean Energy continues to execute its refurbishment strategy and a lower federal income tax rate due to the TCJA. Of the \$4.5 million after-tax in additional production tax credits, \$2.6 million resulted from the retrospective qualification of additional WTGs in 2016 and 2017. These increases were partially offset by higher operating and maintenance expenses, and lower revenue resulting from lower wind resources.

U.S. Water Services

Six Months Ended June 30,	2018	2017
Millions		
Operating Revenue	\$79.7	\$70.5
Net Income (Loss)	\$(1.2)	\$0.3

Operating Revenue increased \$9.2 million, or 13 percent, from 2017 primarily due to the acquisition of Tonka Water in September 2017. Revenue from chemical sales and related services was \$67.0 million in 2018 compared to \$63.4 million in 2017. Revenue from capital projects was \$12.7 million for 2018 compared to \$7.1 million in 2017; capital project sales can significantly fluctuate from period to period.

Net Loss was \$1.2 million in 2018 compared to net income of \$0.3 million in 2017. The net loss in 2018 includes higher operating expenses, partially offset by increased revenue primarily resulting from the September 2017 acquisition of Tonka Water. The first six months of 2018 were also impacted by the timing of capital project sales and unfavorable weather conditions reducing chemical sales. The net loss in 2018 also included \$0.5 million of after-tax expense recognized as cost of sales related to purchase accounting for sales backlog.

Corporate and Other

Operating Revenue decreased \$6.9 million, or 12 percent, from 2017 primarily due to a decrease in revenue at BNI Energy, which operates under cost-plus fixed fee contracts, as a result of lower expenses in 2018 compared to 2017 and lower land sales at ALLETE Properties.

Net Loss was \$1.3 million in 2018 compared to a net loss of \$0.8 million in 2017. Results in 2018 decreased primarily due to additional income tax expense recorded in 2018 as GAAP requires the recognition of quarterly income tax expense at the estimated annual effective tax rate. The estimated annual effective tax rate can differ from what a quarterly effective tax rate would otherwise be on a stand-alone basis, and this may cause quarter to quarter differences in the timing of income taxes. This decrease was partially offset by lower operating and maintenance expenses at ALLETE Properties. Net income at BNI Energy was \$3.6 million in 2018 compared to net income of \$3.8 million in 2017. The net loss at ALLETE Properties was \$1.1 million in 2018 compared to a net loss of \$1.6 million in 2017.

Income Taxes – Consolidated

For the six months ended June 30, 2018, the effective tax rate was a benefit of 12.4 percent (expense of 19.2 percent for the six months ended June 30, 2017). The decrease from 2017 was primarily due to the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA, and lower pre-tax income. (See *Regulated Operations - Income Tax Expense*.)

We expect our annual effective tax rate in 2018 to be lower than 2017 due to the reduction of the federal income tax rate as part of the TCJA, and lower pre-tax income. The effective rate deviated from the combined statutory rate of approximately 28 percent primarily due to production tax credits. (See Note 9. Income Tax Expense.)

CRITICAL ACCOUNTING POLICIES

Certain accounting measurements under GAAP involve management's judgment about subjective factors and estimates, the effects of which are inherently uncertain. Accounting measurements that we believe are most critical to our reported results of operations and financial condition include: regulatory accounting, pension and postretirement health and life actuarial assumptions, impairment of long-lived assets, taxation, and valuation of goodwill and intangible assets. These policies are reviewed with the Audit Committee of our Board of Directors on a regular basis and summarized in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2017 Form 10-K.

Valuation of Goodwill and Intangible Assets.

Goodwill. Our 2017 annual testing of U.S. Water Services' goodwill for impairment indicated the calculated fair value of equity for the reporting unit exceeded carrying value. Significant assumptions utilized in the fair value calculation included a discount rate of 10.75 percent, cash flow forecasts through 2022, annual revenue growth rates ranging from 7 percent to 9 percent, excluding 13 percent of revenue growth in 2018 related to the year over year impact of the acquisition of Tonka Water, and a terminal growth rate of 4.0 percent. If U.S. Water Services fails to meet expected cash flow forecasts by a nominal margin or there is an increase in interest rates that has a negative impact on the discount rate used in the Company's valuation under the income approach, the results of our future tests could result in an impairment of goodwill; our next annual impairment test will occur in the fourth quarter of 2018. Subsequent to our 2017 annual impairment test, there have been no triggering events or indicators of impairment of goodwill.

OUTLOOK

For additional information see our 2017 Form 10-K.

ALLETE is an energy company committed to earning a financial return that rewards our shareholders, allows for reinvestment in our businesses and sustains growth. The Company has long-term objectives of achieving average annual earnings per share growth of 5 percent to 7 percent, and providing a dividend payout competitive with our industry. Regulated Operations is projected to have average annual earnings growth of 3 percent to 4 percent and our Energy Infrastructure and Related Services businesses are projected to have average annual earnings growth of 15 percent.

ALLETE is predominately a regulated utility through Minnesota Power, SWL&P and an investment in ATC. ALLETE's strategy is to remain predominately a regulated utility while investing in its Energy Infrastructure and Related Services businesses to complement its regulated businesses, balance exposure to the utility's industrial customers and provide potential long-term earnings growth. ALLETE expects net income from Regulated Operations to be approximately 80 percent of total consolidated net income in 2018. Over the next several years, the contribution of the Energy Infrastructure and Related Services businesses to net income is expected to increase as ALLETE grows these operations. ALLETE expects its businesses to provide regulated, contracted or recurring revenues, and to support sustained growth in net income and cash flow.

Regulated Operations. Minnesota Power's long-term strategy is to be the leading electric energy provider in northeastern Minnesota by providing safe, reliable and cost-competitive electric energy, while complying with environmental permit conditions and renewable energy requirements. Keeping the cost of energy production competitive enables Minnesota Power to effectively compete in the wholesale power markets and minimizes retail rate increases to help maintain customer viability. As part of maintaining cost competitiveness, Minnesota Power intends to reduce its exposure to possible future carbon and GHG legislation by reshaping its generation portfolio, over time, to reduce its reliance on coal. (See *EnergyForward.*) We will monitor and review proposed environmental regulations and may challenge those that add considerable cost with limited environmental benefit. Minnesota Power will continue to pursue customer growth opportunities and cost recovery rider approvals for transmission, renewable and environmental investments, as well as work with regulators to earn a fair rate of return.

OUTLOOK (Continued)

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

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

In February 2017, Minnesota Power filed an additional request to further reduce its requested interim rate increase. In an April 2017 order, the MPUC approved Minnesota Power's updated retail rate request resulting in a reduction in the annual interim rate increase to \$32.2 million beginning in May 2017. As a result of working with intervenors and further developments as the rate review progressed, Minnesota Power's final rate request was adjusted to approximately \$49 million on an annualized basis. In an order dated March 12, 2018, the MPUC affirmed determinations made at a hearing on January 18, 2018, regarding Minnesota Power's general rate case including allowing a return on common equity of 9.25 percent and a 53.81 percent equity ratio. Upon commencement of final rates, we expect additional revenue of approximately \$13 million on an annualized basis. Final rates are expected to commence in the fourth quarter of 2018; interim rates will be collected through this period which are fully offset by the recognition of a corresponding reserve. Minnesota Power has recorded a reserve for an interim rate refund of \$49.2 million as of June 30, 2018 (\$32.3 million as of December 31, 2017). The MPUC also disallowed Minnesota Power's regulatory asset for deferred fuel adjustment clause costs due to the anticipated adoption of a forward-looking fuel adjustment clause methodology resulting in a \$19.5 million pre-tax charge to Fuel, Purchased Power and Gas – Utility in the fourth quarter of 2017.

As part of its decision in Minnesota Power's 2016 general rate case, the MPUC extended the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2050 primarily to mitigate rate increases for our customers, and shortened the depreciable lives of Boswell Unit 1 and Unit 2 to 2022, resulting in a net decrease to depreciation expense of approximately \$25 million in the fourth quarter of 2017.

On April 2, 2018, Minnesota Power filed a petition with the MPUC requesting reconsideration of certain decisions in the MPUC's order dated March 12, 2018, collectively representing approximately \$20 million to \$25 million in additional revenue on an annualized basis. Minnesota Power's petition included requesting reconsideration of the allowed return on common equity, recovery of the prepaid pension asset in rate base, certain disallowed expenses, and certain transmission revenue adjustments. In an order dated May 29, 2018, the MPUC denied Minnesota Power's petition for reconsideration and accepted a Minnesota Department of Commerce request for reconsideration reducing the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035 while utilizing the benefits of the lower federal income tax rate enacted as part of the TCJA to mitigate the impact on customer rates.

Energy-Intensive Trade-Exposed Customer Rates. An EITE customer ratemaking law was enacted in 2015, which established a Minnesota energy policy to have competitive rates for certain industries such as mining and forest products. In 2015, Minnesota Power filed a rate schedule petition with the MPUC for EITE customers and a corresponding rider for EITE cost recovery. In a March 2016 order, the MPUC dismissed the petition without prejudice. In June 2016, Minnesota Power filed a revised EITE petition with the MPUC which included additional information on the net benefits analysis, limits on eligible customers and term lengths for the EITE discount. The rate adjustments were intended to be revenue and cash flow neutral to Minnesota Power. The MPUC approved a reduction in rates for EITE customers in a December 2016 order and subsequently approved cost recovery in an April 2017 order; collection of the discount was subject to the MPUC's review of Minnesota Power's compliance filing implementing approval of a recovery mechanism, with the subsequent order issued in October 2017 that modified the April 2017 order. During 2017, Minnesota Power provided discounts of \$8.6 million that were recorded as a regulatory asset.

OUTLOOK (Continued)

Regulatory Matters (Continued)

In September 2017, Minnesota Power informed its EITE customers that it had suspended the EITE discount due to a concern that it was not revenue and cash flow neutral to Minnesota Power based on an MPUC decision at a hearing in September 2017, as well as the interim rate reduction and decisions in its 2016 general rate case. Based on the MPUC's decisions at a hearing on January 18, 2018, as part of Minnesota Power's 2016 general rate case, Minnesota Power reinstated the EITE discount effective January 1, 2018. Minnesota Power expects the discount to EITE customers to be approximately \$15 million annually based on EITE customer current operating levels. While interim rates are in effect for Minnesota Power's 2016 general rate case, discounts provided to EITE customers will offset interim rate refund reserves for non-EITE customers. Minnesota Power provided \$3.8 million and \$8.1 million of discounts to EITE customers during the quarter and six months ended June 30, 2018, respectively (\$3.6 million and \$5.9 million for the quarter and six months ended June 30, 2017, respectively).

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

2018 Wisconsin General Rate Case. On May 25, 2018, SWL&P filed a rate increase request with the PSCW requesting an average increase of 2.7 percent for retail customers (2.0 percent increase in electric rates; 2.3 percent increase in natural gas rates; and 8.3 percent increase in water rates). The filing seeks an overall return on equity of 10.5 percent and a 55.41 percent equity ratio. On an annualized basis, this filing is expected to result in additional revenue of approximately \$2.4 million.

Industrial Customers and Prospective Additional Load.

Industrial Customers. Electric power is one of several key inputs in the taconite mining, iron concentrate, paper, pulp and secondary wood products, pipeline and other industries. Approximately 49 percent of our regulated utility kWh sales in the six months ended June 30, 2018, were made to our industrial customers (49 percent in the six months ended June 30, 2017).

Taconite and Iron Concentrate. Minnesota Power's taconite customers are capable of producing up to approximately 41 million tons of taconite pellets annually. Taconite pellets produced in Minnesota are primarily shipped to North American steel making facilities that are part of the integrated steel industry. Steel produced from these North American facilities is used primarily in the manufacture of automobiles, appliances, pipe and tube products for the gas and oil industry, and in the construction industry. Historically, less than five percent of Minnesota taconite production has been exported outside of North America. Minnesota Power also has provided electric service to three iron concentrate facilities capable of producing up to approximately 4 million tons of iron concentrate per year. Iron concentrate is used in the production of taconite pellets. These facilities have been idled since at least 2016. On July 17, 2018, ERP Iron Ore announced it would no longer seek to restart its operations within Minnesota Power's service territory. (See *ERP Iron Ore / Magnetation*.)

There has been a general historical correlation between U.S. steel production and Minnesota taconite production. The American Iron and Steel Institute, an association of North American steel producers, reported that U.S. raw steel production operated at approximately 76 percent of capacity during the first six months of 2018 compared to 74 percent in the first six months of 2017. The World Steel Association, an association of over 160 steel producers, national and regional steel industry associations, and steel research institutes representing approximately 85 percent of world steel production, projected U.S. steel consumption in 2018 will increase by approximately 3 percent compared to 2017.

Minnesota Power's taconite customers may experience annual variations in production levels due to such factors as economic conditions, short-term demand changes or maintenance outages. We estimate that a one million ton change in Minnesota Power's taconite customers' production would impact our annual earnings per share by approximately \$0.04, net of expected power marketing sales at current prices. Changes in wholesale electric prices or customer contractual demand nominations could impact this estimate. Minnesota Power proactively sells power in the wholesale power markets that is temporarily not required by industrial customers to optimize the value of its generating facilities. Long-term reductions in taconite production or a permanent shut down of a taconite customer may lead Minnesota Power to file a general rate case to recover lost revenue.

OUTLOOK (Continued)

Industrial Customers and Prospective Additional Load (Continued)

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

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

Northshore Mining. Cliffs has announced that it is investing further in Minnesota ore operations, specifically planning to invest approximately \$80 million through 2020 to expand capacity for producing direct reduced-grade pellets at Northshore Mining. The additional direct reduced-grade pellets could be sold commercially or used to supply Cliff's planned hot briquetted iron production plant in Toledo, Ohio. Minnesota Power has a long-term PSA through 2031 with Silver Bay Power, which provides the majority of the electric service requirements for Northshore Mining. (See *Silver Bay Power*.)

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

ERP Iron Ore / Magnetation. In 2015, Magnetation announced that it had filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Minnesota, citing the significant decrease in global iron ore prices and its existing capital structure. In 2016, Magnetation idled its Plant 2 facility in Bovey, Minnesota. In 2016, the bankruptcy court approved plans to idle Magnetation's Plant 4 facility near Grand Rapids, Minnesota, and its pellet plant in Reynolds, Indiana, as well as terminate Magnetation's pellet purchase agreement with AK Steel Corporation. Magnetation subsequently idled the facilities.

In January 2017, ERP Iron Ore purchased substantially all of Magnetation's assets pursuant to an asset purchase agreement approved by the bankruptcy court. On July 17, 2018, ERP Iron Ore filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Minnesota and announced that it would no longer seek to restart its operations within Minnesota Power's service territory. Minnesota Power has reserved for all receivables due from ERP Iron Ore.

Paper, Pulp and Secondary Wood Products. Minnesota Power serves a number of customers in the paper, pulp and secondary wood products industry. The four major paper and pulp mills we serve reported operating at, or near, full capacity in 2017. Lower levels of production are expected in 2018 as a result of the closure of the smaller of the two paper machines located at UPM Blandin in the fourth quarter of 2017. (See *UPM Blandin*.)

UPM Blandin. In October 2017, UPM-Kymmene Corporation announced that in light of the global market situation for graphic papers, and to sustain its competitiveness and leading position in the market, it planned to permanently close the smaller of UPM Blandin's two paper machines located in Grand Rapids, Minnesota; the closure was completed in the fourth quarter of 2017. Paper production related to the other paper machine is planned to continue at UPM Blandin. Minnesota Power provides electric and steam service to UPM Blandin.

Pipeline and Other Industries.

Husky Energy. On April 26, 2018, a fire at Husky Energy Inc.'s (Husky Energy) refinery in Superior, Wisconsin disrupted operations at the facility. Under normal operating conditions, SWL&P provides approximately 14 MW of average monthly demand to Husky Energy in addition to water service. The facility remains at minimal operations, and the refinery is not expected to resume normal operations for at least 18 to 24 months.

OUTLOOK (Continued)

Industrial Customers and Prospective Additional Load (Continued)

Prospective Additional Load. Minnesota Power is pursuing new wholesale and retail loads in and around its service territory. Currently, several companies in northeastern Minnesota continue to progress in the development of natural resource-based projects that represent long-term growth potential and load diversity for Minnesota Power. We cannot predict the outcome of these projects.

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

PolyMet. PolyMet is planning to start a new copper-nickel and precious metal (non-ferrous) mining operation in northeastern Minnesota. In 2015, PolyMet announced the completion of the final EIS by state and federal agencies, which was subsequently published in the Federal Register and Minnesota Environmental Quality Board Monitor. The Minnesota Department of Natural Resources (DNR) issued its Record of Decision in 2016, finding the final EIS adequate. The final EIS also requires Records of Decision by the federal agencies, which are expected in 2018, before final action can be taken on the required federal permits to construct and operate the mining operation.

In 2016, PolyMet submitted applications for water-related permits with the DNR and MPCA, an air quality permit with the MPCA, and a state permit to mine application with the DNR detailing its operational plans for the mine. On January 5, 2018, the DNR released PolyMet's draft permit to mine and opened a public comment period through March 6, 2018. Public hearings were held in February 2018 to review the draft permit to mine, as well as the MPCA's recently released draft water quality permit, draft air quality permit and draft water quality certification. On June 28, 2018, the U.S. Forest Service and PolyMet closed on a land exchange, which resulted in PolyMet obtaining surface rights to land needed to develop its mining operation. Minnesota Power could supply between 45 MW and 50 MW of load under a 10-year power supply contract with PolyMet that would begin upon start-up of operations.

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

In July 2017, Minnesota Power submitted a resource package to the MPUC requesting approval of PPAs for the output of a 250 MW wind energy facility and a 10 MW solar energy facility as well as approval of a 250 MW natural gas energy PPA. These agreements are subject to MPUC approval of the construction of NTEC, a 525 MW to 550 MW combined-cycle natural gas-fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE. Minnesota Power would purchase approximately 50 percent of the facility's output starting in 2025. In a September 2017 order, the MPUC approved Minnesota Power's request to extend the next IRP filing deadline until October 1, 2019, and Minnesota Power's request that approval for the natural gas energy PPA be decided through a contested case process. On July 2, 2018, an administrative law judge issued a recommendation that the MPUC deny approval of the NTEC agreements; the recommendation is not binding on the MPUC. On July 23, 2018, Minnesota Power filed exceptions to the administrative law judge's recommendation. The MPUC is expected to hold a hearing in the fourth quarter of 2018 on NTEC. On June 18, 2018, Minnesota Power filed a separate petition for approval of the PPA for the output of a 10 MW solar energy facility located in central Minnesota. The MPUC has not taken any action regarding the wind energy PPA which will be refiled separately from the natural gas energy PPA.

Integrated Resource Plan. In 2015, Minnesota Power filed its 2015 IRP with the MPUC, which included an analysis of a variety of existing and future energy resource alternatives and a projection of customer cost impact by class. The 2015 IRP also contained steps in Minnesota Power's *EnergyForward* strategic plan including the economic idling of Taconite Harbor Units 1 and 2 which occurred in 2016, the ceasing of coal-fired operations at Taconite Harbor in 2020, and the addition of between 200 MW and 300 MW of natural gas-fired generation in the next decade. In a 2016 order, the MPUC approved Minnesota Power's 2015 IRP with modifications. The order accepted Minnesota Power's plans for Taconite Harbor, directed Minnesota Power to retire Boswell Units 1 and 2 no later than 2022, required an analysis of generation and demand response alternatives to be filed with a natural gas resource proposal, and required Minnesota Power to conduct request for proposals for additional wind, solar and demand response resource additions subject to further MPUC approvals. In 2016, Minnesota Power announced Boswell Units 1 and 2 will be retired, which is expected to occur in the fourth quarter of 2018. (See Note 6. Regulatory Matters.)

OUTLOOK (Continued)
EnergyForward (Continued)

Renewable Energy. Minnesota Power's 2015 IRP includes an update on its plans and progress in meeting the Minnesota renewable energy milestones through 2025. Minnesota Power continues to execute its renewable energy strategy through renewable projects that will ensure it meets the identified state mandate at the lowest cost for customers. Minnesota Power has exceeded the interim milestone requirements to date and expects between 25 percent and 30 percent of its applicable retail and municipal energy sales will be supplied by renewable energy sources in 2018.

Minnesota Solar Energy Standard. Minnesota law requires at least 1.5 percent of total retail electric sales, excluding sales to certain customers, to be generated by solar energy by the end of 2020. At least 10 percent of the 1.5 percent mandate must be met by solar energy generated by or procured from solar photovoltaic devices with a nameplate capacity of 40 kW or less and community solar garden subscriptions.

Minnesota Power's solar energy supply consists of Camp Ripley, a 10 MW utility scale solar project at the Camp Ripley Minnesota Army National Guard base and training facility near Little Falls, Minnesota, and a community solar garden project in northeastern Minnesota, which is comprised of a 1 MW solar array owned and operated by a third party with the output purchased by Minnesota Power and a 40 kW solar array that is owned and operated by Minnesota Power. Minnesota Power believes Camp Ripley and the community solar garden arrays will meet approximately one-third of the overall mandate with an increase in solar rebates and community solar garden subscriptions expected to meet a portion of the required small scale solar mandate. On June 18, 2018, Minnesota Power filed a petition for approval of a PPA for the output of a 10 MW solar energy facility located in central Minnesota.

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

Wind Energy. Minnesota Power's wind energy facilities consist of Bison (497 MW) located in North Dakota, and Taconite Ridge (25 MW) located in northeastern Minnesota. Minnesota Power also has two long-term wind energy PPAs with an affiliate of NextEra Energy, Inc. to purchase the output from Oliver Wind I (50 MW) and Oliver Wind II (48 MW) located in North Dakota.

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

Updated customer billing rates for the renewable cost recovery rider, which includes investments and expenditures related to Bison, were approved by the MPUC in a November 2017 order, which allows Minnesota Power to charge retail customers on a current basis for the costs of certain renewable investments plus a return on the capital invested. On June 5, 2018, Minnesota Power filed a renewable resources factor filing. Upon approval of the filing, Minnesota Power will be authorized to include updated billing rates on customer bills.

Tenaska PPA. In May 2017, Minnesota Power and an affiliate of Tenaska signed a long-term PPA that provides for Minnesota Power to purchase the energy and associated capacity from a 250 MW wind energy facility in southwest Minnesota for a 20-year period beginning in 2020. The agreement provides for the purchase of output from the facility at fixed energy prices. There are no fixed capacity charges, and Minnesota Power will only pay for energy as it is delivered. This agreement is subject to MPUC approval and construction of the wind energy facility.

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

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

OUTLOOK (Continued)
EnergyForward (Continued)

The fourth PPA provides for Minnesota Power to purchase up to 133 MW of energy from Manitoba Hydro for 20 years beginning in 2020. The pricing under this PPA is based on forward market prices. The PPA is subject to the construction of the GNTL. (See *Great Northern Transmission Line*.)

The fifth PPA provides for Minnesota Power to purchase 50 MW of capacity from Manitoba Hydro at fixed prices. The PPA began in June 2017 and expires in May 2020.

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

Great Northern Transmission Line. As a condition of the 250-MW long-term PPA entered into with Manitoba Hydro, construction of additional transmission capacity is required. As a result, Minnesota Power is constructing the GNTL, an approximately 220-mile 500-kV transmission line between Manitoba and Minnesota's Iron Range that was proposed by Minnesota Power and Manitoba Hydro in order to strengthen the electric grid, enhance regional reliability and promote a greater exchange of sustainable energy.

In 2015, a certificate of need was approved by the MPUC. Based on this approval, Minnesota Power's portion of the investments and expenditures for the project are eligible for cost recovery under its existing transmission cost recovery rider and are anticipated to be included in future transmission cost recovery filings. (See Note 6. Regulatory Matters.) Also in 2015, the FERC approved our request to recover on construction work in progress related to the GNTL from Minnesota Power's wholesale customers. In a 2016 order, the MPUC approved the route permit for the GNTL which largely follows Minnesota Power's preferred route, including the international border crossing, and in 2016, the U.S. Department of Energy issued a presidential permit to cross the U.S.-Canadian border, which was the final major regulatory approval needed before construction in the U.S. could begin. Site clearing and pre-construction activities commenced in the first quarter of 2017 with construction expected to be completed in 2020. To date, most of the right-of-way has been cleared while foundation installation and transmission tower construction have commenced. The total project cost in the U.S., including substation work, is estimated to be between \$560 million and \$710 million, of which Minnesota Power's portion is expected to be between \$300 million and \$350 million; the difference will be recovered from a subsidiary of Manitoba Hydro as non-shareholder contributions to capital. Total project costs of \$248.8 million have been incurred through June 30, 2018, of which \$129.2 million has been recovered from a subsidiary of Manitoba Hydro.

Manitoba Hydro must obtain regulatory and governmental approvals related to a new transmission line in Canada known as the Manitoba-Minnesota Transmission Project (MMTP) that will connect with the GNTL. In 2015, Manitoba Hydro submitted the final preferred route and EIS for the MMTP to the Manitoba Conservation and Water Stewardship for siting and environmental approval, which remains pending. In 2016, Manitoba Hydro filed an application with the Canadian National Energy Board (NEB) requesting authorization to construct and operate the MMTP. The NEB determined that Manitoba Hydro's application was complete in December 2017, and held public hearings in June 2018. The NEB is required to make a decision on the MMTP by March 2019, but is not precluded from making a decision prior to that date. Approval of the Canadian federal cabinet is also required.

The MMTP is subject to legal and regulatory challenges which Minnesota Power is actively monitoring. Manitoba Hydro has informed Minnesota Power that it continues to work towards completing the MMTP on schedule. In order to meet the transmission in-service requirements in PPAs with Minnesota Power, Manitoba Hydro has indicated that it would need to start construction of the MMTP in December 2018. We are unable to predict the outcome of the Canadian regulatory review process, including the timing thereof or whether any onerous conditions may be imposed, or the timing of the completion of the MMTP, including the impact of any delays that may result in construction schedule adjustments. Any significant delays in the MMTP construction schedule may result in Minnesota Power adjusting the GNTL construction schedule and impact the timing of capital expenditures and associated cost recovery under our transmission cost recovery rider.

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

OUTLOOK (Continued)
Transmission (Continued)

Investment in ATC. Our wholly-owned subsidiary, ALLETE Transmission Holdings, owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in portions of Wisconsin, Michigan, Minnesota and Illinois. As of June 30, 2018, our equity investment in ATC was \$123.6 million (\$118.7 million as of December 31, 2017). In the first six months of 2018, we invested \$3.9 million in ATC, and on July 31, 2018, we invested an additional \$1.2 million. We expect to make additional investments of \$1.3 million in 2018. (See Note 7. Investment in ATC.)

ATC's authorized return on equity is 10.32 percent, or 10.82 percent including an incentive adder for participation in a regional transmission organization. In 2016, a federal administrative law judge ruled on a complaint proposing a reduction in the base return on equity to 9.70 percent, or 10.20 percent including an incentive adder for participation in a regional transmission organization, subject to approval or adjustment by the FERC. A final decision from the FERC on the administrative law judge's recommendation is pending.

ATC's 10-year transmission assessment, which covers the years 2017 through 2026, identifies a need for between \$2.8 billion and \$3.6 billion in transmission system investments. These investments by ATC, if undertaken, are expected to be funded through a combination of internally generated cash, debt and investor contributions. As opportunities arise, we plan to make additional investments in ATC through general capital calls based upon our pro rata ownership interest in ATC.

Energy Infrastructure and Related Services.

ALLETE Clean Energy.

ALLETE Clean Energy focuses on developing, acquiring, and operating clean and renewable energy projects. ALLETE Clean Energy currently owns and operates, in four states, approximately 535 MW of nameplate capacity wind energy generation that is contracted under PSAs of various durations. ALLETE Clean Energy also engages in the development of wind energy facilities to operate under long-term PSAs or for sale to others upon completion.

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

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

ALLETE Clean Energy will pursue growth through acquisitions or project development for others. ALLETE Clean Energy is targeting acquisitions of existing facilities up to 200 MW each, which have long-term PSAs in place for the facilities' output. At this time, ALLETE Clean Energy expects acquisitions or development of new facilities will be primarily wind or solar facilities in North America. ALLETE Clean Energy is also targeting the development of new facilities up to 200 MW each, which will have long-term PSAs in place for the output or may be sold upon completion.

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

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

OUTLOOK (Continued)
ALLETE Clean Energy (Continued)

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

ALLETE Clean Energy manages risk by having a diverse portfolio of assets, which includes PSA expiration, technology and geographic diversity. The current portfolio of approximately 535 MW is subject to typical variations in seasonal wind with higher wind resources typically available in the winter months. The majority of its planned maintenance leverages this seasonality and is performed during lower wind periods. The current mix of PSA expiration and geographic location for existing facilities is as follows:

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

U.S. Water Services.

U.S. Water Services provides integrated water management for industry by combining chemical, equipment, engineering and service for customized solutions to reduce water and energy usage and improve efficiency. U.S. Water Services has a presence in 49 states and Canada, and has an established base of approximately 4,900 customers. U.S. Water Services differentiates itself from the competition by developing synergies between solutions in engineering, equipment and chemical water treatment, which helps customers achieve efficient and sustainable use of their water and energy systems. U.S. Water Services is a leading provider to the biofuels industry, and also serves the commercial and institutional markets, food and beverage, light manufacturing, power generation, and midstream oil and gas industries, among others. U.S. Water Services principally relies upon recurring revenues from a diverse mix of industrial customers. U.S. Water Services sells certain products which are seasonal in nature, with higher demand typically realized in warmer months; generally, lower sales occur in the first quarter of each year.

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

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

U.S. Water Services expects cash flow from operations of approximately \$15 million in 2018 (\$12 million in 2017). Cash flow in 2018 could be impacted by the timing of equipment sales.

Corporate and Other.

BNI Energy. BNI Energy anticipates selling 4.4 million tons of lignite coal in 2018 (4.7 million tons were sold in 2017) and has sold 2.3 million tons for the six months ended June 30, 2018 (2.3 million tons were sold for the six months ended June 30, 2017). BNI Energy operates under cost-plus fixed fee agreements extending through December 31, 2037.

OUTLOOK (Continued)
Corporate and Other (Continued)

ALLETE Properties. ALLETE Properties represents our legacy Florida real estate investment. ALLETE Properties' major projects in Florida are Town Center at Palm Coast and Palm Coast Park, with approximately 1,900 acres combined of land available for sale. In addition to these two projects, ALLETE Properties has approximately 800 acres of other land available for sale. Market conditions can impact land sales and could result in our inability to cover our cost basis and operating expenses including fixed carrying costs such as community development district assessments and property taxes.

Our revised strategy incorporates the possibility of a bulk sale of ALLETE Properties entire portfolio. Proceeds from a bulk sale would be strategically deployed to support growth in ALLETE Clean Energy and U.S. Water Services, collectively our Energy Infrastructure and Related Services businesses. ALLETE Properties continues to pursue sales of individual parcels over time and will continue to maintain key entitlements and infrastructure without making additional investments or acquisitions.

Income Taxes.

ALLETE's aggregate federal and multi-state statutory tax rate is approximately 28 percent for 2018. ALLETE also has tax credits and other tax adjustments that reduce the combined statutory rate to the effective tax rate. These tax credits and adjustments historically have included items such as investment tax credits, production tax credits, AFUDC-Equity, depletion, as well as other items. The annual effective rate can also be impacted by such items as changes in income before income taxes, state and federal tax law changes that become effective during the year, business combinations, tax planning initiatives and resolution of prior years' tax matters. We expect our effective tax rate to be a benefit of approximately 10 percent for 2018 primarily due to a lower statutory tax rate resulting from the TCJA, and federal production tax credits as a result of wind energy generation. We also expect that our effective tax rate will be lower than the combined statutory rate over the next 12 years due to production tax credits attributable to our wind energy generation.

We expect the federal income tax rate change of the TCJA to result in lower income tax expense on an ongoing basis for our Regulated Operations, ALLETE Clean Energy and U.S. Water Services segments as well as our Corporate and Other businesses. The lower income tax expense for our Regulated Operations segment is mostly offset by lower revenue as the benefit of the TCJA is being returned to customers under regulatory proceedings with the MPUC and PSCW. (See Note 6. Regulatory Matters.) We do not expect a material impact on the Company's ability to utilize its federal and state NOL and tax credit carryforwards due to the TCJA.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Position. ALLETE is well-positioned to meet the Company's liquidity needs. As of June 30, 2018, we had cash and cash equivalents of \$121.9 million, \$394.7 million in available consolidated lines of credit and a debt-to-capital ratio of 42 percent.

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

	June 30, 2018	%	December 31, 2017	%
Millions				
Shareholders' Equity	\$2,108.2	58	\$2,068.2	58
Long-Term Debt (Including Long-Term Debt Due Within One Year)	1,528.8	42	1,513.3	42
	\$3,637.0	100	\$3,581.5	100

LIQUIDITY AND CAPITAL RESOURCES (Continued)

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

For the Six Months Ended June 30,	2018	2017
Millions		
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	\$110.1	\$38.3
Cash Flows from (used for)		
Operating Activities	194.4	184.4
Investing Activities	(138.5)	(84.7)
Financing Activities	(33.2)	(41.5)
Change in Cash, Cash Equivalents and Restricted Cash	22.7	58.2
Cash, Cash Equivalents and Restricted Cash at End of Period	\$132.8	\$96.5

Operating Activities. Cash from operating activities was higher in 2018 compared to 2017 primarily due to higher amounts collected from customers under cost recovery riders which are anticipated to be refunded in future periods and higher accounts payable due to timing of payments. These increases were partially offset by higher contributions to the defined benefit pension plans.

Investing Activities. Cash used for investing activities was higher in 2018 compared to 2017 primarily due to higher capital expenditures.

Financing Activities. Cash used for financing activities was lower in 2018 due to lower repayments of long-term debt and lower contingent consideration payments. These decreases in cash used for financing activities were partially offset by higher dividends on common stock as well as lower proceeds from the issuance of common stock and long-term debt.

Working Capital. Additional working capital, if and when needed, generally is provided by consolidated bank lines of credit and the issuance of securities, including long-term debt, common stock and commercial paper. As of June 30, 2018, we had consolidated bank lines of credit aggregating \$407.0 million (\$407.0 million as of December 31, 2017), the majority of which expire in October 2020. We had \$12.3 million outstanding in standby letters of credit and no outstanding draws under our lines of credit as of June 30, 2018 (\$11.9 million in standby letters of credit and no outstanding draws as of December 31, 2017). In addition, as of June 30, 2018, we had 3.0 million original issue shares of our common stock available for issuance through Invest Direct, our direct stock purchase and dividend reinvestment plan, and 2.9 million original issue shares of common stock available for issuance through a distribution agreement with Lampert Capital Markets, Inc. (See *Securities*.) The amount and timing of future sales of our securities will depend upon market conditions and our specific needs.

Securities. We entered into a distribution agreement with Lampert Capital Markets, Inc., in 2008, as amended most recently in August 2016, with respect to the issuance and sale of up to an aggregate of 13.6 million shares of our common stock, without par value, of which 2.9 million shares remain available for issuance. For the six months ended June 30, 2018, no shares of common stock were issued under this agreement (1.0 million shares were issued for the six months ended June 30, 2017, resulting in net proceeds of \$65.7 million). The shares issued in 2017 were offered and sold pursuant to Registration Statement No. 333-212794, pursuant to which the remaining shares will continue to be offered for sale, from time to time.

During the six months ended June 30, 2018, we issued 0.3 million shares of common stock through Invest Direct, the Employee Stock Purchase Plan, and the Retirement Savings and Stock Ownership Plan, resulting in net proceeds of \$10.7 million (0.2 million shares were issued for the six months ended June 30, 2017, resulting in net proceeds of \$8.7 million). These shares of common stock were registered under Registration Statement Nos. 333-211075, 333-188315, 333-183051 and 333-162890.

On April 16, 2018, ALLETE issued and sold \$60.0 million of its First Mortgage Bonds (the Bonds) that bear interest at 4.07 percent. The Bonds will mature in April 2048 and were sold in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, to institutional accredited investors. (See Note 8. Short-Term and Long-Term Debt.)

Financial Covenants. See Note 8. Short-Term and Long-Term Debt for information regarding our financial covenants.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Pension and Other Postretirement Benefit Plans. Management considers various factors when making funding decisions, such as regulatory requirements, actuarially determined minimum contribution requirements and contributions required to avoid benefit restrictions for the defined benefit pension plans. During the six months ended June 30, 2018, we contributed \$15.0 million in cash to the defined benefit pension plans. We do not expect to make additional contributions to our defined benefit pension plans in 2018, and we do not expect to make any contributions to our other postretirement benefit plans in 2018. (See Note 12. Pension and Other Postretirement Benefit Plans.)

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

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

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

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

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

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

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

The Company believes it is well-positioned to meet its liquidity needs. As of June 30, 2018, we had cash and cash equivalents of \$121.9 million, \$394.7 million in available consolidated lines of credit and a debt-to-equity ratio of 42 percent. Our cash from operating activities for the year ended December 31, 2017, was \$402.9 million. In addition, as of June 30, 2018, we had 3.0 million original issue shares of our common stock available for issuance through Invest Direct and 2.9 million original issue shares of common stock available for issuance through a distribution agreement with Lampert Capital Markets, Inc.

Capital Requirements. Our capital expenditures for 2018 and 2019 are expected to be approximately \$350 million and \$470 million, respectively. The increase from the 2018 and 2019 capital expenditures projected in our 2017 Form 10-K is primarily due to the 80 MW wind energy facility ALLETE Clean Energy will build, own and operate pursuant to a 15-year PSA with NorthWestern Corporation. (See Item 7. Management's Discussion and Analysis – Outlook – Energy Infrastructure and Related Services – ALLETE Clean Energy.) For the six months ended June 30, 2018, capital expenditures totaled \$113.9 million (\$82.1 million for the six months ended June 30, 2017). The expenditures were primarily made in the Regulated Operations segment.

OTHER

Environmental Matters.

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

Employees.

As of June 30, 2018, ALLETE had 1,971 employees, of which 1,926 were full-time.

Minnesota Power and SWL&P have an aggregate of 498 employees who are members of International Brotherhood of Electrical Workers (IBEW) Local 31. The labor agreements with IBEW Local 31 expired on January 31, 2018, and on February 1, 2018, Minnesota Power, SWL&P and IBEW Local 31 agreed to amend the current contracts and extend the expiration to April 30, 2020, and February 1, 2021, respectively.

BNI Energy has 184 employees, of which 139 are members of IBEW Local 1593. The current labor agreement with IBEW Local 1593 expires on March 31, 2019.

NEW ACCOUNTING PRONOUNCEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SECURITIES INVESTMENTS

Available-for-Sale Securities. As of June 30, 2018, our available-for-sale securities portfolio consisted primarily of securities held in other postretirement plans to fund employee benefits. (See Note 2. Investments.)

COMMODITY PRICE RISK

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

POWER MARKETING

Minnesota Power's power marketing activities consist of: (1) purchasing energy in the wholesale market to serve its regulated service territory when energy requirements exceed generation output; and (2) selling excess available energy and purchased power. From time to time, Minnesota Power may have excess energy that is temporarily not required by retail and municipal customers in our regulated service territory. Minnesota Power actively sells any excess energy to the wholesale market to optimize the value of its generating facilities.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

INTEREST RATE RISK

We are exposed to risks resulting from changes in interest rates as a result of our issuance of variable rate debt. We manage our interest rate risk by varying the issuance and maturity dates of our fixed rate debt, limiting the amount of variable rate debt, and continually monitoring the effects of market changes in interest rates. We may also enter into derivative financial instruments, such as interest rate swaps, to mitigate interest rate exposure. Interest rates on variable rate long-term debt are reset on a periodic basis reflecting prevailing market conditions. Based on the variable rate debt outstanding as of June 30, 2018, an increase of 100 basis points in interest rates would impact the amount of pre-tax interest expense by \$0.8 million. This amount was determined by considering the impact of a hypothetical 100 basis point increase to the average variable interest rate on the variable rate debt outstanding as of June 30, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of June 30, 2018, evaluations were performed, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, on the effectiveness of the design and operation of ALLETE's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (Exchange Act)). Based upon those evaluations, our principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are effective to provide assurance that information required to be disclosed in ALLETE's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls. There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding material legal and regulatory proceedings, see Note 4. Regulatory Matters and Note 11. Commitments, Guarantees and Contingencies to our Consolidated Financial Statements in our 2017 Form 10-K and Note 6. Regulatory Matters and Note 13. Commitments, Guarantees and Contingencies herein. Such information is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Our 2017 Form 10-K includes a detailed discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors disclosed in Part I, Item 1A. Risk Factors of our 2017 Form 10-K.

We are vulnerable to acts of terrorism or cybersecurity attacks.

Our operations may be targets of terrorist activities or cybersecurity attacks, which could disrupt our ability to provide utility service at our regulated utilities, develop or operate our renewable energy projects at ALLETE Clean Energy, provide integrated water management at U.S. Water Services, or operate our other businesses. The impacts may also impair the fulfillment of critical business functions, negatively impact our reputation, subject us to litigation or increased regulation, or compromise sensitive, confidential and other data.

There have been cybersecurity attacks on U.S. energy infrastructure in the past and there may be such attacks in the future. Our generation, transmission and distribution facilities, information technology systems and other infrastructure facilities and systems could be direct targets of, or otherwise be materially adversely affected, by such activities. Computer viruses, terrorism, theft and sabotage could impact our systems and facilities, or those of third parties on which we rely, which may disrupt our operations.

ITEM 1A. RISK FACTORS (Continued)

Our businesses require the continued operation of sophisticated information technology systems and network infrastructure as well as the collection and retention of personally identifiable information of our customers, shareholders and employees. Although we maintain security measures designed to prevent cybersecurity incidents and protect our information technology and control systems, network infrastructure and other assets, our technology systems, or those of third parties on which we rely, may be vulnerable to disability, failures or unauthorized access due to hacking, viruses, acts of war or terrorism and other causes. If those technology systems fail or are breached and not recovered in a timely manner, we may be unable to perform critical business functions, including effectively maintaining certain internal controls over financial reporting, our reputation may be negatively impacted, we may become subject to litigation or increased regulation, and sensitive, confidential and other data could be compromised. If our businesses were impacted by terrorist activities or cybersecurity incidents, such impacts could have an adverse effect on our financial position, results of operations and cash flows.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

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

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number

4	Thirteenth Supplemental Indenture, dated as of May 29, 2018, between Superior Water, Light and Power Company and U.S. Bank National Association, as corporate trustee.
31(a)	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Section 1350 Certification of Periodic Report by the Chief Executive Officer and the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
95	Mine Safety.
99	ALLETE News Release dated August 2, 2018, announcing 2018 second quarter earnings. (This exhibit has been furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.)
101.INS	XBRL Instance
101.SCH	XBRL Schema
101.CAL	XBRL Calculation
101.DEF	XBRL Definition
101.LAB	XBRL Label
101.PRE	XBRL Presentation

SIGNATURES

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

ALLETE, INC.

August 2, 2018

/s/ Robert J. Adams

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

August 2, 2018

/s/ Steven W. Morris

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

Execution Version

SUPERIOR WATER, LIGHT AND POWER COMPANY
2915 Hill Avenue, Superior, WI 54880

To

U.S. BANK NATIONAL ASSOCIATION
(formerly First Bank (N.A.))

As Trustee Under Superior Water, Light
and Power Company's Mortgage and Deed of Trust,
Dated as of March 1, 1943

THIRTEENTH SUPPLEMENTAL INDENTURE

Dated as of May 21, 2018

This instrument drafted by
Chapman and Cutler LLP
Chicago, IL

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ATTACHMENTS TO SUPPLEMENTAL INDENTURE:

EXHIBIT A - Form of Bond of the Twelfth Series

EXHIBIT B - Assignment and Irrevocable Bond Power

THIRTEENTH SUPPLEMENTAL INDENTURE

SUPPLEMENTAL INDENTURE, dated as of the 21st day of May, 2018, made and entered into by and between SUPERIOR WATER, LIGHT AND POWER COMPANY, a corporation of the State of Wisconsin, whose address is 2915 Hill Avenue, Superior, Wisconsin 54880 (the “Company”) and U.S. BANK NATIONAL ASSOCIATION (successor to Chemical Bank, as Corporate Trustee, and Peter Morse, as Co-Trustee), a national banking association, whose principal trust office at the date hereof is in Milwaukee, Wisconsin (the “Trustee”), as Trustee under the Mortgage and Deed of Trust dated as of March 1, 1943 (hereinafter called the “Mortgage”), which Mortgage was executed and delivered by the Company to secure the payment of bonds issued or to be issued under and in accordance with the provisions of the Mortgage, reference to which Mortgage is hereby made, this Thirteenth Supplemental Indenture (the “Thirteenth Supplemental Indenture”) being supplemental thereto; Parties 4

WHEREAS, said Mortgage was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on May 3, 1943, in Volume 191 of Mortgages at page 1, Document No. 362844; and Recitals 4

WHEREAS, an instrument dated as of September 15, 1949, was executed by the Company appointing Russell H. Sherman as Co-Trustee in succession to said Howard B. Smith, resigned, under said Mortgage, and by Russell H. Sherman accepting the appointment as Co-Trustee under said Mortgage in succession to the said Howard B. Smith, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on October 8, 1949, in Volume 196 of Mortgages at page 510, Document No. 398649; and

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

WHEREAS, the Company executed and delivered its First Supplemental Indenture, dated as of March 1, 1951 (hereinafter called its “First Supplemental Indenture”), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 30, 1951, in Volume 205 of Mortgages at page 73, Document No. 405297; and

WHEREAS, an instrument dated as of May 16, 1961, was executed by the Company appointing Richard G. Pintard as Co-Trustee in succession to said Russell H. Sherman, resigned, under said Mortgage and by Richard G. Pintard accepting the appointment as Co-Trustee under said Mortgage in succession to said Russell H. Sherman, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on May 31, 1961, in Volume 256 of Mortgages at page 423, Document No. 453857; and

WHEREAS, the Company executed and delivered its Second Supplemental Indenture, dated as of March 1, 1962 (hereinafter called its “Second Supplemental Indenture”), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 26, 1962, in Volume 261 of Mortgages at page 81, Document No. 457662; and

WHEREAS, an instrument dated as of June 23, 1976, was executed by the Company appointing Steven F. Lasher as Co-Trustee in succession to said Richard G. Pintard, resigned, under said Mortgage and by Steven F. Lasher accepting the appointment as Co-Trustee under said Mortgage in succession to said Richard G. Pintard, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on July 16, 1976, in Volume 353 of Records at page 274, Document No. 532495; and

WHEREAS, the Company executed and delivered its Third Supplemental Indenture, dated as of July 1, 1976 (hereinafter called its “Third Supplemental Indenture”), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on October 1, 1976, in Volume 355 of Records at page 683, Document No. 534332; and

WHEREAS, an instrument dated as of December 30, 1977, was executed by the Company appointing C. G. Martens as Co-Trustee in succession, to said Steven F. Lasher, resigned, under said Mortgage and by C. G. Martens accepting the appointment as Co-Trustee under said Mortgage in succession to said Steven F. Lasher, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on February 13, 1985, in Volume 436 of Records at page 264, Document No. 589308; and

WHEREAS, the Company executed and delivered its Fourth Supplemental Indenture, dated as of March 1, 1985 (hereinafter called its "*Fourth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 19, 1985, in Volume 436 of Records at page 910, Document No. 589776; and

WHEREAS, an instrument dated as of October 26, 1992, was executed by the Company appointing Peter Morse as Co-Trustee in succession to said C. G. Martens, resigned, under said Mortgage and by Peter Morse accepting the appointment as Co-Trustee under said Mortgage in succession to said C. G. Martens, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on November 13, 1992, in Volume 539 of Records at page 9, Document No. 649056; and

WHEREAS, the Company executed and delivered its Fifth Supplemental Indenture, dated as of December 1, 1992, (hereinafter called its "*Fifth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on December 28, 1992, in Volume 541 of Records at page 229, Document No. 650104; and

WHEREAS, the Company executed and delivered its Sixth Supplemental Indenture, dated as of March 24, 1994 (hereinafter called its "*Sixth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 29, 1994, in Volume 568 of Records at page 757, Document No. 662228; and

WHEREAS, the Company executed and delivered its Seventh Supplemental Indenture, dated as of November 1, 1994 (hereinafter called its "*Seventh Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on January 18, 1995, in Volume 583 of Records at page 242, Document No. 669350; and

WHEREAS, an instrument dated as of January 20, 1995, was executed by The Prudential Insurance Company pursuant to Section 102 of the Mortgage appointing First Bank (N.A.) as Trustee in succession to Chemical Bank as Corporate Trustee and Peter Morse as Co-Trustee under said Mortgage and by First Bank (N.A.) (U.S. Bank National Association, successor) accepting the appointment as Trustee under such Mortgage in succession to said Chemical Bank and said Peter Morse, which instrument was recorded in the Office of the Register of Deeds in and for Douglas County, Wisconsin on April 6, 1995 in Volume 585 of Records at page 953, Document No. 670717; and

WHEREAS, the Company executed and delivered its Eighth Supplemental Indenture, dated as of January 1, 1997 (hereinafter called its "*Eighth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on January 7, 1997, in Volume 617 of Records at page 536, Document No. 685699; and

WHEREAS, the Company executed and delivered its Ninth Supplemental Indenture, dated as of October 1, 2007 (hereinafter called its "*Ninth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on September 27, 2007, as Document No. 810920; and

WHEREAS, the Company executed and delivered its Tenth Supplemental Indenture, dated as of October 1, 2007 (hereinafter called its "*Tenth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on September 27, 2007, as Document No. 810921; and;

WHEREAS, the Company executed and delivered its Eleventh Supplemental Indenture, dated as of December 1, 2008 (hereinafter called its "*Eleventh Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on December 12, 2008, as Document No. 821566; and

WHEREAS, the Company executed and delivered its Twelfth Supplemental Indenture, dated as of December 2, 2013 (hereinafter called its "*Twelfth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on December 5, 2013, as Document No. 863990; and

WHEREAS, in addition to the property described in the Mortgage, as heretofore supplemented, the Company has acquired certain other property, rights and interests in property; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, bonds of a series entitled and designated First Mortgage Bonds, 3 3/8% Series due 1973 (the "*Bonds of the First Series*"), in the aggregate principal amount of Two Million Five Hundred Thousand Dollars (\$2,500,000), none of which Bonds of the First Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 3 1/10% Series due 1981 (the "*Bonds of the Second Series*"), in the aggregate principal amount of Five Million Dollars (\$5,000,000), none of which Bonds of the Second Series are now outstanding; bonds of a series entitled and designated First Mortgage Bonds, 5% Series due 1992 (the "*Bonds of the Third Series*"), in the aggregate principal amount of Two Million Seven Hundred Thousand Dollars (\$2,700,000), none of which Bonds of the Third Series are now outstanding; bonds of a series entitled and designated First Mortgage Bonds, 9 5/8% Series due 2001 (the "*Bonds of the Fourth Series*"), the interest rate for which bonds was modified to 6.10% by the Sixth Supplemental Indenture, in the aggregate principal amount of Three Million Dollars (\$3,000,000), none of which bonds of the Fourth Series are now outstanding; bonds of a series entitled and designated First Mortgage Bonds, 12 1/2% Series due 1992 (the "*Bonds of the Fifth Series*"), in the aggregate principal amount of Three Million Five Hundred Thousand Dollars (\$3,500,000), none of which Bonds of the Fifth Series are now outstanding; Bonds of a series entitled and designated First Mortgage Bonds, 7.91% Series due 2013 (the "*Bonds of the Sixth Series*"), in the aggregate principal amount of Five Million Dollars (\$5,000,000), none of which Bonds of the Sixth Series is now outstanding; Bonds of a series entitled and designated First Mortgage Bonds, 7.27% Series due December 15, 2008 (the "*Bonds of the Seventh Series*"), in the aggregate principal amount of Six Million Dollars (\$6,000,000), none of which Bonds of the Seventh Series remains outstanding; Bonds of a series entitled and designated First Mortgage Bonds, 5.375% Series due 2021 (the "*Bonds of the Eighth Series*"), in the aggregate principal amount of Six Million Three Hundred Seventy Thousand Dollars (\$6,370,000), the full amount of which remains outstanding; Bonds of a series entitled and designated First Mortgage Bonds, 5.75% Series due November 1, 2037 (the "*Bonds of the Ninth Series*"), in the aggregate principal amount of Six Million One Hundred Thirty Thousand Dollars (\$6,130,000), the full amount of which remains outstanding; Bonds of a series entitled and designated First Mortgage Bonds, 7.25% Series due December 15, 2013 (the "*Bonds of the Tenth Series*"), in the aggregate principal amount of Ten Million Dollars (\$10,000,000), none of which Bonds of the Tenth Series are now outstanding; and Bonds of a series entitled and designated First Mortgage Bonds, 4.15% Series due December 15, 2028 (the "*Bonds of the Twelfth Series*"), in the aggregate principal amount of Fifteen Million Dollars (\$15,000,000), the full amount of which remains outstanding; and

WHEREAS, Section 8 of the Mortgage provides that the form of each series of bonds (other than Bonds of the First Series) issued thereunder shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein; and

WHEREAS, Section 120 of the Mortgage provides, among other things, that the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may establish the terms and provisions of any series of bonds other than said Bonds of the First Series, by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to be of record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS, the Company now desires to create a new series of bonds and to add to the covenants, limitations or restrictions contained in the Mortgage certain other covenants, limitations or restrictions to be observed by it and to amend the Mortgage; and

WHEREAS, the execution and delivery by the Company of this Thirteenth Supplemental Indenture, and the terms of the Bonds of the Twelfth Series hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

NOW, THEREFORE, THIS INDENTURE WITNESSETH: That Superior Water, Light and Power Company, in consideration of the premises and of One Dollar (\$1) to it duly paid by the Trustee at or before the ensembling and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustee and in order further to secure the payment both of the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, according to their tenor and effect, and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject,

however, to Excepted Encumbrances as defined in Section 6 of the Mortgage) unto U.S. Bank National Association, as Trustee under the Mortgage, and to its successor or successors in said trust, and to said Trustee and its successors and assigns forever, all and singular the permits, franchises, rights, privileges, grants and property, real, personal and mixed, now owned or which may be hereafter acquired by the Company (except any of the character herein or in the Mortgage expressly excepted), including (but not limited to) its electric light and power works, gas works, water works, buildings, structures, machinery, equipment, mains, pipes, lines, poles, wires, easements, rights of way, permits, franchises, rights, privileges, grants and all property of every kind and description, situated in the City of Superior, Douglas County, Wisconsin, or elsewhere in Douglas County, Wisconsin, in Washburn County, Wisconsin, or in any other place or places now owned by the Company, or that may be hereafter acquired by it, including, but not limited to, the following described properties of the Company--that is to say:

All Lands and Rights and Interests in Lands of the Company (except any such property as may have been released from the lien of the Mortgage), including, but not limited to, all such property acquired by the Company under the following deed which is referred to for more particular description thereof, to wit:

Deed dated May 8, 2014, from the County of Douglas, in the State of Wisconsin, to the Company, which deed was recorded in the office of the Register of Deeds of the County of Douglas, State of Wisconsin, on May 19, 2014, as Document No. 866593; and

Deed dated April 4, 2018, from Richard D. Langdon to the Company, which deed was recorded in the office of the Register of Deeds of the County of Douglas, State of Wisconsin, on April 16, 2018, as Document No. 895700;

All other property, real, personal and mixed, acquired by the Company after the date of the execution and delivery of the Mortgage (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or hereafter acquired by the Company and wheresoever situated, including (without in any wise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Thirteenth Supplemental Indenture) all lands, power sites, flowage rights, water rights, water franchises, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants, works, reservoirs and tanks for the pumping and purification of water; all water works; all plants for the generation of electricity by water, steam and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, street and interurban railway systems, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, water, electric, gas and other machines, regulators, meters, transformers, generators, motors, water, electrical, gas and mechanical appliances, conduits, cables, water, steam, heat, gas or other mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture, chattels and choses in action; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of water, electric current, gas, steam heat or hot water for any purpose, including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

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

It is hereby agreed by the Company that all the property, rights and franchises acquired by the Company after the date hereof (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted) shall be and are as fully granted and conveyed hereby and as fully embraced within the lien of the Mortgage as if such property, rights and franchises were now owned by the Company and were specifically described herein and conveyed hereby.

Provided that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of the Mortgage, viz: (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter

specifically pledged, paid, deposited, delivered or held under the Mortgage or covenanted so to be; (2) merchandise, equipment, materials or supplies held for the purpose of sale in the usual course of business and fuel, oil and similar materials and supplies consumable in the operation of any properties of the Company; rolling stock, buses, motor coaches, automobiles and other vehicles; (3) bills, notes and accounts receivable, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the last day of the term of any lease or leasehold which may heretofore have or hereafter may become subject to the lien of the Mortgage; (4) water, electric energy, gas, ice and other materials or products pumped, stored, generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; (5) the Company's franchise to be a corporation; and (6) all permits, franchises, rights, privileges, grants and property in the state of Minnesota now owned or hereafter acquired unless such permits, franchises, rights, privileges, grants and property in the state of Minnesota shall have been subjected to the lien of the Mortgage by an indenture or indentures supplemental to the Mortgage, pursuant to authorization of the Board of Directors of the Company, whereupon all the permits, franchises, rights, privileges, grants and property then owned or thereafter acquired by the Company in the state of Minnesota (except property of the character expressly excepted from the lien of the Mortgage in clauses (1) to (5) above, inclusive), shall become and be subject to the lien of the Mortgage as part of the Mortgaged and Pledged Property and may be released, funded and otherwise dealt with on the same terms and subject to the same conditions and restrictions as though not theretofore excepted from the lien of the Mortgage; *provided, however*, that the property and rights expressly excepted from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that the Trustee or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 of the Mortgage.

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

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

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

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

ARTICLE I

BONDS OF THE TWELFTH SERIESARTICLE I BONDS OF THE TWELFTH SERIES1

*Section 1.1.*Section 1.1.2 There shall be an Twelfth Series of bonds designated "*First Mortgage Bonds, 4.14% Series due May 29, 2048*" (the "*Bonds of the Twelfth Series*"), which shall be limited to \$12,000,000 aggregate principal amount, and shall be issued as fully registered bonds without coupons in the denominations of \$1,000 or any multiple thereof. The Bonds of the Twelfth Series shall be dated on the date of issuance thereof, mature on May 29, 2048 or upon earlier acceleration or redemption, and shall bear interest (computed on the basis of a 360-day year of twelve 30 day months) from their date of issuance, at the rate of 4.14% per annum, payable semiannually on June 15 and December 15 of each year commencing December 15, 2018 and at the rate of 6.14% per annum on any overdue payment of principal or premium, if any, and to the extent enforceable under applicable law, or any overdue payment of interest. The Bonds of the Twelfth Series shall be numbered R-1 and upward and otherwise shall be substantially in the form attached hereto as Exhibit A. Except as hereinafter provided, the principal of, and the premium, if any, and the interest on each said bond to be payable at the office of the Company in Superior, Wisconsin or agency of the Company in the City of St. Paul, Minnesota, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

Notwithstanding any provision to the contrary in the Mortgage or the Bonds of the Twelfth Series, the first paragraph of Section 9 of the Bond Purchase Agreement shall govern the method of payment of principal, premium, if any, and interest on the

Bonds of the Twelfth Series to the holders thereof; *provided, however*, that the Trustee shall have no obligation to comply with the provisions of Section 9 of the Bond Purchase Agreement with respect to any transferee of the Purchaser or any other holder of the Bonds of the Twelfth Series until such transferee or holder shall have made the agreement described in Section 9 of the Bond Purchase Agreement. Subject to such proviso, the Trustee hereby consents to the method of payment described in Section 9 of the Bond Purchase Agreement. The Trustee shall not be liable or responsible to any holder of Bonds of the Twelfth Series entitled to the benefits of Section 9 of the Bond Purchase Agreement or to any transferee thereof or to the Company for any act or omission to act on the part of the Company or any such holder of Bonds of the Twelfth Series in connection with Section 9 of the Bond Purchase Agreement. The Company hereby indemnifies the Trustee against all liabilities, if any, resulting from acts or omissions on its part or on the part of the Company in connection with Section 9 of the Bond Purchase Agreement.

The Bonds of the Twelfth Series shall be dated as of the date of authentication thereof by the Trustee (except that if any Bond of the Twelfth Series shall be authenticated on an interest payment date for the Bonds of the Twelfth Series to which interest has been paid, such Bond shall be dated as of the day following) and shall bear interest from the fifteenth day of June or December, as the case may be, next preceding the date of such Bond to which interest has been paid; *provided, however*, that if any such Bond shall be authenticated before December 15, 2018, such Bond shall bear interest from the date of the original issue of the Bonds of the Twelfth Series; and *provided further* that if the Company shall at the time of the authentication of any Bond of the Twelfth Series be in default in the payment of interest upon the Bonds of the Twelfth Series, such Bond shall be dated as of, and shall bear interest from, the date of the beginning of the period for which such interest is so in default.

Upon notice as provided in the following paragraph, the Bonds of the Twelfth Series may be redeemed prior to maturity, in whole at any time or in part (in multiples of \$500,000) from time to time, at the option of the Company, or by the application (either at the option of the Company or pursuant to the requirements of the Mortgage) of cash delivered to or deposited with the Trustee pursuant to the provisions of Section 39, Section 55, Section 61, Section 64 or Section 118 of the Mortgage or with the Proceeds of Released Property, in any such case at 100% of the principal amount of the Bonds being redeemed plus interest accrued thereon to the date of redemption, together with a premium equal to the Make-Whole Amount, if any, with respect to the Bonds of the Twelfth Series being redeemed determined five Business Days prior to the date of such redemption.

Notice of any redemption of the Bonds of the Twelfth Series shall be given by the Company by mail, postage prepaid, at least 30 but not more than 60 days prior to the date of redemption, to the registered owners of all Bonds of the Twelfth Series to be so redeemed at their respective addresses appearing on the books maintained by the Company pursuant to Section 13 of the Mortgage. Any notice which is mailed as herein provided shall be conclusively presumed to have been properly and sufficiently given on the date of such mailing, whether or not the registered owner receives the notice. In any case, failure to give notice by mail, or any defect in such notice, to the registered owner of any Bond of the Twelfth Series designated for redemption in whole or in part shall not affect the validity of the proceedings for the redemption of any other Bond of the Twelfth Series. Two Business Days prior to the redemption date specified in such notice, the Company shall provide each registered owner of Bonds of the Twelfth Series to be redeemed with written notice of the premium, if any, payable with respect thereto and a reasonably detailed computation of the Make-Whole Amount.

All partial redemptions of Bonds of the Twelfth Series shall be made ratably among all registered owners thereof in the proportion which the principal amount of the Bonds held by each registered owner bears to the aggregate principal amount of all Bonds of the Twelfth Series then outstanding, computed to the nearest \$1,000 principal amount of the Bonds of the Twelfth Series.

In the event that the principal amount of the Bonds of the Twelfth Series is declared due and payable upon the occurrence of a Default or becomes due and payable pursuant to Section 73 of the Mortgage, there shall then become due and payable, together with the principal amount of the Bonds of the Twelfth Series and interest accrued thereon, a premium equal to the amount of the Make-Whole Amount which would have been payable with respect to such Bonds of the Twelfth Series, if they had been redeemed at the option of the Company pursuant to Section 1.1 in this Thirteenth Supplemental Indenture on the date on which the Bonds of the Twelfth Series became due and payable; *provided* that such premium, if any, with respect to the Bonds of the Twelfth Series shall become due and payable only if such Default is, or such sale is made following a Default, other than one specified in subsections (e) or (f) of Section 65 of the Mortgage.

Any Bonds of the Twelfth Series shall be transferable by the registered owner thereof in person, or by its attorney duly authorized in writing, at the office or agency of the Company in the City of St. Paul, Minnesota, or the office of the Company in Superior, Wisconsin, upon surrender thereof for cancellation, together with a written instrument of transfer in form approved by the Company duly executed by such registered owner or by its duly authorized attorney. Upon any such transfer, a new Bond or Bonds of the Twelfth Series for the same aggregate principal amount will be issued to the transferee in exchange therefor. Any Bond of the Twelfth Series may, at the option of the registered owner thereof and upon surrender thereof for cancellation at such office or agency, be exchanged as prescribed in the Mortgage for another Bond or Bonds of the Twelfth Series of other authorized

denominations having the same aggregate principal amount. In the event any written instrument of transfer is required in connection with any transfer or exchange of any Bond of the Twelfth Series, an instrument in the form attached hereto as Exhibit B is hereby approved by the Company for the purposes of Section 12 of the Mortgage.

Notwithstanding any provision of Section 12 or Section 16 of the Mortgage, (a) no charge will be made by the Company for any transfer or exchange of any Bond of the Twelfth Series or, in the case of any lost, destroyed or mutilated Bond, the issuance, authentication and delivery of a new Bond of the Twelfth Series in substitution thereof, whether for any stamp tax or other governmental charge, if any, applicable thereto or otherwise, and the Company shall reimburse the Trustee for all expenses incurred in connection therewith and (b) in the event of any loss, destruction or mutilation of any Bond of the Twelfth Series, and a request by the holder for issuance of a new Bond of the Twelfth Series in substitution therefor, the holder's unsecured indemnity agreement shall be deemed to be satisfactory to the Company and the Trustee for purposes of Section 16 of the Mortgage.

Notwithstanding any provision of Section 15 of the Mortgage, Bonds of the Twelfth Series shall be authenticated, issued and delivered only as definitive bonds. Bonds of the Twelfth Series so authenticated, issued and delivered may be in the form of fully engraved bonds, bonds printed or lithographed on engraved borders, bonds printed or bonds typewritten.

ARTICLE II

COVENANTS AND RESTRICTIONSARTICLE II COVENANTS AND RESTRICTIONS1

*Section 2.1.*Section 2.1.2 The Company covenants that, so long as any Bonds of the Twelfth Series are outstanding, it will not merge or consolidate with any other Person or sell, lease or transfer or otherwise dispose (a "*Disposition*") of all or a Substantial Part of its assets, or assets which shall have contributed a Substantial Part of net income of the Company for any of the three fiscal years then most recently ended, to any Person; *provided, however*, that the Company may merge or consolidate with, or sell or transfer all or substantially all of its assets to, Allete, but only if (a) in the event that Allete is the continuing or surviving corporation or the acquiring corporation, Allete shall be a solvent corporation and shall expressly assume in writing all of the obligations of the Company under the Mortgage, this Thirteenth Supplemental Indenture, the Bonds of the Twelfth Series and the Bond Purchase Agreement, including all covenants therein and herein contained, and Allete shall succeed to and be substituted for the Company with the same effect as if it had been named herein as a party hereto, and (b) the Company as the continuing or surviving corporation or Allete as the continuing or surviving corporation or acquiring corporation, as the case may be, shall not, immediately after such merger or consolidation, or such sale or other disposition, be in default under any of such obligations. Notwithstanding the foregoing, the Company may make a Disposition and the assets subject to such Disposition shall not be included in the determination of Substantial Part to the extent that an amount equal to the net proceeds from such Disposition are, within 365 days of such Disposition (A) reinvested in assets of a similar nature of at least equivalent value to be used in the existing business of the Company, and/or (B) applied to the payment or prepayment of the Bonds of the Twelfth Series. For purposes of the foregoing clause (B), the net proceeds from such Disposition shall be used to prepay (not less than 30 or more than 60 days following such offer) the Bonds of the Twelfth Series at a price of 100% of the principal amount of the Bonds of the Twelfth Series to be prepaid (without any Make-Whole Amount) together with interest accrued to the date of prepayment; provided that if any holder of the Bonds of the Twelfth Series declines such offer, the amount that would have been paid to such holder shall be offered pro rata to the other holders of the Bonds of the Twelfth Series that have accepted the offer. A failure by a holder of Bonds of the Twelfth Series to respond in writing not later than 10 Business Days prior to the proposed prepayment date to an offer to prepay made pursuant to this Section 2.1 shall be deemed to constitute a rejection of such offer by such holder.

*Section 2.2.*Section 2.2.2 The Company covenants that, so long as any Bonds of the Twelfth Series shall remain outstanding, the Company will not issue, sell or otherwise dispose of any of its shares of capital stock to any Person other than Allete.

*Section 2.3.*Section 2.3.672 The Company covenants that, so long as any of the Bonds of the Sixth Series are outstanding, or so long as the Company is subject to any covenant in any other debt instrument prohibiting it from owning Subsidiaries, the Company shall not have any Subsidiaries.

*Section 2.4.*Section 2.4.2 The Company will not at any time permit any Subsidiary to, directly or indirectly, create, incur, assume, guarantee, have outstanding, or otherwise become or remain directly or indirectly liable with respect to, any Debt other than:

- (a) Debt of a Subsidiary owed to the Company;

(b) Debt of a Subsidiary outstanding at the time such Subsidiary becomes a Subsidiary, *provided* that (i) such Debt shall not have been incurred in contemplation of such Subsidiary becoming a Subsidiary and (ii) immediately after such Subsidiary becomes a Subsidiary no Default or Potential Default shall exist, and *provided, further*, that such Debt may not be extended, renewed or refunded except as otherwise permitted by this Agreement; and

(c) Debt of a Subsidiary in addition to that otherwise permitted by the foregoing provisions of this Section 2.4, *provided* that on the date the Subsidiary incurs or otherwise becomes liable with respect to any such additional Debt and immediately after giving effect thereto and the concurrent retirement of any other Debt,

(i) no Default or Potential Default exists, and

(ii) simultaneously with the incurrence thereof, the Company delivers a Net Earnings Certificate showing, on the date of issuance of such Debt by such Subsidiary, the Company's Adjusted Net Earnings to be as required by Section 27 of the Indenture to issue at least \$1.00 of additional bonds under the Indenture.

*Section 2.5.*Section 2.5.2 A default by the Company in the observance of any covenant or agreement contained in Sections 2.1 through 2.4, inclusive, of this Thirteenth Supplemental Indenture or the occurrence of an Event of Default (as defined herein) shall be deemed to constitute an additional and independent Default under, and defined in, Section 65 of the Mortgage. None of the additional Defaults provided for pursuant to this Section 2.5 are intended or shall be deemed to limit any of the Defaults currently expressed in the Mortgage and none of the Defaults currently expressed in the Mortgage are intended or shall be deemed to limit any of the additional Defaults provided for pursuant to this Section 2.5.

ARTICLE III

MISCELLANEOUS PROVISIONSARTICLE III MISCELLANEOUS PROVISIONS1

*Section 3.1.*Section 3.1.2 For purposes of this Thirteenth Supplemental Indenture, the following terms have the following meanings indicated below:

“*Allete*” shall mean ALLETE, Inc., a Minnesota corporation, or any successor to Allete, Inc.

“*Bond Purchase Agreement*” shall mean the Bond Purchase Agreement dated as of May 29, 2018, between the Company and the Purchaser.

“*Business Day*” shall mean any day other than a Saturday, Sunday or a day on which commercial banks in Chicago, Illinois, or Milwaukee, Wisconsin, are required or authorized to be closed.

“*Capitalized Lease Obligation*” shall mean with respect to any Person any rental obligation which, under generally accepted accounting principles, would be required to be capitalized on the books of such Person, taken at the amount thereof accounted for as indebtedness (net of interest expense) in accordance with such principles.

“*Consolidated Net Worth*” shall mean the net worth of the Company and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

“*Debt*” means, with respect to any Person, without duplication,

(a) its liabilities for borrowed money;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) its Capital Lease Obligations;

(d) all liabilities for borrowed money secured by any lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities); and

(e) any guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (d) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (e) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

“Disposition” shall have the meaning set forth for such term in Section 2.1.

“Event of Default” shall mean any of the following events which shall occur and be continuing for any reason whatsoever at any time when any of the Bonds of the Twelfth Series shall be outstanding (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) the Company defaults in the payment of any principal or premium, if any, payable with respect to any Bond of the Twelfth Series when the same shall become due, either by the terms thereof or otherwise as provided in the Mortgage, this Thirteenth Supplemental Indenture or the Bond Purchase Agreement; or

(ii) the Company defaults in the payment of any interest on any Bond of the Twelfth Series for more than 5 days after the due date; or

(iii) the Company defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of or interest on any other obligation for money borrowed (or any Capitalized Lease Obligation, any obligation under a conditional sale or other title retention agreement, any obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any period of grace provided with respect thereto and as a result, the aggregate principal amount of all such defaulted obligations exceeds \$100,000 or the Company fails to perform or observe any other agreement, term or condition contained in any agreement under which any such obligations are created (or if any other event thereunder or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or to permit the holder or holders of such obligations (or a trustee on behalf of such holder or holders) to cause, such obligations in the aggregate principal amount in excess of \$100,000 to become due (or to be repurchased by the Company) prior to any stated maturity; or

(iv) any representation or warranty made by the Company in this Thirteenth Supplemental Indenture or the Bond Purchase Agreement or by the Company or any of its officers in any writing furnished in connection with or pursuant to this Thirteenth Supplemental Indenture or the Bond Purchase Agreement shall be false in any material respect on the date as of which made; or

(v) the Company fails to perform or observe any agreement, term or condition contained in the Mortgage, this Thirteenth Supplemental Indenture or the Bond Purchase Agreement; or

(vi) the Company makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(vii) any decree or order for relief in respect of the Company is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (herein called the Bankruptcy Law), of any jurisdiction; or

(viii) the Company petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company or of any Substantial Part of the assets of the Company or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings relating to the Company under the Bankruptcy Law of any other jurisdiction; or

(ix) any such petition or application is filed, or any such proceedings are commenced, against the Company, and the Company by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings; or

(x) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xi) any order, judgment or decree is entered in any proceedings against the Company decreeing a split-up of the Company which requires the divestiture of assets representing a Substantial Part of the assets of the Company or which requires the divestiture of assets which shall have contributed a Substantial Part of the net income of the Company for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xii) a final judgment in an amount in excess of \$100,000 is rendered against the Company and, within 60 days after entry thereof, such judgment is not discharged or execution thereof stayed pending appeal, or within 60 days after the expiration of any such stay, such judgment is not discharged; or

(xiii) Allele shall cease to own of record and beneficially 100% of the outstanding shares of capital stock of the Company.

“GAAP” means generally accepted accounting principles as in effect from time to time in the United States of America.

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

“*Called Principal*” means, with respect to any Bond of the Twelfth Series, the principal of such Bond of the Twelfth Series that is to be prepaid or has become or is declared to be immediately due and payable, as the context requires.

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

“*Reinvestment Yield*” means, with respect to the Called Principal of any Bond of the Twelfth Series, the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date.

In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury

security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Bond of the Twelfth Series.

“*Remaining Average Life*” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“*Remaining Scheduled Payments*” means, with respect to the Called Principal of any Bond of the Twelfth Series, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, *provided* that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Bond of the Twelfth Series, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date.

“*Settlement Date*” means, with respect to the Called Principal of any Bond of the Twelfth Series, the date on which such Called Principal is to be prepaid or has become or is declared to be immediately due and payable, as the context requires.

“*Person*” shall mean and include an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization and a government or any department or agency thereof.

“*Proceeds of Released Property*” shall mean the aggregate of the cash deposited with or received by the Corporate Trustee pursuant to the provisions of Section 59, Section 60, Section 61 (except such cash as is to be paid over to the Company under the provisions of Section 61), or Section 62 of the Mortgage.

“*Purchaser*” means Thrivent Financial for Lutherans.

“*Subsidiary*” means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a “Subsidiary” is a reference to a Subsidiary of the Company.

“*Substantial Part*” shall mean when used with respect to assets or net income 15% or more of such assets or net income, respectively.

*Section 3.2.*Section 3.2.2 The terms defined in the Mortgage, as heretofore supplemented, shall for all purposes of this Thirteenth Supplemental Indenture have the meanings specified in the Mortgage, as heretofore supplemented.

*Section 3.3.*Section 3.3.672 The Trustee hereby accepts the trust herein declared, provided and created and agrees to perform the same upon the terms and conditions herein and in the Mortgage, as heretofore supplemented, set forth and upon the following terms and conditions.

*Section 3.4.*Section 3.4.2 The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Thirteenth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVII of the Mortgage shall apply to and form part of this Thirteenth Supplemental Indenture with the same force and effect as if the same were herein set forth in full, with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Thirteenth Supplemental Indenture.

*Section 3.5.*Section 3.5.672 Subject to the provisions of Article XVI and Article XVII of the Mortgage, whenever in this Thirteenth Supplemental Indenture any of the parties hereto is named or referred to, this shall be deemed to include the

successors or assigns of such party, and all the covenants and agreements in this Thirteenth Supplemental Indenture contained by or on behalf of the Company or by or on behalf of the Trustee shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

*Section 3.6.*Section 3.6.672 Nothing in this Thirteenth Supplemental Indenture, express or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds Outstanding under the Mortgage, any right, remedy or claim under or by reason of this Thirteenth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements of this Thirteenth Supplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

*Section 3.7.*Section 3.7.672 This Thirteenth Supplemental Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Superior Water, Light and Power Company has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, and U.S. Bank National Association has caused its corporate name to be hereunto affixed, and this instrument to be signed by its President and to be attested by its Secretary, all as of the ____ day of _____, 2018.

Signature4

SUPERIOR WATER, LIGHT AND POWER COMPANY

By: _____
President

ATTEST:

Secretary

Executed, sealed and delivered by
Superior Water, Light and Power
Company in the presence of:

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By:

ATTEST:

STATE OF WISCONSIN)
) SS.
COUNTY OF DOUGLAS)

Personally came before me this ____ day of _____, 2018, _____, to me known to be the President, and _____, to me known to be the Secretary of the above-named SUPERIOR WATER, LIGHT AND POWER COMPANY, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn, did depose and say and acknowledge that they are respectively the President and Secretary of said corporation, that the seal affixed to said instrument is the corporate seal of said corporation, and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said President and Secretary, then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

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

Notary Public, State of Wisconsin
My Commission _____

STATE OF WISCONSIN)
) SS.
COUNTY OF MILWAUKEE)

Personally came before me this ____ day of _____, 2018, Steven F. Posto, to me known to be the Vice President of the above-named U.S. BANK NATIONAL ASSOCIATION, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn, did depose and say and acknowledge that he is the Vice President of said corporation, and that he signed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said Vice President then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

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

Notary Public, State of Wisconsin
My Commission _____

[FORM OF BOND OF THE TWELFTH SERIES]

SUPERIOR WATER, LIGHT AND POWER COMPANY
FIRST MORTGAGE BOND

4.14% Series due May 29, 2048

No. R- _____ \$ _____

SUPERIOR WATER, LIGHT AND POWER COMPANY, a corporation of the State of Wisconsin (hereinafter called the "*Company*"), for value received, hereby promises to pay to _____, or registered assigns, on May 29, 2048, _____ DOLLARS (\$ _____) in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts, and to pay to the registered owner hereof interest thereon in like coin or currency (computed on the basis of a 360-day year of twelve 30-day months) at the rate of four and fourteen-hundredths percent (4.14%) per annum semiannually on June 15 and December 15 of each year commencing December 15, 2018 until the principal thereof shall have become due and payable and at the rate of 6.14% per annum on any overdue payment of principal or premium, if any, and, to the extent enforceable under applicable law, on any overdue payment of interest. The principal hereof (and premium, if any) and interest hereon shall be paid at the office or agency of the Company in the City of St. Paul, Minnesota, or the office of the Company in Superior, Wisconsin or as shall be otherwise agreed to pursuant to the provisions of the Thirteenth Supplemental Indenture hereinafter referred to.

This bond is one of an issue of bonds of the Company issuable in series and is one of a series designated the First Mortgage Bonds, 4.14% Series due May 29, 2048 (the "*Bonds of the Twelfth Series*") created by the Thirteenth Supplemental Indenture dated as of May 21, 2018 executed by the Company to U.S. Bank National Association (successor Trustee to Chemical Bank and Peter Morse), as Trustee, all bonds of all series being issued and to be issued under and equally secured by a Mortgage and Deed of Trust (herein, together with any indentures supplemental thereto, called the "*Mortgage*"), dated as of March 1, 1943, executed by the Company to Chemical Bank & Trust Company and Howard B. Smith, as Trustees (U.S. Bank National Association, successor Trustee). Reference is made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders of the bonds and of the Trustee in respect thereof, the duties and immunities of the Trustee and terms and conditions upon which the bonds are and are to be secured and the circumstances under which additional bonds may be issued.

With the consent of the Company and to the extent permitted by and as provided in the Mortgage, the rights and obligations of the Company and/or the rights of the holders of the bonds and/or coupons and/or the terms and provisions of the Mortgage may be modified or altered by affirmative vote of the holders of at least seventy per centum (70%) in principal amount of the bonds then outstanding under the Mortgage and, if the rights of the holders of one or more, but less than all, series of bonds then outstanding are to be affected, then also by affirmative vote of the holders of at least seventy per centum (70%) in principal amount of the bonds then outstanding of each series of bonds so to be affected (excluding in any case bonds disqualified from voting by reason of the Company's interest therein as provided in the Mortgage); provided that, without the consent of the holder hereof, no such modification or alteration shall, among other things, impair or affect the right of the holder to receive payment of the principal of (and premium, if any) and interest on this bond, on or after the respective due dates and at the places and in the respective amounts expressed herein, or permit the creation of any lien equal or prior to the lien of the Mortgage or deprive the holder of the benefit of a lien on the mortgaged and pledged property, or give any bond or bonds secured by the Mortgage any preference over any other bond or bonds so secured, or reduce the percentage in principal amount of the bonds required to authorize or consent to any such modification or alteration of the Mortgage.

The Bonds of the Twelfth Series may be redeemed prior to maturity, in whole at any time or in part (in multiples of \$500,000) from time to time, at the option of the Company, or by the application (either at the option of the Company or pursuant to the requirements of the Mortgage) of cash delivered to or deposited with the Trustee pursuant to the provisions of Section 39, Section 55, Section 61, Section 64 or Section 118 of the Mortgage or with the Proceeds of Released Property (as defined in said Thirteenth Supplemental Indenture), in any such case at 100% of the principal amount to be so redeemed, plus accrued interest

thereon to the redemption date together with a premium equal to the Make-Whole Amount (as defined in said Thirteenth Supplemental Indenture), if any, with respect to the Bonds of the Twelfth Series, being redeemed.

Notice of any redemption of the Bonds of the Twelfth Series shall be given by mail at least 30 days prior to the redemption date, all as more fully provided in said Thirteenth Supplemental Indenture and the Mortgage. Notice of redemption having been duly given, the Bonds of the Twelfth Series called for redemption shall become due and payable upon the redemption date, and if the redemption price shall have been deposited with the Trustee, interest thereon shall cease to accrue on and after the redemption date (unless such bonds shall have been properly presented for payment on, or within one year after, the redemption date and shall not have been paid) and on the redemption date or whenever thereafter the redemption price thereof shall have been deposited with the Trustee such bonds shall no longer be entitled to the lien of the Mortgage.

The principal hereof may be declared or may become due prior to the maturity date hereinbefore named on the conditions, in the manner and at the time set forth in the Mortgage, upon the occurrence of a default as in the Mortgage provided.

This bond is transferable as prescribed in the Mortgage by the registered owner hereof in person, or by its duly authorized attorney, at the office or agency of the Company in the City of St. Paul, Minnesota or the office of the Company in Superior, Wisconsin upon surrender hereof for cancellation, together with a written instrument of transfer in form approved by the Company duly executed by the registered owner hereof or by its duly authorized attorney, and thereupon a new fully registered bond or bonds of the same series for a like principal amount will be issued to the transferee in exchange herefor as provided in the Mortgage. This bond may, at the option of the registered owner hereof and upon surrender hereof for cancellation at such office or agency, be exchanged as prescribed in the Mortgage for other registered bonds of the same series of other authorized denominations having a like aggregate principal amount. No charge will be made by the Company for any transfer or exchange of this bond or, in case this bond shall be lost, destroyed or mutilated, the issuance, authentication and delivery of a new bond in substitution hereof. The Company and the Trustee may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment and for all other purposes and neither the Company nor the Trustee shall be affected by any notice to the contrary.

As provided in the Mortgage, the Company shall not be required to make transfers or exchanges of bonds of any series for a period of ten (10) days next preceding any interest payment date for bonds of said series, or next preceding any designation of bonds of said series to be redeemed, and the Company shall not be required to make transfers or exchanges of any bonds designated in whole or in part for redemption.

No recourse shall be had for the payment of the principal of or interest on this bond against any incorporator or any past, present or future subscriber to the capital stock, stockholder, officer, or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company or any predecessor or successor corporation, under any rule of law, statute, or constitution or by the enforcement of any assessment or otherwise, all such liability of incorporators, subscribers, stockholders, officers, and directors being released by the holder or owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Mortgage.

This bond shall not become obligatory until U.S. Bank National Association, the Trustee under the Mortgage, or its successor thereunder, shall have signed the form of authentication certificate endorsed hereon.

IN WITNESS WHEREOF, SUPERIOR WATER, LIGHT AND POWER COMPANY has caused this bond to be signed in its corporate name by its President or one of its Vice-Presidents and its Treasurer and its corporate seal to be impressed or imprinted hereon and attested by its Secretary or one of its Assistant Secretaries on _____, 20____.

SUPERIOR WATER, LIGHT AND POWER
COMPANY

By _____
Deborah A. Amberg
President

By _____
Paul M. Holt
Treasurer

ATTEST:

Janet A. Blake
Secretary

[FORM OF TRUSTEE'S AUTHENTICATION CERTIFICATE]

This bond is one of the bonds, of the series herein designated, described or provided for in the within-mentioned Mortgage.

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Officer

ASSIGNMENT AND IRREVOCABLE BOND POWER
FOR
SUPERIOR WATER, LIGHT AND POWER COMPANY
FIRST MORTGAGE BOND
% SERIES DUE

FOR VALUE RECEIVED, do hereby sell, assign and transfer unto one First Mortgage Bond, % Series due of Superior Water, Light and Power Company (the "Company") for dollars (\$), No., standing in name on the books of the Company and do hereby irrevocably constitute and appoint attorney to transfer the said bond on the books of the Company, with full power of substitution in the premises.

IN WITNESS WHEREOF, ha hereunto set hand [and seal] at this day of, 20.

[SEAL]

[SEAL]

STATE OF)
) SS.
COUNTY OF)

I, a notary public in and for said County, in the State aforesaid, do hereby certify, that

who personally known to me to be the same person whose name subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that signed, sealed and delivered the said instrument as free and voluntary act for the use and purposes therein set forth.

Given under my hand and official seal this day of, 20.

Notary Public
My Commission Expires

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

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

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2018, of ALLETE;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

/s/ Alan R. Hodnik

Alan R. Hodnik

Chairman, President and Chief Executive Officer

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

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

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2018, of ALLETE;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

/s/ Robert J. Adams

Robert J. Adams

Senior Vice President and Chief Financial Officer

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

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

1. The Quarterly Report on Form 10-Q of ALLETE for the period ended June 30, 2018, (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ALLETE.

Date: August 2, 2018

/s/ Alan R. Hodnik

Alan R. Hodnik

Chairman, President and Chief Executive Officer

Date: August 2, 2018

/s/ Robert J. Adams

Robert J. Adams

Senior Vice President and Chief Financial Officer

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

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

Mine Safety Disclosure

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

For the quarter ended June 30, 2018, BNI Energy, owner of Center Mine, received one citation under Section 104(a) of the Mine Safety Act, which was not a significant and substantial (S&S) citation; two citations were received for the six months ended June 30, 2018. The total proposed penalty has not yet been assessed with respect to the citation received during the quarter ended June 30, 2018. For the quarter and six months ended June 30, 2018, BNI Energy paid \$208 in penalties for citations closed during the period. For the quarter and six months ended June 30, 2018, there were no citations, orders, violations or notices received under Sections 104(b), 104(d), 107(a), 104(e) or 110(b)(2) of the Mine Safety Act and there were no fatalities.



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

NEWS

ALLETE, Inc. reports second quarter 2018 earnings; reaffirms earnings guidance

DULUTH, Minn. - ALLETE, Inc. (NYSE: ALE) today reported second quarter 2018 earnings of 61 cents per share on net income of \$31.3 million and operating revenue of \$344.1 million. Last year's results were 72 cents per share on net income of \$36.9 million and operating revenue of \$353.3 million.

"Financial results from ALLETE's businesses reflect strong power demand from taconite customers, impacts from Minnesota Power's recent rate case and notable progress from ALLETE Clean Energy on its wind turbine refurbishment strategy," said ALLETE Chairman, President and CEO Al Hodnik. "Setting aside year over year timing differentials, ALLETE posted a solid quarter and we remain confident in our full year 2018 earnings guidance range of \$3.20 to \$3.50 per share. We are well positioned for growth as our diverse family of businesses captures value in a growing domestic economy, and our nation focuses on sustainable energy and water solutions."

ALLETE's Regulated Operations segment, which includes Minnesota Power, Superior Water, Light and Power, and the Company's investment in the American Transmission Co. (ATC), recorded net income of \$26.0 million for the second quarter of 2018, a decrease of \$6.4 million from 2017. Earnings decreased primarily due to lower net income at Minnesota Power resulting from the timing of reserves for an interim rate refund of \$5.6 million after-tax, the timing of approval for financial incentives under the Minnesota conservation improvement program of \$3.9 million after-tax, and lower transmission revenue. These decreases were partially offset by higher sales to residential, commercial and municipal customers due to more favorable weather conditions, and lower operating and maintenance expense.

ALLETE's Energy Infrastructure and Related Services businesses, which include ALLETE Clean Energy and U.S. Water Services, recorded net income of \$6.8 million and \$0.2 million for the second quarter of 2018, respectively. Earnings at ALLETE Clean Energy increased \$3.0 million from 2017. Net income in 2018 included \$3.9 million after-tax of additional production tax credits generated as ALLETE Clean Energy executes on its refurbishment strategy and a lower federal income tax rate, partially offset by higher operating and maintenance expenses and lower revenue resulting from lower wind resources compared to the same period in 2017. Earnings from U.S. Water Services reflect higher operating expenses, partially offset by higher revenue primarily from the September 2017 acquisition of Tonka Water. Results this period were also negatively impacted by the timing of capital project sales.

ALLETE will host a conference call and webcast at 10 a.m. Eastern Time this morning to discuss details of its financial performance. Interested parties may listen live by calling (877) 303-5852, or by accessing the webcast at www.allete.com. A replay of the call will be available through August 6, 2018 by calling (855) 859-2056, pass code 9699879. The webcast will be accessible for one year at www.allete.com.

ALLETE is an energy company headquartered in Duluth, Minn. In addition to its electric utilities, Minnesota Power and Superior Water, Light and Power of Wisconsin, ALLETE owns ALLETE Clean Energy, based in Duluth, BNI Energy in Bismarck, N.D., U.S. Water Services headquartered in St. Michael, Minn., and has an eight percent equity interest in the American Transmission Co. More information about ALLETE is available at www.allete.com.
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The statements contained in this release and statements that ALLETE may make orally in connection with this release that are not historical facts, are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties and investors are directed to the risks discussed in documents filed by ALLETE with the Securities and Exchange Commission.

ALLETE's press releases and other communications may include certain non-Generally Accepted Accounting Principles (GAAP) financial measures. A "non-GAAP financial measure" is defined as a numerical measure of a company's financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP in the company's financial statements.

Non-GAAP financial measures utilized by the Company include presentations of earnings (loss) per share. ALLETE's management believes that these non-GAAP financial measures provide useful information to investors by removing the effect of variances in GAAP reported results of operations that are not indicative of changes in the fundamental earnings power of the Company's operations. Management believes that the presentation of the non-GAAP financial measures is appropriate and enables investors and analysts to more accurately compare the company's ongoing financial performance over the periods presented.

ALLETE, Inc.
Consolidated Statement of Income
Millions Except Per Share Amounts - Unaudited

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Operating Revenue				
Contracts with Customers – Utility	\$257.8	\$264.9	\$528.0	\$546.5
Contracts with Customers – Non-utility	80.4	82.5	162.4	160.6
Other – Non-utility	5.9	5.9	11.9	11.8
Total Operating Revenue	344.1	353.3	702.3	718.9
Operating Expenses				
Fuel, Purchased Power and Gas – Utility	96.5	93.1	197.4	189.7
Transmission Services – Utility	16.8	17.6	35.2	34.2
Cost of Sales – Non-utility	37.0	38.4	69.9	69.9
Operating and Maintenance	86.8	85.9	173.3	170.3
Depreciation and Amortization	56.1	50.1	101.9	100.6
Taxes Other than Income Taxes	14.4	14.2	30.7	28.6
Total Operating Expenses	307.6	299.3	608.4	593.3
Operating Income	36.5	54.0	93.9	125.6
Other Income (Expense)				
Interest Expense	(17.1)	(16.7)	(34.0)	(33.9)
Equity Earnings in ATC	4.3	5.3	9.0	11.4
Other	2.2	1.6	4.3	3.2
Total Other Expense	(10.6)	(9.8)	(20.7)	(19.3)
Income Before Income Taxes	25.9	44.2	73.2	106.3
Income Tax Expense (Benefit)	(5.4)	7.3	(9.1)	20.4
Net Income	\$31.3	\$36.9	\$82.3	\$85.9
Average Shares of Common Stock				
Basic	51.3	50.9	51.2	50.5
Diluted	51.5	51.1	51.4	50.7
Basic Earnings Per Share of Common Stock	\$0.61	\$0.73	\$1.61	\$1.70
Diluted Earnings Per Share of Common Stock	\$0.61	\$0.72	\$1.60	\$1.69
Dividends Per Share of Common Stock	\$0.56	\$0.535	\$1.12	\$1.07

Consolidated Balance Sheet
Millions - Unaudited

	Jun. 30,	Dec. 31,		Jun. 30,	Dec. 31,
	2018	2017		2018	2017
Assets			Liabilities and Shareholders' Equity		
Cash and Cash Equivalents	\$121.9	\$98.9	Current Liabilities	\$350.2	\$351.2
Other Current Assets	302.1	268.6	Long-Term Debt	1,462.2	1,439.2
Property, Plant and Equipment – Net	3,809.3	3,822.4	Deferred Income Taxes	228.5	230.5
Regulatory Assets	374.5	384.7	Regulatory Liabilities	516.0	532.0
Investment in ATC	123.6	118.7	Defined Benefit Pension and Other Postretirement Benefit Plans	175.2	191.8
Other Investments	52.5	53.1	Other Non-Current Liabilities	274.4	267.1
Goodwill and Intangibles – Net	225.8	225.9	Shareholders' Equity	2,108.2	2,068.2
Other Non-Current Assets	105.0	107.7			
Total Assets	\$5,114.7	\$5,080.0	Total Liabilities and Shareholders' Equity	\$5,114.7	\$5,080.0

ALLETE, Inc. Income (Loss)	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Millions				
Regulated Operations	\$26.0	\$32.4	\$69.9	\$75.9
Energy Infrastructure and Related Services				
ALLETE Clean Energy	6.8	3.8	14.9	10.5
U.S. Water Services	0.2	0.6	(1.2)	0.3
Corporate and Other	(1.7)	0.1	(1.3)	(0.8)
Net Income Attributable to ALLETE	\$31.3	\$36.9	\$82.3	\$85.9
Diluted Earnings Per Share	\$0.61	\$0.72	\$1.60	\$1.69

Statistical Data

Corporate				
Common Stock				
High	\$79.86	\$74.59	\$79.86	\$74.59
Low	\$70.40	\$66.81	\$66.64	\$61.64
Close	\$77.41	\$71.68	\$77.41	\$71.68
Book Value	\$41.05	\$39.58	\$41.05	\$39.58

Kilowatt-hours Sold

Millions				
Regulated Utility				
Retail and Municipal				
Residential	243	229	585	552
Commercial	339	328	706	697
Industrial	1,781	1,816	3,624	3,578
Municipal	188	181	407	396
Total Retail and Municipal	2,551	2,554	5,322	5,223
Other Power Suppliers	1,005	1,004	2,008	2,045
Total Regulated Utility Kilowatt-hours Sold	3,556	3,558	7,330	7,268

Regulated Utility Revenue

Millions				
Regulated Utility Revenue				
Retail and Municipal Electric Revenue				
Residential	\$28.0	\$25.1	\$63.5	\$59.8
Commercial	35.2	32.4	69.2	68.4
Industrial	114.7	121.0	228.0	241.5
Municipal	13.7	12.3	27.7	30.5
Total Retail and Municipal Electric Revenue	191.6	190.8	388.4	400.2
Other Power Suppliers	42.7	41.7	86.4	82.9
Other (Includes Water and Gas Revenue)	23.5	32.4	53.2	63.4
Total Regulated Utility Revenue	\$257.8	\$264.9	\$528.0	\$546.5

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