

United States
Securities and Exchange Commission
Washington, D.C. 20549
Form 10-K

(Mark One)

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

For the year ended **December 31, 2019**

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

(I.R.S. Employer Identification No.)

30 West Superior Street, Duluth, Minnesota 55802-2093

(Address of principal executive offices, including zip code)

(218) 279-5000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, without par value	ALE	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted 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 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.

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company
	Emerging Growth Company

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

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

The aggregate market value of voting stock held by nonaffiliates on June 28, 2019, was \$4,285,299,935.

As of February 1, 2020, there were 51,696,497 shares of ALLETE Common Stock, without par value, outstanding.

Documents Incorporated By Reference

Portions of the Proxy Statement for the 2020 Annual Meeting of Shareholders are incorporated by reference in Part III.

Index

Definitions	4
Forward-Looking Statements	6
Part I	7
Item 1. Business	7
Regulated Operations	8
Electric Sales / Customers	8
Seasonality	11
Power Supply	11
Transmission and Distribution	13
Investment in ATC	14
Properties	14
Regulatory Matters	14
Regional Organizations	15
Minnesota Legislation	15
Competition	16
Franchises	16
ALLETE Clean Energy	16
U.S. Water Services	17
Corporate and Other	17
BNI Energy	17
Investment in Nobles 2	18
ALLETE Properties	18
Non-Rate Base Generation and Miscellaneous	18
Environmental Matters	19
Employees	19
Availability of Information	19
Information about our Executive Officers	20
Item 1A. Risk Factors	21
Item 1B. Unresolved Staff Comments	28
Item 2. Properties	28
Item 3. Legal Proceedings	28
Item 4. Mine Safety Disclosures	28
Part II	29
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	29
Item 6. Selected Financial Data	30
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	30
Overview	31
2019 Compared to 2018	32
2018 Compared to 2017	36
Critical Accounting Policies	40
Outlook	41
Liquidity and Capital Resources	47
Capital Requirements	51
Environmental and Other Matters	52
Market Risk	52
Recently Adopted Accounting Standards	53
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	53
Item 8. Financial Statements and Supplementary Data	53

Index (Continued)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	53
Item 9A. Controls and Procedures	53
Item 9B. Other Information	54
Part III	54
Item 10. Directors, Executive Officers and Corporate Governance	54
Item 11. Executive Compensation	55
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	55
Item 13. Certain Relationships and Related Transactions, and Director Independence	55
Item 14. Principal Accounting Fees and Services	56
Part IV	56
Item 15. Exhibits and Financial Statement Schedules	56
Item 16. Form 10-K Summary	61
Signatures	62
Report of Independent Registered Public Accounting Firm	64
Consolidated Financial Statements - Audited	66
Consolidated Balance Sheet	66
Consolidated Statement of Income	67
Consolidated Statement of Comprehensive Income	68
Consolidated Statement of Cash Flows	69
Consolidated Statement of Equity	70
Notes to Consolidated Financial Statements	71
Note 1. Operations and Significant Accounting Policies	71
Note 2. Property, Plant and Equipment	84
Note 3. Jointly-Owned Facilities and Assets	85
Note 4. Regulatory Matters	86
Note 5. Equity Investments	90
Note 6. Goodwill and Intangible Assets	91
Note 7. Fair Value	91
Note 8. Short-Term and Long-Term Debt	94
Note 9. Commitments, Guarantees and Contingencies	96
Note 10. Common Stock and Earnings Per Share	103
Note 11. Income Tax Expense	104
Note 12. Pension and Other Postretirement Benefit Plans	107
Note 13. Employee Stock and Incentive Plans	116
Note 14. Business Segments	118
Note 15. Quarterly Financial Data (Unaudited)	121
Schedule II	122

Definitions

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

<u>Abbreviation or Acronym</u>	<u>Term</u>
AFUDC	Allowance for Funds Used During Construction - the cost of both debt and equity funds used to finance 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 South Wind	ALLETE South Wind, LLC
ALLETE Transmission Holdings	ALLETE Transmission Holdings, Inc.
ArcelorMittal	ArcelorMittal USA, Inc.
ATC	American Transmission Company LLC
Basin	Basin Electric Power Cooperative
Bison	Bison Wind Energy Center
BNI Energy	BNI Energy, Inc. and its subsidiary
Boswell	Boswell Energy Center
Camp Ripley	Camp Ripley Solar Array
CIP	Conservation Improvement Program
Cliffs	Cleveland-Cliffs Inc.
Company	ALLETE, Inc. and its subsidiaries
DC	Direct Current
EIS	Environmental Impact Statement
EPA	United States Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Form 8-K	ALLETE Current Report on Form 8-K
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-K
kV	Kilovolt(s)
kW / kWh	Kilowatt(s) / Kilowatt-hour(s)
Laskin	Laskin Energy Center
Manitoba Hydro	Manitoba Hydro-Electric Board
MBtu	Million British thermal units
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midcontinent Independent System Operator, Inc.
Montana-Dakota Utilities	Montana-Dakota Utilities Co., a subsidiary of MDU Resources Group, Inc.
Moody’s	Moody’s Investors Service, Inc.

Definitions (continued)

<u>Abbreviation or Acronym</u>	<u>Term</u>
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
NDPSC	North Dakota Public Service Commission
NERC	North American Electric Reliability Corporation
Nobles 2	Nobles 2 Power Partners, LLC
NOL	Net Operating Loss
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 Cliffs
Note ____	Note ____ to the consolidated financial statements in this Form 10-K
NTEC	Nemadji Trail Energy Center
NYSE	New York Stock Exchange
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
RSOP	Retirement Savings and Stock Ownership Plan
SEC	Securities and Exchange Commission
S&P	S&P Global Ratings
Silver Bay Power	Silver Bay Power Company, a wholly-owned subsidiary of Cliffs
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
Taconite Ridge	Taconite Ridge Energy Center
Tenaska	Tenaska Energy, Inc. and Tenaska Energy Holdings, LLC
TCJA	Tax Cuts and Jobs Act of 2017 (Public Law 115-97)
Tonka Water	Tonka Equipment Company
Town Center District	Town Center at Palm Coast Community Development District in Florida
United Taconite	United Taconite LLC, a wholly-owned subsidiary of Cliffs
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, Inc. 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-K, 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, bank financing and other financing sources;
- 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;
- 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 businesses 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; and
- the success of efforts to realize value from, invest in, and develop new opportunities.

Additional disclosures regarding factors that could cause our results or performance to differ from those anticipated by this report are discussed in Part 1, Item 1A under the heading “Risk Factors” of this Form 10-K. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of these factors, nor can it assess the impact of

each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by ALLETE in this Form 10-K and in other reports filed with the SEC that attempt to identify the risks and uncertainties that may affect ALLETE's business.

Part I

Item 1. Business

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 15 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 4. Regulatory Matters.)

ALLETE Clean Energy focuses on developing, acquiring, and operating clean and renewable energy projects. ALLETE Clean Energy currently owns and operates, in five states, approximately 660 MW of nameplate capacity wind energy generation that is contracted under PSAs of various durations. In addition, ALLETE Clean Energy currently has approximately 380 MW of wind energy facilities under construction that it will own and operate with long-term PSAs in place. 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 provided integrated water management for industry by combining chemical, equipment, engineering and service for customized solutions to reduce water and energy usage, and improve efficiency. On March 26, 2019, the Company sold U.S. Water Services to a subsidiary of Kurita Water Industries Ltd. pursuant to a stock purchase agreement for approximately \$270 million in cash, net of transaction costs and cash retained.

Corporate and Other is comprised of BNI Energy, our coal mining operations in North Dakota, our investment in Nobles 2, a 49 percent equity interest in the entity that will own and operate a 250 MW wind energy facility in southwestern Minnesota, 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 December 31, 2019, 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.

Year Ended December 31	2019	2018	2017
Consolidated Operating Revenue – Millions <i>(a)(b)</i>	\$1,240.5	\$1,498.6	\$1,419.3
Percentage of Consolidated Operating Revenue			
Regulated Operations	84%	71%	75%
ALLETE Clean Energy <i>(a)</i>	5%	11%	6%
U.S. Water Services <i>(b)</i>	3%	11%	11%
Corporate and Other	8%	7%	8%
	100%	100%	100%

(a) Includes the sale of a wind energy facility to Montana-Dakota Utilities for \$81.1 million in 2018.

(b) ALLETE sold U.S. Water Services in the first quarter of 2019.

For a detailed discussion of results of operations and trends, see Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations. For business segment information, see Note 1. Operations and Significant Accounting Policies and Note 14. Business Segments.

REGULATED OPERATIONS

Electric Sales / Customers

Regulated Utility Kilowatt-hours Sold

Year Ended December 31	2019	%	2018	%	2017	%
Millions						
Retail and Municipal						
Residential	1,130	8	1,140	8	1,096	7
Commercial	1,390	10	1,426	10	1,420	10
Industrial	7,277	54	7,261	50	7,327	50
Municipal	672	5	798	5	799	5
Total Retail and Municipal	10,469	77	10,625	73	10,642	72
Other Power Suppliers	3,185	23	3,953	27	4,039	28
Total Regulated Utility Kilowatt-hours Sold	13,654	100	14,578	100	14,681	100

Industrial Customers. In 2019, industrial customers represented 54 percent of total regulated utility kWh sales. Our industrial customers are primarily in the taconite mining, paper, pulp and secondary wood products, and pipeline industries.

Industrial Customer Kilowatt-hours Sold

Year Ended December 31	2019	%	2018	%	2017	%
Millions						
Taconite	5,039	69	5,039	69	4,930	67
Paper, Pulp and Secondary Wood Products	1,014	14	987	14	1,104	15
Pipelines and Other Industrial	1,224	17	1,235	17	1,293	18
Total Industrial Customer Kilowatt-hours Sold	7,277	100	7,261	100	7,327	100

Six taconite facilities served by Minnesota Power made up approximately 80 percent of 2018 iron ore pellet production in the U.S. according to data from the Minnesota Department of Revenue 2019 Mining Tax Guide. Sales to taconite customers represented 5,039 million kWh, or 69 percent of total industrial customer kWh sales in 2019. Taconite, an iron-bearing rock of relatively low iron content, is abundantly available in northern Minnesota and an important domestic source of raw material for the steel industry. Taconite processing plants use large quantities of electric power to grind the iron-bearing rock, and agglomerate and pelletize the iron particles into taconite pellets.

Minnesota Power's taconite customers are capable of producing 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 10 percent of Minnesota taconite production has been exported outside of North America.

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 80 percent of capacity in 2019 (78 percent in 2018 and 74 percent in 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 2020 will increase by approximately one percent compared to 2019.

REGULATED OPERATIONS (Continued)
Industrial Customers (Continued)

The following table reflects Minnesota Power's taconite customers' production levels for the past ten years:

Minnesota Power Taconite Customer Production	
Year	Tons (Millions)
2019*	37
2018	39
2017	38
2016	28
2015	31
2014	39
2013	37
2012	39
2011	39
2010	35

Source: Minnesota Department of Revenue 2019 Mining Tax Guide for years 2010 - 2018.
** Preliminary data from the Minnesota Department of Revenue.*

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.

In addition to serving the taconite industry, Minnesota Power serves a number of customers in the paper, pulp and secondary wood products industry, which represented 1,014 million kWh, or 14 percent of total industrial customer kWh sales in 2019. Minnesota Power also has agreements to provide steam for two of its paper and pulp customers for use in the customers' operations. The four major paper and pulp mills we serve reported operating at similar levels in 2019 compared to 2018.

Large Power Customer Contracts. Minnesota Power has eight Large Power Customer contracts, each serving requirements of 10 MW or more of customer load. The customers consist of six taconite facilities and four paper and pulp mills. Certain facilities have common ownership and are served under combined contracts.

Large Power Customer contracts require Minnesota Power to have a certain amount of generating capacity available. In turn, each Large Power Customer is required to pay a minimum monthly demand charge that covers the fixed costs associated with having this capacity available to serve the customer, including a return on common equity. Most contracts allow customers to establish the level of megawatts subject to a demand charge on a four-month basis and require that a portion of their megawatt needs be committed on a take-or-pay basis for at least a portion of the term of the agreement. In addition to the demand charge, each Large Power Customer is billed an energy charge for each kWh used that recovers the variable costs incurred in generating electricity. Five of the Large Power Customer contracts have interruptible service which provides a discounted demand rate in exchange for the ability to interrupt the customers during system emergencies. Minnesota Power also provides incremental production service for customer demand levels above the contractual take-or-pay levels. There is no demand charge for this service and energy is priced at an increment above Minnesota Power's cost. Incremental production service is interruptible.

REGULATED OPERATIONS (Continued)
Large Power Customer Contracts (Continued)

All contracts with Large Power Customers continue past the contract termination date unless the required advance notice of cancellation has been given. The required advance notice of cancellation varies from two to four years. Such contracts minimize the impact on earnings that otherwise would result from significant reductions in kWh sales to such customers. Large Power Customers are required to take all of their purchased electric service requirements from Minnesota Power for the duration of their contracts. The rates and corresponding revenue associated with capacity and energy provided under these contracts are subject to change through the same regulatory process governing all retail electric rates. (See *Regulatory Matters – Electric Rates.*)

Minnesota Power, as permitted by the MPUC, requires its taconite-producing Large Power Customers to pay weekly for electric usage based on monthly energy usage estimates. These customers receive estimated bills based on Minnesota Power’s estimate of the customer’s 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 week-to-week basis and any differences that occur are trued-up the following month.

Contract Status for Minnesota Power Large Power Customers
As of December 31, 2019

Customer	Industry	Location	Ownership	Earliest Termination Date
ArcelorMittal – Minorca Mine	Taconite	Virginia, MN	ArcelorMittal S.A.	December 31, 2025
Hibbing Taconite Co. (a)	Taconite	Hibbing, MN	62.3% ArcelorMittal S.A. 23.0% Cliffs 14.7% USS Corporation	December 31, 2023
United Taconite and Northshore Mining	Taconite	Eveleth, MN and Babbitt, MN	Cliffs	December 31, 2026
USS Corporation (USS – Minnesota Ore) (a)(b)	Taconite	Mt. Iron, MN and Keewatin, MN	USS Corporation	December 31, 2023
Boise, Inc. (a)	Paper	International Falls, MN	Packaging Corporation of America	December 31, 2023
UPM Blandin	Paper	Grand Rapids, MN	UPM-Kymmene Corporation	December 31, 2029
Verso Duluth Mill	Paper and Pulp	Duluth, MN	Verso Corporation	December 31, 2024
Sappi Cloquet LLC (a)	Paper and Pulp	Cloquet, MN	Sappi Limited	December 31, 2023

(a) The contract will terminate four years from the date of written notice from either Minnesota Power or the customer. No notice of contract cancellation has been given by either party. Thus, the earliest date of cancellation is December 31, 2023.

(b) USS Corporation owns both the Mimtac Plant in Mountain Iron, MN, and the Keewatin Taconite Plant in Keewatin, MN.

Residential and Commercial Customers. In 2019, residential and commercial customers represented 18 percent of total regulated utility kWh sales.

Municipal Customers. In 2019, municipal customers represented five percent of total regulated utility kWh sales. All of the municipal contracts include a termination clause requiring a three-year notice to terminate.

Minnesota Power’s wholesale electric contracts with 15 non-affiliated municipal customers in Minnesota have termination dates ranging from 2024 through at least 2032, with a majority of contracts effective through at least 2024. (See Note 4. Regulatory Matters.)

The contract with another municipal customer expired on June 30, 2019. Minnesota Power historically provided approximately 29 MW of average monthly demand to this customer.

REGULATED OPERATIONS (Continued)

Other Power Suppliers. The Company also enters into off-system sales with Other Power Suppliers. These sales are at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations.

Our PSAs are detailed in Note 9. Commitments, Guarantees and Contingencies, with additional disclosure provided in the following paragraphs.

Basin PSAs. Minnesota Power has an agreement to sell 100 MW of capacity and energy to Basin for a ten-year period which expires in April 2020. The capacity charge is based on a fixed monthly schedule with a minimum annual escalation provision. The energy charge is based on a fixed monthly schedule and provides for annual escalation based on the cost of fuel. The agreement also allows Minnesota Power to recover a pro rata share of increased costs related to emissions that occur during the last five years of the contract. Minnesota Power has two additional agreements to sell capacity to Basin at fixed prices. (See Note 9. Commitments, Guarantees and Contingencies.)

Minnkota Power PSA. Minnesota Power has a PSA with Minnkota Power where 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 approximately 28 percent to Minnkota Power in 2019 (28 percent in 2018 and in 2017). (See Power Supply – Long-Term Purchased Power.)

Silver Bay Power PSA. In 2016, Minnesota Power and Silver Bay Power entered into a PSA through 2031. Silver Bay Power supplies approximately 90 MW of load to Northshore Mining, an affiliate of Silver Bay Power, which had previously been served predominately through self-generation by Silver Bay Power. Starting in 2016, Minnesota Power supplied Silver Bay Power with at least 50 MW of energy and Silver Bay Power had the option to purchase additional energy from Minnesota Power as it transitioned away from self-generation. In the third quarter of 2019, Silver Bay Power ceased self-generation and Minnesota Power began supplying the full energy requirements for Silver Bay Power.

Seasonality

The operations of our industrial customers, which make up a large portion of our electric sales, are not typically subject to significant seasonal variations. (See *Electric Sales / Customers*.) As a result, Minnesota Power is generally not subject to significant seasonal fluctuations in electric sales; however, Minnesota Power and SWL&P electric and natural gas sales to other customers may be affected by seasonal differences in weather. In general, peak electric sales occur in the winter and summer months with fewer electric sales in the spring and fall months. Peak sales of natural gas generally occur in the winter months. Additionally, our regulated utilities have historically generated fewer sales and less revenue when weather conditions are milder in the winter and summer.

Power Supply

In order to meet its customers' electric requirements, Minnesota Power utilizes a mix of its own generation and purchased power. As of December 31, 2019, Minnesota Power's generating capability is primarily coal-fired, but also includes wind energy, hydroelectric, natural gas-fired, biomass co-fired and solar generation. Purchased power primarily consists of long-term coal, wind and hydro PPAs as well as market purchases. The following table reflects Minnesota Power's generating capabilities as of December 31, 2019, and total electrical supply for 2019. Minnesota Power had an annual net peak load of 1,573 MW on November 11, 2019.

REGULATED OPERATIONS (Continued)
Power Supply (Continued)

Regulated Utility Power Supply	Unit No.	Year Installed	Net Capability MW	Year Ended December 31, 2019 Generation and Purchases	
				MWh	%
Coal-Fired					
Boswell Energy Center <i>(a)</i>	3	1973	355		
in Cohasset, MN	4	1980	468 <i>(b)</i>		
			823	4,160,011	29.6
Taconite Harbor Energy Center	1	1957	75		
in Schroeder, MN	2	1957	75		
			150 <i>(c)</i>	—	—
Total Coal-Fired			973	4,160,011	29.6
Biomass Co-Fired / Natural Gas					
Hibbard Renewable Energy Center in Duluth, MN	3 & 4	1949, 1951	62	21,846	0.2
Laskin Energy Center in Hoyt Lakes, MN	1 & 2	1953	110	19,454	0.1
Total Biomass Co-Fired / Natural Gas			172	41,300	0.3
Hydro <i>(d)</i>					
Group consisting of ten stations in MN	Multiple	Multiple	120	643,771	4.6
Wind <i>(e)</i>					
Taconite Ridge Energy Center in Mt. Iron, MN	Multiple	2008	25	46,808	0.3
Bison Wind Energy Center in Oliver and Morton Counties, ND	Multiple	2010-2014	497	1,571,045	11.2
Total Wind			522	1,617,853	11.5
Solar					
Camp Ripley Solar Array near Little Falls, MN	Multiple	2016	10	14,069	0.1
Total Generation			1,797	6,477,004	46.1
Long-Term Purchased Power					
Lignite Coal - Square Butte near Center, ND <i>(f)</i>				1,435,546	10.2
Wind - Oliver County, ND				293,761	2.1
Hydro - Manitoba Hydro in Manitoba, Canada				331,019	2.3
Total Long-Term Purchased Power				2,060,326	14.6
Other Purchased Power <i>(g)</i>					
Total Purchased Power				5,521,456	39.3
Total Regulated Utility Power Supply			1,797	14,058,786	100.0

(a) Minnesota Power retired Boswell Units 1 and 2 in the fourth quarter of 2018. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Outlook – EnergyForward.)

(b) Boswell Unit 4 net capability shown above reflects Minnesota Power's ownership percentage of 80 percent. WPPI Energy owns 20 percent of Boswell Unit 4. (See Note 3. Jointly-Owned Facilities and Assets.)

(c) Taconite Harbor Units 1 and 2 were idled in 2016. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Outlook – EnergyForward.)

(d) Hydro consists of 10 stations with 34 generating units.

(e) Taconite Ridge consists of 10 WTGs and Bison consists of 165 WTGs.

(f) Minnesota Power has a PSA with Minnkota Power whereby Minnesota Power is selling a portion of its entitlement from Square Butte to Minnkota Power. (See Electric Sales / Customers.)

(g) Includes short-term market purchases in the MISO market and from Other Power Suppliers.

REGULATED OPERATIONS (Continued)
Power Supply (Continued)

Fuel. Minnesota Power purchases low-sulfur, sub-bituminous coal from the Powder River Basin region located in Montana and Wyoming. Coal consumption in 2019 for electric generation at Minnesota Power's coal-fired generating stations was 2.5 million tons (3.8 million tons in 2018; 3.8 million tons in 2017). As of December 31, 2019, Minnesota Power had coal inventories of 0.9 million tons (0.9 million tons as of December 31, 2018). Minnesota Power has coal supply agreements providing for the purchase of a significant portion of its coal requirements through December 2021. In 2020, Minnesota Power expects to obtain coal under these coal supply agreements and in the spot market. Minnesota Power continues to explore other future coal supply options and believes that adequate supplies of low-sulfur, sub-bituminous coal will continue to be available.

Minnesota Power also has coal transportation agreements in place for the delivery of a significant portion of its coal requirements through December 2021. 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.

Coal Delivered to Minnesota Power

Year Ended December 31	2019	2018	2017
Average Price per Ton	\$35.31	\$38.89	\$36.50
Average Price per MBtu	\$1.94	\$2.10	\$2.01

Long-Term Purchased Power. Minnesota Power has contracts to purchase capacity and energy from various entities, including output from certain coal, wind, hydro and solar generating facilities.

Our PPAs are detailed in Note 9. Commitments, Guarantees and Contingencies, with additional disclosure provided in the following paragraph.

Square Butte PPA. Under the PPA with Square Butte that extends through 2026, Minnesota Power is entitled to 50 percent of the output of Square Butte's 455 MW coal-fired generating unit. (See Note 9. Commitments, Guarantees and Contingencies.) BNI Energy mines and sells lignite coal to Square Butte. This lignite supply is sufficient to provide fuel for the anticipated useful life of the generating unit. Square Butte's cost of lignite consumed in 2019 was approximately \$1.88 per MBtu (\$1.60 per MBtu in 2018; \$1.71 per MBtu in 2017). (See *Electric Sales / Customers – Minnesota Power PSA*.)

Transmission and Distribution

We have electric transmission and distribution lines of 500 kV (8 miles), 345 kV (242 miles), 250 kV (465 miles), 230 kV (717 miles), 161 kV (43 miles), 138 kV (190 miles), 115 kV (1,285 miles) and less than 115 kV (6,345 miles). We own and operate 158 substations with a total capacity of 8,875 megavoltamperes. Some of our transmission and distribution lines interconnect with other utilities.

Great Northern Transmission Line. As a condition of a 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 a 2016 order, the MPUC approved the route permit for the GNTL, 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. Construction activities commenced in the first quarter of 2017, and Minnesota Power expects the GNTL to be complete and in-service by mid-2020. The total project cost in the U.S., including substation work, is estimated to be approximately \$700 million, of which Minnesota Power's portion is expected to be approximately \$325 million; the difference will be recovered from a subsidiary of Manitoba Hydro as non-shareholder contributions to capital. Total project costs of \$633.3 million have been incurred through December 31, 2019, of which \$339.6 million has been recovered from a subsidiary of Manitoba Hydro. (See Note 9. Commitments, Guarantees and Contingencies.)

REGULATED OPERATIONS (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. We account for our investment in ATC under the equity method of accounting. As of December 31, 2019, our equity investment in ATC was \$141.6 million (\$128.1 million as of December 31, 2018). (See Note 5. Equity Investments.)

ATC's authorized return on equity is 9.88 percent, or 10.38 percent including an incentive adder for participation in a regional transmission organization, based on a November 2019 FERC order. In this order, the FERC reduced the base return on equity for regional transmission organizations as recommended by an administrative law judge with refunds ordered for prior periods. Multiple parties to the complaint have appealed the FERC order.

ATC's 10-year transmission assessment, which covers the years 2019 through 2028, identifies a need for between \$2.9 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.

Properties

Our Regulated Operations businesses own office and service buildings, an energy control center, repair shops, electric plants, transmission facilities and storerooms in various localities in Minnesota, Wisconsin and North Dakota. All of the electric plants are subject to mortgages, which collateralize the outstanding first mortgage bonds of Minnesota Power and SWL&P. Most of the generating plants and substations are located on real property owned by Minnesota Power or SWL&P, subject to the lien of a mortgage, whereas most of the electric lines are located on real property owned by others with appropriate easement rights or necessary permits from governmental authorities. WPPI Energy owns 20 percent of Boswell Unit 4. WPPI Energy has the right to use our transmission line facilities to transport its share of Boswell generation. (See Note 3. Jointly-Owned Facilities and Assets.)

Regulatory Matters

We are subject to the jurisdiction of various regulatory authorities and other organizations.

Electric Rates. All rates and contract terms in our Regulated Operations are subject to approval by applicable regulatory authorities. Minnesota Power and SWL&P design their retail electric service rates based on cost of service studies under which allocations are made to the various classes of customers as approved by the MPUC or the PSCW. Nearly all retail sales include billing adjustment clauses, which may adjust electric service rates for changes in the cost of fuel and purchased energy, recovery of current and deferred conservation improvement program expenditures and recovery of certain transmission, renewable and environmental investments.

Minnesota Public Utilities Commission. The MPUC has regulatory authority over Minnesota Power's retail service area in Minnesota, retail rates, retail services, capital structure, issuance of securities and other matters. Minnesota Power's current retail rates are based on a March 2018 MPUC retail rate order that allows for a 9.25 percent return on common equity and a 53.81 percent equity ratio. As authorized by the MPUC, Minnesota Power also recognizes revenue under cost recovery riders for transmission, renewable and environmental investments.

2020 Minnesota General Rate Case. On November 1, 2019, Minnesota Power filed a retail rate increase request with the MPUC seeking an average increase of approximately 10.6 percent for retail customers. The rate filing seeks a return on equity of 10.05 percent and a 53.81 percent equity ratio. On an annualized basis, the requested final rate increase would generate approximately \$66 million in additional revenue. In orders dated December 23, 2019, the MPUC accepted the filing as complete and authorized an annual interim rate increase of \$36.1 million beginning January 1, 2020.

Additional regulatory proceedings pending with the MPUC are detailed in Note 4. Regulatory Matters.

REGULATED OPERATIONS (Continued)
Regulatory Matters (Continued)

Public Service Commission of Wisconsin. The PSCW has regulatory authority over SWL&P's retail sales of electricity, natural gas and water, issuances of securities and other matters. SWL&P's current retail rates are based on a December 2018 order that allows for a return on equity of 10.4 percent and a 55.0 percent equity ratio. SWL&P anticipates filing a general rate case in the second quarter of 2020.

North Dakota Public Service Commission. The NDPSC has jurisdiction over site and route permitting of generation and transmission facilities in North Dakota.

Federal Energy Regulatory Commission. The FERC has jurisdiction over the licensing of hydroelectric projects, the establishment of rates and charges for transmission of electricity in interstate commerce, electricity sold at wholesale (including the rates for Minnesota Power's municipal and wholesale customers), natural gas transportation, certain accounting and record-keeping practices, certain activities of our regulated utilities and the operations of ATC. FERC jurisdiction also includes enforcement of NERC mandatory electric reliability standards. Violations of FERC rules are subject to enforcement action by the FERC including financial penalties up to \$1 million per day per violation. Regulatory proceedings pending with the FERC are detailed in Note 4. Regulatory Matters.

Regional Organizations

Midcontinent Independent System Operator, Inc. Minnesota Power, SWL&P and ATC are members of MISO, a regional transmission organization. While Minnesota Power and SWL&P retain ownership of their respective transmission assets, their transmission networks are under the regional operational control of MISO. Minnesota Power and SWL&P take and provide transmission service under the MISO open access transmission tariff. In cooperation with stakeholders, MISO manages the delivery of electric power across 15 states and the Canadian province of Manitoba which includes nearly 200,000 MW of generating capacity.

North American Electric Reliability Corporation. The NERC has been certified by the FERC as the national electric reliability organization. The NERC ensures the reliability of the North American bulk power system. The NERC oversees six regional entities that establish requirements, approved by the FERC, for reliable operation and maintenance of power generation facilities and transmission systems. Minnesota Power is subject to these reliability requirements and can incur significant penalties for non-compliance.

Midwest Reliability Organization (MRO). Minnesota Power and ATC are members of the MRO, one of the six regional entities overseen by the NERC. The MRO's primary responsibilities are to: ensure compliance with mandatory reliability standards by entities who own, operate or use the interconnected, international bulk power system; conduct assessments of the grid's ability to meet electricity demand in the region; and analyze regional system events.

The MRO region spans the Canadian provinces of Saskatchewan and Manitoba, and all or parts of 16 states. The region includes more than 200 organizations that are involved in the production and delivery of electricity. These organizations include municipal utilities, cooperatives, investor-owned utilities, transmission system operators, a federal power marketing agency, Canadian Crown corporations and independent power producers.

Minnesota Legislation

Renewable Energy. Minnesota law requires 25 percent of electric utilities' applicable retail and municipal energy sales in Minnesota to be from renewable energy sources by 2025. Minnesota law also requires Minnesota Power to meet interim milestones including 20 percent by 2020. The law allows the MPUC to modify or delay meeting a milestone if implementation will cause significant ratepayer cost or technical reliability issues. If a utility is not in compliance with a milestone, the MPUC may order the utility to construct facilities, purchase renewable energy or purchase renewable energy credits. Minnesota Power's 2015 IRP, which was filed with the MPUC in 2015 and approved with modifications by the MPUC in a 2016 order, included an update on its plans and progress in meeting the Minnesota renewable energy milestones through 2025. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Outlook – EnergyForward.)

REGULATED OPERATIONS (Continued)
Minnesota Legislation (Continued)

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 with 27 percent of its applicable retail and municipal energy sales supplied by renewable energy sources in 2019.

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 expects to meet both parts of the solar mandate. (See Note 4. Regulatory Matters.)

Competition

Retail electric energy sales in Minnesota and Wisconsin are made to customers in assigned service territories. As a result, most retail electric customers in Minnesota do not have the ability to choose their electric supplier. Large energy users of 2 MW and above that are located outside of a municipality are allowed to choose a supplier upon MPUC approval. Minnesota Power serves 10 Large Power facilities over 10 MW, none of which have engaged in a competitive rate process. No other large commercial or small industrial customers in Minnesota Power's service territory have sought a provider outside Minnesota Power's service territory. Retail electric and natural gas customers in Wisconsin do not have the ability to choose their energy supplier. In both states, however, electricity may compete with other forms of energy. Customers may also choose to generate their own electricity, or substitute other forms of energy for their manufacturing processes.

In 2019, five percent of total regulated utility kWh sales were to municipal customers in Minnesota by contract. These customers have the right to seek an energy supply from any wholesale electric service provider upon contract expiration. Minnesota Power's wholesale electric contract with the Nashwauk Public Utilities Commission is effective through at least December 31, 2032. Minnesota Power wholesale electric contracts with 14 municipal customers are effective through varying dates ranging from 2024 through 2029. The contract with another municipal customer expired on June 30, 2019. (See *Electric Sales / Customers.*)

The FERC has continued with its efforts to promote a competitive wholesale market through open-access electric transmission and other means. As a result, our electric sales to Other Power Suppliers and our purchases to supply our retail and wholesale load are made in a competitive market.

Franchises

Minnesota Power holds franchises to construct and maintain an electric distribution and transmission system in 91 cities. The remaining cities, villages and towns served by Minnesota Power do not require a franchise to operate. SWL&P serves customers under electric, natural gas or water franchises in 1 city and 14 villages or towns.

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 five states, approximately 660 MW of nameplate capacity wind energy generation that is contracted under PSAs of various durations. In addition, ALLETE Clean Energy currently has approximately 380 MW of wind energy facilities under construction that it will own and operate with long-term PSAs in place. 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. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Outlook – ALLETE Clean Energy.)

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 and production tax credit requalification of existing facilities.

ALLETE CLEAN ENERGY (Continued)

ALLETE Clean Energy manages risk by having a diverse portfolio of assets, which includes PSA expiration, technology and geographic diversity. The current operating portfolio of approximately 660 MW is subject to 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	Region	Capacity MW	PSA MW	PSA Expiration
Armenia Mountain	East	101	100%	2024
Chanarambie/Viking	Midwest	98		
PSA 1 (a)			12%	2023
PSA 2			88%	2023
Condon	West	50	100%	2022
Glen Ullin	West	106	100%	2039
Lake Benton	Midwest	104	100%	2028
Storm Lake I	Midwest	108	100%	2027
Storm Lake II	Midwest	77		
PSA 1			90%	2020
PSA 2			10%	2032
Other	Midwest	17	100%	2028

(a) The PSA expiration assumes the exercise of four one-year renewal options that ALLETE Clean Energy has the sole right to exercise.

The majority of ALLETE Clean Energy's wind operations are located on real property owned by others with appropriate easement rights or necessary consents of governmental authorities. One of ALLETE Clean Energy's wind energy facilities is encumbered by liens against its assets securing financing. ALLETE Clean Energy's Glen Ullin wind energy facility is owned through a tax equity financing structure. (See Note 1. Operations and Significant Accounting Policies.)

U.S. WATER SERVICES

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

On February 8, 2019, the Company entered into a stock purchase agreement providing for the sale of U.S. Water Services to a subsidiary of Kurita Water Industries Ltd. On March 26, 2019, ALLETE completed the sale, and received approximately \$270 million in cash, net of transaction costs and cash retained. The Company recognized a gain on the sale of U.S. Water Services of \$13.2 million after-tax in 2019. ALLETE used the proceeds from the sale of U.S. Water Services to reinvest in growth initiatives at our Regulated Operations and ALLETE Clean Energy.

CORPORATE AND OTHER

BNI Energy

BNI Energy is a supplier of lignite coal in North Dakota, producing approximately 4 million tons annually and has an estimated 650 million tons of lignite coal reserves. Two electric generating cooperatives, Minnkota Power and Square Butte, consume virtually all of BNI Energy's production of lignite under cost-plus fixed fee coal supply agreements extending through December 31, 2037. (See Item 1. Business – Regulated Operations – Power Supply – Long-Term Purchased Power and Note 9. Commitments, Guarantees and Contingencies.) The mining process disturbs and reclaims between 200 and 250 acres per year. Laws require that the reclaimed land be at least as productive as it was prior to mining. As of December 31, 2019, BNI Energy had a \$43.4 million asset reclamation obligation (\$26.5 million as of December 31, 2018) included in Other Non-Current Liabilities on the Consolidated Balance Sheet. These costs are included in the cost-plus fixed fee contract, for which an asset reclamation cost receivable was included in Other Non-Current Assets on the Consolidated Balance Sheet. The asset reclamation obligation is guaranteed by surety bonds and a letter of credit. (See Note 9. Commitments, Guarantees and Contingencies.)

CORPORATE AND OTHER (Continued)

Investment in Nobles 2

In December 2018, our wholly-owned subsidiary, ALLETE South Wind, entered into an agreement with Tenaska to purchase a 49 percent equity interest in Nobles 2, the entity that will own and operate a 250 MW wind energy facility in southwestern Minnesota pursuant to a 20-year PPA with Minnesota Power. The wind energy facility will be built in Nobles County, Minnesota and is expected to be completed in late 2020, with an estimated total project cost of approximately \$350 million to \$400 million. In the fourth quarter of 2019, we entered into a tax equity funding agreement to finance up to \$125 million of the project costs. We account for our investment in Nobles 2 under the equity method of accounting. As of December 31, 2019, our equity investment in Nobles 2 was \$56.0 million (\$33.0 million at December 31, 2018). We expect to invest approximately \$115 million in 2020. (See Note 5. Equity Investments.)

ALLETE Properties

ALLETE Properties represents our legacy Florida real estate investment. ALLETE Properties' major project in Florida is Town Center at Palm Coast.

Summary of Project

As of December 31, 2019	Acres <i>(a)</i>	Residential Units <i>(b)</i>	Non-residential Sq. Ft. <i>(b)(c)</i>
Project			
Town Center at Palm Coast	807	1,739	1,872,700

(a) Acreage is approximate and shown on a gross basis, including wetlands.

(b) Units and square footage are estimated. Density at build out may differ from these estimates.

(c) Includes retail and non-retail commercial, office, industrial, warehouse, storage and institutional square footage.

In addition to the Town Center at Palm Coast project, ALLETE Properties has approximately 600 acres of other land available for sale. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Outlook – Corporate and Other – ALLETE Properties.)

Seller Financing. ALLETE Properties occasionally provides seller financing to qualified buyers. As of December 31, 2019, outstanding finance receivables were \$5.6 million, net of reserves, with maturities through 2024. These finance receivables accrue interest at market-based rates and are collateralized by the financed properties.

Regulation. A substantial portion of our development properties in Florida are subject to federal, state and local regulations, and restrictions that may impose significant costs or limitations on our ability to develop the properties. Much of our property is vacant land and some is located in areas where development may affect the natural habitats of various protected wildlife species or in sensitive environmental areas such as wetlands.

Non-Rate Base Generation and Miscellaneous

Corporate and Other also includes 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.

As of December 31, 2019, non-rate base generation consists of 29 MW of natural gas and hydro generation at Rapids Energy Center in Grand Rapids, Minnesota. In 2019, we sold less than 0.1 million MWh of non-rate base generation (0.1 million MWh in 2018 and in 2017). Net generation is primarily dedicated to the needs of one customer, UPM Blandin.

ENVIRONMENTAL MATTERS

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

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

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. (See Note 9. Commitments, Guarantees and Contingencies.)

EMPLOYEES

As of December 31, 2019, ALLETE had 1,339 employees, of which 1,316 were full-time.

Minnesota Power and SWL&P have an aggregate of 465 employees who are members of the International Brotherhood of Electrical Workers (IBEW) Local 31. The current labor agreements with IBEW Local 31 expire on April 30, 2020, for Minnesota Power and February 1, 2021, for SWL&P.

BNI Energy has 179 employees, of which 133 are members of IBEW Local 1593. The current labor agreement with IBEW Local 1593 expires on March 31, 2023.

AVAILABILITY OF INFORMATION

ALLETE makes its SEC filings, including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(e) or 15(d) of the Securities Exchange Act of 1934, available free of charge on ALLETE's website, www.allete.com, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

As of February 13, 2020, these are the executive officers of ALLETE:

Executive Officers	Initial Effective Date
Alan R. Hodnik, Age 60	
Executive Chairman (a)	February 3, 2020
Chairman and Chief Executive Officer	January 31, 2019
Chairman, President and Chief Executive Officer	May 10, 2011
Bethany M. Owen, Age 54	
President and Chief Executive Officer (a)	February 3, 2020
President	January 31, 2019
Senior Vice President and Chief Legal and Administrative Officer	November 26, 2016
Robert J. Adams, Age 57	
Senior Vice President and Chief Financial Officer	March 4, 2017
Senior Vice President – Energy-Centric Businesses and Chief Risk Officer	November 14, 2015
Vice President – Energy-Centric Businesses and Chief Risk Officer	June 23, 2014
Patrick L. Cutshall, Age 54	
Vice President and Corporate Treasurer	December 18, 2017
Treasurer	January 1, 2016
Nicole R. Johnson, Age 45	
Vice President and Chief Administrative Officer	June 28, 2019
Steven W. Morris, Age 58	
Vice President, Controller and Chief Accounting Officer	December 24, 2016
Controller	March 3, 2014
Margaret A. Thickens, Age 53	
Vice President, Chief Legal Officer and Corporate Secretary	February 13, 2019

(a) On January 30, 2020, the Board of Directors of ALLETE elected Bethany M. Owen as Chief Executive Officer of ALLETE effective February 3, 2020, after Alan R. Hodnik informed the Board of Directors on January 30, 2020, that he will retire in May 2021. As part of an orderly transition, Mr. Hodnik will continue as Executive Chairman until May 2021.

All of the executive officers have been employed by us for more than five years in executive or management positions. Prior to election to the position listed above, the following executives held other positions with the Company during the past five years.

Mr. Cutshall was Director – Investments and Tax.

Ms. Johnson was Vice President – Human Resources; Director – Compensation and Benefits.

Ms. Owen was Vice President – Information Technology Solutions and President – SWL&P.

Ms. Thickens was General Counsel and Director of Compliance – ALLETE Clean Energy; General Counsel and Secretary – ALLETE Clean Energy; Senior Attorney.

There are no family relationships between any of the executive officers. All officers and directors are elected or appointed annually.

The present term of office of the executive officers listed in the preceding table extends to the first meeting of our Board of Directors after the next annual meeting of shareholders. Both meetings are scheduled for May 12, 2020.

Item 1A. Risk Factors

The risks and uncertainties discussed below could materially affect our business operations, financial position, results of operations and cash flows, and should be carefully considered by stakeholders. The risks and uncertainties in this section are not the only ones we face; additional risks and uncertainties that we are not presently aware of, or that we currently consider immaterial, may also affect our business operations, financial position, results of operations and cash flows. Accordingly, the risks described below should be carefully considered together with other information set forth in this report and in future reports that we file with the SEC.

Entity-wide Risks

We rely on access to financing sources and capital markets. If we do not have access to capital on acceptable terms or are unable to obtain capital when needed, our ability to execute our business plans, make capital expenditures or pursue other strategic actions that we may otherwise rely on for future growth would be adversely affected.

We rely on access to financing sources and the capital markets, on acceptable terms and at reasonable costs, as sources of liquidity for capital requirements not satisfied by our cash flows from operations. Market disruptions or a downgrade of our credit ratings may increase the cost of borrowing or adversely affect our ability to access and finance in the capital markets or to access other financing sources. Such disruptions or causes of a downgrade could include but are not limited to: the effects of the TCJA on the Company's cash flow metrics; a loss of, or a reduction in sales to, our taconite, paper and pipeline customers if we are unable to offset the related lost margins; weaker operating performance; adverse regulatory outcomes; disproportionate increase in the contribution to net income from ALLETE Clean Energy and our Corporate and Other businesses as compared to that from our Regulated Operations; deteriorating economic or capital market conditions; or volatility in commodity prices.

If we are not able to access capital on acceptable terms in sufficient amounts and when needed, or at all, the ability to maintain our businesses or to implement our business plans would be adversely affected.

A deterioration in general economic conditions may have adverse impacts on our financial position, results of operations and cash flows.

If economic conditions deteriorate on a national or regional level, it may have a negative impact on the Company's financial position, results of operations and cash flows as well as on our customers. This impact may include volatility and unpredictability in the demand for the products and services offered by our businesses, the loss of existing customers, tempered growth strategies, customer production cutbacks or customer bankruptcies. An uncertain economy could also adversely affect expenses including pension costs, interest costs, and uncollectible accounts, or lead to reductions in the value of certain real estate and other investments.

We are subject to extensive state and federal legislation and regulation, compliance with which could have an adverse effect on our businesses.

We are subject to, and affected by, extensive state and federal legislation and regulation. If it was determined that our businesses failed to comply with applicable laws and regulations, we could become subject to fines or penalties or be required to implement additional compliance measures or actions, the cost of which could be material. Adoption of new laws, rules, regulations, principles, or practices by federal and state agencies, or changes to or a failure to comply with current laws, rules, regulations, principles, or practices and their interpretations, could have an adverse effect on our financial position, results of operations and cash flows.

The inability to attract and retain a qualified workforce including, but not limited to, executive officers, key employees and employees with specialized skills, could have an adverse effect on our operations.

The success of our business heavily depends on the leadership of our executive officers and key employees to implement our business strategy. The inability to maintain a qualified workforce including, but not limited to, executive officers, key employees and employees with specialized skills, may negatively affect our ability to service our existing or new customers, or successfully manage our business or achieve our business objectives. Personnel costs may increase due to competitive pressures or terms of collective bargaining agreements with union employees.

Item 1A. Risk Factors (Continued)
Entity-wide Risks (Continued)

Market performance and other changes could decrease the value of pension and other postretirement benefit plan assets, which may result in significant additional funding requirements and increased annual expenses.

The performance of the capital markets impacts the values of the assets that are held in trust to satisfy future obligations under our pension and other postretirement benefit plans. We have significant obligations to these plans and the trusts hold significant assets. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below our projected rates of return. A decline in the market value of the pension and other postretirement benefit plan assets would increase the funding requirements under our benefit plans if asset returns do not recover. Additionally, our pension and other postretirement benefit plan liabilities are sensitive to changes in interest rates. As interest rates decrease, the liabilities increase, potentially increasing benefit expense and funding requirements. Our pension and other postretirement benefit plan costs are generally recoverable in our electric rates as allowed by our regulators or through our cost-plus fixed fee coal supply agreements at BNI Energy; however, there is no certainty that regulators will continue to allow recovery of these rising costs in the future.

We are exposed to significant reputational risk.

The Company could suffer negative impacts to its reputation as a result of operational incidents, violations of corporate compliance policies, regulatory violations, or other events which may result in negative customer perception and increased regulatory oversight, each of which could have an adverse effect on our financial position, results of operations and cash flows.

Catastrophic events, such as natural disasters and acts of war, may adversely affect our operations.

Catastrophic events such as fires, including wildfires, earthquakes, explosions, and floods, severe weather, such as ice storms, hailstorms, or tornadoes or similar occurrences, as well as acts of war, could adversely affect the Company's facilities, operations, financial position, results of operations and cash flows. Although the Company has contingency plans and employs crisis management to respond and recover operations in the event of a severe disruption resulting from a catastrophic event, these measures may not be successful. Furthermore, despite these measures, if a catastrophic event were to occur, our financial position, results of operations and cash flows could be adversely affected.

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, 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. Hacking, 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.

Our businesses require the continued operation of sophisticated custom-developed, purchased, and leased 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 as well as 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 business were impacted by terrorist activities or cybersecurity attacks, such impacts could have an adverse effect on our financial position, results of operations and cash flows.

Item 1A. Risk Factors (Continued)
Entity-wide Risks (Continued)

We maintain insurance against some, but not all, of the risks and uncertainties we face.

We maintain insurance against some, but not all, of the risks and uncertainties we face. The occurrence of these risks and uncertainties, if not fully covered by insurance, could have a material effect on our financial position, results of operations and cash flows.

Government challenges to our tax positions, as well as tax law changes and the inherent difficulty in quantifying potential tax effects of our operations and business decisions, could adversely affect our results of operations and liquidity.

We are required to make judgments regarding the potential tax effects of various financial transactions and our ongoing operations in order to estimate our obligations to taxing authorities. The obligations, which include income taxes and taxes other than income taxes, involve complex matters that ultimately could be litigated. We also estimate our ability to use tax benefits, including those in the form of carryforwards and tax credits that are recorded as deferred tax assets on our Consolidated Balance Sheet. A disallowance of these tax benefits could have an adverse impact on our financial position, results of operations and cash flows.

We are currently utilizing, and plan to utilize in the future, our carryforwards and tax credits to reduce our income tax obligations. If we cannot generate enough taxable income in the future to utilize all of our carryforwards and tax credits before they expire, we may incur adverse charges to earnings. If federal or state tax authorities deny any deductions or tax credits, our financial position, results of operations and cash flows may be adversely impacted.

Regulated Operations Risks

Our results of operations could be negatively impacted if our taconite, paper and pipeline customers experience an economic downturn, incur work stoppages, fail to compete effectively, experience decreased demand, fail to economically obtain raw materials, fail to renew or obtain necessary permits, or experience a decline in prices for their product.

Minnesota Power's eight Large Power Customers accounted for 28 percent of our 2019 consolidated operating revenue (24 percent in 2018 and 25 percent in 2017), of which one of these customers accounted for approximately 12 percent of consolidated revenue in 2019 (10 percent in 2018 and in 2017). These customers are involved in cyclical industries that by their nature are adversely impacted by economic downturns and are subject to strong competition in the marketplace. Additionally, the North American paper and pulp industry also faces declining demand due to the impact of electronic substitution for print and changing customer needs. As a result, certain paper and pulp customers have reduced their existing operations in recent years and have pursued or are pursuing product changes in response to declining demand.

Accordingly, if our industrial customers experience an economic downturn, incur a work stoppage (including strikes, lock-outs or other events), fail to compete effectively, experience decreased demand, fail to economically obtain raw materials, fail to renew or obtain necessary permits, or experience a decline in prices for their product, there could be adverse effects on their operations and, consequently, this could have a negative impact on our results of operations if we are unable to remarket at similar prices the energy that would otherwise have been sold to such customers.

Item 1A. Risk Factors (Continued)
Regulated Operations Risks (Continued)

Our utility operations are subject to an extensive legal and regulatory framework under federal and state laws as well as regulations imposed by other organizations that may have a negative impact on our business and results of operations.

We are subject to an extensive legal and regulatory framework imposed under federal and state law including regulations administered by the FERC, MPUC, MPCA, PSCW, NDPSC and EPA as well as regulations administered by other organizations including the NERC. These laws and regulations relate to allowed rates of return, capital structure, financings, rate and cost structure, acquisition and disposal of assets and facilities, construction and operation of generation, transmission and distribution facilities (including the ongoing maintenance and reliable operation of such facilities), recovery of purchased power costs and capital investments, approval of integrated resource plans and present or prospective wholesale and retail competition, renewable portfolio standards that require utilities to obtain specified percentages of electric supply from eligible renewable generation sources, among other things. Energy policy initiatives at the state or federal level could increase renewable portfolio standards or incentives for distributed generation, municipal utility ownership, or local initiatives could introduce generation or distribution requirements that could change the current integrated utility model. Our transmission systems and electric generation facilities are subject to the NERC mandatory reliability standards, including cybersecurity standards. Compliance with these standards may lead to increased operating costs and capital expenditures which are subject to regulatory approval for recovery. If it was determined that we were not in compliance with these mandatory reliability standards or other statutes, rules and orders, we could incur substantial monetary penalties and other sanctions, which could adversely affect our results of operations.

These laws and regulations significantly influence our operations and may affect our ability to recover costs from our customers. We are required to have numerous permits, licenses, approvals and certificates from the agencies and other organizations that regulate our business. We believe we have obtained the necessary permits, licenses, approvals and certificates for our existing operations and that our business is conducted in accordance with applicable laws; however, we are unable to predict the impact on our operating results from the future regulatory activities of any of these agencies and other organizations. Changes in regulations, the adoption of new regulations or the expansion of jurisdiction by these agencies and other organizations could have an adverse impact on our business and results of operations.

Our ability to obtain rate adjustments to maintain reasonable rates of return depends upon regulatory action under applicable statutes and regulations, and we cannot provide assurance that rate adjustments will be obtained or reasonable authorized rates of return on capital will be earned. Minnesota Power and SWL&P, from time to time, file general rate cases with, or otherwise seek cost recovery authorization from, federal and state regulatory authorities. If Minnesota Power and SWL&P do not receive an adequate amount of rate relief in general rate cases, including if rates are reduced, if increased rates are not approved on a timely basis, if cost recovery is not granted at the requested level, or costs are otherwise unable to be recovered through rates, we may experience an adverse impact on our financial position, results of operations and cash flows. We are unable to predict the impact on our business and results of operations from future legislation or regulatory activities of any of these agencies or organizations.

Our regulated operations present certain environmental risks that could adversely affect our financial position and results of operations, including effects of environmental laws and regulations, physical risks associated with climate change and initiatives designed to reduce the impact of GHG emissions.

We are subject to extensive environmental laws and regulations affecting many aspects of our past, present and future operations, including air quality, water quality and usage, waste management, reclamation, hazardous wastes, avian mortality and natural resources. These laws and regulations can result in increased capital expenditures and increased operating and other costs as a result of compliance, remediation, containment and monitoring obligations, particularly with regard to laws relating to emissions, coal ash and water discharge at generating facilities.

These laws and regulations could restrict the output of some existing facilities, limit the use of some fuels in the production of electricity, require the installation of additional pollution control equipment, require participation in environmental emission allowance trading, and lead to other environmental considerations and costs, which could have an adverse impact on our business, operations and results of operations.

These laws and regulations generally require us to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. Violations of these laws and regulations could expose us to regulatory and legal proceedings, disputes with, and legal challenges by, governmental authorities and private parties, as well as potential significant civil fines criminal penalties and other sanctions.

Item 1A. Risk Factors (Continued)
Regulated Operations Risks (Continued)

Existing environmental regulations may be revised and new environmental regulations may be adopted or become applicable to us. Revised or additional regulations which result in increased compliance costs or additional operating restrictions, particularly if those costs are not fully recoverable from customers, could have an adverse effect on our results of operations.

The scientific community generally accepts that emissions of GHG are linked to global climate change. Physical risks of climate change, such as more frequent or more extreme weather events, changes in temperature and precipitation patterns, changes to ground and surface water availability, and other related phenomena, could affect some, or all, of our operations. Severe weather or other natural disasters could be destructive, which could result in increased costs. An extreme weather event within our utility service areas can also directly affect our capital assets, causing disruption in service to customers due to downed wires and poles or damage to other operating equipment. These all have the potential to adversely affect our business and operations.

There is significant uncertainty regarding if and when new laws or regulations will be adopted to reduce or limit GHG and the impact any such laws or regulations would have on us. In 2019, coal was the primary fuel source for 64 percent of the energy produced by our generating facilities. Any future limits on GHG emissions at the federal or state level, or action taken by regulators, may require us to incur significant capital expenditures and increases in operating costs, or could result in the closure of certain coal-fired generating facilities, an impairment of assets, or otherwise adversely affect our results of operations, particularly if resulting expenditures and costs are not fully recoverable from customers.

We cannot predict the amount or timing of all future expenditures related to environmental matters because of uncertainty as to applicable regulations or requirements. There is also uncertainty in quantifying liabilities under environmental laws that impose joint and several liability on all potentially responsible parties. Violations of certain environmental statutes, rules and regulations could expose ALLETE to third party disputes and potentially significant monetary penalties, as well as other sanctions for non-compliance.

The operation and maintenance of our regulated electric generation and transmission facilities are subject to operational risks that could adversely affect our financial position, results of operations and cash flows.

The operation of generating facilities involves many risks, including start-up operational risks, breakdown or failure of facilities, the dependence on a specific fuel source, inadequate fuel supply, availability of fuel transportation, and the impact of unusual or adverse weather conditions or other natural events, as well as the risk of performance below expected levels of output or efficiency. A significant portion of our facilities contain older generating equipment, which, even if maintained in accordance with good engineering practices, may require significant capital expenditures to continue operating at peak efficiency. Generation and transmission facilities and equipment are also likely to require periodic upgrades and improvements due to changing environmental standards and technological advances. We could be subject to costs associated with any unexpected failure to produce or deliver power, including failure caused by breakdown or forced outage, as well as repairing damage to facilities due to storms, natural disasters, wars, sabotage, terrorist acts and other catastrophic events.

Our ability to successfully and timely complete capital improvements to existing regulated facilities or other capital projects is contingent upon many variables.

We expect to incur significant capital expenditures in making capital improvements to our existing electric generation and transmission facilities and in the development and construction of new electric generation and transmission facilities. Should any such efforts be unsuccessful or not completed in a timely manner, we could be subject to additional costs or impairments which could have an adverse impact on our financial position, results of operation and cash flows.

Our regulated electric generating operations may not have access to adequate and reliable transmission and distribution facilities necessary to deliver electricity to our customers.

We depend on our own transmission and distribution facilities, as well as facilities owned by other utilities, to deliver the electricity produced and sold to our customers, and to other energy suppliers. If transmission capacity is inadequate, our ability to sell and deliver electricity may be limited. We may have to forgo sales or may have to buy more expensive wholesale electricity that is available in the capacity-constrained area. In addition, any infrastructure failure that interrupts or impairs delivery of electricity to our customers could negatively impact the satisfaction of our customers, which could have an adverse impact on our business and results of operations.

Item 1A. Risk Factors (Continued)
Regulated Operations Risks (Continued)

Our results of operations could be impacted by declining wholesale power prices.

Wholesale prices for electricity have declined in recent years primarily due to low natural gas prices. If there are reductions in demand from customers or if we lose customers, we will market any available power to Other Power Suppliers in an effort to mitigate any earnings impact. 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. Due to the low wholesale prices for electricity, we do not expect that our power marketing efforts would fully offset the reduction in earnings resulting from the lower demand from existing customers or the loss of customers. (See Item 1. Business – Regulated Operations – Electric Sales / Customers.)

The price of electricity and fuel may be volatile.

Volatility in market prices for electricity and fuel could adversely impact our financial position and results of operations and may result from:

- severe or unexpected weather conditions and natural disasters;
- seasonality;
- changes in electricity usage;
- transmission or transportation constraints, inoperability or inefficiencies;
- availability of competitively priced alternative energy sources;
- changes in supply and demand for energy;
- changes in power production capacity;
- outages at our generating facilities or those of our competitors;
- availability of fuel transportation;
- changes in production and storage levels of natural gas, lignite, coal, crude oil and refined products;
- wars, sabotage, terrorist acts or other catastrophic events; and
- federal, state, local and foreign energy, environmental, or other regulation and legislation.

Fluctuations in our fuel and purchased power costs related to our retail and municipal customers are passed on to customers through the fuel adjustment clause. Volatility in market prices for our fuel and purchase power costs primarily impacts our sales to Other Power Suppliers.

Demand for energy may decrease.

Our results of operations are impacted by the demand for energy in our service territories, our municipal customers and other power suppliers. There could be lower demand for energy due to a loss of customers as a result of economic conditions, customers constructing or installing their own generation facilities, higher costs and rates charged to customers, eligible municipal and other power suppliers choosing an alternative energy provider, or loss of service territory or franchises. Further, energy conservation and technological advances that increased energy efficiency may temporarily or permanently reduce the demand for energy products. In addition, we are impacted by state and federal regulations requiring mandatory conservation measures, which reduce the demand for energy products. Continuing technology improvements and regulatory developments may make customer and third party-owned generation technologies such as rooftop solar systems, WTGs, microturbines and battery storage systems more cost effective and feasible for our customers. If customers utilize their own generation, demand for energy from us would decline. There may not be future economic growth opportunities that would enable us to replace the lost energy demand from these customers. Therefore, a decrease in demand for energy could adversely impact our financial position, results of operations and cash flows.

We may not be able to successfully implement our strategic objectives of growing load at our utilities if current or potential industrial or municipal customers are unable to successfully implement expansion plans, including the inability to obtain necessary governmental permits.

As part of our long-term strategy, we pursue new wholesale and retail loads in and around our service territories. Currently, there are several companies in northeastern Minnesota that are in the process of developing natural resource-based projects that represent long-term growth potential and load diversity for our Regulated Operations businesses. These projects may include construction of new facilities and restarts of old facilities, both of which require permitting and approvals to be obtained before the projects can be successfully implemented. If a project does not obtain any necessary governmental (including environmental) permits and approvals or if these customers are unable to successfully implement expansion plans, our long-term strategy and thus our results of operations could be adversely impacted.

Item 1A. Risk Factors (Continued)

ALLETE Clean Energy / Corporate and Other Risks

The inability to successfully manage and grow ALLETE Clean Energy and our Corporate and Other businesses could adversely affect our results of operations.

The Company's strategy for ALLETE Clean Energy includes adding customers, new geographies, project development for others and growth through acquisitions. This strategy depends, in part, on the Company's ability to successfully identify and evaluate acquisition opportunities and consummate acquisitions on acceptable terms. The Company may compete with other companies for these acquisition opportunities, which may increase the Company's cost of making acquisitions and the Company may be unsuccessful in pursuing these acquisition opportunities. Other companies may be able to pay more for acquisitions and may be able to identify, evaluate, bid for and purchase a greater number of assets than the Company's financial or human resources permit. Additionally, tax law changes may adversely impact the economic characteristics of potential acquisitions or investments. If the Company is unable to execute its strategy of growth through acquisitions, project development for others, or the addition of new customers and geographies, it may impede our long-term objectives and business strategy.

Acquisitions are subject to uncertainties. If we are unable to successfully integrate and manage future acquisitions or strategic investments, this could have an adverse impact on our results of operations. Our actual results may also differ from our expectations due to factors such as the ability to obtain timely regulatory or governmental approvals, integration and operational issues and the ability to retain management and other key personnel.

The generation of electricity from our wind energy facilities depends heavily on suitable meteorological conditions.

Although our wind energy facilities are located in diverse geographic regions to reduce the potential impact that may be caused by unfavorable weather in a particular region, suitable meteorological conditions are variable and difficult to predict. If wind conditions are unfavorable or meteorological conditions are unsuitable, our electricity generation and revenue from wind energy facilities may be substantially below our expectations. The electricity produced, production tax credits received, and revenues generated by a wind energy facility are highly dependent on suitable wind conditions and associated weather conditions, which are variable and beyond our control. We base our decisions about which wind projects to build or acquire as well as our electricity generation estimates, in part, on the findings of long-term wind and other meteorological studies conducted on the project site and its region; however, the unpredictable nature of wind conditions, weather and meteorological conditions can result in material deviations from these studies and our expectations. Furthermore, components of our systems could be damaged by severe weather, such as hailstorms, lightning or tornadoes. In addition, replacement and spare parts for key components of our diverse turbine portfolio may be difficult or costly to acquire or may be unavailable. Unfavorable wind conditions, weather or changes to meteorological patterns could impair the effectiveness of our wind energy facility assets, reduce their output beneath their rated capacity or require shutdown of key equipment, impeding operation of our wind energy facilities.

The construction, operation and maintenance of our electric generation facilities or investment in facilities are subject to operational risks that could adversely affect our financial position, results of operations and cash flows.

The construction and operation of generating facilities involves many risks, including the performance by key contracted suppliers and maintenance providers, start-up operations risks, breakdown or failure of facilities, the dependence on the availability of wind resources, or the impact of unusual, adverse weather conditions or other natural events, as well as the risk of performance below expected levels of output or efficiency. Some of our facilities contain older generating equipment, which even if maintained in accordance with good engineering practices, may require significant capital expenditures to continue operating at peak efficiency. We could be subject to costs associated with any unexpected failure to produce and deliver power, including failure caused by breakdown or forced outage, as well as repairing damage to facilities due to storms, natural disasters, wars, sabotage, terrorist acts and other catastrophic events.

As contracts with counterparties expire, we may not be able to replace them with agreements on similar terms.

ALLETE Clean Energy is party to PSAs which expire in various years between 2020 and 2039. These PSA expirations are prior to the end of the estimated useful lives of the respective wind energy facilities. If, for any reason, ALLETE Clean Energy is unable to enter into new agreements with existing or new counterparties on similar terms once the current agreements expire, or sell energy in the wholesale market resulting in similar revenue, our financial position, results of operations and cash flows could be adversely affected, which includes potential impairment of property, plant and equipment.

Item 1A. Risk Factors (Continued)**ALLETE Clean Energy / Corporate and Other Risks (Continued)****Counterparties to turbine supply, service and maintenance, or power sale agreements may not fulfill their obligations.**

ALLETE Clean Energy is party to turbine supply agreements, service and maintenance agreements, and PSAs under various durations with a limited number of creditworthy counterparties. If, for any reason, any of the counterparties under these agreements do not fulfill their related contractual obligations, and ALLETE Clean Energy is unable to mitigate non-performance by a key supplier or maintenance provider or remarket PSA energy resulting in similar revenue, our financial position, results of operations and cash flows could be adversely affected.

BNI Energy may be adversely impacted by its exposure to customer concentration, and environmental laws and regulations.

BNI Energy sells lignite coal to two electric generating cooperatives, Minnkota Power and Square Butte, and could be adversely impacted if these customers were unable or unwilling to fulfill their related contractual obligations. In addition, BNI Energy and its customers may be adversely impacted by environmental laws and regulations which could have an adverse effect on our financial position, results of operations and cash flows. In addition, insurance companies have decreased the available coverage for policy holders in the mining industry, impacting the availability of coverage, and leading to higher deductibles and premiums.

Real estate market conditions where our legacy Florida real estate investment is located may not improve.

The Company's strategy related to the real estate assets of ALLETE Properties incorporates the possibility of a bulk sale of its entire portfolio, in addition to sales over time, however, continued adverse market conditions could impact the timing of land sales, which could result in little to no sales, while still incurring operating expenses such as community development district assessments and property taxes, resulting in net operating losses at ALLETE Properties. Furthermore, weak market conditions could put the properties at risk for an impairment charge. An impairment charge would result in a non-cash charge to earnings that could have an adverse effect on our results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

A discussion of our properties is included in Item 1. Business and is incorporated by reference herein.

Item 3. Legal Proceedings

Discussions of material regulatory and environmental proceedings are included in Note 4. Regulatory Matters and Note 9. Commitments, Guarantees and Contingencies, and are incorporated by reference herein.

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.

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-K.

Part II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

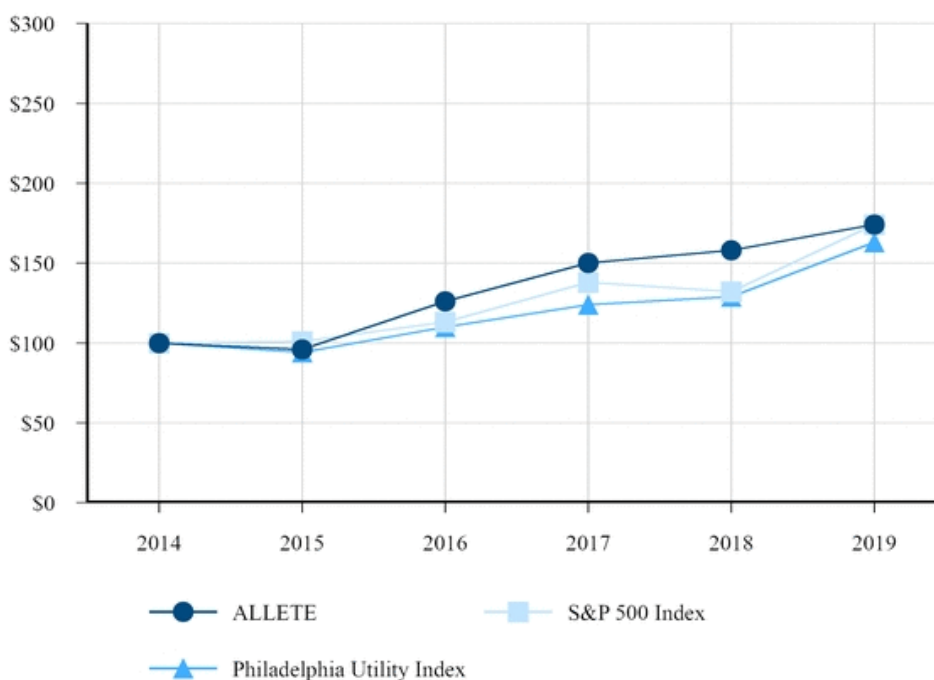
Our common stock is listed on the NYSE under the symbol ALE. We have paid dividends, without interruption, on our common stock since 1948. A quarterly dividend of \$0.6175 per share on our common stock is payable on March 1, 2020, to the shareholders of record on February 14, 2020. The timing and amount of future dividends will depend upon earnings, cash requirements, the financial condition of the Company, applicable government regulations and other factors deemed relevant by the ALLETE Board of Directors. As of February 1, 2020, there were approximately 21,000 common stock shareholders of record.

Performance Graph.

The following graph compares ALLETE’s cumulative Total Shareholder Return on its common stock with the cumulative return of the S&P 500 Index and the Philadelphia Utility Index. The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Because this composite index has a broad industry base, its performance may not closely track that of a composite index comprised solely of electric utilities. The Philadelphia Utility Index is a capitalization-weighted index of 20 utility companies involved in the generation of electricity.

The calculations assume a \$100 investment on December 31, 2014, and reinvestment of dividends.

Total Shareholder Return for the Five Years Ending December 31, 2019



	2014	2015	2016	2017	2018	2019
ALLETE	\$100	\$96	\$126	\$150	\$158	\$174
S&P 500 Index	\$100	\$101	\$113	\$138	\$132	\$174
Philadelphia Utility Index	\$100	\$94	\$110	\$124	\$129	\$163

Item 6. Selected Financial Data

	2019	2018	2017	2016	2015
Millions Except Per Share Amounts					
Operating Revenue <i>(a)(b)</i>	\$1,240.5	\$1,498.6	\$1,419.3	\$1,339.7	\$1,486.4
Operating Expenses <i>(a)(b)</i>	\$1,060.7	\$1,297.4	\$1,193.4	\$1,122.7	\$1,274.7
Net Income <i>(c)</i>	\$185.5	\$174.1	\$172.2	\$155.8	\$141.5
Less: Non-Controlling Interest in Subsidiaries	\$(0.1)	—	—	\$0.5	\$0.4
Net Income Attributable to ALLETE <i>(c)</i>	\$185.6	\$174.1	\$172.2	\$155.3	\$141.1
Common Stock Dividends	\$121.4	\$115.0	\$108.7	\$102.7	\$97.9
Earnings Retained in Business <i>(c)</i>	\$64.2	\$59.1	\$63.5	\$52.6	\$43.2
Shares Outstanding					
Year-End	51.7	51.5	51.1	49.6	49.1
Average					
Basic	51.6	51.3	50.8	49.3	48.3
Diluted	51.7	51.5	51.0	49.5	48.4
Diluted Earnings Per Share <i>(c)</i>	\$3.59	\$3.38	\$3.38	\$3.14	\$2.92
Total Assets	\$5,482.8	\$5,165.0	\$5,080.0	\$4,876.9	\$4,864.4
Long-Term Debt	\$1,400.9	\$1,428.5	\$1,439.2	\$1,370.4	\$1,556.7
Return on Common Equity <i>(c)</i>	8.4%	8.3%	8.6%	8.4%	8.0%
Common Equity Ratio	56%	59%	58%	55%	53%
Dividends Declared per Common Share	\$2.35	\$2.24	\$2.14	\$2.08	\$2.02
Dividend Payout Ratio <i>(c)</i>	65%	66%	63%	66%	69%
Book Value Per Share at Year-End	\$43.19	\$41.85	\$40.46	\$38.17	\$37.18
Capital Expenditures by Segment					
Regulated Operations	\$230.9	\$211.9	\$177.1	\$121.8	\$224.4
ALLETE Clean Energy	385.6	89.7	56.1	106.9	8.6
U.S. Water Services <i>(b)</i>	—	5.0	4.4	3.7	2.9
Corporate and Other	10.1	12.0	28.9	15.4	15.9
Total Capital Expenditures	\$626.6	\$318.6	\$266.5	\$247.8	\$251.8

(a) In 2015, operating revenue and operating expenses included \$197.7 million and \$162.9 million, respectively, for the sale of a wind energy facility by ALLETE Clean Energy to Montana-Dakota Utilities. In 2018, operating revenue and operating expenses included \$81.1 million and \$67.4 million, respectively, for the sale of a wind energy facility by ALLETE Clean Energy to Montana-Dakota Utilities.

(b) In 2019, ALLETE sold U.S. Water Services to a subsidiary of Kurita Water Industries Ltd.

(c) The year ended December 31, 2017 included the impact of the remeasurement of deferred income tax assets and liabilities resulting from the TCJA. (See Note 11. Income Tax Expense.)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our Consolidated Financial Statements and notes to those statements and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this Form 10-K 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-K under the headings: "Forward-Looking Statements" located on page 6 and "Risk Factors" located in Item 1A. The risks and uncertainties described in this 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.

Overview

Basis of Presentation. We present three reportable segments: Regulated Operations, ALLETE Clean Energy and U.S. Water Services. Our segments were determined in accordance with the guidance on segment reporting. We measure performance of our operations through budgeting and monitoring of contributions to consolidated net income by each business segment.

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 15 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 4. Regulatory Matters.)

ALLETE Clean Energy focuses on developing, acquiring, and operating clean and renewable energy projects. ALLETE Clean Energy currently owns and operates, in five states, approximately 660 MW of nameplate capacity wind energy generation that is contracted under PSAs of various durations. In addition, ALLETE Clean Energy currently has approximately 380 MW of wind energy facilities under construction that it will own and operate with long-term PSAs in place. 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 provided integrated water management for industry by combining chemical, equipment, engineering and service for customized solutions to reduce water and energy usage, and improve efficiency. On March 26, 2019, the Company sold U.S. Water Services to a subsidiary of Kurita Water Industries Ltd. pursuant to a stock purchase agreement for approximately \$270 million in cash, net of transaction costs and cash retained.

Corporate and Other is comprised of BNI Energy, our coal mining operations in North Dakota, our investment in Nobles 2, a 49 percent equity interest in the entity that will own and operate a 250 MW wind energy facility in southwestern Minnesota, 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 December 31, 2019, 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.

2019 Financial Overview

The following net income discussion summarizes a comparison of the year ended December 31, 2019, to the year ended December 31, 2018.

Net income attributable to ALLETE in 2019 was \$185.6 million, or \$3.59 per diluted share, compared to \$174.1 million, or \$3.38 per diluted share, in 2018. Net income in 2019 included the gain on sale of U.S. Water Services of \$13.2 million after-tax, or \$0.26 per share, and U.S. Water Services results of operations amounted to a net loss of \$1.1 million after-tax, or \$0.02 per share. Net income in 2018 included \$10.2 million after-tax, or \$0.20 per share, for the sale of a wind energy facility to Montana-Dakota Utilities, \$3.2 million after-tax, or \$0.06 per share, from U.S. Water Services and a \$2.0 million after-tax, or \$0.04 per share, benefit for the change in fair value of the contingent consideration liability. Earnings per share dilution in 2019 was \$0.01 due to additional shares of common stock outstanding as of December 31, 2019.

Regulated Operations net income attributable to ALLETE was \$154.4 million in 2019, compared to \$131.0 million in 2018. Net income at Minnesota Power was higher than 2018 primarily due to lower operating and maintenance and property tax expenses, increased cost recovery rider revenue, higher transmission margins and higher fuel adjustment clause recoveries. These increases were partially offset by lower kWh sales. Net income at SWL&P was higher than 2018 primarily due to higher rates resulting from the implementation of new rates on January 1, 2019. Our after-tax equity earnings in ATC were higher than 2018 primarily due to additional investments and period over period changes in ATC’s estimate of a refund liability related to the FERC decision on MISO return on equity complaints. (See Note 5. Equity Investments.)

2019 Financial Overview (Continued)

ALLETE Clean Energy net income attributable to ALLETE was \$12.4 million in 2019 compared to \$33.7 million in 2018. Net income in 2018 included \$10.2 million after-tax for the sale of a wind energy facility to Montana-Dakota Utilities and \$3.0 million of production tax credits that resulted from the retrospective qualification of additional wind turbine generators in 2016 and 2017. Net income in 2019 included lower revenue resulting from lower non-cash amortization related to the expiration of power sales agreements as well as lower wind resources and availability, and higher depreciation expense. These decreases were partially offset by \$5.3 million of additional production tax credits generated in 2019 compared to production tax credits generated in 2018 as ALLETE Clean Energy continues to execute its refurbishment strategy.

U.S. Water Services net loss attributable to ALLETE was \$1.1 million in 2019, compared to net income of \$3.2 million in 2018. ALLETE completed the sale of U.S. Water Services in the first quarter of 2019.

Corporate and Other net income attributable to ALLETE was \$19.9 million in 2019 compared to \$6.2 million in 2018. Net income in 2019 included the gain on sale of U.S. Water Services of \$13.2 million after-tax, of which \$2.1 million after-tax was recognized in the fourth quarter of 2019 for the favorable settlement of a U.S. Water Services patent infringement case. Net income in 2019 also included higher earnings on cash and investments. Net income in 2018 included a \$2.0 million after-tax benefit for the change in fair value of the contingent consideration liability.

2019 Compared to 2018

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

Regulated Operations

Year Ended December 31	2019	2018
Millions		
Operating Revenue – Utility	\$1,042.4	\$1,059.5
Fuel, Purchased Power and Gas – Utility	390.7	407.5
Transmission Services – Utility	69.8	69.9
Operating and Maintenance	201.9	220.1
Depreciation and Amortization	159.4	158.0
Taxes Other than Income Taxes	48.4	52.5
Operating Income	172.2	151.5
Interest Expense	(58.9)	(60.2)
Equity Earnings in ATC	21.7	17.5
Other Income	12.3	6.7
Income Before Income Taxes	147.3	115.5
Income Tax Expense (Benefit)	(7.1)	(15.5)
Net Income Attributable to ALLETE	\$154.4	\$131.0

Operating Revenue – Utility decreased \$17.1 million from 2018 primarily due to lower revenue from kWh sales and conservation improvement recoveries, partially offset by increased cost recovery rider revenue, higher fuel adjustment clause recoveries and higher FERC formula-based rates.

Revenue from kWh sales decreased \$43.3 million from 2018 reflecting lower sales to residential, commercial and municipal customers as well as lower sales to other power suppliers. Sales to residential and commercial customers decreased from 2018 primarily due to milder weather conditions in 2019. Sales to industrial customers in 2019 were similar to 2018 reflecting higher sales to Silver Bay Power as it ceased self-generation in the third quarter of 2019, partially offset by lower sales to Husky Energy due to an April 2018 fire at its refinery in Superior, Wisconsin. Sales to municipal customers decreased from 2018 as a result of additional customer self-generation in 2019 and the expiration of a contract with a municipal customer on June 30, 2019. Sales to other power suppliers decreased in 2019 primarily due to fewer market sales and sales under PSAs as a result of less generation available for sale, partially offset by the commencement of Minnesota Power's PSA with Oconto Electric Cooperative in January 2019. Sales to other power suppliers are sold at market-based prices into the MISO market on a daily basis or through PSAs of various durations.

2019 Compared to 2018 (Continued)
Regulated Operations (Continued)

Kilowatt-hours Sold	2019	2018	Quantity Variance	% Variance
Millions				
Regulated Utility				
Retail and Municipal				
Residential	1,130	1,140	(10)	(0.9)
Commercial	1,390	1,426	(36)	(2.5)
Industrial	7,277	7,261	16	0.2
Municipal	672	798	(126)	(15.8)
Total Retail and Municipal	10,469	10,625	(156)	(1.5)
Other Power Suppliers	3,185	3,953	(768)	(19.4)
Total Regulated Utility Kilowatt-hours Sold	13,654	14,578	(924)	(6.3)

Revenue from electric sales to taconite customers accounted for 25 percent of consolidated operating revenue in 2019 (21 percent in 2018). Revenue from electric sales to paper, pulp and secondary wood product customers accounted for 6 percent of consolidated operating revenue in 2019 (4 percent in 2018). Revenue from electric sales to pipelines and other industrial customers accounted for 7 percent of consolidated operating revenue in 2019 (6 percent in 2018).

Conservation improvement program recoveries decreased \$5.9 million from 2018 primarily due to a decrease in related expenditures.

Cost recovery rider revenue contributed an incremental \$14.0 million over current base rates compared to 2018 (see Note 4. Regulatory Matters) primarily due to higher expenditures related to the construction of the GNTL and lower transmission margins related to our portion of CapX2020 transmission lines. Transmission margins for CapX2020 transmission lines recognized below those assumed in Minnesota Power base rates result in increased cost recovery rider revenue to offset the impact of the lower margins.

Fuel adjustment clause revenue increased \$13.1 million due to period over period timing of recoveries for fuel and purchased power costs attributable to retail and municipal customers. Beginning in 2020, the method of accounting for all Minnesota electric utilities changed to a monthly budgeted, forward-looking FAC with annual prudence review and true-up to actual allowed costs. (See Note 4. Regulatory Matters.)

Revenue from wholesale customers under FERC formula-based rates increased \$3.3 million from 2018 primarily due to higher rates.

Transmission revenue was similar to 2018 reflecting a \$4.4 million out-of-period adjustment in 2018 for an estimated true-up of MISO rates that were billed in 2017 and credited to customers in 2019, mostly offset by lower MISO-related revenue in 2019.

Operating Expenses decreased \$37.8 million, or 4 percent, from 2018.

Fuel, Purchased Power and Gas – Utility expense decreased \$16.8 million, or 4 percent, from 2018 primarily due to lower kWh sales, purchased power prices and fuel costs, partially offset by higher costs of purchased power from Square Butte. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause.

Operating and Maintenance expense decreased \$18.2 million, or 8 percent, from 2018 primarily due to lower salary and benefit expenses, maintenance contract expenses and materials purchased for generation facilities as well as a decrease in severance expense of \$2.3 million in 2019.

Taxes Other than Income Taxes decreased \$4.1 million, or 8 percent, from 2018 primarily due to lower property tax expenses resulting from lower estimated taxable market values.

2019 Compared to 2018 (Continued)
Regulated Operations (Continued)

Interest Expense decreased \$1.3 million, or 2 percent, from 2018 primarily due to lower average long-term debt balances for our Regulated Operations and interest on Minnesota Power's reserve for interim rate refunds. We record interest expense for Regulated Operations primarily based on rate base and authorized capital structure, and allocate the balance to Corporate and Other.

Equity Earnings in ATC increased \$4.2 million, or 24 percent, from 2018 primarily due to additional investments and period over period changes in ATC's estimate of a refund liability related to the FERC decision on MISO return on equity complaints. (See Note 5. Equity Investments.)

Other Income increased \$5.6 million from 2018 reflecting higher AFUDC – Equity and lower pension and other postretirement benefit plan non-service costs. (See Note 12. Pension and Other Postretirement Benefit Plans.)

Income Tax Benefit was \$7.1 million in 2019 compared to income tax benefit of \$15.5 million in 2018. The income tax benefit in 2019 reflects higher pre-tax income, partially offset by higher production tax credits.

ALLETE Clean Energy

Year Ended December 31	2019	2018
Millions		
Operating Revenue		
Contracts with Customers – Non-utility (a)	\$48.0	\$136.3
Other – Non-utility (b)	11.6	23.6
Cost of Sales – Non-utility (a)	—	67.4
Operating and Maintenance	29.5	29.9
Depreciation and Amortization	26.8	24.4
Taxes Other than Income Taxes	2.1	2.1
Operating Income	1.2	36.1
Interest Expense	(2.8)	(3.6)
Other Income	2.0	0.2
Income Before Income Taxes	0.4	32.7
Income Tax Expense (Benefit)	(11.9)	(1.0)
Net Income	12.3	33.7
Less: Non-Controlling Interest in Subsidiaries (c)	(0.1)	—
Net Income Attributable to ALLETE (a)	\$12.4	\$33.7

(a) In 2018, operating revenue and operating expenses included \$81.1 million and \$67.4 million, respectively, for the sale of a wind energy facility by ALLETE Clean Energy to Montana-Dakota Utilities.

(b) Represents non-cash amortization of differences between contract prices and estimated market prices on assumed PSAs.

(c) See Note 1. Operations and Significant Accounting Policies.

Operating Revenue decreased \$100.3 million from 2018 primarily due to the sale of a wind energy facility to Montana-Dakota Utilities in 2018 and lower kWh sales resulting from lower wind resources and availability. In addition, revenue decreased \$12.0 million due to lower non-cash amortization related to the expiration of power sales agreements. In 2019, two PSAs expired and the related non-cash revenue was fully amortized. (See Note 1. Operations and Significant Accounting Policies – Revenue – ALLETE Clean Energy – Other and Item 7. Management's Discussion and Analysis – Outlook – ALLETE Clean Energy.)

2019 Compared to 2018 (Continued)
ALLETE Clean Energy (Continued)

Production and Operating Revenue	Year Ended December 31,			
	2019		2018	
	kWh	Revenue	kWh	Revenue
Millions				
Wind Energy Regions				
East	232.9	\$21.0	264.5	\$24.1
Midwest	805.8	32.4	791.6	46.6
West	87.8	6.2	99.6	8.1
Total Wind Energy Facilities	1,126.5	59.6	1,155.7	78.8
Sale of Wind Energy Facility	—	—	—	81.1
Total Production and Operating Revenue	1,126.5	\$59.6	1,155.7	\$159.9

Cost of Sales decreased \$67.4 million from 2018 due to the sale of a wind energy facility to Montana-Dakota Utilities in 2018.

Depreciation and Amortization expense increased \$2.4 million, or 10 percent, from 2018 primarily due to additional property, plant and equipment in service.

Other Income increased \$1.8 million from 2018 reflecting various individually immaterial items.

Income Tax Benefit increased \$10.9 million from 2018 primarily due to additional production tax credits generated in 2019 and lower pre-tax income. The income tax benefit reflected production tax credits generated of \$10.9 million in 2019 and \$5.6 million in 2018. The income tax benefit in 2018 also reflected \$3.0 million of production tax credits that resulted from the retrospective qualification of additional wind turbine generators in 2016 and 2017.

U.S. Water Services

Year Ended December 31	2019	2018
Millions		
Operating Revenue	\$33.4	\$172.1
Net Income (Loss) Attributable to ALLETE	\$(1.1)	\$3.2

Operating Revenue decreased \$138.7 million from 2018. ALLETE sold U.S. Water Services in the first quarter of 2019. (See Note 1. Operations and Significant Accounting Policies.)

Corporate and Other

Operating Revenue decreased \$2.0 million, or 2 percent, from 2018 primarily due to lower revenue from non-rate base generation and lower revenue at BNI Energy, which operates under cost-plus fixed fee contracts, as a result of lower expenses and fewer tons sold in 2019 compared to 2018. These increases were partially offset by higher land sales at ALLETE Properties.

Net Income Attributable to ALLETE was \$19.9 million in 2019 compared to \$6.2 million in 2018. Net income in 2019 included the gain on sale of U.S. Water Services of \$13.2 million after-tax, of which \$2.1 million after-tax was recognized in the fourth quarter of 2019 for the favorable settlement of a U.S. Water Services patent infringement case. Net income in 2019 also included higher earnings on cash and investments. Net income in 2018 included a \$2.0 million after-tax benefit for the change in fair value of the contingent consideration liability. Net income at BNI Energy was \$7.4 million in 2019 compared to \$6.8 million in 2018, reflecting higher earnings from investments in 2019. Net income at ALLETE Properties was \$0.3 million in 2019 compared to a net loss of \$0.5 million in 2018 reflecting higher land sales in 2019.

Income Taxes – Consolidated

For the year ended December 31, 2019, the effective tax rate was a benefit of 3.7 percent (benefit of 9.8 percent for the year ended December 31, 2018). The effective tax rate for 2019 was a lower benefit primarily due to higher pre-tax income resulting from the gain on sale of U.S. Water Services and a higher effective tax rate on the gain, partially offset by higher production tax credits. (See Note 11. Income Tax Expense.)

2018 Compared to 2017

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

Regulated Operations

Year Ended December 31	2018	2017
Millions		
Operating Revenue – Utility	\$1,059.5	\$1,063.8
Fuel, Purchased Power and Gas – Utility	407.5	396.9
Transmission Services – Utility	69.9	71.2
Operating and Maintenance	220.1	227.3
Depreciation and Amortization	158.0	132.6
Taxes Other than Income Taxes	52.5	51.1
Operating Income	151.5	184.7
Interest Expense	(60.2)	(57.0)
Equity Earnings in ATC	17.5	22.5
Other Income	6.7	5.4
Income Before Income Taxes	115.5	155.6
Income Tax Expense (Benefit)	(15.5)	27.2
Net Income Attributable to ALLETE	\$131.0	\$128.4

Operating Revenue – Utility decreased \$4.3 million from 2017 primarily due to lower transmission revenue, the impact of a regulatory outcome in 2017 related to the allocation of North Dakota investment tax credits, provision for tax reform refund related to income tax changes resulting from the TCJA, and lower financial incentives under the Minnesota conservation improvement program, partially offset by higher revenue from kWh sales, cost recovery rider revenue, fuel clause adjustment recoveries, and conservation improvement program recoveries.

Transmission revenue decreased \$15.0 million primarily due to lower MISO-related revenue and a \$4.4 million out-of-period adjustment for an estimated true-up of MISO rates that were billed in 2017 and credited to customers in 2019.

Revenue decreased \$14.0 million due to the impact of a regulatory outcome in 2017 related to the allocation of North Dakota investment tax credits. This decrease in revenue was offset by the income tax impacts of the regulatory outcome resulting in no impact to net income for Regulated Operations. (See Note 4. Regulatory Matters and *Income Tax Benefit*.)

Revenue decreased \$11.9 million from 2017 reflecting income tax changes resulting from the TCJA primarily related to a provision for tax reform refund for the benefit of excess deferred income taxes in 2018. We have recorded the benefit of these excess deferred income taxes for Minnesota Power and SWL&P as regulatory liabilities. (See Note 4. Regulatory Matters.)

Financial incentives under the Minnesota conservation improvement program were lower by \$2.5 million from 2017 as a result of MPUC-approved modifications to the mechanism for calculating the financial incentives.

Interim retail rates of \$29.5 million collected in 2018 were fully offset by the recognition of a corresponding reserve throughout the year. In the fourth quarter of 2017, Minnesota Power recognized interim retail rate refund reserves of \$31.6 million to fully offset interim retail rates collected throughout the year in 2017 due to the regulatory outcome of the MPUC's decision in Minnesota Power's 2016 general rate case at a hearing on January 18, 2018.

Revenue increased \$13.5 million from 2017 reflecting higher kWh sales to Residential and Commercial customers, and higher pricing on sales to Other Power Suppliers. Sales to Residential and Commercial customers increased in 2018 primarily due to more favorable weather conditions in 2018 compared to 2017. Sales to Industrial customers decreased 0.9 percent reflecting lower sales to UPM Blandin as a result of the closure of the smaller of its two paper machines in the fourth quarter of 2017 and Husky Energy due to an April 2018 fire at its refinery in Superior, Wisconsin, partially offset by increased taconite production. Revenue from Other Power Suppliers increased due to higher pricing on sales, partially offset by a 2.1 percent decrease in kWh sales from 2017. Sales to Other Power Suppliers are sold at market-based prices into the MISO market on a daily basis or through PSAs of various durations.

2018 Compared to 2017 (Continued)
Regulated Operations (Continued)

Kilowatt-hours Sold	2018	2017	Quantity Variance	% Variance
Millions				
Regulated Utility				
Retail and Municipal				
Residential	1,140	1,096	44	4.0
Commercial	1,426	1,420	6	0.4
Industrial	7,261	7,327	(66)	(0.9)
Municipal	798	799	(1)	(0.1)
Total Retail and Municipal	10,625	10,642	(17)	(0.2)
Other Power Suppliers	3,953	4,039	(86)	(2.1)
Total Regulated Utility Kilowatt-hours Sold	14,578	14,681	(103)	(0.7)

Revenue from electric sales to taconite 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 4 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 \$13.0 million primarily due to higher expenditures related to the construction of the GNTL and fewer production tax credits recognized by Minnesota Power. If production tax credits are recognized at a level below those assumed in Minnesota Power's base rates, an increase in cost recovery rider revenue is recognized to offset the impact of lower production tax credits on income tax expense.

Fuel adjustment clause recoveries increased \$7.9 million due to higher fuel and purchased power costs attributable to retail and municipal customers.

Conservation improvement program recoveries increased \$3.5 million from 2017 primarily due to an increase in related expenditures. (See *Operating Expenses - Operating and Maintenance*.)

Operating Expenses increased \$28.9 million, or 3 percent, from 2017.

Fuel, Purchased Power and Gas – Utility expense increased \$10.6 million, or 3 percent, from 2017 primarily due to higher purchased power prices and higher fuel costs, partially offset by a \$19.5 million expense in 2017 for the MPUC's decision disallowing recovery of Minnesota Power's regulatory asset for deferred fuel adjustment clause costs. At a hearing on January 18, 2018, the MPUC 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 charge in the fourth quarter of 2017. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause. (See *Operating Revenue – Utility*.)

Operating and Maintenance expense decreased \$7.2 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 \$3.5 million increase in conservation improvement program expenses and additional severance expense of \$1.9 million in 2018. (See *Operating Revenue – Utility*.)

Depreciation and Amortization expense increased \$25.4 million, or 19 percent, from 2017 primarily due to modifications of the depreciable lives for Boswell and additional property, plant and equipment in service. 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, 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 2017. Subsequently, as part of the reconsideration of its decision in Minnesota Power's 2016 general rate case, the MPUC reduced the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035, resulting in higher depreciation expense in 2018. The increase in depreciation expense in 2018 was offset mostly by the benefits of the lower federal income tax rate enacted as part of the TCJA. (See Note 4. Regulatory Matters and *Income Tax Benefit*.)

2018 Compared to 2017 (Continued)
Regulated Operations (Continued)

Interest Expense increased \$3.2 million, or 6 percent, from 2017 primarily due to higher average long-term debt balances, higher interest rates and \$0.5 million of interest on Minnesota Power's reserve for interim rate refunds. 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 \$5.0 million, or 22 percent, from 2017 primarily due to the federal income tax rate change enacted as part of the TCJA, partially offset by additional investments in ATC. (See Note 5. Equity Investments.)

Income Tax Benefit was \$15.5 million in 2018 compared to income tax expense of \$27.2 million in 2017. The income tax benefit in 2018 reflects the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA, the amortization of excess deferred income tax benefit resulting from the TCJA and lower pre-tax income. Income tax expense in 2017 included the impact of a regulatory outcome in 2017 related to the allocation of North Dakota investment tax credits.

In 2017, as a result of the favorable impact for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits, Regulated Operations increased operating revenue and reduced the corresponding regulatory liability by \$14.0 million resulting in an income tax expense of \$6.1 million. In addition, Regulated Operations recorded an income tax expense of \$7.9 million for North Dakota investment tax credits transferred to Corporate and Other, resulting in no impact to net income for Regulated Operations. Corporate and Other recorded an offsetting income tax benefit of \$7.9 million for the North Dakota investment tax credits transferred from Regulated Operations.

ALLETE Clean Energy

Year Ended December 31	2018	2017
Millions		
Operating Revenue		
Contracts with Customers – Non-utility (a)	\$136.3	\$56.9
Other – Non-utility (b)	23.6	23.6
Cost of Sales – Non-utility (a)	67.4	—
Operating and Maintenance	29.9	23.5
Depreciation and Amortization	24.4	23.4
Taxes Other than Income Taxes	2.1	2.2
Operating Income	36.1	31.4
Interest Expense	(3.6)	(4.2)
Other Income	0.2	0.1
Income Before Income Taxes	32.7	27.3
Income Tax Expense (Benefit) (c)	(1.0)	(14.2)
Net Income Attributable to ALLETE	\$33.7	\$41.5

(a) In 2018, operating revenue and operating expenses included \$81.1 million and \$67.4 million, respectively, for the sale of a wind energy facility by ALLETE Clean Energy to Montana-Dakota Utilities.

(b) Represents non-cash amortization of differences between contract prices and estimated market prices on assumed PSAs. (See Note 1. Operations and Significant Accounting Policies.)

(c) Income Tax Benefit in 2017 include a \$23.6 million after-tax benefit due to the remeasurement of deferred income tax assets and liabilities resulting from the TCJA.

Operating Revenue increased \$79.4 million from 2017 due to the sale of a wind energy facility to Montana-Dakota Utilities in 2018.

2018 Compared to 2017 (Continued)
ALLETE Clean Energy (Continued)

Production and Operating Revenue	Year Ended December 31,			
	2018		2017	
	kWh	Revenue	kWh	Revenue
Millions				
Wind Energy Regions				
East	264.5	\$24.1	267.4	\$24.4
Midwest	791.6	46.6	873.5	48.6
West	99.6	8.1	90.7	7.5
Total Wind Energy Facilities	1,155.7	78.8	1,231.6	80.5
Sale of Wind Energy Facility	—	81.1	—	—
Total Production and Operating Revenue	1,155.7	\$159.9	1,231.6	\$80.5

Cost of Sales increased \$67.4 million from 2017 due to the sale of a wind energy facility to Montana-Dakota Utilities in 2018.

Operating and Maintenance expense increased \$6.4 million, or 27 percent, from 2017 primarily due higher professional services and routine maintenance costs.

Income Tax Benefit decreased \$13.2 million from 2017. Income tax benefit in 2017 included a \$23.6 million after-tax benefit due to the remeasurement of deferred income tax assets and liabilities resulting from the TCJA. The income tax benefit in 2018 reflected production tax credits generated of \$5.6 million, \$3.0 million of production tax credits that resulted from the retrospective qualification of additional wind turbine generators in 2016 and 2017, and higher pre-tax income.

U.S. Water Services

Year Ended December 31	2018	2017
Millions		
Operating Revenue	\$172.1	\$151.8
Net Income Attributable to ALLETE (a)	\$3.2	\$10.7

(a) Results in 2017 include a \$9.2 million after-tax benefit due to the remeasurement of deferred income tax assets and liabilities resulting from the TCJA.

Operating Revenue increased \$20.3 million from 2017. Revenue from chemical sales and related services was \$138.6 million in 2018 compared to \$132.0 million in 2017. Revenue from capital projects was \$33.5 million for 2018 compared to \$19.8 million in 2017. Revenue in 2018 reflected a full year of sales from Tonka Water, which was acquired in September 2017.

Net Income Attributable to ALLETE decreased \$7.5 million from 2017. Net income in 2017 included a \$9.2 million after-tax benefit due to the remeasurement of deferred income tax assets and liabilities resulting from the TCJA. Net income in 2018 included increased revenue primarily due to higher capital project sales and higher sales of chemicals and related services, partially offset by higher operating expenses. Net income in 2018 included \$0.6 million of after-tax expense recognized as cost of sales related to purchase accounting for sales backlog.

Corporate and Other

Operating Revenue decreased \$16.1 million, or 13 percent, from 2017 primarily due to a decrease in 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 and fewer tons sold in 2018 compared to 2017.

Net Income Attributable to ALLETE was \$6.2 million in 2018 compared to a net loss of \$8.4 million in 2017. The net loss in 2017 included additional income tax expense of \$19.8 million after-tax for the remeasurement of deferred income tax assets and liabilities resulting from the TCJA and a \$7.9 million after-tax favorable impact for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits. Net income in 2018 included an increase for the change in fair value of the contingent consideration liability of \$1.3 million after-tax.

2018 Compared to 2017 (Continued) Corporate and Other (Continued)

Net income at BNI Energy was \$6.8 million in 2018 compared to \$4.5 million in 2017. Net income in 2017 included a \$3.1 million after-tax expense due to the remeasurement of deferred income tax assets and liabilities resulting from the TCJA. The net loss at ALLETE Properties was \$0.5 million in 2018 compared to a net loss of \$8.8 million in 2017. The net loss in 2017 included a \$7.8 million after-tax expense for the remeasurement of deferred income tax assets and liabilities resulting from the TCJA.

Income Taxes – Consolidated

For the year ended December 31, 2018, the effective tax rate was a benefit of 9.8 percent (expense of 7.9 percent for the year ended December 31, 2017). The decrease from 2017 was primarily due to the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA, the amortization of excess deferred income tax benefit resulting from the TCJA and lower pre-tax income in 2018, partially offset by the remeasurement of deferred income tax assets and liabilities resulting from the TCJA in 2017. The effective rate deviated from the combined statutory rate of approximately 28 percent primarily due to production tax credits. (See Note 11. Income Tax Expense.)

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make various estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. These estimates and assumptions may be revised, which may have a material effect on the Consolidated Financial Statements. Actual results may differ from these estimates and assumptions. These policies are discussed with the Audit Committee of our Board of Directors on a regular basis. We believe the following policies are most critical to our business and the understanding of our results of operations.

Regulatory Accounting. Our regulated utility operations are accounted for in accordance with the accounting standards for the effects of certain types of regulation. These standards require us to reflect the effect of regulatory decisions in our financial statements. 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. This assessment considers factors such as, but not limited to, changes in the regulatory environment and recent rate orders to other regulated entities under the same jurisdiction. If future recovery or refund of costs becomes no longer probable, the assets and liabilities would be recognized in current period net income or other comprehensive income. (See Note 4. Regulatory Matters.)

Pension and Postretirement Health and Life Actuarial Assumptions. We account for our pension and other postretirement benefit obligations in accordance with the accounting standards for defined benefit pension and other postretirement plans. These standards require the use of several important assumptions, including the expected long-term rate of return on plan assets, the discount rate and mortality assumptions, among others, in determining our obligations and the annual cost of our pension and other postretirement benefits. In establishing the expected long-term rate of return on plan assets, we determine the long-term historical performance of each asset class and adjust these for current economic conditions while utilizing the target allocation of our plan assets to forecast the expected long-term rate of return. Our pension asset allocation as of December 31, 2019, was approximately 34 percent equity securities, 62 percent fixed income, 1 percent private equity and 3 percent real estate. Our postretirement health and life asset allocation as of December 31, 2019, was approximately 66 percent equity securities, 33 percent fixed income and 1 percent private equity. Equity securities consist of a mix of market capitalization sizes with domestic and international securities. In 2019, we used expected long-term rates of return of 7.25 percent in our actuarial determination of our pension expense and 5.80 percent to 7.25 percent in our actuarial determination of our other postretirement expense. The actuarial determination uses an asset smoothing methodology for actual returns to reduce the volatility of varying investment performance over time. We review our expected long-term rate of return assumption annually and will adjust it to respond to changing market conditions. A one-quarter percent decrease in the expected long-term rate of return would increase the annual expense for pension and other postretirement benefits by approximately \$1.9 million, pre-tax.

Critical Accounting Policies (Continued)
Pension and Postretirement Health and Life Actuarial Assumptions (Continued)

The discount rate is computed using a bond matching study which utilizes a portfolio of high quality bonds that produce cash flows similar to the projected costs of our pension and other postretirement plans. In 2019, we used discount rates of 4.39 percent to 4.53 percent and 4.47 percent in our actuarial determination of our pension and other postretirement expense, respectively. We review our discount rates annually and will adjust them to respond to changing market conditions. A one-quarter percent decrease in the discount rate would increase the annual expense for pension and other postretirement benefits by approximately \$0.9 million, pre-tax.

The mortality assumptions used to calculate our pension and other postretirement benefit obligations as of December 31, 2019, considered a modified PRI-2012 mortality table and mortality projection scale. (See Note 12. Pension and Other Postretirement Benefit Plans.)

Impairment of Long-Lived Assets. We review our long-lived assets, which include the legacy real estate assets of ALLETE Properties, for indicators of impairment in accordance with the accounting standards for property, plant and equipment on a quarterly basis.

In accordance with the accounting standards for property, plant and equipment, if indicators of impairment exist, we test our long-lived assets for recoverability by comparing the carrying amount of the asset to the undiscounted future net cash flows expected to be generated by the asset. Cash flows are assessed at the lowest level of identifiable cash flows. The undiscounted future net cash flows are impacted by trends and factors known to us at the time they are calculated and our expectations related to: management's best estimate of future sales prices; holding period and timing of sales; method of disposition; and future expenditures necessary to maintain the operations.

Taxation. We are required to make judgments regarding the potential tax effects of various financial transactions and our ongoing operations to estimate our obligations to taxing authorities. These tax obligations include income taxes and taxes other than income taxes. Judgments related to income taxes require the recognition in our financial statements of the largest tax benefit of a tax position that is "more-likely-than-not" to be sustained on audit. Tax positions that do not meet the "more-likely-than-not" criteria are reflected as a tax liability in accordance with the accounting standards for uncertainty in income taxes. We record a valuation allowance against our deferred tax assets to the extent it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized.

We are subject to income taxes in various jurisdictions. We make assumptions and judgments each reporting period to estimate our income tax assets, liabilities, benefits and expenses. Judgments and assumptions are supported by historical data and reasonable projections. Our assumptions and judgments include the application of tax statutes and regulations, and projections of future federal taxable income, state taxable income, and state apportionment to determine our ability to utilize NOL and credit carryforwards prior to their expiration. Significant changes in assumptions regarding future federal and state taxable income or a change in tax rates could require new or increased valuation allowances which could result in a material impact on our results of operations.

Outlook

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 4 percent to 5 percent. ALLETE Clean Energy and our Corporate and Other businesses are projected to have average annual earnings growth of at least 15 percent over the long-term.

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 ALLETE Clean Energy and our Corporate and Other 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 2020. Over the next several years, the contribution of ALLETE Clean Energy and our Corporate and Other 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.

On March 26, 2019, the Company sold U.S. Water Services to a subsidiary of Kurita Water Industries Ltd. pursuant to a stock purchase agreement for approximately \$270 million in cash, net of transaction costs and cash retained.

Outlook (Continued)

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

Regulatory Matters. Entities within our Regulated Operations segment are under the jurisdiction of the MPUC, FERC, PSCW and NDPSC. See Note 4. Regulatory Matters for discussion of regulatory matters within these jurisdictions.

2016 Minnesota General Rate Case. The MPUC issued a March 2018 order in Minnesota Power's general rate case approving a return on common equity of 9.25 percent and a 53.81 percent equity ratio. Final rates went into effect in December 2018.

2020 Minnesota General Rate Case. On November 1, 2019, Minnesota Power filed a retail rate increase request with the MPUC seeking an average increase of approximately 10.6 percent for retail customers. The rate filing seeks a return on equity of 10.05 percent and a 53.81 percent equity ratio. On an annualized basis, the requested final rate increase would generate approximately \$66 million in additional revenue. In orders dated December 23, 2019, the MPUC accepted the filing as complete and authorized an annual interim rate increase of \$36.1 million beginning January 1, 2020.

2018 Wisconsin General Rate Case. In a December 2018 order, the PSCW approved a rate increase for SWL&P including a return on equity of 10.4 percent and a 55.0 percent equity ratio. Final rates went into effect January 1, 2019, which resulted in additional revenue of approximately \$3 million. SWL&P anticipates filing a general rate case in the second quarter of 2020.

Industrial Customers and Prospective Additional Load

Industrial Customers. Electric power is one of several key inputs in the taconite mining, paper, pulp and secondary wood products, pipeline and other industries. Approximately 54 percent of our regulated utility kWh sales in 2019 (50 percent in 2018 and 2017) were made to our industrial customers. We expect industrial sales of approximately 7.0 million to 7.5 million MWh in 2020 (7.3 million MWh in 2019 and in 2018). (See Item 1. Business – Regulated Operations – Electric Sales / Customers.)

Taconite. 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 10 percent of Minnesota taconite production has been exported outside of North America.

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 80 percent of capacity in 2019 (78 percent in 2018 and 74 percent in 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 2020 will increase by approximately one percent compared to 2019.

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. On October 17, 2019, USS Corporation announced that it had idled one of its pellet production lines at its Minnesota Ore Operations - Minntac plant in Mountain Iron, Minnesota, citing changing market conditions and the need to adjust its raw materials accordingly. USS Corporation also noted it plans to perform additional maintenance during this time in preparation for improved market conditions and does not anticipate any employment impacts.

Northshore Mining. Cliffs has announced that it has made an approximately \$90 million investment in its Minnesota ore operations to expand capacity for producing direct reduced-grade pellets at Northshore Mining. Cliffs is currently constructing a hot briquetted iron production plant in Toledo, Ohio, and has begun shipping direct reduced-grade pellets to the Toledo plant in anticipation of the planned start of operations in mid-2020. Minnesota Power has a 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 PSA through 2031. Silver Bay Power supplies approximately 90 MW of load to Northshore Mining, an affiliate of Silver Bay Power, which had previously been served predominately through self-generation by Silver Bay Power. Starting in 2016, Minnesota Power supplied Silver Bay Power with at least 50 MW of energy and Silver Bay Power had the option to purchase additional energy from Minnesota Power as it transitioned away from self-generation. In the third quarter of 2019, Silver Bay Power ceased self-generation and Minnesota Power began supplying the full energy requirements for Silver Bay Power.

Paper, Pulp and Secondary Wood Products. The North American paper and pulp industry faces declining demand due to the impact of electronic substitution for print and changing customer needs. As a result, certain paper and pulp customers have reduced their existing operations in recent years and have pursued or are pursuing product changes in response to the declining demand. We expect operating levels in 2020 at the four major paper and pulp mills we serve to be similar to 2019.

Pipeline and Other Industries.

Husky Energy. In April 2018, a fire at Husky Energy's 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. On September 30, 2019, Husky Energy announced that it had received the required permit approvals to begin reconstruction. The facility remains at minimal operations, and the refinery is not expected to resume normal operations until 2021.

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.

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) and the U.S. Army Corps of Engineers have both issued final Records of Decision, finding the final EIS adequate.

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. In June 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. In November 2018, the DNR issued PolyMet's permit to mine and certain water-related permits. In December 2018, the MPCA issued PolyMet's final state water and air quality permits. On March 21, 2019, the U.S. Army Corps of Engineers issued PolyMet's final federal permit. PolyMet was issued all necessary permits to construct and operate its new mining operation; however, on January 13, 2020, the Minnesota Court of Appeals reversed the DNR's decisions granting PolyMet's permit to mine and dam-safety permits, and remanded them back to the DNR to hold a contested-case hearing. On February 11, 2020, PolyMet announced it has filed a petition for further review with the Minnesota Supreme Court seeking to overturn the Minnesota Court of Appeals decision. 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.

Outlook (Continued)

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 2017, Minnesota Power submitted a resource package to the MPUC which included requesting approval of a PPA for the output of a 250 MW wind energy facility (see *Nobles 2 PPA*) as well as approval of a 250 MW natural gas capacity dedication agreement. The natural gas capacity dedication agreement was subject to MPUC approval of the construction of NTEC, a 525 MW to 625 MW combined-cycle natural gas-fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE. Minnesota Power would purchase approximately 50 percent of the facility's output starting in 2025. In an order dated January 24, 2019, the MPUC approved Minnesota Power's request for approval of the NTEC natural gas capacity dedication agreement. Separately, the MPUC required a baseload retirement evaluation in Minnesota Power's next IRP filing analyzing its existing fleet including potential early retirement scenarios of Boswell Units 3 and 4, as well as a securitization plan. On December 23, 2019, the Minnesota Court of Appeals reversed and remanded the MPUC's decision to approve certain affiliated-interest agreements. The MPUC was ordered to determine whether NTEC may have the potential for significant environmental effects and, if so, to prepare an environmental assessment worksheet before reassessing the agreements. On January 22, 2020, Minnesota Power filed a petition for further review with the Minnesota Supreme Court requesting that it review and overturn the Minnesota Court of Appeals decision. On January 8, 2019, an application for a certificate of public convenience and necessity for NTEC was submitted to the PSCW, which was approved by the PSCW at a hearing on January 16, 2020. Construction of NTEC is subject to obtaining additional permits from local, state and federal authorities. The total project cost is estimated to be approximately \$700 million, of which ALLETE's portion is expected to be approximately \$350 million. ALLETE's portion of NTEC project costs incurred through December 31, 2019, is approximately \$12 million.

Integrated Resource Plan. In a 2016 order, the MPUC approved Minnesota Power's 2015 IRP with modifications. The order accepted Minnesota Power's plans for the economic idling of Taconite Harbor Units 1 and 2 and the ceasing of coal-fired operations at Taconite Harbor in 2020, 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 requests for proposal for additional wind, solar and demand response resource additions. Minnesota Power retired Boswell Units 1 and 2 in the fourth quarter of 2018. Minnesota Power's next IRP filing is due October 1, 2020. (See Note 4. Regulatory Matters.)

Renewable Energy. Minnesota Power's 2015 IRP includes an update on its plans and progress in meeting the Minnesota renewable energy milestones through 2025. Minnesota Power continues to execute its renewable energy strategy through renewable projects that will ensure it meets the identified state mandate at the lowest cost for customers. Minnesota Power has exceeded the interim milestone requirements to date and expects between 25 percent and 30 percent of its applicable retail and municipal energy sales will be supplied by renewable energy sources in 2020. (See Item 1. Business – Regulated Operations – Minnesota Legislation and *EnergyForward*.)

Minnesota Power continues to execute its renewable energy strategy and expects approximately 50 percent of its energy will be supplied by renewable energy sources by 2021.

Solar Energy. Minnesota Power's solar energy supply consists of Camp Ripley, a 10 MW solar energy facility 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 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.

Outlook (Continued)
EnergyForward (Continued)

Minnesota Power uses the 465-mile, 250-kV DC transmission line that runs from Center, North Dakota, to Duluth, Minnesota, to transport 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. Minnesota Power is currently pursuing a modernization and capacity upgrade of its DC transmission system to continue providing reliable operations and additional system capabilities.

Minnesota Power has an approved cost recovery rider for certain renewable investments and expenditures. 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 provisionally approved by the MPUC in a November 2018 order.

Nobles 2 PPA. In the third quarter of 2018, Minnesota Power and Nobles 2 signed an amended long-term PPA that provides for Minnesota Power to purchase the energy and associated capacity from a 250 MW wind energy facility in southwestern 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 construction of the wind energy facility. (See Note 5. Equity Investments.)

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 PPA is subject to the construction of the GNTL and MMTP. (See Note 9. Commitments, Guarantees and Contingencies.) The capacity price is adjusted annually until 2020 by the change in a governmental inflationary index. The energy price is based on a formula that includes an annual fixed price component adjusted for the change in a governmental inflationary index and a natural gas index, as well as market prices.

The fourth PPA provides for Minnesota Power to purchase up to 133 MW of energy from Manitoba Hydro for 20 years beginning in 2020. The pricing under this PPA is based on forward market prices. The PPA is subject to the construction of the GNTL and MMTP. (See Note 9. Commitments, Guarantees and Contingencies.)

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. See Item 1. Business – Regulated Operations and Note 9. Commitments, Guarantees and Contingencies.

Outlook (Continued)

ALLETE Clean Energy.

ALLETE Clean Energy will pursue growth through acquisitions or project development. 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 2016, 2017 and 2018 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 2022. ALLETE Clean Energy will also invest approximately \$80 million through 2020 for production tax credit requalification of up to approximately 500 WTGs at its Storm Lake I, Storm Lake II, Lake Benton and Condon wind energy facilities. We anticipate annual production tax credits relating to these projects of approximately \$20 million in 2020, \$17 million to \$22 million annually in 2021 through 2027 and decreasing thereafter through 2030.

In 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 was completed and tax equity funding was received in the fourth quarter of 2019. In March 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 the first quarter of 2020.

On May 3, 2019, ALLETE Clean Energy acquired the Diamond Spring wind project in Oklahoma from Apex Clean Energy. ALLETE Clean Energy will build, own and operate the approximately 300 MW wind energy facility. The Diamond Spring wind project is fully contracted to sell wind power under long-term power sales agreements. Construction is expected to be completed in late 2020.

ALLETE Clean Energy manages risk by having a diverse portfolio of assets, which includes PSA expiration, technology and geographic diversity. The current operating portfolio of approximately 660 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	East	101	100%	2024
Chanarambie/Viking	Midwest	98		
PSA 1 (a)			12%	2023
PSA 2			88%	2023
Condon	West	50	100%	2022
Glen Ullin	West	106	100%	2039
Lake Benton	Midwest	104	100%	2028
Storm Lake I	Midwest	108	100%	2027
Storm Lake II	Midwest	77		
PSA 1			90%	2020
PSA 2			10%	2032
Other	Midwest	17	100%	2028

(a) The PSA expiration assumes the exercise of four one-year renewal options that ALLETE Clean Energy has the sole right to exercise.

Non-cash amortization to revenue recognized by ALLETE Clean Energy relates to 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. Non-cash amortization is expected to be approximately \$11.5 million annually in 2020 through 2023, \$5.5 million annually in 2024 through 2027, and decreasing thereafter through 2032.

Outlook (Continued)

Corporate and Other.

BNI Energy. In 2019, BNI Energy sold 4.1 million tons of coal (4.3 million tons in 2018) and anticipates 2020 sales will be higher than 2019 reflecting no major planned customer outages anticipated in 2020. BNI Energy operates under cost-plus fixed fee agreements extending through December 31, 2037.

Investment in Nobles 2. In December 2018, our wholly-owned subsidiary, ALLETE South Wind, entered into an agreement with Tenaska to purchase a 49 percent equity interest in Nobles 2, the entity that will own and operate a 250 MW wind energy facility in southwestern Minnesota pursuant to a 20-year PPA with Minnesota Power. The wind energy facility will be built in Nobles County, Minnesota and is expected to be completed in late 2020, with an estimated total project cost of approximately \$350 million to \$400 million. In the fourth quarter of 2019, we entered into a tax equity funding agreement to finance up to \$125 million of the project costs. We account for our investment in Nobles 2 under the equity method of accounting. (See Note 5. Equity Investments.)

ALLETE Properties. Our strategy incorporates the possibility of a bulk sale of the entire ALLETE Properties portfolio. Proceeds from a bulk sale would be strategically deployed to support growth initiatives at our Regulated Operations and ALLETE Clean Energy. ALLETE Properties also continues to pursue sales of individual parcels over time and will continue to maintain key entitlements and infrastructure. 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.

Income Taxes

ALLETE's aggregate federal and multi-state statutory tax rate is approximately 28 percent for 2019. 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 15 percent to 20 percent for 2020 primarily due to federal production tax credits as a result of wind energy generation. We also expect that our effective tax rate will be lower than the combined statutory rate over the next 11 years due to production tax credits attributable to our wind energy generation.

Liquidity and Capital Resources

Liquidity Position. ALLETE is well-positioned to meet its liquidity needs. As of December 31, 2019, we had cash and cash equivalents of \$69.3 million, \$345.0 million in available consolidated lines of credit and a debt-to-capital ratio of 41 percent.

On March 26, 2019, the Company sold U.S. Water Services to a subsidiary of Kurita Water Industries Ltd. pursuant to a stock purchase agreement for approximately \$270 million in cash, net of transaction costs and cash retained.

Capital Structure. ALLETE's capital structure for each of the last three years is as follows:

As of December 31	2019	%	2018	%	2017	%
Millions						
ALLETE Equity	\$2,231.9	56	\$2,155.8	59	\$2,068.2	58
Non-Controlling Interest	103.7	3	—	—	—	—
Long-Term Debt (Including Long-Term Debt Due Within One Year)	1,622.6	41	1,495.2	41	1,513.3	42
	\$3,958.2	100	\$3,651.0	100	\$3,581.5	100

Liquidity and Capital Resources (Continued)

Cash Flows. Selected information from ALLETE's Consolidated Statement of Cash Flows is as follows:

Year Ended December 31	2019	2018	2017
Millions			
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	\$79.0	\$110.1	\$38.3
Cash Flows from (used for)			
Operating Activities	249.5	433.1	402.9
Investing Activities	(345.3)	(349.0)	(229.0)
Financing Activities	109.3	(115.2)	(102.1)
Change in Cash, Cash Equivalents and Restricted Cash	13.5	(31.1)	71.8
Cash, Cash Equivalents and Restricted Cash at End of Period	\$92.5	\$79.0	\$110.1

Operating Activities. Cash from operating activities was lower in 2019 compared to 2018 primarily due to the refund of Minnesota Power's provisions for tax reform and interim rates to customers, fewer customer deposits received and lower recoveries from customers under cost recovery riders in 2019. These decreases were partially offset by the timing of collections of accounts receivable.

Cash from operating activities was higher in 2018 compared to 2017 primarily due to the sale of a wind energy facility to Montana-Dakota Utilities in 2018 and the timing of accounts payable, partially offset by lower recoveries from customers under cost recovery riders and higher contributions to the defined benefit pension plans in 2018.

Investing Activities. Cash used for investing activities in 2019 was similar to 2018 reflecting proceeds received from the sale of U.S. Water Services, mostly offset by higher additions to property, plant and equipment.

Cash used for investing activities was higher in 2018 compared to 2017 primarily due to higher capital expenditures and additional contributions to equity method investments in 2018. (See Note 5. Equity Investments.) These increases in cash used for investing activities were partially offset by the acquisition of Tonka Water in 2017.

Financing Activities. Cash from financing activities was higher in 2019 primarily due to higher proceeds from the issuance of long-term debt and proceeds from a tax equity financing (non-controlling interest in subsidiaries), partially offset by higher dividends on common stock.

Cash used for financing activities was higher in 2018 compared to 2017 primarily due to higher dividends on common stock as well as lower proceeds from the issuance of common stock and long-term debt in 2018, partially offset by lower repayments of long-term debt in 2018.

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 December 31, 2019, we had consolidated bank lines of credit aggregating \$407.0 million (\$407.0 million as of December 31, 2018), most of which expire in January 2024. We had \$62.0 million outstanding in standby letters of credit and no outstanding draws under our lines of credit as of December 31, 2019 (\$18.4 million in standby letters of credit and no outstanding draws as of December 31, 2018). In addition, as of December 31, 2019, we had 3.7 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. (See *Securities*.) The amount and timing of future sales of our securities will depend upon market conditions and our specific needs.

On January 10, 2019, ALLETE entered into an amended and restated \$400 million credit agreement (Credit Agreement). The Credit Agreement amended and restated ALLETE's \$400 million credit facility, which was scheduled to expire in October 2020. The Credit Agreement is unsecured, has a variable interest rate and will expire in January 2024. At ALLETE's request and subject to certain conditions, the Credit Agreement may be increased by up to \$150 million and ALLETE may make two requests to extend the maturity date, each for a one-year extension. Advances may be used by ALLETE for general corporate purposes, to provide liquidity in support of ALLETE's commercial paper program and to issue up to \$100 million in letters of credit.

Liquidity and Capital Resources (Continued)

Securities. We entered into a distribution agreement with Lampert Capital Markets, Inc., in 2008, as amended most recently in 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 as of December 31, 2019. For the year ended December 31, 2019, no shares of common stock were issued under this agreement (none in 2018; 1 million shares for net proceeds of \$65.7 million in 2017). The shares issued in 2017 were offered and sold pursuant to Registration Statement No. 333-212794. On July 31, 2019, we filed Registration Statement No. 333-232905, pursuant to which the remaining shares will continue to be offered for sale, from time to time.

During the year ended December 31, 2019, we issued 0.2 million shares of common stock through Invest Direct, the Employee Stock Purchase Plan, and the Retirement Savings and Stock Ownership Plan, resulting in net proceeds of \$1.9 million (0.4 million shares for net proceeds of \$20.3 million in 2018; 0.3 million shares for net proceeds of \$20.3 million in 2017). These shares of common stock were registered under Registration Statement Nos. 333-231030, 333-211075, 333-183051 and 333-162890. See Note 10. Common Stock and Earnings Per Share for additional detail regarding ALLETE's equity securities.

On March 1, 2019, ALLETE issued and sold the following First Mortgage Bonds (the Bonds):

Maturity Date	Principal Amount	Interest Rate
March 1, 2029	\$70 Million	4.08%
March 1, 2049	\$30 Million	4.47%

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 used 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.

On August 14, 2019, ALLETE entered into a \$110.0 million term loan agreement (Term Loan). The Term Loan is an unsecured, single draw loan that is due on August 25, 2020, and may be prepaid at any time subject to a make-whole provision. Interest on the Term Loan is payable monthly at a rate per annum equal to LIBOR plus 1.025 percent. Proceeds from the Term Loan were used for general corporate purposes.

On January 10, 2020, ALLETE entered into a \$200 million term loan agreement (Term Loan) and borrowed \$60 million upon execution. The unsecured Term Loan provides for the ability to borrow up to an additional \$140 million, is due on February 10, 2021, and may be repaid at any time. Interest is payable monthly at a rate per annum equal to LIBOR plus 0.55 percent. Proceeds from the Term Loan will be used for construction-related expenditures. See Note 8. Short-Term and Long-Term Debt for additional detail regarding ALLETE's debt securities.

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

Pension and Other Postretirement Benefit Plans. Management considers various factors when making funding decisions, such as regulatory requirements, actuarially determined minimum contribution requirements and contributions required to avoid benefit restrictions for the defined benefit pension plans. For the year ended December 31, 2019, we contributed \$10.4 million in cash to the defined benefit pension plans. On January 15, 2020, we contributed \$10.7 million in cash to the defined benefit pension plans. We do not expect to make any additional contributions to our defined benefit pension plans in 2020, and we do not expect to make any contributions to our other postretirement benefit plans in 2020. (See Note 10. Common Stock and Earnings Per Share and Note 12. Pension and Other Postretirement Benefit Plans.)

Off-Balance Sheet Arrangements. Off-balance sheet arrangements are discussed in Note 9. Commitments, Guarantees and Contingencies.

Liquidity and Capital Resources (Continued)

Contractual Obligations and Commercial Commitments. ALLETE has contractual obligations and other commitments that will need to be funded in the future, in addition to its capital expenditure programs. The following table summarizes contractual obligations and other commercial commitments as of December 31, 2019:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Millions					
Long-Term Debt	\$2,396.7	\$277.0	\$301.2	\$259.2	\$1,559.3
Pension (a)	490.7	51.2	100.8	99.4	239.3
Other Postretirement Benefit Plans (a)	81.3	8.6	16.6	16.0	40.1
Capital Purchase Obligations	292.7	292.7	—	—	—
Easement Obligations	197.1	5.0	10.7	11.0	170.4
Operating Lease Obligations	35.2	6.6	11.0	6.1	11.5
PPA Obligations (b)	2,051.8	113.0	268.0	284.1	1,386.7
Other Purchase Obligations	32.5	22.8	9.6	—	0.1
Total Contractual Obligations	\$5,578.0	\$776.9	\$717.9	\$675.8	\$3,407.4

(a) Represents the estimated future benefit payments for our defined benefit pension and other postretirement plans through 2029.

(b) Does not include the agreement with Manitoba Hydro expiring in 2022, as this contract is for surplus energy only; Oliver Wind I and Oliver Wind II, as Minnesota Power only pays for energy as it is delivered; and the agreement with Nobles 2 commencing in 2020 as it is subject to construction of a wind energy facility. (See Note 9. Commitments, Guarantees and Contingencies.)

Long-Term Debt. Our long-term debt obligations, including long-term debt due within one year, represent the principal amount of bonds, notes and loans which are recorded on the Consolidated Balance Sheet, plus interest. The table above assumes that the interest rates in effect at December 31, 2019, remain constant through the remaining term. (See Note 8. Short-Term and Long-Term Debt.)

Pension and Other Postretirement Benefit Plans. Our pension and other postretirement benefit plan obligations represent our current estimate of future benefit payments through 2029. Pension contributions will be dependent on several factors including realized asset performance, future discount rate and other actuarial assumptions, Internal Revenue Service and other regulatory requirements, and contributions required to avoid benefit restrictions for the pension plans. Funding for the other postretirement benefit plans is impacted by realized asset performance, future discount rate and other actuarial assumptions, and utility regulatory requirements. These amounts are estimates and will change based on actual market performance, changes in interest rates and any changes in governmental regulations. (See Note 12. Pension and Other Postretirement Benefit Plans.)

Easement Obligations. Easement obligations represent the minimum payments for our land easement agreements at our wind energy facilities.

PPA Obligations. PPA obligations represent our Square Butte, Manitoba Hydro, Minnkota Power and other PPAs. (See Note 9. Commitments, Guarantees and Contingencies.)

Other Purchase Obligations. Other purchase obligations represents our minimum purchase commitments under coal and rail contracts, and long-term service agreements for wind energy facilities. (See Note 9. 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 S&P 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:

Liquidity and Capital Resources (Continued)
Credit Ratings (Continued)

Credit Ratings	S&P	Moody's
Issuer Credit Rating	BBB+	Baa1
Commercial Paper	A-2	P-2
First Mortgage Bonds	(a)	A2

(a) Not rated by S&P.

On March 26, 2019, Moody's downgraded the long-term ratings of ALLETE, including its issuer rating to Baa1 from A3, and changed its credit rating outlook to stable from negative. Moody's noted the combined impact of the 2018 adverse general rate case outcome at Minnesota Power as well as its debt coverage ratios going forward as its rationale for the downgrade.

The Company believes it is well-positioned to meet its liquidity needs. As of December 31, 2019, we had cash and cash equivalents of \$69.3 million, \$345.0 million in available consolidated lines of credit and a debt-to-capital ratio of 41 percent. Our cash from operating activities for the year ended December 31, 2019 was \$249.5 million. In addition, as of December 31, 2019, we had 3.7 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.

Common Stock Dividends. ALLETE is committed to providing a competitive dividend to its shareholders while at the same time funding its growth. ALLETE's long-term objective is to maintain a dividend payout ratio similar to our peers and provide for future dividend increases. Our targeted payout range is between 60 percent and 65 percent. In 2019, we paid out 65 percent (66 percent in 2018; 63 percent in 2017) of our per share earnings in dividends. On January 30, 2020, our Board of Directors declared a dividend of \$0.6175 per share, which is payable on March 1, 2020, to shareholders of record at the close of business on February 14, 2020.

Capital Requirements

ALLETE's projected capital expenditures for the years 2020 through 2024 are presented in the following table. Actual capital expenditures may vary from the projections due to changes in forecasted plant maintenance, regulatory decisions or approvals, future environmental requirements, base load growth, capital market conditions or executions of new business strategies.

Capital Expenditures	2020	2021	2022	2023	2024	Total
Millions						
Regulated Operations						
Base and Other	\$145	\$245	\$300	\$235	\$130	\$1,055
Transmission Cost Recovery (a)	25	—	—	—	—	25
Nemadji Trail Energy Center (b)	10	65	70	165	25	335
Regulated Operations Capital Expenditures	180	310	370	400	155	1,415
ALLETE Clean Energy (c)	340	10	5	5	10	370
Corporate and Other	15	15	25	30	15	100
Total Capital Expenditures	\$535	\$335	\$400	\$435	\$180	\$1,885

(a) Estimated capital expenditures eligible for cost recovery outside of a general rate case, including our portion of transmission capital expenditures related to construction of the GNTL. (See Item 1. Business – Regulated Operations – Transmission and Distribution.)

(b) Our portion of estimated capital expenditures for construction of NTEC, a 525 MW to 625 MW combined-cycle natural gas-fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE.

(c) Capital expenditures in 2020 include construction of an 80 MW wind energy facility and a 300 MW wind energy facility that ALLETE Clean Energy will build, own and operate. These capital expenditures do not include the cost of safe harbor turbines purchased previously. (See Outlook – ALLETE Clean Energy.)

We are well positioned to meet our financing needs due to adequate operating cash flows, available additional working capital and access to capital markets. We will finance capital expenditures from a combination of internally generated funds, debt and equity issuance proceeds. We intend to maintain a capital structure with capital ratios near current levels. (See *Capital Structure*.)

Environmental and Other 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 9. Commitments, Guarantees and Contingencies.)

Market Risk

Securities Investments.

Available-for-Sale Securities. As of December 31, 2019, our available-for-sale securities portfolio consisted primarily of securities held in other postretirement plans to fund employee benefits.

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. The following table presents the long-term debt obligations and the corresponding weighted average interest rate as of December 31, 2019:

Interest Rate Sensitive Financial Instruments	Expected Maturity Date						Total	Fair Value
	2020	2021	2022	2023	2024	Thereafter		
Long-Term Debt								
Fixed Rate – Millions	\$89.8	\$98.6	\$88.8	\$88.8	\$73.5	\$1,031.8	\$1,471.3	\$1,640.5
Average Interest Rate – %	4.2	3.9	3.7	5.9	3.9	4.4	4.4	
Variable Rate – Millions	\$123.5	—	—	—	—	\$27.8	\$151.3	\$151.3
Average Interest Rate – %	2.7	—	—	—	—	1.7	2.5	

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 December 31, 2019, an increase of 100 basis points in interest rates would impact the amount of pre-tax interest expense by \$1.5 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 December 31, 2019.

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).

Market Risk (Continued)

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.

Recently Adopted Accounting Pronouncements.

New accounting pronouncements are discussed in Note 1. Operations and Significant Accounting Policies of this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk for information related to quantitative and qualitative disclosure about market risk.

Item 8. Financial Statements and Supplementary Data

See our Consolidated Financial Statements as of December 31, 2019 and 2018, and for the years ended December 31, 2019, 2018 and 2017, and supplementary data, which are indexed in Item 15(a).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2019, 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.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the Internal Control – Integrated Framework (framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

Item 9A. Controls and Procedures (Continued)

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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.

Item 9B. Other Information

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Unless otherwise stated, the information required by this Item is incorporated by reference herein from our Proxy Statement for the 2020 Annual Meeting of Shareholders (2020 Proxy Statement) under the following headings:

- **Directors.** The information regarding directors will be included in the "Election of Directors" section;
- **Audit Committee Financial Expert.** The information regarding the Audit Committee financial expert will be included in the "Corporate Governance" section and the "Audit Committee Report" section;
- **Audit Committee Members.** The identity of the Audit Committee members will be included in the "Corporate Governance" section and the "Audit Committee Report" section;
- **Executive Officers.** The information regarding executive officers is included in Part I of this Form 10-K; and
- **Section 16(a) Delinquency.** If applicable, information regarding Section 16(a) delinquencies will be included in a "Delinquent Section 16(a) Reports" section.

Our 2020 Proxy Statement will be filed with the SEC within 120 days after the end of our 2019 fiscal year.

Code of Ethics. We have adopted a written Code of Ethics that applies to all of our employees, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. A copy of our Code of Ethics is available on our website at www.allete.com and print copies are available without charge upon request to ALLETE, Inc., Attention: Secretary, 30 West Superior St., Duluth, Minnesota 55802. Any amendment to the Code of Ethics or any waiver of the Code of Ethics will be disclosed on our website at www.allete.com promptly following the date of such amendment or waiver.

Corporate Governance. The following documents are available on our website at www.allete.com and print copies are available upon request:

- Corporate Governance Guidelines;
- Audit Committee Charter;
- Executive Compensation Committee Charter; and
- Corporate Governance and Nominating Committee Charter.

Any amendment to these documents will be disclosed on our website at www.allete.com promptly following the date of such amendment.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference herein from the “Compensation Discussion and Analysis,” the “Compensation of Executive Officers,” the “Compensation Committee Report” and the “Director Compensation” sections in our 2020 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference herein from the “Ownership of ALLETE Common Stock – Securities Owned by Certain Beneficial Owners” and the “Ownership of ALLETE Common Stock – Securities Owned by Directors and Management” sections in our 2020 Proxy Statement.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth the shares of ALLETE common stock available for issuance under the Company's equity compensation plans as of December 31, 2019:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (c)
Equity Compensation Plans Approved by Security Holders	150,181	—	857,656
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	150,181	—	857,656

(a) Includes the following: (i) 25,196 securities representing the performance shares (including accrued dividends) granted under the executive long-term incentive compensation plan that vested but were not paid as of December 31, 2019; (ii) 60,656 securities representing the target number of performance share awards (including accrued dividends) granted under the executive long-term incentive compensation plan that were unvested as of December 31, 2019; and (iii) 64,329 director deferred stock units (including accrued dividends) under the non-employee director compensation deferral plan as of December 31, 2019. With respect to unvested performance share awards, the actual number of shares to be issued will vary from 0 percent to 200 percent of the target level depending upon the achievement of total shareholder return objectives established for such awards. For additional information about the performance shares, including payout calculations, see our 2020 Proxy Statement.

(b) Earned performance share awards are paid in shares of ALLETE common stock on a one-for-one basis. Accordingly, these awards do not have a weighted-average exercise price.

(c) Excludes the number of securities shown in the first column as to be issued upon exercise of outstanding options, warrants, and rights. The amount shown is comprised of: (i) 707,353 shares available for issuance under the executive long-term incentive compensation plan in the form of options, rights, restricted stock units, performance share awards, and other grants as approved by the Executive Compensation Committee of the Company's Board of Directors; (ii) 45,379 shares available for issuance under the Non-Employee Director Stock Plan as payment for a portion of the annual retainer payable to non-employee Directors; and (iii) 104,925 shares available for issuance under the ALLETE and Affiliated Companies Employee Stock Purchase Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference herein from the “Corporate Governance” section in our 2020 Proxy Statement.

We have adopted a Related Person Transaction Policy which is available on our website at www.allete.com. Print copies are available without charge, upon request. Any amendment to this policy will be disclosed on our website at www.allete.com promptly following the date of such amendment.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference herein from the “Audit Committee Report” section in our 2020 Proxy Statement.

Part IV**Item 15. Exhibits and Financial Statement Schedules**

(a)	Certain Documents Filed as Part of this Form 10-K.	
(1)	Financial Statements	Page
	ALLETE	
	Report of Independent Registered Public Accounting Firm	64
	Consolidated Balance Sheet as of December 31, 2019 and 2018	66
	For the Years Ended December 31, 2019, 2018 and 2017	
	Consolidated Statement of Income	67
	Consolidated Statement of Comprehensive Income	68
	Consolidated Statement of Cash Flows	69
	Consolidated Statement of Equity	70
	Notes to Consolidated Financial Statements	71
(2)	Financial Statement Schedules	
	Schedule II – ALLETE Valuation and Qualifying Accounts and Reserves	122
	All other schedules have been omitted either because the information is not required to be reported by ALLETE or because the information is included in the Consolidated Financial Statements or the notes.	
(3)	Exhibits including those incorporated by reference.	

Exhibit Number

*2	—	Stock Purchase Agreement by and among Global Water Services Holding Company, Inc., ALLETE Enterprises, Inc., and Kurita American Holdings Inc., dated February 8, 2019 (filed as Exhibit 2 to the March 31, 2019, Form 10-Q, File No. 1-3548).
*3(a)1	—	Articles of Incorporation, amended and restated as of May 8, 2001 (filed as Exhibit 3(b) to the March 31, 2001, Form 10-Q, File No. 1-3548).
*3(a)2	—	Amendment to Articles of Incorporation, dated as of September 20, 2004 (filed as Exhibit 3 to the September 21, 2004, Form 8-K, File No. 1-3548).
*3(a)3	—	Amendment to Articles of Incorporation, dated as of May 12, 2009 (filed as Exhibit 3 to the June 30, 2009, Form 10-Q, File No. 1-3548).
*3(a)4	—	Amendment to Articles of Incorporation, dated as of May 11, 2010 (filed as Exhibit 3(a) to the May 14, 2010, Form 8-K, File No. 1-3548).
*3(a)5	—	Amendment to Certificate of Assumed Name, filed with the Minnesota Secretary of State on May 8, 2001 (filed as Exhibit 3(a) to the March 31, 2001, Form 10-Q, File No. 1-3548).
*3(b)	—	Bylaws, as amended effective May 11, 2010 (filed as Exhibit 3(b) to the May 14, 2010, Form 8-K, File No. 1-3548).
*4(a)1	—	Mortgage and Deed of Trust, dated as of September 1, 1945, between Minnesota Power & Light Company (now ALLETE) and The Bank of New York Mellon (formerly Irving Trust Company) and Andres Serrano (successor to Richard H. West), Trustees (filed as Exhibit 7(c), File No. 2-5865).
*4(a)2	—	Supplemental Indentures to ALLETE's Mortgage and Deed of Trust:

Number	Dated as of	Reference File	Exhibit
First	March 1, 1949	2-7826	7(b)
Second	July 1, 1951	2-9036	7(c)
Third	March 1, 1957	2-13075	2(c)
Fourth	January 1, 1968	2-27794	2(c)
Fifth	April 1, 1971	2-39537	2(c)
Sixth	August 1, 1975	2-54116	2(c)
Seventh	September 1, 1976	2-57014	2(c)
Eighth	September 1, 1977	2-59690	2(c)
Ninth	April 1, 1978	2-60866	2(c)
Tenth	August 1, 1978	2-62852	2(d)2
Eleventh	December 1, 1982	2-56649	4(a)3
Twelfth	April 1, 1987	33-30224	4(a)3
Thirteenth	March 1, 1992	33-47438	4(b)
Fourteenth	June 1, 1992	33-55240	4(b)
Fifteenth	July 1, 1992	33-55240	4(c)
Sixteenth	July 1, 1992	33-55240	4(d)
Seventeenth	February 1, 1993	33-50143	4(b)
Eighteenth	July 1, 1993	33-50143	4(c)
Nineteenth	February 1, 1997	1-3548 (1996 Form 10-K)	4(a)3
Twentieth	November 1, 1997	1-3548 (1997 Form 10-K)	4(a)3
Twenty-first	October 1, 2000	333-54330	4(c)3
Twenty-second	July 1, 2003	1-3548 (June 30, 2003, Form 10-Q)	4
Twenty-third	August 1, 2004	1-3548 (Sept. 30, 2004, Form 10-Q)	4(a)
Twenty-fourth	March 1, 2005	1-3548 (March 31, 2005, Form 10-Q)	4
Twenty-fifth	December 1, 2005	1-3548 (March 31, 2006, Form 10-Q)	4
Twenty-sixth	October 1, 2006	1-3548 (2006 Form 10-K)	4(a)3
Twenty-seventh	February 1, 2008	1-3548 (2007 Form 10-K)	4(a)3
Twenty-eighth	May 1, 2008	1-3548 (June 30, 2008, Form 10-Q)	4
Twenty-ninth	November 1, 2008	1-3548 (2008 Form 10-K)	4(a)3
Thirtieth	January 1, 2009	1-3548 (2008 Form 10-K)	4(a)4
Thirty-first	February 1, 2010	1-3548 (March 31, 2010, Form 10-Q)	4
Thirty-second	August 1, 2010	1-3548 (Sept. 30, 2010, Form 10-Q)	4
Thirty-third	July 1, 2012	1-3548 (July 2, 2012, Form 8-K)	4
Thirty-fourth	April 1, 2013	1-3548 (April 2, 2013, Form 8-K)	4
Thirty-fifth	March 1, 2014	1-3548 (March 31, 2014, Form 10-Q)	4

Exhibit Number

	Thirty-sixth	June 1, 2014	1-3548 (June 30, 2014, Form 10-Q)	4
	Thirty-seventh	September 1, 2014	1-3548 (Sept. 30, 2014, Form 10-Q)	4
	Thirty-eighth	September 1, 2015	1-3548 (Sept. 30, 2015, Form 10-Q)	4(a)
	Thirty-ninth	April 1, 2018	1-3548 (March 31, 2018, Form 10-Q)	4
	Fortieth	March 1, 2019	1-3548 (March 31, 2019, Form 10-Q)	4(a)
*4(b)1	— Mortgage and Deed of Trust, dated as of March 1, 1943, between Superior Water, Light and Power Company and Chemical Bank & Trust Company and Howard B. Smith, as Trustees, both succeeded by U.S. Bank National Association, as Trustee (filed as Exhibit 7(c), File No. 2-8668).			
*4(b)2	— Supplemental Indentures to Superior Water, Light and Power Company’s Mortgage and Deed of Trust:			
	Number	Dated as of	Reference File	Exhibit
	First	March 1, 1951	2-59690	2(d)(1)
	Second	March 1, 1962	2-27794	2(d)1
	Third	July 1, 1976	2-57478	2(e)1
	Fourth	March 1, 1985	2-78641	4(b)
	Fifth	December 1, 1992	1-3548 (1992 Form 10-K)	4(b)1
	Sixth	March 24, 1994	1-3548 (1996 Form 10-K)	4(b)1
	Seventh	November 1, 1994	1-3548 (1996 Form 10-K)	4(b)2
	Eighth	January 1, 1997	1-3548 (1996 Form 10-K)	4(b)3
	Ninth	October 1, 2007	1-3548 (2007 Form 10-K)	4(c)3
	Tenth	October 1, 2007	1-3548 (2007 Form 10-K)	4(c)4
	Eleventh	December 1, 2008	1-3548 (2008 Form 10-K)	4(c)3
	Twelfth	December 2, 2013	1-3548 (2013 Form 10-K)	4(c)3
	Thirteenth	May 29, 2018	1-3548 (June 30, 2018, Form 10-Q)	4
*4(c)	— Note Purchase and Guarantee Agreement dated as of November 5, 2015, among Armenia Mountain Wind LLC, AMW I Holding, LLC and the purchasers named therein (filed as Exhibit 4 to the November 12, 2015, Form 8-K, File No. 1-3548).			
*4(d)	— Note Purchase Agreement, dated December 8, 2016, between ALLETE and Hartford Investment Management Company, Northwestern Mutual Investment Management Company, The Northwestern Mutual Life Insurance Company and Nationwide Life insurance Company (filed as Exhibit 4 to the December 12, 2016, Form 8-K, File No. 1-3548).			
*4(e)	— Term Loan Agreement dated as of August 25, 2017, among ALLETE, as Borrower, the Lenders party hereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and JPMorgan Chase Bank, N.A., as Sole Lead Arranger and Sole Book Runner (filed as Exhibit 4 to the September 30, 2017, Form 10-Q, File No. 1-3548).			
*4(f)	— Amended and Restated Term Loan Agreement dated as of August 14, 2019 among ALLETE, Inc., as Borrower, the Lenders Party Hereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and Bank of America, N.A., as Syndication Agent and JPMorgan Chase Bank, N.A., as Sole Lead Arranger and Sole Bookrunner (filed as Exhibit 4 to the September 30, 2019, Form 10-Q, File No. 1-3548)			
4(g)	— Term Loan Agreement dated as of January 10, 2020 among ALLETE, Inc., as the Borrower and Bank of America, N.A., as the Lender			
4(h)	— Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934			
*10(a)	— Power Purchase and Sale Agreement, dated as of May 29, 1998, between Minnesota Power, Inc. (now ALLETE) and Square Butte Electric Cooperative (filed as Exhibit 10 to the June 30, 1998, Form 10-Q, File No. 1-3548).			
*10(b)1	— Amended and Restated Credit Agreement dated as of January 10, 2019 among ALLETE, as Borrower, the lenders party hereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and J.P. Morgan Chase Bank, N.A., as Sole Lead Arranger and Sole Book Runner (filed as Exhibit 10(b)2 to the 2018 Form 10-K, File No. 1-3548).			
*10(b)2	— First Amendment to Credit Agreement dated May 15, 2019, among ALLETE, as Borrower, the Lenders party hereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 4 to the June 30, 2019, Form 10-Q, File No. 1-3548).			
*10(c)1	— Financing Agreement between Collier County Industrial Development Authority and ALLETE dated as of July 1, 2006 (filed as Exhibit 10(b)1 to the June 30, 2006, Form 10-Q, File No. 1-3548).			
*10(c)2	— Amended and Restated Letter of Credit Agreement, dated as of June 3, 2011, among ALLETE, the participating banks and Wells Fargo Bank, National Association, as Administrative Agent and Issuing Bank (filed as Exhibit 10(b) to the June 30, 2011, Form 10-Q, File No. 1-3548).			
*10(c)3	— First Amendment to Amended and Restated Letter of Credit Agreement, dated as of June 1, 2013, between ALLETE and Wells Fargo Bank, National Association, as Issuing Bank, Administrative Agent and Sole Participating Bank (filed as Exhibit 10(b) to the June 30, 2013, Form 10-Q, File No. 1-3548).			
*10(d)	— Agreement dated December 16, 2005, among ALLETE, Wisconsin Public Service Corporation and WPS Investments, LLC (filed as Exhibit 10(g) to the 2009 Form 10-K, File No. 1-3548).			

Exhibit Number

+*10(e)1	— ALLETE Executive Annual Incentive Plan, as amended and restated, effective January 1, 2011 (filed as Exhibit 10(h)1 to the 2010 Form 10-K, File No. 1-3548).
+*10(e)2	— ALLETE Executive Annual Incentive Plan Form of Award Effective 2016 (filed as Exhibit 10(e)6 to the 2015 Form 10-K, File No. 1-3548).
+*10(e)3	— ALLETE Executive Annual Incentive Plan Form of Award Effective 2017 (filed as Exhibit 10(e)6 to the 2016 Form 10-K, File No. 1-3548).
+*10(e)4	— ALLETE Executive Annual Incentive Plan Form of Award Superior Water, Light and Power Effective 2017 (filed as Exhibit 10(e)7 to the 2016 Form 10-K, File No. 1-3548).
+*10(e)5	— ALLETE Executive Annual Incentive Plan Form of Award Effective 2018 (filed as Exhibit 10(a)1 to the March 31, 2018, Form 10-Q, File No. 1-3548).
+*10(e)6	— ALLETE Executive Annual Incentive Plan Form of Award Superior Water, Light and Power Effective 2018 (filed as Exhibit 10(a)2 to the March 31, 2018, Form 10-Q, File No. 1-3548).
+*10(e)7	— ALLETE Executive Annual Incentive Plan Form of Award Effective 2019 (filed as Exhibit 10(e)7 to the 2018 Form 10-K, File No. 1-3548).
+10(e)8	— ALLETE Executive Annual Incentive Plan Form of Award Effective 2020.
+*10(f)1	— ALLETE and Affiliated Companies Supplemental Executive Retirement Plan (SERP I), as amended and restated, effective January 1, 2009 (filed as Exhibit 10(i)4 to the 2008 Form 10-K, File No. 1-3548).
+*10(f)2	— Amendment to the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan (SERP I), effective January 1, 2011 (filed as Exhibit 10(i)2 to the 2010 Form 10-K, File No. 1-3548).
+*10(f)3	— ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II (SERP II), as amended and restated, effective January 1, 2015 (filed as Exhibit 10(f)3 to the 2014 Form 10-K, File No. 1-3548).
+*10(f)4	— ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II (SERP II), as amended and restated, effective January 1, 2019 (filed as Exhibit 10(f)4 to the 2018 Form 10-K, File No. 1-3548).
+*10(g)	— ALLETE Deferred Compensation Trust Agreement, as amended and restated, effective December 15, 2012 (filed as Exhibit 10(j) to the 2012 Form 10-K, File No. 1-3548).
+*10(h)1	— ALLETE Executive Long-Term Incentive Compensation Plan as amended and restated effective January 1, 2006 (filed as Exhibit 10 to the May 16, 2005, Form 8-K, File No. 1-3548).
+*10(h)2	— Amendment to the ALLETE Executive Long-Term Incentive Compensation Plan, effective January 1, 2011 (filed as Exhibit 10(m)2 to the 2010 Form 10-K, File No. 1-3548).
+*10(h)3	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Performance Share Grant Effective 2014 (filed as Exhibit 10(j)14 to the 2013 Form 10-K, File No. 1-3548).
+*10(h)4	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Restricted Stock Unit Grant Effective 2014 (filed as Exhibit 10(j)15 to the 2013 Form 10-K, File No. 1-3548).
+*10(h)5	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Performance Share Grant Effective 2015 (filed as Exhibit 10(j)16 to the 2014 Form 10-K, File No. 1-3548).
+*10(h)6	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Restricted Stock Unit Grant Effective 2015 (filed as Exhibit 10(j)17 to the 2014 Form 10-K, File No. 1-3548).
+*10(i)1	— ALLETE Executive Long-Term Incentive Compensation Plan effective January 1, 2016 (filed November 6, 2015, as Exhibit 99 to Form S-8, File No. 333-207846).
+*10(i)2	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Restricted Stock Unit Grant Effective 2016 (filed as Exhibit 10(k)3 to the 2015 Form 10-K, File No. 1-3548).
+*10(i)3	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Performance Share Grant Effective 2016 (filed as Exhibit 10(k)2 to the 2015 Form 10-K, File No. 1-3548).
+*10(i)4	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Cash Award Effective 2017 (filed as Exhibit 10(i)4 to the 2016 Form 10-K, File No. 1-3548).
+*10(i)5	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Restricted Stock Unit Grant Effective 2017 (filed as Exhibit 10(i)5 to the 2016 Form 10-K, File No. 1-3548).
+*10(i)6	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Performance Share Grant Effective 2017 (filed as Exhibit 10(i)6 to the 2016 Form 10-K, File No. 1-3548).
+*10(i)7	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Cash Award Effective 2018 (filed as Exhibit 10(b) to the March 31, 2018, Form 10-Q, File No. 1-3548).
+*10(i)8	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Restricted Stock Unit Grant Effective 2018 (filed as Exhibit 10(i)7 to the 2017 Form 10-K, File No. 1-3548).
+*10(i)9	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Performance Share Grant Effective 2018 (filed as Exhibit 10(i)8 to the 2017 Form 10-K, File No. 1-3548).
+*10(i)10	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Restricted Stock Unit Grant Effective 2019 (filed as Exhibit 10(i)10 to the 2018 Form 10-K, File No. 1-3548).
+*10(i)11	— Form of ALLETE Executive Long-Term Incentive Compensation Plan Performance Share Grant Effective 2019 (filed as Exhibit 10(i)11 to the 2018 Form 10-K, File No. 1-3548).

Exhibit Number

+10(i)12	—	Form of ALLETE Executive Long-Term Incentive Compensation Plan Restricted Stock Unit Grant Effective 2020.
+10(i)13	—	Form of ALLETE Executive Long-Term Incentive Compensation Plan Performance Share Grant Effective 2020.
+*10(i)14	—	Description of Compensation Arrangement 2021 with respect to Alan R. Hodnik (incorporated by reference from the Form 8-K, dated January 30, 2020, File No. 1-3548).
+*10(j)1	—	Amended and Restated ALLETE Non-Employee Director Stock Plan, effective May 15, 2013 (filed as Exhibit 10(a) to the June 30, 2013, Form 10-Q, File No. 1-3548).
+*10(k)1	—	ALLETE Non-Employee Director Compensation Summary effective January 1, 2017 (filed as Exhibit 10(k)3 to the 2016 Form 10-K, File No. 1-3548).
+*10(k)2	—	ALLETE Non-Employee Director Compensation Summary effective January 1, 2019 (filed as Exhibit 10(k)3 to the 2018 Form 10-K, File No. 1-3548).
+*10(l)1	—	Minnesota Power (now ALLETE) Non-Employee Director Compensation Deferral Plan Amended and Restated, effective January 1, 1990 (filed as Exhibit 10(ac) to the 2002 Form 10-K, File No. 1-3548).
+*10(l)2	—	October 2003 Amendment to the Minnesota Power (now ALLETE) Non-Employee Director Compensation Deferral Plan (filed as Exhibit 10(aa)2 to the 2003 Form 10-K, File No. 1-3548).
+*10(l)3	—	January 2005 Amendment to the ALLETE Non-Employee Director Compensation Deferral Plan (filed as Exhibit 10(c) to the March 31, 2005, Form 10-Q, File No. 1-3548).
+*10(l)4	—	October 2006 Amendment to the ALLETE Non-Employee Director Compensation Deferral Plan (filed as Exhibit 10(d) to the September 30, 2006, Form 10-Q, File No. 1-3548).
+*10(l)5	—	July 2012 Amendment to the ALLETE Non-Employee Director Compensation Deferral Plan (filed as Exhibit 10(n)5 to the 2012 Form 10-K, File No. 1-3548).
+*10(m)1	—	ALLETE Non-Employee Director Compensation Deferral Plan II, effective May 1, 2009 (filed as Exhibit 10(a) to the June 30, 2009, Form 10-Q, File No. 1-3548).
+*10(m)2	—	ALLETE Non-Employee Director Compensation Deferral Plan II, as amended and restated, effective July 24, 2012 (filed as Exhibit 10(o)2 to the 2012 Form 10-K, File No. 1-3548).
+*10(n)	—	ALLETE Non-Employee Director Compensation Trust Agreement, as amended and restated, effective December 15, 2012 (filed as Exhibit 10(p)2 to the 2012 Form 10-K, File No. 1-3548).
+*10(o)1	—	ALLETE and Affiliated Companies Change in Control Severance Plan, as amended and restated, effective January 19, 2011 (filed as Exhibit 10(q) to the 2010 Form 10-K, File No. 1-3548).
+*10(o)2	—	ALLETE and Affiliated Companies Change in Control Severance Plan, as amended and restated, effective April 23, 2018 (filed as Exhibit 10(c) to the March 31, 2018, Form 10-Q, File No. 1-3548).
+*10(p)	—	ALLETE Executive Separation Agreement effective November 29, 2018 (filed as Exhibit 10(p) to the 2018 Form 10-K, File No. 1-3548).
21	—	Subsidiaries of the Registrant.
23	—	Consent of Independent Registered Public Accounting Firm.
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 Annual Report by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
95	—	Mine Safety.
99	—	ALLETE News Release dated February 13, 2020, announcing earnings for the year ended December 31, 2019. (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 Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	—	XBRL Schema
101.CAL	—	XBRL Calculation
101.DEF	—	XBRL Definition
101.LAB	—	XBRL Label
101.PRE	—	XBRL Presentation
104	—	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Exhibits (Continued)

ALLETE or its subsidiaries are obligors under various long-term debt instruments including, but not limited to, the following:

- \$38,995,000 original principal amount, of City of Cohasset, Minnesota, Variable Rate Demand Revenue Refunding Bonds (ALLETE, formerly Minnesota Power & Light Company, Project) Series 1997A (\$13,500,000 remaining principal balance);
- \$27,800,000 of Collier County Industrial Development Authority, Industrial Development Variable Rate Demand Refunding Revenue Bonds Series 2006;
- \$6,370,000 of City of Superior, Wisconsin, Collateralized Utility Revenue Refunding Bonds Series 2007A;
and
- \$6,130,000 of City of Superior, Wisconsin, Collateralized Utility Revenue Bonds Series 2007B.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, these and other long-term debt instruments are not filed as exhibits because the total amount of debt authorized under each omitted instrument does not exceed 10 percent of our total consolidated assets. We will furnish copies of these instruments to the SEC upon its request.

* *Incorporated herein by reference as indicated.*

+ *Management contract or compensatory plan or arrangement pursuant to Item 15(b).*

Item 16. Form 10-K Summary

None.

Signatures (Continued)

Signature	Title	Date
<hr/> <i>/s/ Kathryn W. Dindo</i> Kathryn W. Dindo	Director	February 13, 2020
<hr/> <i>/s/ George G. Goldfarb</i> George G. Goldfarb	Director	February 13, 2020
<hr/> <i>/s/ James J. Hoolihan</i> James J. Hoolihan	Director	February 13, 2020
<hr/> <i>/s/ Heidi E. Jimmerson</i> Heidi E. Jimmerson	Director	February 13, 2020
<hr/> <i>/s/ Madeleine W. Ludlow</i> Madeleine W. Ludlow	Director	February 13, 2020
<hr/> <i>/s/ Susan K. Nestegard</i> Susan K. Nestegard	Director	February 13, 2020
<hr/> <i>/s/ Douglas C. Neve</i> Douglas C. Neve	Director	February 13, 2020
<hr/> <i>/s/ Robert P. Powers</i> Robert P. Powers	Director	February 13, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of ALLETE, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of ALLETE, Inc. and its subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of income, of comprehensive income, of equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) for each of the three years in the period ended December 31, 2019 (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and

expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for the Effects of Regulatory Matters

As described in Notes 1 and 4 to the consolidated financial statements, the Company's regulated utility operations are subject to accounting standards for the effects of certain types of regulation. As of December 31, 2019, there was \$421 million of regulatory assets and \$562 million of regulatory liabilities recorded. 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. Management assesses quarterly whether regulatory assets and liabilities meet the criteria for probability of future recovery or deferral. As disclosed by management, these standards require the Company to reflect the effect of regulatory decisions in its financial statements. This assessment considers factors such as, but not limited to, changes in the regulatory environment and recent rate orders to other regulated entities under the same jurisdiction. If future recovery or refund of costs becomes no longer probable, the assets and liabilities would be recognized in current period net income or other comprehensive income.

The principal consideration for our determination that performing procedures relating to the Company's accounting for the effects of regulatory matters is a critical audit matter are there was significant judgment by management in determining the recoverability of costs. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence obtained related to the recoverability of costs.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's implementation of new regulatory orders, changes to existing regulatory orders, and assessing the recoverability of costs. These procedures also included, among others, evaluating (i) the reasonableness of management's assessment of impacts arising from correspondence with regulators and changes in laws and regulations, (ii) management's judgments related to the recoverability of regulatory assets and the establishment of regulatory liabilities, and (iii) the sufficiency of the disclosures in the consolidated financial statements. Testing the regulatory assets and liabilities involved considering the provisions and formulas outlined in rate orders, other regulatory correspondence, and application of relevant regulatory precedents.

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota
February 13, 2020

We have served as the Company's auditor since 1963.

CONSOLIDATED FINANCIAL STATEMENTS

ALLETE Consolidated Balance Sheet

As of December 31	2019	2018
Millions		
Assets		
Current Assets		
Cash and Cash Equivalents	\$69.3	\$69.1
Accounts Receivable (Less Allowance of \$0.9 and \$1.7)	96.4	144.4
Inventories – Net	72.8	86.7
Prepayments and Other	31.0	34.1
Total Current Assets	269.5	334.3
Property, Plant and Equipment – Net	4,377.0	3,904.4
Regulatory Assets	420.5	389.5
Equity Investments	197.6	161.1
Goodwill and Intangible Assets – Net	1.0	223.3
Other Non-Current Assets	217.2	152.4
Total Assets	\$5,482.8	\$5,165.0
Liabilities and Equity		
Liabilities		
Current Liabilities		
Accounts Payable	\$165.2	\$149.8
Accrued Taxes	50.8	51.4
Accrued Interest	18.1	17.9
Long-Term Debt Due Within One Year	212.9	57.5
Other	60.4	128.5
Total Current Liabilities	507.4	405.1
Long-Term Debt	1,400.9	1,428.5
Deferred Income Taxes	212.8	223.6
Regulatory Liabilities	560.3	512.1
Defined Benefit Pension and Other Postretirement Benefit Plans	172.8	177.3
Other Non-Current Liabilities	293.0	262.6
Total Liabilities	3,147.2	3,009.2
Commitments, Guarantees and Contingencies (Note 9)		
Equity		
ALLETE's Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 51.7 and 51.5 Shares Issued and Outstanding	1,436.7	1,428.5
Accumulated Other Comprehensive Loss	(23.6)	(27.3)
Retained Earnings	818.8	754.6
Total ALLETE Equity	2,231.9	2,155.8
Non-Controlling Interest in Subsidiaries	103.7	—
Total Equity	2,335.6	2,155.8
Total Liabilities and Equity	\$5,482.8	\$5,165.0

The accompanying notes are an integral part of these statements.

ALLETE Consolidated Statement of Income

Year Ended December 31	2019	2018	2017
Millions Except Per Share Amounts			
Operating Revenue			
Contracts with Customers – Utility	\$1,042.4	\$1,059.5	\$1,063.8
Contracts with Customers – Non-utility	186.5	415.5	331.9
Other – Non-utility	11.6	23.6	23.6
Total Operating Revenue	1,240.5	1,498.6	1,419.3
Operating Expenses			
Fuel, Purchased Power and Gas – Utility	390.7	407.5	396.9
Transmission Services – Utility	69.8	69.9	71.2
Cost of Sales – Non-utility	80.6	218.0	147.5
Operating and Maintenance	264.3	340.5	344.1
Depreciation and Amortization	202.0	205.6	177.5
Taxes Other than Income Taxes	53.3	57.9	56.9
Other	—	(2.0)	(0.7)
Total Operating Expenses	1,060.7	1,297.4	1,193.4
Operating Income	179.8	201.2	225.9
Other Income (Expense)			
Interest Expense	(64.9)	(67.9)	(67.8)
Equity Earnings	21.7	17.5	22.5
Gain on Sale of U.S. Water Services	23.6	—	—
Other	18.7	7.8	6.3
Total Other Expense	(0.9)	(42.6)	(39.0)
Income Before Non-Controlling Interest and Income Taxes	178.9	158.6	186.9
Income Tax Expense (Benefit)	(6.6)	(15.5)	14.7
Net Income	185.5	174.1	172.2
Less: Non-Controlling Interest in Subsidiaries	(0.1)	—	—
Net Income Attributable to ALLETE	\$185.6	\$174.1	\$172.2
Average Shares of Common Stock			
Basic	51.6	51.3	50.8
Diluted	51.7	51.5	51.0
Basic Earnings Per Share of Common Stock	\$3.59	\$3.39	\$3.39
Diluted Earnings Per Share of Common Stock	\$3.59	\$3.38	\$3.38

The accompanying notes are an integral part of these statements.

ALLETE Consolidated Statement of Comprehensive Income

Year Ended December 31	2019	2018	2017
Millions			
Net Income	\$185.5	\$174.1	\$172.2
Other Comprehensive Income (Loss)			
Unrealized Gain (Loss) on Securities			
Net of Income Tax Expense of \$0.1, \$- and \$0.7	0.2	(0.1)	0.9
Defined Benefit Pension and Other Postretirement Benefit Plans			
Net of Income Tax Expense of \$1.4, \$0.3 and \$2.2	3.5	1.0	4.7
Total Other Comprehensive Income	3.7	0.9	5.6
Total Comprehensive Income	189.2	175.0	177.8
Less: Non-Controlling Interest in Subsidiaries	(0.1)	—	—
Total Comprehensive Income Attributable to ALLETE	\$189.3	\$175.0	\$177.8

The accompanying notes are an integral part of these statements.

ALLETE Consolidated Statement of Cash Flows

Year Ended December 31	2019	2018	2017
Millions			
Operating Activities			
Net Income	\$185.5	\$174.1	\$172.2
AFUDC – Equity	(2.3)	(1.2)	(1.2)
Income from Equity Investments – Net of Dividends	(5.6)	(2.3)	(3.2)
Change in Fair Value of Contingent Consideration	—	(2.0)	(0.7)
Deferred Fuel Adjustment Clause Charge	—	—	19.5
Loss (Gain) on Sales of Investments and Property, Plant and Equipment	(1.7)	1.0	0.4
Depreciation Expense	200.6	200.1	171.9
Amortization of PSAs	(11.6)	(23.6)	(23.6)
Amortization of Other Intangible Assets and Other Assets	13.0	10.4	10.2
Deferred Income Tax Expense (Benefit)	(6.7)	(15.8)	14.4
Share-Based and ESOP Compensation Expense	6.3	6.8	6.6
Defined Benefit Pension and Other Postretirement Benefit Expense	1.2	8.6	10.1
Bad Debt Expense	(0.1)	1.1	0.8
Provision (Payments) for Interim Rate Refund	(40.0)	16.3	32.3
Provision (Payments) for Tax Reform Refund	(10.4)	10.7	—
Gain on Sale of U.S. Water Services	(23.6)	—	—
Changes in Operating Assets and Liabilities			
Accounts Receivable	22.6	(10.7)	(8.0)
Inventories	(4.1)	55.5	11.9
Prepayments and Other	0.3	(4.0)	(5.3)
Accounts Payable	(8.8)	13.6	(7.5)
Other Current Liabilities	(13.7)	6.7	1.8
Cash Contributions to Defined Benefit Pension Plans	(10.4)	(15.0)	(1.7)
Changes in Regulatory and Other Non-Current Assets	(25.1)	6.7	33.7
Changes in Regulatory and Other Non-Current Liabilities	(15.9)	(3.9)	(31.7)
Cash from Operating Activities	249.5	433.1	402.9
Investing Activities			
Proceeds from Sale of Available-for-sale Securities	12.1	10.2	10.1
Payments for Purchase of Available-for-sale Securities	(12.2)	(13.3)	(8.6)
Acquisitions of Subsidiaries – Net of Cash and Restricted Cash Acquired	—	—	(18.5)
Equity Investments	(37.9)	(39.2)	(7.8)
Return of Capital from Equity Investments	8.3	—	—
Additions to Property, Plant and Equipment	(597.1)	(312.4)	(208.5)
Proceeds from Sale of U.S. Water Services – Net of Transaction Costs and Cash Retained	268.6	—	—
Other Investing Activities	12.9	5.7	4.3
Cash for Investing Activities	(345.3)	(349.0)	(229.0)
Financing Activities			
Proceeds from Issuance of Common Stock	1.9	20.3	86.0
Proceeds from Issuance of Long-Term Debt	201.9	75.6	131.5
Repayments of Long-Term Debt	(72.2)	(95.5)	(189.6)
Proceeds from Non-Controlling Interest in Subsidiaries – Net of Issuance Costs	103.8	—	—
Acquisition-Related Contingent Consideration Payments	(3.8)	—	(19.7)
Dividends on Common Stock	(121.4)	(115.0)	(108.7)
Other Financing Activities	(0.9)	(0.6)	(1.6)
Cash (for) from Financing Activities	109.3	(115.2)	(102.1)
Change in Cash, Cash Equivalents and Restricted Cash	13.5	(31.1)	71.8
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	79.0	110.1	38.3
Cash, Cash Equivalents and Restricted Cash at End of Period	\$92.5	\$79.0	\$110.1

The accompanying notes are an integral part of these statements.

ALLETE Consolidated Statement of Equity

	2019	2018	2017
Millions Except Per Share Amounts			
Common Stock			
Balance, Beginning of Period	\$1,428.5	\$1,401.4	\$1,295.3
Common Stock Issued	8.2	27.1	106.1
Balance, End of Period	1,436.7	1,428.5	1,401.4
Accumulated Other Comprehensive Loss			
Balance, Beginning of Period	(27.3)	(22.6)	(28.2)
Adjustments to Opening Balance – Net of Income Taxes <i>(a)</i>	—	(5.6)	—
Other Comprehensive Income – Net of Income Taxes			
Unrealized Gain (Loss) on Debt Securities	0.2	(0.1)	0.9
Defined Benefit Pension and Other Postretirement Plans	3.5	1.0	4.7
Balance, End of Period	(23.6)	(27.3)	(22.6)
Retained Earnings			
Balance, Beginning of Period	754.6	689.4	625.9
Adjustments to Opening Balance – Net of Income Taxes <i>(a)</i>	—	6.1	—
Net Income	185.6	174.1	172.2
Common Stock Dividends	(121.4)	(115.0)	(108.7)
Balance, End of Period	818.8	754.6	689.4
Non-Controlling Interest in Subsidiaries			
Balance, Beginning of Period	—	—	—
Proceeds from Non-Controlling Interest in Subsidiaries – Net of Issuance Costs	103.8	—	—
Net Loss	(0.1)	—	—
Balance, End of Period	103.7	—	—
Total Equity	\$2,335.6	\$2,155.8	\$2,068.2
Dividends Per share of Common Stock	\$2.35	\$2.24	\$2.14

(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

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Preparation. References in this report to “we,” “us,” and “our” are to ALLETE and its subsidiaries, collectively. We prepare our financial statements in conformity with GAAP. These principles require management to make informed judgments, best estimates, and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates.

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

Principles of Consolidation. Our Consolidated Financial Statements include the accounts of ALLETE, all of our majority-owned subsidiary companies and variable interest entities of which ALLETE is the primary beneficiary. All material intercompany balances and transactions have been eliminated in consolidation.

Variable Interest Entities. The accounting guidance for “Variable Interest Entities” (VIE) is a consolidation model that considers if a company has a variable interest in a VIE. A VIE is a legal entity that possesses any of the following conditions: the entity’s equity at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, equity owners are unable to direct the activities that most significantly impact the legal entity’s economic performance (or they possess disproportionate voting rights in relation to the economic interest in the legal entity), or the equity owners lack the obligation to absorb the legal entity’s expected losses or the right to receive the legal entity’s expected residual returns. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for “Variable Interest Entities.” In determining whether ALLETE is the primary beneficiary of a VIE, management considers whether ALLETE has the power to direct the most significant activities of the VIE and is obligated to absorb losses or receive the expected residual returns that are significant to the VIE. The accounting guidance for VIEs applies to certain ALLETE Clean Energy wind energy facilities. (See *Tax Equity Financing*.)

Business Segments. We present three reportable segments: Regulated Operations, ALLETE Clean Energy and U.S. Water Services. Our segments were determined in accordance with the guidance on segment reporting. We measure performance of our operations through budgeting and monitoring of contributions to consolidated net income by each business segment.

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 15 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.

ALLETE Clean Energy focuses on developing, acquiring, and operating clean and renewable energy projects. ALLETE Clean Energy currently owns and operates, in five states, approximately 660 MW of nameplate capacity wind energy generation that is contracted under PSAs of various durations. In addition, ALLETE Clean Energy currently has approximately 380 MW of wind energy facilities under construction that it will own and operate with long-term PSAs in place. 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 provided integrated water management for industry by combining chemical, equipment, engineering and service for customized solutions to reduce water and energy usage, and improve efficiency. On March 26, 2019, the Company sold U.S. Water Services to a subsidiary of Kurita Water Industries Ltd. pursuant to a stock purchase agreement for approximately \$270 million in cash, net of transaction costs and cash retained.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Corporate and Other is comprised of BNI Energy, our investment in Nobles 2, ALLETE Properties, 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.

BNI Energy mines and sells lignite coal to two North Dakota mine-mouth generating units, one of which is Square Butte. In 2019, Square Butte supplied 50 percent (227.5 MW) of its output to Minnesota Power under long-term contracts. (See Note 9. Commitments, Guarantees and Contingencies.)

Our investment in Nobles 2 represents a 49 percent equity interest in Nobles 2, the entity that will own and operate a 250 MW wind energy facility in southwestern Minnesota pursuant to a 20-year PPA with Minnesota Power.

ALLETE Properties represents our legacy Florida real estate investment. Our strategy incorporates the possibility of a bulk sale of the entire ALLETE Properties portfolio. Proceeds from a bulk sale would be strategically deployed to support growth at our Regulated Operations and ALLETE Clean Energy. ALLETE Properties continues to pursue sales of individual parcels over time and will continue to maintain key entitlements and infrastructure.

Cash, Cash Equivalents and Restricted Cash. We consider all investments purchased with original maturities of three months or less to be cash equivalents. As of December 31, 2019, restricted cash amounts included in Prepayments and Other on the Consolidated Balance Sheet include collateral deposits required under an ALLETE Clean Energy loan agreement. In prior periods presented, the amounts also include U.S. Water Services' 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, PSAs and a tax equity financing agreement. In prior periods presented, the amounts also include 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 amounts presented in the Consolidated Statement of Cash Flows.

Cash, Cash Equivalents and Restricted Cash	December 31, 2019	December 31, 2018	December 31, 2017
Millions			
Cash and Cash Equivalents	\$69.3	\$69.1	\$98.9
Restricted Cash included in Prepayments and Other	2.8	1.3	2.6
Restricted Cash included in Other Non-Current Assets	20.4	8.6	8.6
Cash, Cash Equivalents and Restricted Cash on the Consolidated Statement of Cash Flows	\$92.5	\$79.0	\$110.1

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Supplemental Statement of Cash Flow Information.

Consolidated Statement of Cash Flows			
Year Ended December 31	2019	2018	2017
Millions			
Cash Paid During the Period for Interest – Net of Amounts Capitalized	\$63.5	\$66.0	\$64.5
Recognition of Right-of-use Assets and Lease Liabilities (a)	\$28.7	—	—
Remeasurement of Deferred Income Taxes Resulting from the TCJA			
Increase in Regulatory Assets	—	—	\$80.9
Decrease in Investment in ATC	—	—	\$(27.9)
Decrease in Deferred Income Taxes	—	—	\$(353.6)
Increase in Regulatory Liabilities	—	—	\$393.6
Noncash Investing and Financing Activities			
Increase (Decrease) in Accounts Payable for Capital Additions to Property, Plant and Equipment	\$33.9	\$(0.1)	\$67.2
Reclassification of Property, Plant and Equipment to Inventory (b)	—	\$46.3	—
Capitalized Asset Retirement Costs	\$20.7	\$14.2	\$(15.6)
AFUDC–Equity	\$2.3	\$1.2	\$1.2
ALLETE Common Stock Contributed to Pension Plans	—	—	\$13.5

(a) See Leases.

(b) In February 2018, Montana-Dakota Utilities exercised its option to purchase the Thunder Spirit II wind energy facility upon completion, resulting in a reclassification from Property, Plant and Equipment – Net to Inventories – Net for project costs incurred in the prior year. On the Consolidated Statement of Cash Flows, the sale of the wind energy facility in the fourth quarter of 2018 resulted in Operating Activities – Inventories increasing by \$46.3 million in 2018 due to the project costs incurred in the prior year.

Accounts Receivable. Accounts receivable are reported on the Consolidated Balance Sheet net of an allowance for doubtful accounts. The allowance is based on our evaluation of the receivable portfolio under current conditions, overall portfolio quality, review of specific situations and such other factors that, in our judgment, deserve recognition in estimating losses.

Accounts Receivable

As of December 31	2019	2018
Millions		
Trade Accounts Receivable (a)		
Billed	\$77.2	\$121.7
Unbilled	20.1	24.4
Less: Allowance for Doubtful Accounts	0.9	1.7
Total Accounts Receivable	\$96.4	\$144.4

(a) On March 26, 2019, ALLETE sold U.S. Water Services which resulted in the removal of the related accounts receivable from the Consolidated Balance Sheet.

Concentration of Credit Risk. We are subject to concentration of credit risk primarily as a result of accounts receivable. Minnesota Power sells electricity to eight Large Power Customers. Receivables from these customers totaled \$7.8 million as of December 31, 2019 (\$11.7 million as of December 31, 2018). Minnesota Power does not obtain collateral to support utility receivables, but monitors the credit standing of major customers. In addition, Minnesota Power, as permitted by the MPUC, requires its taconite-producing Large Power Customers to pay weekly for electric usage based on monthly energy usage estimates, which allows us to closely manage collection of amounts due. One of these customers accounted for 12 percent of consolidated operating revenue in 2019 (10 percent in 2018 and 2017).

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Finance Receivables. Long-term finance receivables relating to our real estate operations are collateralized by property sold, accrue interest at market-based rates and are net of an allowance for doubtful accounts. We assess delinquent finance receivables by comparing the balance of such receivables to the estimated fair value of the collateralized property. If the fair value of the property is less than the finance receivable, we record a reserve for the difference. We estimate fair value based on recent property tax assessed values or current appraisals.

Available-for-Sale Securities. Available-for-sale debt and equity securities are recorded at fair value. Unrealized gains and losses on available-for-sale debt securities are included in accumulated other comprehensive income (loss), net of tax. Unrealized gains and losses on available-for-sale equity securities are recognized in earnings. We use the specific identification method as the basis for determining the cost of securities sold.

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 ALLETE Clean Energy segment and Corporate and Other businesses are carried at an average cost, first-in, first-out or specific identification basis.

Inventories – Net

As of December 31	2019	2018
Millions		
Fuel (a)	\$25.9	\$26.0
Materials and Supplies	46.9	44.2
Raw Materials (b)	—	2.8
Work in Progress (b)	—	6.1
Finished Goods (b)	—	8.4
Reserve for Obsolescence (b)	—	(0.8)
Total Inventories – Net	\$72.8	\$86.7

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

(b) On March 26, 2019, ALLETE sold U.S. Water Services which resulted in the removal of the related inventory items from the Consolidated Balance Sheet.

Property, Plant and Equipment. Property, plant and equipment are recorded at original cost and are reported on the Consolidated Balance Sheet net of accumulated depreciation. Expenditures for additions, significant replacements, improvements and major plant overhauls are capitalized; maintenance and repair costs are expensed as incurred. Gains or losses on property, plant and equipment for Corporate and Other operations are recognized when they are retired or otherwise disposed. When property, plant and equipment in our Regulated Operations and ALLETE Clean Energy segments are retired or otherwise disposed, no gain or loss is recognized in accordance with the accounting standards for component depreciation except for certain circumstances where the retirement is unforeseen or unexpected. Our Regulated Operations capitalize AFUDC, which includes both an interest and equity component. AFUDC represents the cost of both debt and equity funds used to finance utility plant additions during construction periods. AFUDC amounts capitalized are included in rate base and are recovered from customers as the related property is depreciated. Upon MPUC approval of cost recovery, the recognition of AFUDC ceases. (See Note 2. Property, Plant and Equipment.)

We believe that long-standing ratemaking practices approved by applicable state and federal regulatory commissions allow for the recovery of the remaining book value of retired plant assets. In 2015, Minnesota Power retired Taconite Harbor Unit 3 and converted Laskin to operate on natural gas. Minnesota Power's 2015 IRP contained steps in Minnesota Power's *EnergyForward* plan including the economic idling of Taconite Harbor Units 1 and 2 in 2016, and the ceasing of coal-fired operations at Taconite Harbor in 2020. (See Note 4. Regulatory Matters.) The MPUC order for the 2015 IRP also directed Minnesota Power to retire Boswell Units 1 and 2 no later than 2022. Minnesota Power retired Boswell Units 1 and 2 in the fourth quarter of 2018. As part of the 2016 general retail rate case, the MPUC allowed recovery of the remaining book value of Boswell Units 1 and 2 through 2022. We do not expect to record any impairment charge as a result of the retirement of Taconite Harbor Unit 3, the ceasing of coal-fired operations at Taconite Harbor Units 1 and 2 or the conversion of Laskin to operate on natural gas. In addition, we expect to be able to continue depreciating these assets for at least their established remaining useful lives; however, we are unable to predict the impact of regulatory outcomes resulting in changes to their established remaining useful lives.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

ALLETE Clean Energy Asset Acquisition. On May 3, 2019, ALLETE Clean Energy acquired the Diamond Spring wind project in Oklahoma from Apex Clean Energy. ALLETE Clean Energy will build, own and operate the approximately 300 MW wind energy facility. The Diamond Spring wind project is fully contracted to sell wind power under long-term power sales agreements. Construction is expected to be completed in late 2020.

Impairment of Long-Lived Assets. We review our long-lived assets for indicators of impairment in accordance with the accounting standards for property, plant and equipment on a quarterly basis. This includes our property, plant and equipment (see *Property, Plant and Equipment*) and land inventory. Land inventory is accounted for as held for use and is recorded at cost, unless the carrying value is determined not to be recoverable in accordance with the accounting standards for property, plant and equipment, in which case the land inventory is written down to estimated fair value.

In accordance with the accounting standards for property, plant and equipment, if indicators of impairment exist, we test our long-lived assets for recoverability by comparing the carrying amount of the asset to the undiscounted future net cash flows expected to be generated by the asset. Cash flows are assessed at the lowest level of identifiable cash flows. The undiscounted future net cash flows are impacted by trends and factors known to us at the time they are calculated and our expectations related to: management's best estimate of future use; sales prices; holding period and timing of sales; method of disposition; and future expenditures necessary to maintain the operations.

In 2019, 2018, and 2017, there were no indicators of impairment for our property, plant, and equipment or land inventory. As a result, no impairment was recorded in 2019, 2018 or 2017.

Derivatives. ALLETE is exposed to certain risks relating to its business operations that can be managed through the use of derivative instruments. ALLETE may enter into derivative instruments to manage those risks including interest rate risk related to certain variable-rate borrowings.

Accounting for Stock-Based Compensation. We apply the fair value recognition guidance for share-based payments. Under this guidance, we recognize stock-based compensation expense for all share-based payments granted, net of an estimated forfeiture rate. (See Note 13. Employee Stock and Incentive Plans.)

Other Non-Current Assets

As of December 31	2019	2018
Millions		
Contract Assets (a)	\$28.0	\$30.7
Finance Receivable (b)	—	10.4
Operating Lease Right-of-use Assets (c)	28.6	—
ALLETE Properties	21.9	24.4
Restricted Cash	20.4	8.6
Other Postretirement Benefit Plans	37.5	0.4
Other	80.8	77.9
Total Other Non-Current Assets	\$217.2	\$152.4

(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.*

(b) *Finance Receivable related to the 2016 sale of Ormond Crossings and Lake Swamp, which was collected in the second quarter of 2019.*

(c) *See Leases.*

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**Other Current Liabilities**

As of December 31	2019	2018
Millions		
Provision for Interim Rate Refund (a)	—	\$40.0
PSAs	\$12.3	12.6
Contract Liabilities (b)	—	7.6
Provision for Tax Reform Refund (c)	0.2	10.7
Contingent Consideration (d)	—	3.8
Operating Lease Liabilities (e)	6.9	—
Other	41.0	53.8
Total Other Current Liabilities	\$60.4	\$128.5

(a) Provision for Interim Rate Refund was refunded to Minnesota Power's retail customers in the second quarter of 2019.

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

(c) Provision for Tax Reform Refund related to the income tax benefits of the TCJA in 2018 was refunded to Minnesota Power customers in the first quarter of 2019 and is being returned to SWL&P customers through 2020.

(d) Contingent Consideration related to the earnings-based payment resulting from the U.S. Water Services acquisition was paid in the first quarter of 2019.

(e) See Leases.

Other Non-Current Liabilities

As of December 31	2019	2018
Millions		
Asset Retirement Obligation	\$160.3	\$138.6
PSAs	64.6	76.9
Operating Lease Liabilities (a)	21.8	—
Other	46.3	47.1
Total Other Non-Current Liabilities	\$293.0	\$262.6

(a) See Leases.

Leases.

We determine if a contract is, or contains, a lease at inception and recognize a right-of-use asset and lease liability for all leases with a term greater than 12 months. Our right-of-use assets and lease liabilities for operating leases are included in Other Non-Current Assets, Other Current Liabilities and Other Non-Current Liabilities, respectively, in our Consolidated Balance Sheet. We currently do not have any finance leases.

Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right-of-use assets and lease liabilities are recognized at the commencement date based on the estimated present value of lease payments over the lease term. As our leases do not provide an explicit rate, we determine the present value of future lease payments based on our estimated incremental borrowing rate using information available at the lease commencement date. The operating lease right-of-use asset includes lease payments to be made during the lease term and any lease incentives, as applicable.

Our leases may include options to extend or buy out the lease at certain points throughout the term, and if it is reasonably certain that we will exercise that option at lease commencement, we include those rental payments in our calculation of the right-of-use asset and lease liability. Lease and rent expense is recognized on a straight-line basis over the lease term. Leases with a term of 12 months or less are not recognized on the Consolidated Balance Sheet.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)
Leases (Continued)

The majority of our operating leases are for heavy equipment, vehicles and land with fixed monthly payments which we group into two categories: Vehicles and Equipment; and Land and Other. Our largest operating lease is for the dragline at BNI Energy which includes a termination payment at the end of the lease term if we do not exercise our purchase option. The amount of this payment is \$3 million and is included in our calculation of the right-of-use asset and lease liability recorded. None of our other leases contain residual value guarantees.

Additional information on the components of lease cost and presentation of cash flows were as follows:

	December 31, 2019
Millions	
Operating Lease Cost	\$9.4
Other Information:	
Operating Cash Flows From Operating Leases	\$9.4

Additional information related to leases was as follows:

	December 31, 2019
Millions	
Balance Sheet Information Related to Leases:	
Other Non-Current Assets	\$28.6
Total Operating Lease Right-of-use Assets	\$28.6
Other Current Liabilities	\$6.9
Other Non-Current Liabilities	21.8
Total Operating Lease Liabilities	\$28.7
Weighted Average Remaining Lease Term (Years):	
Operating Leases - Vehicles and Equipment	4
Operating Leases - Land and Other	28
Weighted Average Discount Rate:	
Operating Leases - Vehicles and Equipment	3.7%
Operating Leases - Land and Other	4.1%

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)
Leases (Continued)

Maturities of lease liabilities were as follows:

	December 31, 2019
Millions	
2020	\$6.6
2021	6.0
2022	5.0
2023	3.2
2024	2.9
Thereafter	11.5
Total Lease Payments Due	35.2
Less: Imputed Interest	6.5
Total Lease Obligations	28.7
Less: Current Lease Obligations	6.9
Total Long-term Lease Obligations	\$21.8

Environmental Liabilities. 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. (See Note 9. Commitments, Guarantees and Contingencies.)

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.

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

Nature of Revenue Streams

Utility

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

Municipal includes sales to 15 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 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, paper, pulp and secondary wood products, pipeline and other industries. Industrial sales accounted for approximately 54 percent of total regulated utility kWh sales for the year ended December 31, 2019. Within industrial revenue, Minnesota Power has eight 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 2023 through 2029. 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 \$55 million per annum in 2020 through 2023, \$20 million in 2024, and \$65 million in total 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 2028. 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 \$3 million in 2020. 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.

CIP Financial Incentive reflects certain revenue that is a result of the achievement of certain objectives for our 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.

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

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 2020 through 2039. 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.

Sale of Wind Energy Facility includes revenue recognized for the design, development, construction, and sale of a wind energy facility to a customer. Performance obligations for these types of agreements are satisfied at the time the completed project is transferred to the customer at the commercial operation date. Revenue from the sale of a wind energy facility is recognized at the time of asset transfer.

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.

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 customers and therefore revenue can be variable. Products are shipped to customers in accordance with the terms of each 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. 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 a 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.

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

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 true-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 December 31, 2019, we have \$28.0 million of assets recognized for costs incurred to obtain contracts with our customers \$30.7 million as of December 31, 2018). 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. We recognized \$2.6 million of non-cash amortization for the years ended December 31, 2019 and 2018.

Operating Expenses – Other

Year Ended December 31	2019	2018	2017
Millions			
Change in Fair Value of Contingent Consideration (a)	—	\$(2.0)	\$(0.7)
Total Operating Expenses – Other	—	\$(2.0)	\$(0.7)

(a) Contingent Consideration related to the earnings-based payment resulting from the U.S. Water Services acquisition was paid in the first quarter of 2019. (See Note 7. Fair Value.)

Unamortized Discount and Premium on Debt. Discount and premium on debt are deferred and amortized over the terms of the related debt instruments using a method which approximates the effective interest method.

Tax Equity Financings. In the fourth quarter of 2019, certain subsidiaries of ALLETE entered into tax equity financings that include forming limited liability companies (LLC) with third-party investors for certain wind projects. Tax equity financings have specific terms that dictate distributions of cash and the allocation of tax attributes among the partners, who are divided into two categories: the sponsor and third-party investor. ALLETE subsidiaries are the sponsors in these tax equity financings. The distributions of cash and allocation of tax attributes in these financings are generally different than the underlying percentage ownership interests in the related LLC. A disproportionate share of tax attributes (including accelerated depreciation and production tax credits) are allocated to third-party investors in order to achieve targeted after-tax rates of return, or target yield, from project operations, while a disproportionate share of cash distributions are made to the sponsor.

The target yield and terms vary by financing agreement, by third-party investor, and sponsor project. Once the third-party investor's target yield has been achieved, a "flip point" is recognized. Prior to the flip point, tax attributes are disproportionately allocated to the third-party investor with cash distributions disproportionately made to the sponsor. In addition, cash distributions can be temporarily increased to the third-party investors in order to meet cumulative distribution thresholds. After the flip point, tax attributes and cash distributions are both typically disproportionately allocated to the sponsor.

Tax equity financings impose a range of affirmative and negative covenants that are similar to what a project lender would require, such as financial reporting, insurance, maintenance and prudent operator standards. Most of these restrictions end once the flip point occurs and any other obligations of the third-party investor have been eliminated.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)
Tax Equity Financings (Continued)

The third-party investor's portion of equity ownership in tax equity LLC is recorded as non-controlling interest in subsidiaries on the Consolidated Balance Sheet.

Non-Controlling Interest in Subsidiaries. Non-controlling interest in subsidiaries represents the portion of equity ownership, net income (loss), and comprehensive income (loss) in subsidiaries that is not attributable to equity holders of ALLETE.

For those wind projects with tax equity financing structures where the economic benefits are not allocated based on the underlying ownership percentage interests, we have determined that the appropriate methodology for calculating the non-controlling interest in subsidiaries balance is the hypothetical liquidation at book value (HLBV) method. The HLBV method is a balance sheet approach which reflects the substantive economic arrangements in the tax equity financing structures.

Under the HLBV method, amounts reported as non-controlling interest in subsidiaries on the Consolidated Balance Sheet represent the amounts the third-party investors would hypothetically receive at each balance sheet reporting date under the liquidation provisions of the LLC operating agreements, assuming the net assets of the wind projects were liquidated at amounts determined in accordance with GAAP and distributed to the third-party investor and sponsor. The resulting non-controlling interest in subsidiaries balance in these projects is reported as a component of equity on the Consolidated Balance Sheet.

The results of operations for these projects attributable to non-controlling interests under the HLBV method is determined as the difference in non-controlling interest in subsidiaries on the Consolidated Balance Sheet at the start and end of each reporting period, after taking into account any capital transactions between the projects and the third-party investors.

Factors used in the HLBV calculation include GAAP income, taxable income (loss), tax attributes such as accelerated depreciation and production tax credits, capital contributions, cash distributions, and the stipulated third-party investor target after-tax return specified in the tax equity LLC operating agreements. Changes in these factors could have a significant impact on the amounts that third-party investors and sponsors would receive upon a hypothetical liquidation. The use of the HLBV method to allocate income to the non-controlling interest in subsidiaries may create variability in our results of operations as the application of the HLBV method can drive variability in net income or loss attributable to non-controlling interest in subsidiaries from period to period.

Other Income (Expense) - Other

Year Ended December 31	2019	2018	2017
Millions			
Pension and Other Postretirement Benefit Plan Non-Service Credit <i>(a)</i>	\$7.7	\$4.6	\$3.9
Interest and Investment Earnings	4.4	0.5	1.8
AFUDC - Equity	2.3	1.2	1.2
Gain (Loss) on Land Sales	2.1	0.9	(0.5)
Other	2.2	0.6	(0.1)
Total Other Income (Expense) - Other	\$18.7	\$7.8	\$6.3

(a) These are components of net periodic pension and other postretirement benefit cost other than service cost. (See Note 12. Pension and Other Postretirement Benefit Plans.)

Income Taxes. ALLETE and its subsidiaries file a consolidated federal income tax return as well as combined and separate state income tax returns. We account for income taxes using the liability method in accordance with GAAP for income taxes. Under the liability method, deferred income tax assets and liabilities are established for all temporary differences in the book and tax basis of assets and liabilities, based upon enacted tax laws and rates applicable to the periods in which the taxes become payable.

Due to the effects of regulation on Minnesota Power and SWL&P, certain adjustments made to deferred income taxes are, in turn, recorded as regulatory assets or liabilities. Federal investment tax credits have been recorded as deferred credits and are being amortized to income tax expense over the service lives of the related property. In accordance with GAAP for uncertainty in income taxes, we are required to recognize in our financial statements the largest tax benefit of a tax position that is "more-likely-than-not" to be sustained on audit, based solely on the technical merits of the position as of the reporting date. The term "more-likely-than-not" means more than 50 percent likely. (See Note 11. Income Tax Expense.)

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excise Taxes. We collect excise taxes from our customers levied by government entities. These taxes are stated separately on the billing to the customer and recorded as a liability to be remitted to the government entity. We account for the collection and payment of these taxes on a net basis.

New Accounting Pronouncements.

Recently Adopted Pronouncements

Disclosure Update and Simplification. In November 2018, the SEC adopted amendments to certain disclosure requirements. The amendments adopted include requirements that interim financial statements should include comparative statements for the same period in the prior financial year, except that the requirement for comparative balance sheet information may be satisfied by presenting the year-end balance sheet. It further includes a requirement analyzing the changes in each caption of shareholders' equity either separately in a note or on the face of the financial statement. These amendments were effective for ALLETE in the first quarter of 2019. We have included the presentation of our Statement of Shareholders' Equity to meet these requirements.

Leases. In 2016, the FASB issued an accounting standard update which revised the existing guidance for leases. Under the revised guidance, lessees are required to recognize right-of-use assets and lease liabilities on the Consolidated Balance Sheet for leases with terms greater than 12 months. The new standard also requires additional qualitative and quantitative 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 is not expected to significantly change as a result of the new guidance. The Company adopted this guidance in the first quarter of 2019 using the optional transition method and the package of practical expedients, which allowed for the adoption of the standard as of January 1, 2019, without restating previously disclosed information. Management elected the optional transition method of adoption due to the overall immateriality of the balance sheet gross up in the period of adoption. The package of practical expedients allowed management to not reassess the lease classification for leases, including those that had expired during the periods presented or that still existed at the time of adoption. We have included additional disclosures in the notes to the consolidated financial statements.

NOTE 2. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment

As of December 31	2019	2018
Millions		
Regulated Operations		
Property, Plant and Equipment in Service	\$4,555.8	\$4,490.6
Construction Work in Progress	383.6	251.1
Accumulated Depreciation	(1,635.3)	(1,549.6)
Regulated Operations – Net	3,304.1	3,192.1
ALLETE Clean Energy		
Property, Plant and Equipment in Service	686.0	488.4
Construction Work in Progress	351.3	164.5
Accumulated Depreciation	(86.8)	(73.0)
ALLETE Clean Energy – Net	950.5	579.9
U.S. Water Services (a)		
Property, Plant and Equipment in Service	—	30.1
Accumulated Depreciation	—	(14.0)
U.S. Water Services – Net	—	16.1
Corporate and Other (b)		
Property, Plant and Equipment in Service	231.9	214.3
Construction Work in Progress	3.8	6.6
Accumulated Depreciation	(113.3)	(104.6)
Corporate and Other – Net	122.4	116.3
Property, Plant and Equipment – Net	\$4,377.0	\$3,904.4

(a) On March 26, 2019, ALLETE completed the sale of U.S. Water Services. (See Note 1. Operations and Significant Accounting Policies.)

(b) Primarily includes BNI Energy and a small amount of non-rate base generation.

Depreciation is computed using the straight-line method over the estimated useful lives of the various classes of assets.

Estimated Useful Lives of Property, Plant and Equipment (Years)

Regulated Operations			
Generation	4 to 50	ALLETE Clean Energy	5 to 35
Transmission	52 to 71	Corporate and Other	3 to 50
Distribution	19 to 68		

Asset Retirement Obligations. We recognize, at fair value, obligations associated with the retirement of certain tangible, long-lived assets that result from the acquisition, construction, development or normal operation of the asset. Asset retirement obligations (AROs) relate primarily to the decommissioning of our coal-fired and wind energy facilities, and land reclamation at BNI Energy. AROs are included in Other Non-Current Liabilities on the Consolidated Balance Sheet. The associated retirement costs are capitalized as part of the related long-lived asset and depreciated over the useful life of the asset. Removal costs associated with certain distribution and transmission assets have not been recognized, as these facilities have indeterminate useful lives.

Conditional asset retirement obligations have been identified for treated wood poles and remaining polychlorinated biphenyl and asbestos-containing assets; however, the period of remediation is indeterminable and removal liabilities have not been recognized.

Long-standing ratemaking practices approved by applicable state and federal regulatory authorities have allowed provisions for future plant removal costs in depreciation rates. These plant removal cost recoveries are classified either as AROs or as a regulatory liability for non-AROs. To the extent annual accruals for plant removal costs differ from accruals under approved depreciation rates, a regulatory asset has been established in accordance with GAAP for AROs. (See Note 4. Regulatory Matters.)

NOTE 2. PROPERTY, PLANT AND EQUIPMENT (Continued)**Asset Retirement Obligations**

Millions	
Obligation as of December 31, 2017	\$122.7
Accretion	7.0
Liabilities Settled	(5.3)
Revisions in Estimated Cash Flows	14.2
Obligation as of December 31, 2018	138.6
Accretion	7.2
Liabilities Recognized	1.4
Liabilities Settled	(4.6)
Revisions in Estimated Cash Flows	17.7
Obligation as of December 31, 2019	\$160.3

NOTE 3. JOINTLY-OWNED FACILITIES AND ASSETS

Boswell Unit 4. Minnesota Power owns 80 percent of the 585 MW Boswell Unit 4. While Minnesota Power operates the plant, certain decisions about the operations of Boswell Unit 4 are subject to the oversight of a committee on which it and WPPI Energy, the owner of the remaining 20 percent, have equal representation and voting rights. Each owner must provide its own financing and is obligated to its ownership share of operating costs. Minnesota Power's share of operating expenses for Boswell Unit 4 is included in Operating Expenses on the Consolidated Statement of Income.

CapX2020. Minnesota Power was a participant in the CapX2020 initiative which represented an effort to ensure electric transmission and distribution reliability in Minnesota and the surrounding region for the future. CapX2020, which consisted of electric cooperatives and municipal and investor-owned utilities, including Minnesota's largest transmission owners, assessed the transmission system and projected growth in customer demand for electricity through 2020. Minnesota Power participated in certain CapX2020 projects which were completed and placed in service by 2015.

Minnesota Power's investments in jointly-owned facilities and assets and the related ownership percentages are as follows:

Regulated Utility Plant	Plant in Service	Accumulated Depreciation	Construction Work in Progress	% Ownership
Millions				
As of December 31, 2019				
Boswell Unit 4	\$662.7	\$258.9	\$5.7	80
CapX2020	101.0	13.5	—	9.3 - 14.7
Total	\$763.7	\$272.4	\$5.7	
As of December 31, 2018				
Boswell Unit 4	\$650.1	\$229.9	\$6.4	80
CapX2020	101.0	11.0	—	9.3 - 14.7
Total	\$751.1	\$240.9	\$6.4	

NOTE 4. REGULATORY MATTERS

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 \$31.8 million in 2019 (\$103.8 million in 2018; \$96.9 million in 2017). With the implementation of final rates in Minnesota Power's general rate case, certain revenue previously recognized under cost recovery riders was incorporated into base rates. (See *2016 Minnesota General Rate Case*.)

2016 Minnesota General Rate Case. The MPUC issued a March 2018 order in Minnesota Power's general rate case approving a return on common equity of 9.25 percent and a 53.81 percent equity ratio. Final rates went into effect on December 1, 2018, which results in additional revenue of approximately \$13 million on an annualized basis.

2020 Minnesota General Rate Case. On November 1, 2019, Minnesota Power filed a retail rate increase request with the MPUC seeking an average increase of approximately 10.6 percent for retail customers. The rate filing seeks a return on equity of 10.05 percent and a 53.81 percent equity ratio. On an annualized basis, the requested final rate increase would generate approximately \$66 million in additional revenue. In orders dated December 23, 2019, the MPUC accepted the filing as complete and authorized an annual interim rate increase of \$36.1 million beginning January 1, 2020.

FERC-Approved Wholesale Rates. Minnesota Power has 15 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 Nashauk 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 contract with SWL&P is effective through at least February 28, 2023. Under the agreement with SWL&P, no termination notice has been given. The rates included in these two 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. No termination notices may be given prior to three years before maturity. These contracts had fixed capacity charges through 2018; beginning in 2019, the capacity charge is 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 is set each January 1, subject to monthly adjustment, and is determined using a cost-based formula methodology.

The contract with another municipal customer expired on June 30, 2019. Minnesota Power historically provided approximately 29 MW of average monthly demand to this customer.

Transmission Cost Recovery Rider. Minnesota Power has an approved cost recovery rider in place 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. On July 9, 2019, Minnesota Power filed a petition seeking MPUC approval to update the customer billing factor to include investments made for the GNTL. (See Note 9. Commitments, Guarantees and Contingencies.)

Renewable Cost Recovery Rider. Minnesota Power has an approved cost recovery rider for certain renewable investments and expenditures. 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. Current customer billing rates for the renewable cost recovery rider were approved by the MPUC in a November 2018 order. On August 15, 2019, Minnesota Power filed a petition seeking MPUC approval to update the customer billing factor.

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.

NOTE 4. REGULATORY MATTERS (Continued)
Electric Rates (Continued)

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

Fuel Adjustment Clause Reform. In a 2017 order, the MPUC adopted a program to implement certain procedural reforms to Minnesota utilities' automatic fuel adjustment clause (FAC) for fuel and purchased power. With this order, the method of accounting for all Minnesota electric utilities changed to a monthly budgeted, forward-looking FAC with annual prudence review and true-up to actual allowed costs. On May 1, 2019, Minnesota Power filed its fuel adjustment forecast for 2020, which was accepted by the MPUC in an order dated November 14, 2019, for purposes of setting fuel adjustment clause rates for 2020, subject to a true-up filing in 2021.

2018 Wisconsin General Rate Case. In a December 2018 order, the PSCW approved a rate increase for SWL&P including a return on equity of 10.4 percent and a 55.0 percent equity ratio. Final rates went into effect January 1, 2019, which resulted in additional revenue of approximately \$3 million.

Integrated Resource Plan. In a 2016 order, the MPUC approved Minnesota Power's 2015 IRP with modifications. The order accepted Minnesota Power's plans for the economic idling of Taconite Harbor Units 1 and 2 and the ceasing of coal-fired operations at Taconite Harbor in 2020, 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 requests for proposal for additional wind, solar and demand response resource additions. Minnesota Power retired Boswell Units 1 and 2 in the fourth quarter of 2018. Minnesota Power's next IRP filing is due October 1, 2020.

In 2017, Minnesota Power submitted a resource package to the MPUC which included requesting approval of a PPA for the output of a 250 MW wind energy facility as well as approval of a 250 MW natural gas capacity dedication agreement. The natural gas capacity dedication agreement was subject to MPUC approval of the construction of NTEC, a 525 MW to 625 MW combined-cycle natural gas-fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE. Minnesota Power would purchase approximately 50 percent of the facility's output starting in 2025. In an order dated January 24, 2019, the MPUC approved Minnesota Power's request for approval of the NTEC natural gas capacity dedication agreement. Separately, the MPUC required a baseload retirement evaluation in Minnesota Power's next IRP filing analyzing its existing fleet, including potential early retirement scenarios of Boswell Units 3 and 4, as well as a securitization plan. On December 23, 2019, the Minnesota Court of Appeals reversed and remanded the MPUC's decision to approve certain affiliated-interest agreements. The MPUC was ordered to determine whether NTEC may have the potential for significant environmental effects and, if so, to prepare an environmental assessment worksheet before reassessing the agreements. On January 22, 2020, Minnesota Power filed a petition for further review with the Minnesota Supreme Court requesting that it review and overturn the Minnesota Court of Appeals decision. On January 8, 2019, an application for a certificate of public convenience and necessity for NTEC was submitted to the PSCW, which was approved by the PSCW at a hearing on January 16, 2020. Construction of NTEC is subject to obtaining additional permits from local, state and federal authorities. The total project cost is estimated to be approximately \$700 million, of which ALLETE's portion is expected to be approximately \$350 million. ALLETE's portion of NTEC project costs incurred through December 31, 2019, is approximately \$12 million.

In August 2018, Minnesota Power filed a separate petition for approval of an amended PPA for the output of the 250 MW wind energy facility to be located in southwestern Minnesota which was approved in an order dated January 23, 2019. (See Note 5. Equity Investments.)

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. In 2017, the Minnesota Department of Commerce approved Minnesota Power's modified CIP triennial filing for 2017 through 2019, which outlined Minnesota Power's CIP spending and energy-saving goals for those years. Minnesota Power's CIP investment goal was \$10.5 million for 2019 (\$10.3 million for 2018 and 2017), with actual spending of \$8.3 million in 2019 (\$9.0 million in 2018; \$8.1 million in 2017). The investment goal for 2020 is \$10.5 million based on approval of an extension for Minnesota Power's next CIP triennial filing by the Minnesota Department of Commerce on November 26, 2019.

NOTE 4. REGULATORY MATTERS (Continued)
Conservation Improvement Program (Continued)

On April 1, 2019, Minnesota Power submitted its 2018 consolidated filing, which detailed Minnesota Power's CIP program results and requested a CIP financial incentive of \$2.8 million based upon MPUC procedures, which was approved by the MPUC in an order dated July 19, 2019. In 2018, the CIP financial incentive of \$3.0 million was recognized in the third quarter upon approval by the MPUC of Minnesota Power's 2017 CIP consolidated filing. CIP financial incentives are recognized in the period in which the MPUC approves the filing.

MISO Return on Equity Complaint. MISO transmission owners, including ALLETE and ATC, have an authorized return on equity of 9.88 percent, or 10.38 percent including an incentive adder for participation in a regional transmission organization, based on a November 2019 FERC order. In this order, the FERC reduced the base return on equity for regional transmission organizations as recommended by an administrative law judge with refunds ordered for prior periods, which are immaterial to ALLETE. Multiple parties to the complaint have appealed the FERC order.

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 solar energy facility 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 expects that Camp Ripley, the community solar garden arrays, and an increase in solar rebates will allow Minnesota Power to meet both parts of the 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. With the exception of the regulatory asset for Boswell Units 1 and 2 net plant and equipment, no other regulatory assets 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 4. REGULATORY MATTERS (Continued)

Regulatory Assets and Liabilities

As of December 31	2019	2018
Millions		
Non-Current Regulatory Assets		
Defined Benefit Pension and Other Postretirement Benefit Plans (a)	\$212.9	\$218.5
Income Taxes (b)	123.4	105.5
Asset Retirement Obligations (c)	32.0	32.6
Cost Recovery Riders (d)	24.7	—
Boswell 1 & 2 Net Plant and Equipment (e)	10.7	16.3
Manufactured Gas Plant (f)	8.2	8.0
PPACA Income Tax Deferral	4.8	5.0
Other	3.8	3.6
Total Non-Current Regulatory Assets	\$420.5	\$389.5
Current Regulatory Liabilities (g)		
Provision for Interim Rate Refund (h)	—	\$40.0
Provision for Tax Reform Refund (i)	\$0.2	10.7
Transmission Formula Rates	1.7	4.4
Total Current Regulatory Liabilities	1.9	55.1
Non-Current Regulatory Liabilities		
Income Taxes (b)	407.2	396.4
Wholesale and Retail Contra AFUDC (j)	79.3	64.4
Plant Removal Obligations (k)	35.5	25.1
Defined Benefit Pension and Other Postretirement Benefit Plans (a)	17.0	—
North Dakota Investment Tax Credits (l)	12.3	14.7
Conservation Improvement Program (m)	5.4	1.5
Cost Recovery Riders (d)	—	6.9
Transmission Formula Rates	—	1.6
Other	3.6	1.5
Total Non-Current Regulatory Liabilities	560.3	512.1
Total Regulatory Liabilities	\$562.2	\$567.2

(a) Defined benefit pension and other postretirement items included in our Regulated Operations, which are otherwise required to be recognized in accumulated other comprehensive income as actuarial gains and losses as well as prior service costs and credits, are recognized as regulatory assets or regulatory liabilities on the Consolidated Balance Sheet. The asset or liability will decrease as the deferred items are amortized and recognized as components of net periodic benefit cost. (See Note 12. Pension and Other Postretirement Benefit Plans.)

(b) These costs represent the difference between deferred income taxes recognized for financial reporting purposes and amounts previously billed to our customers. The balances will primarily decrease over the remaining life of the related temporary differences.

(c) Asset retirement obligations will accrete and be amortized over the lives of the related property with asset retirement obligations.

(d) The cost recovery rider regulatory assets and liabilities are revenue not yet collected from our customers and cash collections from our customers in excess of the revenue recognized, respectively, primarily due to capital expenditures related to Bison, investment in CapX2020 projects, the Boswell Unit 4 environmental upgrade and the GNTL. The cost recovery rider regulatory assets as of December 31, 2019, will be recovered within the next two years.

(e) In December 2018, Minnesota Power retired Boswell Units 1 and 2 and reclassified the remaining net book value from property, plant and equipment to a regulatory asset on the Consolidated Balance Sheet. The remaining net book value is currently included in Minnesota Power's rate base and Minnesota Power is earning a return on the outstanding balance.

(f) The manufactured gas plant regulatory asset represents costs of remediation for a former manufactured gas plant site located in Superior, Wisconsin, and formerly operated by SWL&P. We expect recovery of these remediation costs to be allowed by the PSCW in rates over time.

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

(h) This amount was refunded to Minnesota Power's regulated retail customers in the second quarter of 2019.

(i) Provision for Tax Reform Refund related to the income tax benefits of the TCJA in 2018 was refunded to Minnesota Power customers in the first quarter of 2019 and is being returned to SWL&P customers through 2020.

(j) Wholesale and retail contra AFUDC represents amortization to offset AFUDC Equity and Debt recorded during the construction period of our cost recovery rider projects prior to placing the projects in service. The regulatory liability will decrease over the remaining depreciable life of the related asset.

(k) Non-legal plant removal obligations included in retail customer rates that have not yet been incurred.

(l) North Dakota investment tax credits expected to be realized from Bison that will be credited to Minnesota Power's regulated retail customers through future renewable cost recovery rider filings as the tax credits are utilized.

(m) The conservation improvement program regulatory liability represents CIP expenditures, any financial incentive earned for cost-effective program achievements and a carrying charge deferred for future refund over the next year following MPUC approval.

NOTE 5. EQUITY INVESTMENTS

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. For the year ended December 31, 2019, we invested \$6.6 million in ATC and on January 31, 2020, we invested an additional \$0.4 million in ATC. In total, we expect to invest approximately \$2.7 million in 2020.

ALLETE's Investment in ATC

Year Ended December 31	2019	2018
Millions		
Equity Investment Beginning Balance	\$128.1	\$118.7
Cash Investments	6.6	6.2
Equity in ATC Earnings	21.7	17.5
Distributed ATC Earnings	(16.1)	(15.2)
Amortization of the Remeasurement of Deferred Income Taxes	1.3	0.9
Equity Investment Ending Balance	\$141.6	\$128.1

ATC Summarized Financial Data

Balance Sheet Data		
As of December 31	2019	2018
Millions		
Current Assets	\$84.6	\$87.2
Non-Current Assets	5,244.3	4,928.8
Total Assets	\$5,328.9	\$5,016.0
Current Liabilities	\$502.6	\$640.0
Long-Term Debt	2,312.8	2,014.0
Other Non-Current Liabilities	298.9	295.3
Members' Equity	2,214.6	2,066.7
Total Liabilities and Members' Equity	\$5,328.9	\$5,016.0

Income Statement Data

Year Ended December 31	2019	2018	2017
Millions			
Revenue	\$744.4	\$690.5	\$721.6
Operating Expense	373.5	358.7	344.9
Other Expense	110.5	108.3	104.1
Net Income	\$260.4	\$223.5	\$272.6
ALLETE's Equity in Net Income	\$21.7	\$17.5	\$22.5

ATC's authorized return on equity is 9.88 percent, or 10.38 percent including an incentive adder for participation in a regional transmission organization, based on a November 2019 FERC order. (See Note 4. Regulatory Matters.)

NOTE 5. EQUITY INVESTMENTS (Continued)

Investment in Nobles 2. In December 2018, our wholly-owned subsidiary, ALLETE South Wind, entered into an agreement with Tenaska to purchase a 49 percent equity interest in Nobles 2, the entity that will own and operate a 250 MW wind energy facility in southwestern Minnesota pursuant to a 20-year PPA with Minnesota Power. The wind energy facility will be built in Nobles County, Minnesota and is expected to be completed in late 2020, with an estimated total project cost of approximately \$350 million to \$400 million. In the fourth quarter of 2019, we entered into a tax equity funding agreement to finance up to \$125 million of the project costs. We account for our investment in Nobles 2 under the equity method of accounting. As of December 31, 2019, our equity investment in Nobles 2 was \$56.0 million (\$33.0 million at December 31, 2018). In the first quarter of 2019, Nobles 2 returned capital of \$8.3 million based on its cash needs. For the year ended December 31, 2019, we invested \$31.3 million in Nobles 2. We expect to invest approximately \$115 million in 2020.

NOTE 6. GOODWILL AND INTANGIBLE ASSETS

As a result of completing the sale of U.S. Water Services on March 26, 2019, there was no goodwill recorded as of December 31, 2019 (\$148.5 million at December 31, 2018).

The balance of intangible assets, net, for the year ended December 31, 2019:

	December 31, 2018	Amortization	Other (b)	December 31, 2019
Millions				
Intangible Assets				
Definite-Lived Intangible Assets				
Customer Relationships	\$50.7	\$(1.1)	\$(49.6)	—
Developed Technology and Other (a)	7.5	(0.4)	(6.1)	\$1.0
Total Definite-Lived Intangible Assets	58.2	(1.5)	(55.7)	1.0
Indefinite-Lived Intangible Assets				
Trademarks and Trade Names	16.6	n/a	(16.6)	—
Total Intangible Assets	\$74.8	\$(1.5)	\$(72.3)	\$1.0

(a) Developed Technology and Other includes land easements and trade names with finite lives.

(b) On March 26, 2019, ALLETE completed the sale of U.S. Water Services which resulted in the removal of the related intangible assets from the Consolidated Balance Sheet.

Amortization expense for intangible assets was \$1.5 million for the year ended December 31, 2019 (\$5.6 million for the year ended December 31, 2018). The remaining definite-lived intangible assets will continue to be amortized ratably through 2028.

NOTE 7. 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). The three levels of the fair value hierarchy are as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reported date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes primarily equity securities.

NOTE 7. FAIR VALUE (Continued)

Level 2 — Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reported date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities. This category includes deferred compensation and fixed income securities.

Level 3 — Significant inputs that are generally less observable from objective sources. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value. This category included the U.S. Water Services contingent consideration liability.

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 December 31, 2019, and December 31, 2018. 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 December 31, 2019			Total
	Level 1	Level 2	Level 3	
Millions				
Assets:				
Investments <i>(a)</i>				
Available-for-sale – Equity Securities	\$11.1	—	—	\$11.1
Available-for-sale – Corporate and Governmental Debt Securities <i>(b)</i>	—	\$9.7	—	9.7
Cash Equivalents	0.9	—	—	0.9
Total Fair Value of Assets	\$12.0	\$9.7	—	\$21.7
Liabilities:				
Deferred Compensation <i>(c)</i>	—	\$21.2	—	\$21.2
Total Fair Value of Liabilities	—	\$21.2	—	\$21.2
Total Net Fair Value of Assets (Liabilities)	\$12.0	\$(11.5)	—	\$0.5

(a) Included in Other Non-Current Assets on the Consolidated Balance Sheet.

(b) As of December 31, 2019, the aggregate amount of available-for-sale corporate and governmental debt securities maturing in one year or less was \$2.1 million, in one year to less than three years was \$7.2 million, in three years to less than five years was zero and in five or more years was \$0.4 million.

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

NOTE 7. FAIR VALUE (Continued)

Recurring Fair Value Measures	Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Investments (a)				
Available-for-sale – Equity Securities	\$12.2	—	—	\$12.2
Available-for-sale – Corporate and Governmental Debt Securities	—	\$8.0	—	8.0
Cash Equivalents	1.0	—	—	1.0
Total Fair Value of Assets	\$13.2	\$8.0	—	\$21.2
Liabilities: (b)				
Deferred Compensation	—	\$19.8	—	\$19.8
U.S. Water Services Contingent Consideration	—	—	\$3.8	3.8
Total Fair Value of Liabilities	—	\$19.8	\$3.8	\$23.6
Total Net Fair Value of Assets (Liabilities)	\$13.2	\$(11.8)	\$(3.8)	\$(2.4)

(a) Included in Other Non-Current Assets on the Consolidated Balance Sheet.

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

The Level 3 liability in the preceding table is related to the contingent consideration liability that resulted from the 2015 acquisition of U.S. Water Services. Based on the terms and conditions of the acquisition agreement, a final payout of \$3.8 million was made in the first quarter of 2019.

The Company's policy is to recognize transfers in and transfers out of Levels as of the actual date of the event or change in circumstances that caused the transfer. For the years ended December 31, 2019 and 2018, 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		
December 31, 2019	\$1,622.6	\$1,791.8
December 31, 2018	\$1,495.2	\$1,534.6

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. Non-financial assets such as equity method investments, goodwill, intangible assets, and property, plant and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment is recognized.

Equity Method Investments. The aggregate carrying amount of our equity investments was \$197.6 million as of December 31, 2019 (\$161.1 million as of December 31, 2018). The Company assesses our equity investments in ATC and Nobles 2 for impairment whenever events or changes in circumstances indicate that the carrying amount of our investments may not be recoverable. For the years ended December 31, 2019 and 2018, there were no indicators of impairment. (See Note 5. Equity Investments.)

Property, Plant and Equipment. The Company assesses the impairment of property, plant, and equipment whenever events or changes in circumstances indicate that the carrying amount of property, plant, and equipment assets may not be recoverable. (See Note 1. Operations and Significant Accounting Policies.) For the years ended December 31, 2019, and 2018 there was no impairment of property, plant, and equipment.

NOTE 7. FAIR VALUE (Continued)

We believe that long-standing ratemaking practices approved by applicable state and federal regulatory commissions allow for the recovery of the remaining book value of retired plant assets. In a 2016 order, the MPUC 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. Minnesota Power retired Boswell Units 1 and 2 in the fourth quarter of 2018. As part of the 2016 general retail rate case, the MPUC allowed recovery of the remaining book value of Boswell Units 1 and 2 through 2022. We do not expect to record any impairment charge as a result of the retirement of Taconite Harbor Unit 3, ceasing of coal-fired operations at Taconite Harbor Units 1 and 2 or the conversion of Laskin to operate on natural gas. In addition, we expect to be able to continue depreciating these assets for at least their established remaining useful lives; however, we are unable to predict the impact of regulatory outcomes resulting in changes to their established remaining useful lives. (See Note 4. Regulatory Matters.)

NOTE 8. SHORT-TERM AND LONG-TERM DEBT

Short-Term Debt. As of December 31, 2019, total short-term debt outstanding was \$212.9 million (\$57.5 million as of December 31, 2018), consisted of long-term debt due within one year and included \$0.4 million of unamortized debt issuance costs.

As of December 31, 2019, we had consolidated bank lines of credit aggregating \$407.0 million (\$407.0 million as of December 31, 2018), most of which expire in January 2024. We had \$62.0 million outstanding in standby letters of credit and no outstanding draws under our lines of credit as of December 31, 2019 (\$18.4 million in standby letters of credit and no outstanding draws as of December 31, 2018).

On January 10, 2019, ALLETE entered into an amended and restated \$400 million credit agreement (Credit Agreement). The Credit Agreement amended and restated ALLETE's \$400 million credit facility, which was scheduled to expire in October 2020. The Credit Agreement is unsecured, has a variable interest rate and will expire in January 2024. At ALLETE's request and subject to certain conditions, the Credit Agreement may be increased by up to \$150 million and ALLETE may make two requests to extend the maturity date, each for a one-year extension. Advances may be used by ALLETE for general corporate purposes, to provide liquidity in support of ALLETE's commercial paper program and to issue up to \$100 million in letters of credit.

Long-Term Debt. As of December 31, 2019, total long-term debt outstanding was \$1,400.9 million (\$1,428.5 million as of December 31, 2018) and included \$8.4 million of unamortized debt issuance costs. The aggregate amount of long-term debt maturing in 2020 is \$213.3 million; \$98.6 million in 2021; \$88.8 million in 2022; \$88.8 million in 2023; \$73.5 million in 2024; and \$1,059.6 million thereafter. Substantially all of our regulated electric plant is subject to the lien of the mortgages collateralizing outstanding first mortgage bonds. The mortgages contain non-financial covenants customary in utility mortgages, including restrictions on our ability to incur liens, dispose of assets, and merge with other entities.

Minnesota Power is obligated to make financing payments for the Camp Ripley solar array totaling \$1.4 million annually during the financing term, which expires in 2027. Minnesota Power has the option at the end of the financing term to renew for a two-year term, or to purchase the solar array for approximately \$4 million. Minnesota Power anticipates exercising the purchase option when the term expires.

On March 1, 2019, ALLETE issued and sold the following First Mortgage Bonds (the Bonds):

Maturity Date	Principal Amount	Interest Rate
March 1, 2029	\$70 Million	4.08%
March 1, 2049	\$30 Million	4.47%

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 used 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.

NOTE 8. SHORT-TERM AND LONG-TERM DEBT (Continued)**Long-Term Debt (Continued)**

On August 14, 2019, ALLETE entered into an amended and restated \$110.0 million term loan agreement (Term Loan). The Term Loan is unsecured and due on August 25, 2020, and may be prepaid at any time, subject to a make-whole provision. Interest on the Term Loan is payable monthly at a rate per annum equal to LIBOR plus 1.025 percent. Proceeds from the Term Loan were used for construction-related expenditures.

Long-Term Debt

As of December 31	2019	2018
Millions		
First Mortgage Bonds		
8.17% Series Due 2019	—	\$42.0
5.28% Series Due 2020	\$35.0	35.0
2.80% Series Due 2020	40.0	40.0
4.85% Series Due 2021	15.0	15.0
3.02% Series Due 2021	60.0	60.0
3.40% Series Due 2022	75.0	75.0
6.02% Series Due 2023	75.0	75.0
3.69% Series Due 2024	60.0	60.0
4.90% Series Due 2025	30.0	30.0
5.10% Series Due 2025	30.0	30.0
3.20% Series Due 2026	75.0	75.0
5.99% Series Due 2027	60.0	60.0
3.30% Series Due 2028	40.0	40.0
4.08% Series Due 2029	70.0	—
3.74% Series Due 2029	50.0	50.0
3.86% Series Due 2030	60.0	60.0
5.69% Series Due 2036	50.0	50.0
6.00% Series Due 2040	35.0	35.0
5.82% Series Due 2040	45.0	45.0
4.08% Series Due 2042	85.0	85.0
4.21% Series Due 2043	60.0	60.0
4.95% Series Due 2044	40.0	40.0
5.05% Series Due 2044	40.0	40.0
4.39% Series Due 2044	50.0	50.0
4.07% Series Due 2048	60.0	60.0
4.47% Series Due 2049	30.0	—
Variable Demand Revenue Refunding Bonds Series 1997 A Due 2020	13.5	13.5
Unsecured Term Loan Variable Rate Due 2020	110.0	10.0
Armenia Mountain Senior Secured Notes 3.26% Due 2024	47.8	57.2
Industrial Development Variable Rate Demand Refunding Revenue Bonds Series 2006, Due 2025	27.8	27.8
Senior Unsecured Notes 3.11% Due 2027	80.0	80.0
SWL&P First Mortgage Bonds 4.15% Series Due 2028	15.0	15.0
SWL&P First Mortgage Bonds 4.14% Series Due 2048	12.0	12.0
Other Long-Term Debt, 3.11% – 5.75% Due 2020 – 2037	46.5	67.7
Unamortized Debt Issuance Costs	(8.8)	(9.2)
Total Long-Term Debt	1,613.8	1,486.0
Less: Due Within One Year	212.9	57.5
Net Long-Term Debt	\$1,400.9	\$1,428.5

NOTE 8. SHORT-TERM AND LONG-TERM DEBT (Continued)**Long-Term Debt (Continued)**

On January 10, 2020, ALLETE entered into a \$200 million term loan agreement (Term Loan) and borrowed \$60 million upon execution. The unsecured Term Loan provides for the ability to borrow up to an additional \$140 million, is due on February 10, 2021, and may be repaid at any time. Interest is payable monthly at a rate per annum equal to LIBOR plus 0.55 percent. Proceeds from the Term Loan will be used for construction-related expenditures.

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 December 31, 2019, 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 December 31, 2019, ALLETE was in compliance with its financial covenants.

NOTE 9. COMMITMENTS, GUARANTEES AND CONTINGENCIES

The following table details the estimated minimum payments for certain long-term commitments:

As of December 31, 2019						
Millions	2020	2021	2022	2023	2024	Thereafter
Capital Purchase Obligations	\$292.7	—	—	—	—	—
Easements (a)	\$5.0	\$5.3	\$5.4	\$5.5	\$5.5	\$170.4
PPAs (b)	\$113.0	\$122.5	\$145.5	\$145.6	\$138.5	\$1,386.7
Other Purchase Obligations (c)	\$22.8	\$9.6	—	—	—	\$0.1

(a) Easement obligations represent the minimum payments for our land easement agreements at our wind energy facilities.

(b) Does not include the agreement with Manitoba Hydro expiring in 2022, as this contract is for surplus energy only; Oliver Wind I and Oliver Wind II, as Minnesota Power only pays for energy as it is delivered; and the agreement with Nobles 2 commencing in 2020 as it is subject to construction of a wind energy facility. (See Power Purchase Agreements.)

(c) Consists of long-term service agreements for wind energy facilities and minimum purchase commitments under coal and rail contracts.

Power Purchase and Sales 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 capacity and energy payments.

These agreements have also been evaluated under the accounting guidance for derivatives. We have determined that either these agreements are not derivatives, or if they are derivatives, the agreements qualify for the normal purchases and normal sales exemption to the accounting guidance; therefore, derivative accounting is not required.

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 Minnesota Power PSA described in the following table. Minnesota Power's payment obligation will be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's costs consist primarily of debt service, operating and maintenance, depreciation and fuel expenses. As of December 31, 2019, Square Butte had total debt outstanding of \$280.7 million. Annual debt service for Square Butte is expected to be approximately \$48.7 million annually through 2023 and \$33.6 million in 2024, of which Minnesota Power's obligation is 50 percent. 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.

NOTE 9. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Power Purchase and Sales Agreements (Continued)

Minnesota Power's cost of power purchased from Square Butte during 2019 was \$82.7 million (\$78.0 million in 2018; \$75.7 million in 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 \$8.3 million in 2019 (\$9.1 million in 2018; \$9.4 million 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.

Minnesota Power has also entered into the following PPAs for the purchase of capacity and energy as of December 31, 2019:

Counterparty	Quantity	Product	Commencement	Expiration	Pricing
PPAs					
Calpine Corporation	25 MW	Capacity	June 2019	May 2026	Fixed
Great River Energy					
PPA 1	50 MW	Capacity / Energy	June 2016	May 2020	(a)
PPA 2	50 MW	Capacity	June 2016	May 2020	Fixed
PPA 3	50 MW	Capacity	June 2017	May 2020	Fixed
Manitoba Hydro					
PPA 1	(b)	Energy	May 2011	April 2022	Forward Market Prices
PPA 2	50 MW	Capacity / Energy	June 2015	May 2020	(c)
PPA 3	50 MW	Capacity	June 2017	May 2020	Fixed
PPA 4 (d)	250 MW	Capacity / Energy	June 2020	May 2035	(e)
PPA 5 (d)	133 MW	Energy	(f)	(f)	Forward Market Prices
Minnkota Power	50 MW	Capacity / Energy	June 2016	May 2020	(g)
Nobles 2 (h)	(h)	Capacity / Energy	(h)	(h)	Fixed
Oliver Wind I	(i)	Energy	December 2006	December 2040	Fixed
Oliver Wind II	(i)	Energy	December 2007	December 2040	Fixed

- (a) The capacity price is fixed and the energy price is based on a formula that includes an annual fixed price component adjusted for changes in a natural gas index, as well as market prices.
- (b) The energy purchased consists primarily of surplus hydro energy on Manitoba Hydro's system and is delivered on a non-firm basis. Minnesota Power will purchase at least one million MWh of energy over the contract term.
- (c) The capacity and energy prices are adjusted annually by the change in a governmental inflationary index.
- (d) Agreements are subject to the construction of the GNTL and MMTP. (See Great Northern Transmission Line.)
- (e) 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 component adjusted for the change in a governmental inflationary index and a natural gas index, as well as market prices.
- (f) The contract term will be the 20-year period beginning on the in-service date for the GNTL. (See Great Northern Transmission Line.)
- (g) The agreement includes a fixed capacity charge and energy prices that escalate at a fixed rate annually over the term.
- (h) The PPA provides for the purchase of all output from a 250 MW wind energy facility to be constructed in southwest Minnesota for 20 years beginning upon commercial operation of the wind energy facility which is currently expected in fourth quarter of 2020. (See Note 4. Regulatory Matters and Note 5. Equity Investments.)
- (i) The PPAs provide for the purchase of all output from the 50 MW Oliver Wind I and 48 MW Oliver Wind II wind energy facilities.

NOTE 9. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Power Purchase and Sales Agreements (Continued)

Minnesota Power has also entered into the following PSAs for the sale of capacity and energy as of December 31, 2019:

Counterparty	Quantity	Product	Commencement	Expiration	Pricing
PSAs					
Basin					
PSA 1	100 MW	Capacity / Energy	May 2010	April 2020	(a)
PSA 2	(b)	Capacity	June 2022	May 2025	Fixed
PSA 3	100 MW	Capacity	June 2025	May 2028	Fixed
Minnkota Power	(c)	Capacity / Energy	June 2014	December 2026	(c)
Oconto Electric Cooperative	25 MW	Capacity / Energy	January 2019	May 2026	Fixed
Silver Bay Power	(d)	Energy	January 2017	December 2031	(e)

- (a) The capacity charge is based on a fixed monthly schedule with a minimum annual escalation provision. The energy charge is based on a fixed monthly schedule and provides for annual escalation based on the cost of fuel. The agreement also allows Minnesota Power to recover a pro rata share of increased costs related to emissions that occur during the last five years of the contract.
- (b) The agreement provides for 75 MW of capacity from June 1, 2022, through May 31, 2023, and increases to 125 MW of capacity from June 1, 2023, through May 31, 2025.
- (c) 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 2019 (28 percent in 2018 and in 2017). (See Square Butte PPA.)
- (d) 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. Minnesota Power supplied Silver Bay Power with at least 50 MW of energy and Silver Bay Power had the option to purchase additional energy from Minnesota Power as it transitioned away from self-generation. In the third quarter of 2019, Silver Bay Power ceased self-generation and Minnesota Power began supplying the full energy requirements for Silver Bay Power.
- (e) The energy pricing was fixed through 2019 with pricing in later years escalating at a fixed rate annually and adjusted for changes in a natural gas index.

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 2021. Minnesota Power also has coal transportation agreements in place for the delivery of a significant portion of its coal requirements through December 2021. 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.

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 a 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 a 2016 order, the MPUC approved the route permit for the GNTL, 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. Construction activities commenced in the first quarter of 2017, and Minnesota Power expects the GNTL to be complete and in-service by mid-2020. The total project cost in the U.S., including substation work, is estimated to be approximately \$700 million, of which Minnesota Power's portion is expected to be approximately \$325 million; the difference will be recovered from a subsidiary of Manitoba Hydro as non-shareholder contributions to capital. Total project costs of \$633.3 million have been incurred through December 31, 2019, of which \$339.6 million has been recovered from a subsidiary of Manitoba Hydro.

NOTE 9. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Transmission (Continued)

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 was received on April 4, 2019. In 2016, Manitoba Hydro filed an application with the Canadian National Energy Board (NEB) requesting authorization to construct and operate the MMTP, which was recommended for approval on November 15, 2018. On June 14, 2019, Manitoba Hydro announced Canada's federal government approved the MMTP project and on August 22, 2019, the NEB granted final pre-construction approvals. Construction on the MMTP commenced in the third quarter of 2019.

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 had indicated that it would need to start construction of the MMTP by September 2019. 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. In the event the MMTP is delayed and not in-service by June 1, 2020, Minnesota Power has construction and related agreements in place with Manitoba Hydro and a Manitoba Hydro subsidiary that will protect Minnesota Power and its customers.

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 completely in service by early 2021.

Environmental Matters.

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

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

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.

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.

NOTE 9. 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. None of the compliance costs for proposed or current NAAQS revisions are 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 renewable power supply for both our operations and the operations of others;
- 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;
- Evaluating and developing less carbon intensive future generating assets such as efficient and flexible natural gas-fired generating facilities;
- Managing vegetation on right-of-way corridors to reduce potential wildfire or storm damage risks; and
- Practicing sound forestry management in our service territories to create landscapes more resilient to disruption from climate-related changes, including planting and managing long-lived conifer species.

EPA Regulation of GHG Emissions. On June 19, 2019, the EPA finalized several separate rulemakings regarding regulating carbon emissions from electric utility generating units.

The EPA repealed the Clean Power Plan (CPP), following a determination by the EPA that the CPP exceeded the EPA's statutory authority under the Clean Air Act (CAA). The primary reason for this was that the CPP attempted to regulate electric generating unit's carbon emissions through measures outside of the affected unit's direct control. The CPP was first announced as 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".

With the repeal of the CPP, the Affordable Clean Energy Rule was finalized. The rule establishes emissions guidelines for states to use when developing plans to limit carbon dioxide at coal-fired power plants. The rule identifies heat rate improvements made at individual units as the best system of emission reduction. Affected facilities for Minnesota Power include Boswell Units 3 and 4 and Taconite Harbor 1 and 2. Based on our initial review of the rule, many of the candidate heat rate improvements are already installed on Boswell Units 3 and 4.

Additionally, the EPA finalized new regulations for the state implementation of the Affordable Clean Energy Rule and any future emission guidelines issued under CAA Section 111(d). States will have three years to submit State Implementation Plans (SIP), and the EPA has 12 months to review and approve those plans. Since the Affordable Clean Energy Rule allows states considerable flexibility in how to best implement its requirements, Minnesota Power plans to work closely with the MPCA and the Minnesota Department of Commerce, who are currently co-reviewing the rule as the state develops its SIP. If a state does not submit a SIP or submits a SIP that is unacceptable to the EPA, the EPA will develop a Federal Implementation Plan.

Minnesota had already initiated several measures consistent with those called for under the now repealed CPP and finalized Affordable Clean Energy Rule. Minnesota Power continues 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 4. Regulatory Matters.) We are unable to predict the GHG emission compliance costs we might incur as a result of the Affordable Clean Energy Rule and the resulting SIP; 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.

NOTE 9. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

Steam Electric Power Generating Effluent Limitations Guidelines. In 2015, the EPA issued revised federal effluent limitation guidelines (ELG) for steam electric power generating stations under the Clean Water Act. It set effluent limits and prescribed BACT for several wastewater streams, including flue gas desulphurization (FGD) water, bottom ash transport water and coal combustion landfill leachate. In 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. On April 12, 2019, the U.S. Court of Appeals for the Fifth Circuit vacated and remanded back to the EPA portions of the ELG that allowed for continued discharge of legacy wastewater and leachate. On November 22, 2019, the EPA published a draft rulemaking that proposes to allow re-use of bottom ash transport water in FGD scrubber systems with minor discharges related to maintaining system water balance. The proposed rulemaking would also allow future discharge of FGD wastewater discharge provided it meets new BACT standards. A final rulemaking is anticipated in mid to late 2020.

The final ELG'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 to surface waters, but may do so in the future if additional water treatment measures are implemented. Under the current ELG rule, bottom ash transport water discharge to surface waters 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. 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. The EPA's additional reconsideration of legacy wastewater discharge requirements have the potential to reduce timelines for dewatering Boswell's existing bottom ash pond. The timing of a draft rule addressing legacy wastewater and leachate is currently unknown.

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 requirements for new landfill and impoundment construction, and regulates closure activities for existing impoundments. In 2017, the EPA announced its intention to formally reconsider certain provisions of 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. In July 2018, the EPA finalized a portion of those proposed revisions that extended certain deadlines by two years, and established alternative groundwater protection standards for certain constituents and the potential for risk-based management options at facilities based on site characteristics. In August 2018, a U.S. District Court for the District of Columbia decision vacated specific provisions of the CCR rule related to operation of clay-lined impoundments. In response to the August 2018 court decision and outstanding issues from litigation, the EPA proposed additional rule revisions in August and December 2019.

The EPA's most recent proposed rule revisions are anticipated to be finalized in the first quarter of 2020 and could impact the timing of closure activities for Boswell's existing clay-lined impoundments. Costs of CCR compliance at Boswell are currently estimated to be between approximately \$65 million and \$120 million, and are expected to occur primarily over the next 15 years. Compliance costs for CCR at Taconite Harbor and Laskin are not expected to be material given CCR units at these facilities are closed. Minnesota Power continues to work on minimizing costs through evaluation of beneficial re-use and recycling of CCR and CCR-related waters. Minnesota Power would seek recovery of additional costs through a rate proceeding.

NOTE 9. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

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 June 2019, the WDNR approved the site investigation and authorized SWL&P to transition into the remedial design process. As of December 31, 2019, we have recorded a liability of approximately \$7 million for remediation costs at this site (approximately \$7 million as of December 31, 2018), 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.

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 2020 and 2039. As of December 31, 2019, ALLETE Clean Energy has \$64.3 million outstanding in standby letters of credit.

BNI Energy. As of December 31, 2019, BNI Energy had surety bonds outstanding of \$67.7 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 \$67.3 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 December 31, 2019, ALLETE Properties had surety bonds outstanding and letters of credit to governmental entities totaling \$4.8 million primarily related to development and maintenance obligations for various projects. The estimated cost of the remaining development work is \$2.3 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. In 2005, the Town Center District issued \$26.4 million of tax-exempt, 6.0 percent capital improvement revenue bonds, and in 2006, the Palm Coast Park District issued \$31.8 million of tax-exempt, 5.7 percent special assessment bonds. The capital improvement revenue bonds and the special assessment bonds are payable over 31 years (by May 1, 2036 and 2037, respectively) and are secured by special assessments on the benefited land. The bond proceeds were used to pay for the construction of a portion of the major infrastructure improvements in each district and to mitigate traffic and environmental impacts. The assessments were billed to the landowners beginning in 2006 for the Town Center District and 2007 for the Palm Coast Park District. To the extent that ALLETE Properties still owns land at the time of the assessment, it will incur the cost of its portion of these assessments, based upon its ownership of benefited property.

As of December 31, 2019, we owned 53 percent of the assessable land in the Town Center District (68 percent as of December 31, 2018) and none of the assessable land in the Palm Coast Park District (19 percent as of December 31, 2018). As of December 31, 2019, ownership levels, our annual assessments related to capital improvement and special assessment bonds for the ALLETE Properties projects within these districts are \$1.4 million for Town Center at Palm Coast. As we sell property at these projects, the obligation to pay special assessments will pass to the new landowners. In accordance with accounting guidance, these bonds are not reflected as debt on our Consolidated Balance Sheet.

Legal Proceedings.

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

NOTE 10. COMMON STOCK AND EARNINGS PER SHARE**Summary of Common Stock**

	Shares Thousands	Equity Millions
Balance as of December 31, 2016	49,560	\$1,295.3
Employee Stock Purchase Plan	12	0.8
Invest Direct	257	19.0
Options and Stock Awards	22	3.6
Contributions to RSOP	50	3.5
Equity Issuance Program	1,000	65.7
Contributions to Pension	216	13.5
Balance as of December 31, 2017	51,117	1,401.4
Employee Stock Purchase Plan	11	0.8
Invest Direct	277	20.7
Options and Stock Awards	57	2.1
Contributions to RSOP	47	3.5
Balance as of December 31, 2018	51,509	1,428.5
Employee Stock Purchase Plan	8	0.7
Invest Direct	38	3.0
Options and Stock Awards	85	1.3
Contributions to RSOP	39	3.2
Balance as of December 31, 2019	51,679	\$1,436.7

Equity Issuance Program. We entered into a distribution agreement with Lampert Capital Markets, Inc., in 2008, as amended most recently in 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 as of December 31, 2019. For the year ended December 31, 2019, no shares of common stock were issued under this agreement (none in 2018; 1.0 million shares for net proceeds of \$65.7 million in 2017). The shares issued in 2017 were offered and sold pursuant to Registration Statement No. 333-212794. On July 31, 2019, we filed Registration Statement No. 333-232905, pursuant to which the remaining shares will continue to be offered for sale, from time to time.

Contributions to Pension. For the year ended December 31, 2019, we contributed no shares of ALLETE common stock to our pension plan (none in 2018 and 0.2 million shares, which had an aggregate value of \$13.5 million in 2017). The shares of ALLETE common stock contributed in 2017 were contributed in reliance upon an exemption available pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

Earnings Per Share. 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 non-vested restricted stock units and performance share awards granted under our Executive Long-Term Incentive Compensation Plan.

NOTE 10. COMMON STOCK AND EARNINGS PER SHARE (Continued)**Reconciliation of Basic and Diluted****Earnings Per Share**

Year Ended December 31	Basic	Dilutive Securities	Diluted
Millions Except Per Share Amounts			
2019			
Net Income Attributable to ALLETE	\$185.6		\$185.6
Average Common Shares	51.6	0.1	51.7
Earnings Per Share	\$3.59		\$3.59
2018			
Net Income Attributable to ALLETE	\$174.1		\$174.1
Average Common Shares	51.3	0.2	51.5
Earnings Per Share	\$3.39		\$3.38
2017			
Net Income Attributable to ALLETE	\$172.2		\$172.2
Average Common Shares	50.8	0.2	51.0
Earnings Per Share	\$3.39		\$3.38

NOTE 11. INCOME TAX EXPENSE**Income Tax Expense**

Year Ended December 31	2019	2018	2017
Millions			
Current Income Tax Expense (a)			
Federal	—	—	—
State	\$0.1	\$0.3	\$0.3
Total Current Income Tax Expense	\$0.1	\$0.3	\$0.3
Deferred Income Tax Expense (Benefit)			
Federal (b)	\$(27.8)	\$(26.2)	\$12.1
Federal – Remeasurement of Deferred Income Taxes (c)	—	—	(13.0)
State	21.7	11.0	15.8
Investment Tax Credit Amortization	(0.6)	(0.6)	(0.5)
Total Deferred Income Tax Expense (Benefit)	\$(6.7)	\$(15.8)	\$14.4
Total Income Tax Expense (Benefit)	\$(6.6)	\$(15.5)	\$14.7

(a) For the years ended December 31, 2019, 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. Federal and state NOLs are being carried forward to offset current and future taxable income.

(b) For the years ended December 31, 2019, and 2018, the federal tax benefit is primarily due to production tax credits, and the reduction of the federal statutory tax rate from 35 percent to 21 percent enacted as part of the TCJA.

(c) For the year ended December 31, 2017, the federal deferred income tax benefit is due to the remeasurement of deferred income tax assets and liabilities resulting from the TCJA.

NOTE 11. INCOME TAX EXPENSE (Continued).**Reconciliation of Taxes from Federal Statutory****Rate to Total Income Tax Expense****Year Ended December 31**

	2019	2018	2017
Millions			
Income Before Non-Controlling Interest and Income Taxes	\$178.9	\$158.6	\$186.9
Statutory Federal Income Tax Rate	21%	21%	35%
Income Taxes Computed at Statutory Federal Rate	\$37.6	\$33.3	\$65.4
Increase (Decrease) in Tax Due to:			
State Income Taxes – Net of Federal Income Tax Benefit	17.2	8.9	10.5
Production Tax Credits	(50.7)	(45.0)	(45.1)
Regulatory Differences – Excess Deferred Tax Benefit (a)	(8.8)	(8.2)	1.2
U.S. Water Services Sale of Stock Basis Difference	1.7	—	—
Change in Fair Value of Contingent Consideration	—	(0.4)	—
Remeasurement of Deferred Income Taxes (b)	—	—	(13.0)
Other	(3.6)	(4.1)	(4.3)
Total Income Tax Expense (Benefit)	(\$6.6)	(\$15.5)	\$14.7

(a) Excess deferred income taxes are being returned to customers under both the Average Rate Assumption Method and amortization periods as approved by regulators. (See Note 4. Regulatory Matters.)

(b) Deferred income tax benefit from the remeasurement of deferred income tax assets and liabilities resulting from the TCJA.

The effective tax rate was a benefit of 3.7 percent for 2019 (benefit of 9.8 percent for 2018; expense of 7.9 percent for 2017). The 2019 effective tax rate was primarily impacted by production tax credits and the gain on sale of U.S. Water Services. The 2018 effective tax rate was primarily impacted by production tax credits and the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA. The 2017 effective tax rate was primarily impacted by production tax credits and the remeasurement of deferred income tax assets and liabilities resulting from the TCJA.

Deferred Income Tax Assets and Liabilities**As of December 31**

	2019	2018
Millions		
Deferred Income Tax Assets		
Employee Benefits and Compensation	\$49.9	\$62.2
Property-Related	76.9	95.2
NOL Carryforwards	63.2	86.1
Tax Credit Carryforwards	395.5	349.8
Power Sales Agreements	23.7	27.5
Regulatory Liabilities	116.9	113.4
Other	23.4	25.1
Gross Deferred Income Tax Assets	749.5	759.3
Deferred Income Tax Asset Valuation Allowance	(70.0)	(66.5)
Total Deferred Income Tax Assets	\$679.5	\$692.8
Deferred Income Tax Liabilities		
Property-Related	\$713.4	\$752.5
Regulatory Asset for Benefit Obligations	54.5	61.0
Unamortized Investment Tax Credits	31.6	32.2
Partnership Basis Differences	49.4	40.8
Regulatory Assets	35.4	29.9
Other	8.0	—
Total Deferred Income Tax Liabilities	\$892.3	\$916.4
Net Deferred Income Taxes (a)	\$212.8	\$223.6

(a) Recorded as a net long-term Deferred Income Tax liability on the Consolidated Balance Sheet

NOTE 11. INCOME TAX EXPENSE (Continued).**NOL and Tax Credit Carryforwards**

As of December 31	2019	2018
Millions		
Federal NOL Carryforwards (a)	\$211.3	\$319.0
Federal Tax Credit Carryforwards	\$302.5	\$256.4
State NOL Carryforwards (a)	\$274.8	\$305.8
State Tax Credit Carryforwards (b)	\$23.4	\$27.4

*(a) Pre-tax amounts.**(b) Net of a \$69.6 million valuation allowance as of December 31, 2019 (\$66.0 million as of December 31, 2018).*

The federal NOL and tax credit carryforward periods expire between 2031 and 2039. We expect to fully utilize the federal NOL and federal tax credit carryforwards; therefore, no federal valuation allowance has been recognized as of December 31, 2019. The state NOL and tax credit carryforward periods expire between 2024 and 2045. We have established a valuation allowance against certain state NOL and tax credits that we do not expect to utilize before their expiration.

Gross Unrecognized Income Tax Benefits	2019	2018	2017
Millions			
Balance at January 1	\$1.6	\$1.7	\$2.0
Additions for Tax Positions Related to the Current Year	0.1	0.1	0.1
Additions for Tax Positions Related to Prior Years	0.1	0.1	0.1
Reductions for Tax Positions Related to Prior Years	(0.4)	(0.2)	(0.1)
Lapse of Statute	—	(0.1)	(0.4)
Balance as of December 31	\$1.4	\$1.6	\$1.7

Unrecognized tax benefits are the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the “more-likely-than-not” criteria. The unrecognized tax benefit balance includes permanent tax positions which, if recognized would affect the annual effective income tax rate. In addition, the unrecognized tax benefit balance includes temporary tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. A change in the period of deductibility would not affect the effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. The gross unrecognized tax benefits as of December 31, 2019, included \$0.6 million of net unrecognized tax benefits which, if recognized, would affect the annual effective income tax rate.

As of December 31, 2019, we had no accrued interest (none as of December 31, 2018, and 2017) related to unrecognized tax benefits included on the Consolidated Balance Sheet due to our NOL carryforwards. We classify interest related to unrecognized tax benefits as interest expense and tax-related penalties in operating expenses on the Consolidated Statement of Income. Interest expense related to unrecognized tax benefits on the Consolidated Statement of Income was immaterial in 2019, 2018 and 2017). There were no penalties recognized in 2019, 2018 or 2017. 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.

No material changes to unrecognized tax benefits are expected during the next 12 months.

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 2016 or state examination for years before 2015.

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

We have noncontributory union, non-union and combined retiree defined benefit pension plans covering eligible employees. The combined retiree defined benefit pension plan was created in 2016, to include all union and non-union retirees from the existing plans as of January 1, 2016. The plans provide defined benefits based on years of service and final average pay. We contributed \$10.4 million in cash to the plans in 2019 (\$15.0 million in 2018; \$1.7 million in 2017). We contributed no shares of ALLETE common stock to the plans in 2019 (none in 2018; 0.2 million shares, which had an aggregate value of \$13.5 million in 2017). We also have a defined contribution RSOP covering substantially all employees. The 2019 plan year employer contributions, which are made through the employee stock ownership plan portion of the RSOP, totaled \$10.8 million (\$11.4 million for the 2018 plan year; \$11.0 million for the 2017 plan year). (See Note 10. Common Stock and Earnings Per Share and Note 13. Employee Stock and Incentive Plans.)

The non-union defined benefit pension plan was frozen in 2018, and does not allow further crediting of service or earnings to the plan. Further, it is closed to new participants. The Minnesota Power union defined benefit pension plan is also closed to new participants.

We have postretirement health care and life insurance plans covering eligible employees. In 2010, the postretirement health care plan was closed to employees hired after January 31, 2011, and the eligibility requirements were amended. In 2014, the postretirement life plan was amended to close the plan to non-union employees retiring after December 31, 2015, and in 2018, the postretirement life plan was amended to limit the benefit level for union employees retiring after December 31, 2018. The postretirement health and life plans are contributory with participant contributions adjusted annually. Postretirement health and life benefits are funded through a combination of Voluntary Employee Benefit Association trusts (VEBAs), established under section 501(c)(9) of the Internal Revenue Code, and irrevocable grantor trusts. In 2019, no contributions were made to the VEBAs (none in 2018; none in 2017) and no contributions were made to the grantor trusts (none in 2018; none in 2017).

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 pension plans. Contributions are based on estimates and assumptions which are subject to change. On January 15, 2020, we contributed \$10.7 million in cash to the defined benefit pension plans. We do not expect to make any additional contributions to the defined benefit pension plans in 2020, and we do not expect to make any contributions to the defined benefit postretirement health and life plans in 2020.

Accounting for defined benefit pension and other postretirement benefit plans requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost.

The defined benefit pension and postretirement health and life benefit expense (credit) recognized annually by our regulated utilities are expected to be recovered (refunded) through rates filed with our regulatory jurisdictions. As a result, these amounts that are required to otherwise be recognized in accumulated other comprehensive income have been recognized as a long-term regulatory asset (regulatory liability) on the Consolidated Balance Sheet, in accordance with the accounting standards for the effect of certain types of regulation applicable to our Regulated Operations. The defined benefit pension and postretirement health and life benefit expense (credits) associated with our other operations are recognized in accumulated other comprehensive income.

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**Pension Obligation and Funded Status**

As of December 31	2019	2018
Millions		
Accumulated Benefit Obligation	\$812.0	\$713.7
Change in Benefit Obligation		
Obligation, Beginning of Year	\$747.0	\$793.2
Service Cost	9.3	11.0
Interest Cost	31.9	29.6
Plan Amendments	—	(1.5)
Plan Curtailments	—	(6.9)
Actuarial (Gain) Loss	98.3	(53.0)
Benefits Paid	(53.4)	(49.5)
Participant Contributions	20.9	24.1
Obligation, End of Year	\$854.0	\$747.0
Change in Plan Assets		
Fair Value, Beginning of Year	\$598.0	\$628.2
Actual Return on Plan Assets	122.1	(21.2)
Employer Contribution (a)	32.9	40.5
Benefits Paid	(53.4)	(49.5)
Fair Value, End of Year	\$699.6	\$598.0
Funded Status, End of Year	\$(154.4)	\$(149.0)
Net Pension Amounts Recognized in Consolidated Balance Sheet Consist of:		
Current Liabilities	\$(1.6)	\$(1.6)
Non-Current Liabilities	\$(152.8)	\$(147.4)

(a) Includes Participant Contributions noted above.

The pension costs that are reported as a component within the Consolidated Balance Sheet, reflected in long-term regulatory assets or liabilities and accumulated other comprehensive income, consist of a net loss of \$243.4 million and prior service credit of \$1.3 million as of December 31, 2019 (net loss of \$230.5 million and prior service credit of \$1.4 million as of December 31, 2018).

Reconciliation of Net Pension Amounts Recognized in Consolidated Balance Sheet

As of December 31	2019	2018
Millions		
Net Loss	\$(243.4)	\$(230.5)
Prior Service Credit	1.3	1.4
Accumulated Contributions in Excess of Net Periodic Benefit Cost (Prepaid Pension Asset)	87.7	80.1
Total Net Pension Amounts Recognized in Consolidated Balance Sheet	\$(154.4)	\$(149.0)

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**Components of Net Periodic Pension Cost**

Year Ended December 31	2019	2018	2017
Millions			
Service Cost	\$9.3	\$11.0	\$10.2
Non-Service Cost Components <i>(a)</i>			
Interest Cost	31.9	29.6	32.5
Expected Return on Plan Assets	(44.2)	(44.4)	(42.4)
Amortization of Loss	7.5	11.4	9.9
Amortization of Prior Service Credit	(0.1)	(0.1)	—
Net Pension Cost	\$4.4	\$7.5	\$10.2

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

Other Changes in Pension Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income and Regulatory Assets or Liabilities

Year Ended December 31	2019	2018
Millions		
Net Loss	\$20.4	\$5.8
Amortization of Prior Service Credit	0.1	0.1
Prior Service Credit Arising During the Period	—	(1.6)
Amortization of Loss	(7.5)	(11.4)
Total Recognized in Other Comprehensive Income and Regulatory Assets or Liabilities	\$13.0	\$(7.1)

Information for Pension Plans with an Accumulated Benefit Obligation in Excess of Plan Assets

As of December 31	2019	2018
Millions		
Projected Benefit Obligation	\$854.0	\$747.0
Accumulated Benefit Obligation	\$812.0	\$713.7
Fair Value of Plan Assets	\$699.6	\$598.0

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**Postretirement Health and Life Obligation and Funded Status**

As of December 31	2019	2018
Millions		
Change in Benefit Obligation		
Obligation, Beginning of Year	\$176.0	\$190.1
Service Cost	3.9	4.7
Interest Cost	7.3	7.1
Actuarial (Gain) Loss	10.5	(15.8)
Benefits Paid	(14.7)	(11.6)
Participant Contributions	3.5	3.6
Plan Amendments (a)	(34.6)	(2.1)
Plan Curtailments	(2.1)	—
Obligation, End of Year	\$149.8	\$176.0
Change in Plan Assets		
Fair Value, Beginning of Year	\$154.3	\$171.0
Actual Return on Plan Assets	29.5	(9.6)
Employer Contribution	1.1	1.0
Participant Contributions	3.5	3.6
Benefits Paid	(14.7)	(11.7)
Fair Value, End of Year	\$173.7	\$154.3
Funded Status, End of Year	\$23.9	\$(21.7)
Net Postretirement Health and Life Amounts Recognized in Consolidated Balance Sheet Consist of:		
Non-Current Assets	\$37.5	\$0.4
Current Liabilities	\$(0.7)	\$(1.0)
Non-Current Liabilities	\$(12.9)	\$(21.1)

(a) Plan design changes under the other postretirement benefit plans resulted in a decrease to the benefit obligation of \$34.6 million in 2019.

According to the accounting standards for retirement benefits, only assets in the VEBAs are treated as plan assets in the preceding table for the purpose of determining funded status. In addition to the postretirement health and life assets reported in the previous table, we had \$19.1 million in irrevocable grantor trusts included in Other Investments on the Consolidated Balance Sheet as of December 31, 2019 (\$18.3 million as of December 31, 2018).

The postretirement health and life costs that are reported as a component within the Consolidated Balance Sheet, reflected in regulatory long-term assets or liabilities and accumulated other comprehensive income, consist of the following:

Unrecognized Postretirement Health and Life Costs

As of December 31	2019	2018
Millions		
Net Loss	\$16.0	\$25.0
Prior Service Credit	(36.3)	(4.6)
Total Unrecognized Postretirement Health and Life Cost	\$(20.3)	\$20.4

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**Reconciliation of Net Postretirement Health and Life Amounts Recognized in Consolidated Balance Sheet**

As of December 31	2019	2018
Millions		
Net Loss (a)	\$(16.0)	\$(25.0)
Prior Service Credit	36.3	4.6
Accumulated Net Periodic Benefit Cost in Excess of Contributions(a)	3.6	(1.3)
Total Net Postretirement Health and Life Amounts Recognized in Consolidated Balance Sheet	\$23.9	\$(21.7)

(a) Excludes gains, losses and contributions associated with irrevocable grantor trusts.

Components of Net Periodic Postretirement Health and Life Cost

Year Ended December 31	2019	2018	2017
Millions			
Service Cost	\$3.9	\$4.7	\$4.4
Non-Service Cost Components (a)			
Interest Cost	7.3	7.1	7.7
Expected Return on Plan Assets	(10.5)	(10.9)	(10.5)
Amortization of Loss	0.5	0.8	0.3
Amortization of Prior Service Credit	(2.8)	(2.1)	(2.0)
Effect of Plan Curtailment	(2.1)	—	—
Net Postretirement Health and Life Credit	\$(3.7)	\$(0.4)	\$(0.1)

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

Other Changes in Postretirement Benefit Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income and Regulatory Assets or Liabilities

Year Ended December 31	2019	2018
Millions		
Net (Gain) Loss	\$(10.6)	\$4.7
Prior Service Credit Arising During the Period	(34.6)	(2.1)
Amortization of Prior Service Credit	2.8	2.1
Amortization of Loss	(0.5)	(0.8)
Total Recognized in Other Comprehensive Income and Regulatory Assets or Liabilities	\$(42.9)	\$3.9

Estimated Future Benefit Payments

	Pension	Postretirement Health and Life
Millions		
2020	\$51.2	\$8.6
2021	\$50.7	\$8.4
2022	\$50.1	\$8.2
2023	\$49.8	\$8.0
2024	\$49.6	\$8.0
Years 2025 – 2029	\$239.3	\$40.1

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

The pension and postretirement health and life costs recorded in regulatory long-term assets or liabilities and accumulated other comprehensive income expected to be recognized as a component of net pension and postretirement benefit costs for the year ending December 31, 2020, are as follows:

	Pension	Postretirement Health and Life
Millions		
Net Loss	\$12.8	\$1.0
Prior Service Credit	(0.2)	(8.0)
Total Pension and Postretirement Health and Life Cost (Credit)	\$12.6	\$(7.0)

Assumptions Used to Determine Benefit Obligation

As of December 31	2019	2018
Discount Rate		
Pension	3.34 - 3.47%	4.39 - 4.53%
Postretirement Health and Life	3.45%	4.47%
Rate of Compensation Increase	3.70 - 4.10%	3.70 - 4.10%
Health Care Trend Rates		
Trend Rate	5.00 - 6.20%	5.00 - 6.46%
Ultimate Trend Rate	4.50%	4.50%
Year Ultimate Trend Rate Effective	2038	2038

Assumptions Used to Determine Net Periodic Benefit Costs

Year Ended December 31	2019	2018	2017
Discount Rate	4.39 - 4.53%	3.81 - 3.96%	4.53 - 4.57%
Expected Long-Term Return on Plan Assets^(a)			
Pension	7.25%	7.50%	7.50%
Postretirement Health and Life	5.80 - 7.25%	6.00 - 7.50%	6.00 - 7.50%
Rate of Compensation Increase	3.70 - 4.10%	3.70 - 4.10%	3.70 - 4.30%

(a) The expected long-term rates of return used to determine net periodic benefit expense for 2020 have been reduced to 6.75 percent for pension expense and 5.40 percent to 6.75 percent for postretirement health and life expense.

In establishing the expected long-term rate of return on plan assets, we determine the long-term historical performance of each asset class, adjust these for current economic conditions, and utilizing the target allocation of our plan assets, forecast the expected long-term rate of return.

The discount rate is computed using a bond matching study which utilizes a portfolio of high quality bonds that produce cash flows similar to the projected costs of our pension and other postretirement plans.

The Company utilizes actuarial assumptions about mortality to calculate the pension and postretirement health and life benefit obligations. The mortality assumptions used to calculate our pension and other postretirement benefit obligations as of December 31, 2019, considered a modified PRI-2012 mortality table and mortality projection scale.

Sensitivity of a One Percent Change in Health Care Trend Rates

	One Percent Increase	One Percent Decrease
Millions		
Effect on Total of Postretirement Health and Life Service and Interest Cost	\$1.8	\$(1.4)
Effect on Postretirement Health and Life Obligation	\$16.5	\$(13.6)

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)**Actual Plan Asset Allocations**

	Pension		Postretirement Health and Life ^(a)	
	2019	2018	2019	2018
Equity Securities	34%	32%	66%	62%
Fixed Income Securities	62%	60%	33%	34%
Private Equity	1%	5%	1%	4%
Real Estate	3%	3%	—	—
	100%	100%	100%	100%

(a) Includes VEBA's and irrevocable grantor trusts.

There were no shares of ALLETE common stock included in pension plan equity securities as of December 31, 2019 (no shares as of December 31, 2018).

The defined benefit pension plans have adopted a dynamic asset allocation strategy (glide path) that increases the invested allocation to fixed income assets as the funding level of the plan increases to better match the sensitivity of the plan's assets and liabilities to changes in interest rates. This is expected to reduce the volatility of reported pension plan expenses. The postretirement health and life plans' assets are diversified to achieve strong returns within managed risk. Equity securities are diversified among domestic companies with large, mid and small market capitalizations, as well as investments in international companies. The majority of debt securities are made up of investment grade bonds.

Following are the current targeted allocations as of December 31, 2019:

Plan Asset Target Allocations

	Pension	Postretirement Health and Life ^(a)
Equity Securities	32%	60%
Fixed Income Securities	56%	37%
Private Equity	6%	—
Real Estate	6%	3%
	100%	100%

(a) Includes VEBA's and irrevocable grantor trusts.

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). (See Note 7. Fair Value)

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

Pension Fair Value

Recurring Fair Value Measures	Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Equity Securities:				
U.S. Large-cap (a)	—	\$78.5	—	\$78.5
U.S. Mid-cap Growth (a)	—	35.9	—	35.9
U.S. Small-cap (a)	—	34.6	—	34.6
International	—	92.1	—	92.1
Fixed Income Securities (a)	—	425.4	—	425.4
Cash and Cash Equivalents	\$7.1	—	—	7.1
Private Equity Funds	—	—	\$8.0	8.0
Real Estate	—	—	18.0	18.0
Total Fair Value of Assets	\$7.1	\$666.5	\$26.0	\$699.6

(a) The underlying investments consist of actively-managed funds managed to achieve the returns of certain U.S. equity and fixed income securities indexes.

Recurring Fair Value Measures

Activity in Level 3	Private Equity Funds	Real Estate
Millions		
Balance as of December 31, 2018	\$27.8	\$20.8
Actual Return on Plan Assets	0.4	(1.3)
Purchases, Sales, and Settlements – Net	(20.2)	(1.5)
Balance as of December 31, 2019	\$8.0	\$18.0

Recurring Fair Value Measures	Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Equity Securities:				
U.S. Large-cap (a)	—	\$59.1	—	\$59.1
U.S. Mid-cap Growth (a)	—	28.1	—	28.1
U.S. Small-cap (a)	—	27.2	—	27.2
International	—	75.8	—	75.8
Fixed Income Securities (a)	—	352.9	—	352.9
Cash and Cash Equivalents	\$6.3	—	—	6.3
Private Equity Funds	—	—	\$27.8	27.8
Real Estate	—	—	20.8	20.8
Total Fair Value of Assets	\$6.3	\$543.1	\$48.6	\$598.0

(a) The underlying investments consist of actively-managed funds managed to achieve the returns of certain U.S. equity and fixed income securities indexes.

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

Recurring Fair Value Measures

Activity in Level 3	Private Equity Funds	Real Estate
Millions		
Balance as of December 31, 2017	\$33.2	\$25.5
Actual Return on Plan Assets	2.8	0.7
Purchases, Sales, and Settlements – Net	(8.2)	(5.4)
Balance as of December 31, 2018	\$27.8	\$20.8

Postretirement Health and Life Fair Value

Recurring Fair Value Measures	Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Equity Securities: (a)				
U.S. Large-cap	\$33.6	—	—	\$33.6
U.S. Mid-cap Growth	27.7	—	—	27.7
U.S. Small-cap	14.3	—	—	14.3
International	37.8	—	—	37.8
Fixed Income Securities:				
Mutual Funds	53.4	—	—	53.4
Debt Securities	—	\$4.1	—	4.1
Cash and Cash Equivalents	1.1	—	—	1.1
Private Equity Funds	—	—	\$1.7	1.7
Total Fair Value of Assets	\$167.9	\$4.1	\$1.7	\$173.7

(a) The underlying investments consist of mutual funds (Level 1).

Recurring Fair Value Measures

Activity in Level 3	Private Equity Funds
Millions	
Balance as of December 31, 2018	\$6.5
Actual Return on Plan Assets	0.7
Purchases, Sales, and Settlements – Net	(5.5)
Balance as of December 31, 2019	\$1.7

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

Recurring Fair Value Measures	Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Equity Securities: (a)				
U.S. Large-cap	\$29.1	—	—	\$29.1
U.S. Mid-cap Growth	21.2	—	—	21.2
U.S. Small-cap	12.9	—	—	12.9
International	30.4	—	—	30.4
Fixed Income Securities:				
Mutual Funds	49.6	—	—	49.6
Debt Securities	—	\$4.0	—	4.0
Cash and Cash Equivalents	0.6	—	—	0.6
Private Equity Funds	—	—	\$6.5	6.5
Total Fair Value of Assets	\$143.8	\$4.0	\$6.5	\$154.3

(a) The underlying investments consist of mutual funds (Level 1).

Recurring Fair Value Measures

Activity in Level 3	Private Equity Funds
Millions	
Balance as of December 31, 2017	\$8.2
Actual Return on Plan Assets	0.9
Purchases, Sales, and Settlements – Net	(2.6)
Balance as of December 31, 2018	\$6.5

Accounting and disclosure requirements for the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) provide guidance for employers that sponsor postretirement health care plans that provide prescription drug benefits. We provide a fully insured postretirement health benefit, including a prescription drug benefit, which qualifies us for a federal subsidy under the Act. The federal subsidy is reflected in the premiums charged to us by the insurance company.

NOTE 13. EMPLOYEE STOCK AND INCENTIVE PLANS

Employee Stock Ownership Plan. We sponsor an ESOP within the RSOP. Eligible employees may contribute to the RSOP plan as of their date of hire. The dividends received by the ESOP are distributed to participants. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings. ESOP employer allocations are funded with contributions paid in either cash or the issuance of ALLETE common stock at the Company's discretion. We record compensation expense equal to the cash or current market price of stock contributed. ESOP compensation expense was \$10.8 million in 2019 (\$11.4 million in 2018; \$11.0 million in 2017).

According to the accounting standards for stock compensation, unallocated shares of ALLETE common stock held and purchased by the ESOP were treated as unearned ESOP shares and not considered outstanding for earnings per share computations. All ESOP shares have been allocated to participants as of December 31, 2019, 2018 and 2017.

Stock-Based Compensation.

Stock Incentive Plan. Under our Executive Long-Term Incentive Compensation Plan (Executive Plan), share-based awards may be issued to key employees through a broad range of methods, including non-qualified and incentive stock options, performance shares, performance units, restricted stock, restricted stock units, stock appreciation rights and other awards. There are 0.8 million shares of ALLETE common stock reserved for issuance under the Executive Plan, of which 0.7 million of these shares remain available for issuance as of December 31, 2019.

NOTE 13. EMPLOYEE STOCK AND INCENTIVE PLANS (Continued)
Stock-Based Compensation (Continued)

The following types of share-based awards were outstanding in 2019, 2018 or 2017:

Performance Shares. Under the performance share awards, the number of shares earned is contingent upon attaining specific market and performance goals over a three-year performance period. Market goals are measured by total shareholder return relative to a group of peer companies while performance goals are measured by earnings per share growth. In the case of qualified retirement, death, or disability during a performance period, a pro rata portion of the award will be earned at the conclusion of the performance period based on the market goals achieved. In the case of termination of employment for any reason other than qualified retirement, death, or disability, no award will be earned. If there is a change in control, a pro rata portion of the award will be paid based on the greater of actual performance up to the date of the change in control or target performance. The fair value of these awards incorporates the probability of meeting the total shareholder return goals. Compensation cost is recognized over the three-year performance period based on our estimate of the number of shares which will be earned by the award recipients.

Restricted Stock Units. Under the restricted stock unit awards, shares for participants eligible for retirement vest monthly over a three-year period. For participants not eligible for retirement, shares vest at the end of the three-year period. In the case of qualified retirement, death or disability, a pro rata portion of the award will be earned. In the case of termination of employment for any reason other than qualified retirement, death or disability, no award will be earned. If there is a change in control, a pro rata portion of the award will be earned. The fair value of these awards is equal to the grant date fair value. Compensation cost is recognized over the three-year vesting period based on our estimate of the number of shares which will be earned by the award recipients.

Employee Stock Purchase Plan (ESPP). Under our ESPP, eligible employees may purchase ALLETE common stock at a 5 percent discount from the market price; we are not required to apply fair value accounting to these awards as the discount is not greater than 5 percent.

RSOP. The RSOP is a contributory defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, and qualifies as an employee stock ownership plan and profit sharing plan. The RSOP provides eligible employees an opportunity to save for retirement.

The following share-based compensation expense amounts were recognized in our Consolidated Statement of Income for the periods presented.

Share-Based Compensation Expense

Year Ended December 31	2019	2018	2017
Millions			
Performance Shares	\$2.3	\$2.3	\$2.1
Restricted Stock Units	0.8	0.9	1.0
Total Share-Based Compensation Expense	\$3.1	\$3.2	\$3.1
Income Tax Benefit	\$0.9	\$0.9	\$0.9

There were no capitalized share-based compensation costs during the years ended December 31, 2019, 2018 or 2017.

As of December 31, 2019, the total unrecognized compensation cost for the performance share awards and restricted stock units not yet recognized in our Consolidated Statement of Income was \$2.2 million and \$0.9 million, respectively. These amounts are expected to be recognized over a weighted-average period of 1.6 years.

NOTE 13. EMPLOYEE STOCK AND INCENTIVE PLANS (Continued)
Stock-Based Compensation (Continued)

Performance Shares. The following table presents information regarding our non-vested performance shares.

	2019		2018		2017	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested as of January 1	129,693	\$66.12	127,898	\$58.23	127,580	\$52.56
Granted (a)	60,747	\$63.89	66,557	\$76.42	50,729	\$62.90
Awarded	(75,943)	\$53.44	(58,293)	\$59.82	—	—
Unearned Grant Award	—	—	—	—	(40,801)	\$46.27
Forfeited	(14,912)	\$77.14	(6,469)	\$72.99	(9,610)	\$58.29
Non-vested as of December 31	99,585	\$72.78	129,693	\$66.12	127,898	\$58.23

(a) *Shares granted include accrued dividends.*

There were approximately 22,000 performance shares granted in January 2020 for the three-year performance period ending in 2022. The ultimate issuance is contingent upon the attainment of certain goals of ALLETE during the performance periods. The grant date fair value of the performance shares granted was \$1.8 million. There were approximately 25,000 performance shares awarded in February 2020. The grant date fair value of the shares awarded was \$1.6 million.

Restricted Stock Units. The following table presents information regarding our available restricted stock units.

	2019		2018		2017	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Available as of January 1	49,771	\$60.74	55,248	\$56.18	54,728	\$51.79
Granted (a)	13,927	\$74.93	16,573	\$71.11	21,241	\$62.20
Awarded	(21,110)	\$52.44	(18,881)	\$55.78	(17,281)	\$49.72
Forfeited	(2,645)	\$72.43	(3,169)	\$64.92	(3,440)	\$56.00
Available as of December 31	39,943	\$69.30	49,771	\$60.74	55,248	\$56.18

(a) *Shares granted include accrued dividends.*

There were approximately 14,000 restricted stock units granted in January 2020 for the vesting period ending in 2022. The grant date fair value of the restricted stock units granted was \$1.1 million. There were approximately 15,000 restricted stock units awarded in February 2020. The grant date fair value of the shares awarded was \$0.9 million.

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 was our integrated water management company, which reflects operating results until the date of its sale on March 26, 2019. 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 our investment in Nobles 2, 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)

Year Ended December 31	2019	2018	2017
Millions			
Operating Revenue			
Residential	\$139.6	\$139.7	\$127.4
Commercial	145.7	147.9	139.8
Municipal	48.6	54.9	57.9
Industrial	476.4	469.5	470.5
Other Power Suppliers	153.7	170.3	161.8
CIP Financial Incentive	2.8	3.0	5.5
Other	75.6	74.2	100.9
Total Regulated Operations	1,042.4	1,059.5	1,063.8
ALLETE Clean Energy			
Long-term PSA	48.0	55.2	56.9
Sale of Wind Energy Facility	—	81.1	—
Other	11.6	23.6	23.6
Total ALLETE Clean Energy	59.6	159.9	80.5
U.S. Water Services (e)			
Point-in-time	19.0	100.3	95.8
Contract	9.2	38.3	36.2
Capital Project	5.2	33.5	19.8
Total U.S. Water Services	33.4	172.1	151.8
Corporate and Other			
Long-term Contract	82.8	85.5	89.3
Other	22.3	21.6	33.9
Total Corporate and Other	105.1	107.1	123.2
Total Operating Revenue	\$1,240.5	\$1,498.6	\$1,419.3
Net Income (Loss) Attributable to ALLETE (a)(b)			
Regulated Operations	\$154.4	\$131.0	\$128.4
ALLETE Clean Energy (c)	12.4	33.7	41.5
U.S. Water Services	(1.1)	3.2	10.7
Corporate and Other (d)(e)	19.9	6.2	(8.4)
Total Net Income Attributable to ALLETE	\$185.6	\$174.1	\$172.2

(a) Net income in 2017 included a favorable impact of \$13.0 million after-tax due to the remeasurement of deferred income tax assets and liabilities resulting from the TCJA, which consisted of a \$23.6 million after-tax benefit for ALLETE Clean Energy, a \$9.2 million after-tax benefit for U.S. Water Services and a \$19.8 million after-tax expense for Corporate and Other. The TCJA did not have an impact on net income for our Regulated Operations as the remeasurement of deferred income tax assets and liabilities primarily resulted in the recording of regulatory assets and liabilities. (See Note 1. Operations and Significant Accounting Policies and Note 4. Regulatory Matters.)

(b) Includes interest expense resulting from intercompany loan agreements and allocated to certain subsidiaries. The amounts are eliminated in consolidation.

(c) Net income in 2018 includes the recognition of profit for the sale of a wind energy facility to Montana-Dakota Utilities.

(d) Net income in 2017 included a \$7.9 million after-tax favorable impact for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits.

(e) On March 26, 2019, ALLETE sold U.S. Water Services. The Company recognized a gain on the sale of \$13.2 million after-tax which is reflected in Corporate and Other. (See Note 1. Operations and Significant Accounting Policies.)

NOTE 14. BUSINESS SEGMENTS (Continued)

Year Ended December 31	2019	2018	2017
Millions			
Depreciation and Amortization			
Regulated Operations	\$159.4	\$158.0	\$132.6
ALLETE Clean Energy	26.8	24.4	23.4
U.S. Water Services	2.3	10.2	9.8
Corporate and Other	13.5	13.0	11.7
Total Depreciation and Amortization	\$202.0	\$205.6	\$177.5
Operating Expenses – Other (a)			
Corporate and Other	—	\$(2.0)	\$(0.7)
Total Operating Expenses – Other	—	\$(2.0)	\$(0.7)
Interest Expense (b)			
Regulated Operations	\$58.9	\$60.2	\$57.0
ALLETE Clean Energy	2.8	3.6	4.2
U.S. Water Services	0.2	1.5	1.6
Corporate and Other	8.0	7.3	10.3
Eliminations	(5.0)	(4.7)	(5.3)
Total Interest Expense	\$64.9	\$67.9	\$67.8
Equity Earnings			
Regulated Operations	\$21.7	\$17.5	\$22.5
Income Tax Expense (Benefit) (c)			
Regulated Operations (d)	\$(7.1)	\$(15.5)	\$27.2
ALLETE Clean Energy	(11.9)	(1.0)	(14.2)
U.S. Water Services	(0.4)	1.0	(7.8)
Corporate and Other (d)(e)	12.8	—	9.5
Total Income Tax Expense (Benefit)	\$(6.6)	\$(15.5)	\$14.7

(a) See Note 1. Operations and Significant Accounting Policies.

(b) Includes interest expense resulting from intercompany loan agreements and allocated to certain subsidiaries. The amounts are eliminated in consolidation.

(c) Income tax expense in 2017 included an income tax benefit of \$13.0 million due to the remeasurement of deferred income tax assets and liabilities resulting from the TCJA, which consisted of income tax benefits of \$23.6 million for ALLETE Clean Energy and \$9.2 million for U.S. Water Services as well as additional income tax expense of \$19.8 million for Corporate and Other. The TCJA did not have an impact on income tax expense for our Regulated Operations as the remeasurement of deferred income tax assets and liabilities primarily resulted in the recording of regulatory assets and liabilities. (See Note 1. Operations and Significant Accounting Policies and Note 4. Regulatory Matters.)

(d) In 2017, Regulated Operations includes \$14.0 million of income tax expense related to North Dakota investment tax credits transferred to Corporate and Other and higher pre-tax income for the favorable impact for the regulatory outcome of the MPUC's modification of its November 2016 order on the allocation of North Dakota investment tax credits. There was no impact to net income for Regulated Operations. Corporate and Other recorded an offsetting income tax benefit of \$7.9 million in 2017. (See Note 4. Regulatory Matters.)

(e) On March 26, 2019, ALLETE sold U.S. Water Services. The Company recognized income tax expense of \$10.4 million for the gain on sale of U.S. Water Services which is reflected in Corporate and Other. (See Note 1. Operations and Significant Accounting Policies.)

NOTE 14. BUSINESS SEGMENTS (Continued)

As of December 31	2019	2018
Millions		
Assets		
Regulated Operations	\$4,130.8	\$3,952.5
ALLETE Clean Energy	1,001.5	606.6
U.S. Water Services (a)	—	295.8
Corporate and Other	350.5	310.1
Total Assets	\$5,482.8	\$5,165.0
Capital Expenditures		
Regulated Operations	\$230.9	\$211.9
ALLETE Clean Energy	385.6	89.7
U.S. Water Services (a)	—	5.0
Corporate and Other	10.1	12.0
Total Capital Expenditures	\$626.6	\$318.6

(a) On March 26, 2019, ALLETE sold U.S. Water Services. (See Note 1. Operations and Significant Accounting Policies.)

NOTE 15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Information for any one quarterly period is not necessarily indicative of the results which may be expected for the year.

Quarter Ended	Mar. 31	Jun. 30	Sept. 30	Dec. 31
Millions Except Earnings Per Share				
2019				
Operating Revenue	\$357.2	\$290.4	\$288.3	\$304.6
Operating Income	\$56.8	\$36.2	\$37.0	\$49.8
Net Income Attributable to ALLETE	\$70.5	\$34.2	\$31.2	\$49.7
Earnings Per Share of Common Stock				
Basic	\$1.37	\$0.66	\$0.60	\$0.96
Diluted	\$1.37	\$0.66	\$0.60	\$0.96
2018				
Operating Revenue	\$358.2	\$344.1	\$348.0	\$448.3
Operating Income	\$57.4	\$36.5	\$43.3	\$64.0
Net Income Attributable to ALLETE	\$51.0	\$31.3	\$30.7	\$61.1
Earnings Per Share of Common Stock				
Basic	\$1.00	\$0.61	\$0.59	\$1.19
Diluted	\$0.99	\$0.61	\$0.59	\$1.18
2017				
Operating Revenue	\$365.6	\$353.3	\$362.5	\$337.9
Operating Income	\$71.6	\$54.0	\$68.0	\$32.3
Net Income Attributable to ALLETE	\$49.0	\$36.9	\$44.9	\$41.4
Earnings Per Share of Common Stock				
Basic	\$0.97	\$0.73	\$0.88	\$0.81
Diluted	\$0.97	\$0.72	\$0.88	\$0.81

Schedule II

ALLETE

Valuation and Qualifying Accounts and Reserves

	Balance at Beginning of Period	Additions		Deductions from Reserves <i>(a)</i>	Balance at End of Period
		Charged to Income	Other Charges		
Millions					
Reserve Deducted from Related Assets					
Reserve For Uncollectible Accounts					
2017 Trade Accounts Receivable	\$3.1	\$0.8	—	\$1.8	\$2.1
Finance Receivables – Long-Term	—	—	—	—	—
2018 Trade Accounts Receivable	\$2.1	\$0.9	—	\$1.3	\$1.7
Finance Receivables – Long-Term	—	—	—	—	—
2019 Trade Accounts Receivable	\$1.7	\$(0.1)	—	\$0.7	\$0.9
Finance Receivables – Long-Term	—	—	—	—	—
Deferred Asset Valuation Allowance					
2017 Deferred Tax Assets	\$43.0	\$17.0	—	—	\$60.0
2018 Deferred Tax Assets	\$60.0	\$6.5	—	—	\$66.5
2019 Deferred Tax Assets	\$66.5	\$3.5	—	—	\$70.0

(a) Includes uncollectible accounts written-off.

TERM LOAN AGREEMENT

Dated as of January 10, 2020

among

ALLETE, INC.,
as the Borrower

and

BANK OF AMERICA, N.A.,
as the Lender



TABLE OF CONTENTS

		Page
	<u>ARTICLE I DEFINITIONS AND ACCOUNTING TERMS</u>	1
<u>1.01</u>	<u>Defined Terms.</u>	1
<u>1.02</u>	<u>Other Interpretive Provisions.</u>	15
<u>1.03</u>	<u>Accounting Terms.</u>	15
<u>1.04</u>	<u>Rounding.</u>	16
	<u>1.05</u> <u>Times of Day; Rates.</u>	16
	<u>ARTICLE II TERM COMMITMENT AND TERM BORROWINGS</u>	16
<u>2.01</u>	<u>Term Loans.</u>	16
<u>2.02</u>	<u>Term Borrowings, Conversions and Continuations of Term Loans</u>	17
<u>2.03</u>	<u>Optional Prepayments.</u>	17
<u>2.04</u>	<u>Termination or Reduction of Term Commitment.</u>	18
<u>2.05</u>	<u>Repayment of Term Loans.</u>	18
<u>2.06</u>	<u>Interest and Default Rate.</u>	18
<u>2.07</u>	<u>Fees.</u>	19
<u>2.08</u>	<u>Computation of Interest and Fees.</u>	19
<u>2.09</u>	<u>Payments Generally.</u>	19
	<u>ARTICLE III TAXES, YIELD PROTECTION AND ILLEGALITY</u>	19
<u>3.01</u>	<u>Taxes.</u>	19
<u>3.02</u>	<u>Illegality.</u>	20
<u>3.03</u>	<u>Inability to Determine Rates.</u>	20
<u>3.04</u>	<u>Increased Costs; Reserves on Eurodollar Rate Loans.</u>	21
<u>3.05</u>	<u>Compensation for Losses.</u>	22
<u>3.06</u>	<u>Survival.</u>	23
	<u>ARTICLE IV CONDITIONS PRECEDENT TO TERM BORROWINGS</u>	23
<u>4.01</u>	<u>Conditions of Initial Term Borrowing.</u>	23
<u>4.02</u>	<u>Conditions to all Term Borrowings.</u>	24
	<u>ARTICLE V REPRESENTATIONS AND WARRANTIES</u>	24
<u>5.01</u>	<u>Organization; Powers.</u>	24
<u>5.02</u>	<u>Authorization; Enforceability.</u>	25
<u>5.03</u>	<u>Governmental Approvals; No Conflicts.</u>	25
<u>5.04</u>	<u>Financial Condition; No Material Adverse Change.</u>	25
<u>5.05</u>	<u>Litigation.</u>	25
<u>5.06</u>	<u>Environmental Matters.</u>	26
<u>5.07</u>	<u>Investment Company Status.</u>	26
<u>5.08</u>	<u>ERISA.</u>	26
<u>5.09</u>	<u>Disclosure.</u>	26
<u>5.10</u>	<u>Subsidiaries.</u>	26
<u>5.11</u>	<u>Use of Proceeds; Federal Reserve Regulations.</u>	27
<u>5.12</u>	<u>EEA Financial Institutions.</u>	27
<u>5.13</u>	<u>Anti-Money Laundering and Anti-Terrorism Finance Laws</u>	27
<u>5.14</u>	<u>Foreign Corrupt Practices Act.</u>	27
<u>5.15</u>	<u>Sanctions Laws.</u>	27

5.16	<u>Plan Assets; Prohibited Transactions.</u>	28	
	<u>ARTICLE VI AFFIRMATIVE COVENANTS</u>		28
6.01	<u>Financial Statements and Other Information.</u>	28	
6.02	<u>Notices of Material Events.</u>	29	
6.03	<u>Legal Existence</u>	30	
6.04	<u>Taxes.</u>	30	
6.05	<u>Insurance.</u>	30	
6.06	<u>Condition of Property.</u>	30	
6.07	<u>Observance of Legal Requirements.</u>	30	
	<u>ARTICLE VII NEGATIVE COVENANTS</u>		31
7.01	<u>Liens.</u>	31	
7.02	<u>Merger; Consolidation.</u>	32	
7.03	<u>Transactions with Affiliates.</u>	33	
7.04	<u>Permitted Hedge Agreements.</u>	33	
7.05	<u>Financial Covenant.</u>	33	
7.06	<u>Anti-Money Laundering and Anti-Terrorism Finance Laws; Foreign Corrupt Practices Act; Sanctions Laws; Restricted Person..</u>	34	
7.07	<u>Use of Proceeds..</u>	34	
	<u>ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES</u>		34
8.01	<u>Events of Default.</u>	34	
8.02	<u>Remedies upon Event of Default.</u>	36	
8.03	<u>Application of Funds.</u>	37	
	<u>ARTICLE IX RESERVED</u>		37
	<u>ARTICLE X MISCELLANEOUS</u>		37
10.01	<u>Amendments, Etc.</u>	37	
10.02	<u>Notices; Effectiveness; Electronic Communications.</u>	37	
10.03	<u>No Waiver; Cumulative Remedies; Enforcement.</u>	38	
10.04	<u>Expenses; Indemnity; Damage Waiver.</u>	38	
10.05	<u>Payments Set Aside.</u>	40	
10.06	<u>Successors and Assigns.</u>	40	
10.07	<u>Treatment of Certain Information; Confidentiality.</u>	41	
10.08	<u>Right of Setoff.</u>	41	
10.09	<u>Interest Rate Limitation.</u>	42	
10.10	<u>Counterparts; Integration; Effectiveness.</u>	42	
10.11	<u>Survival of Representations and Warranties.</u>	42	
10.12	<u>Severability.</u>	43	
10.13	<u>Governing Law; Jurisdiction; Etc.</u>	43	
10.14	<u>Waiver of Jury Trial.</u>	44	
10.15	<u>Acknowledgment Regarding Any Support OFCs.</u>	44	
10.16	<u>No Advisory or Fiduciary Responsibility.</u>	45	
10.17	<u>Electronic Execution.</u>	46	
10.18	<u>USA PATRIOT Act Notice.</u>	46	

SCHEDULES

- Schedule 1.01 Certain Addresses for Notices
- Schedule 5.05/5.06 Disclosed Matters
- Schedule 5.10 List of Subsidiaries

EXHIBITS

- Exhibit A Form of Compliance Certificate
- Exhibit B Form of Loan Notice
- Exhibit C Form of Notice of Loan Prepayment

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TERM LOAN AGREEMENT

This TERM LOAN AGREEMENT is entered into as of January 10, 2020, between ALLETE, INC., a Minnesota corporation, as the Borrower, and BANK OF AMERICA, N.A., as the Lender.

PRELIMINARY STATEMENTS:

WHEREAS, the Borrower has requested that the Lender make loans and other financial accommodations to the Borrower.

WHEREAS, the Lender has agreed to make such loans and other financial accommodations to the Borrower on the terms and subject to the conditions set forth herein.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms.

As used in this Agreement, the following terms shall have the meanings set forth below:

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

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

“Agreement” means this Term Loan Agreement.

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

“Anti-Terrorism Laws” has the meaning assigned to such term in Section 5.13.

“Applicable Rate” means (a) with respect to Eurodollar Rate Loans, 0.55% per annum and (b) with respect to Base Rate Loans, 0.00% per annum.

“Availability Period” means the period from and including the Closing Date to the earlier of (a) the Maturity Date for the Term Facility and (b) the date of termination of the Term Commitment of the Lender to make Term Loans pursuant to Section 8.02.

“Bank of America” means Bank of America, N.A. and its successors.

“Base Rate” means for any day a fluctuating rate of interest per annum equal to the highest of (a) the Federal Funds Rate plus one-half of one percent (0.50%), (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate,” and (c) the Eurodollar Rate plus one percent (1.00%); and if the Base Rate shall be less than zero, such rate shall be deemed zero for purposes of this Agreement. The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such prime rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

“Base Rate Loan” means a Term Loan that bears interest based on the Base Rate.

“Beneficial Ownership Certification” means a certification regarding beneficial ownership or control as required by the Beneficial Ownership Regulation.

“Beneficial Ownership Regulation” means 31 C.F.R. § 1010.230.

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

“Borrower” has the meaning specified in the introductory paragraph hereto.

“Borrower Financial Statements” has the meaning assigned to such term in Section 5.04(a).

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the laws of, or are in fact closed in, the state where the Lender’s Office is located and, if such day relates to any Eurodollar Rate Loan, means any such day that is also a London Banking Day.

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

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

Exhibit 4(g)

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

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

“Closing Date” means the date hereof.

“CoBank Equities” means all of the Borrower’s cash patronage, stock and other equities in CoBank ACB acquired in connection with its patronage loan from CoBank ACB (or its Affiliate).

“Code” means the Internal Revenue Code of 1986.

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

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

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

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions from time to time in effect.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means (a) with respect to any Obligation for which a rate is specified, a rate per annum equal to two percent (2%) in excess of the rate otherwise applicable thereto and (b) with respect to any Obligation for which a rate is not specified or available, a rate per annum equal to the Base Rate plus the Applicable Rate for Base Rate Loans plus two percent (2%), in each case, to the fullest extent permitted by applicable law.

“Disclosed Matters” means the actions, suits, proceedings and environmental matters disclosed in (a) Schedule 5.05/5.06, (b) the current and periodic reports filed by the Borrower from time to time with the SEC pursuant to the requirements of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, or (c) disclosed by the Borrower to the Lender in writing.

“Disqualified Stock” means any Equity Interest that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures (excluding any maturity as a result of an optional redemption by the issuer thereof) or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the unconditional sole option of the holder

thereof (other than solely for Equity Interests that do not constitute Disqualified Stock), in whole or in part, on or prior to the date that is 180 days after the Maturity Date.

“Dollar” and “₹” mean lawful money of the United States.

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

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

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

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

“Equity Interest” means (a) shares of corporate stock, partnership interests, limited liability company membership interests, and any other interest that confers on a Person the right to receive a share of the profits and losses of, or distribution of assets of, the issuing Person, and (b) all warrants, options or other rights to acquire any Equity Interest set forth in the foregoing clause (a).

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

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

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

“Eurodollar Rate” means:

(a) for any Interest Period with respect to a Eurodollar Rate Loan, the rate per annum equal to the London Interbank Offered Rate as administered by ICE Benchmark Administration (or any other Person that takes over the administration of such rate for Dollars for a period equal in length to such Interest Period), as published on the applicable Bloomberg screen page (or such other commercially available source providing

Exhibit 4(g)

such quotations as may be designated by the Lender from time to time) (in such case, the “LIBOR Rate”) at or about 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period; and

(b) for any interest calculation with respect to a Base Rate Loan on any date, the rate per annum equal to the LIBOR Rate, at or about 11:00 a.m., London time, two (2) Business Days prior to such date for Dollar deposits with a term of one (1) month commencing that day;

provided that (i) to the extent a comparable or successor rate is approved by the Lender in connection herewith, the approved rate shall be applied in a manner consistent with market practice; provided, further that to the extent such market practice is not administratively feasible for the Lender, such approved rate shall be applied in a manner as otherwise reasonably determined by the Lender and (ii) if the Eurodollar Rate shall be less than zero, such rate shall be deemed zero for purposes of this Agreement.

“Eurodollar Rate Loan” means a Term Loan that bears interest at a rate based on clause (a) of the definition of “Eurodollar Rate.”

“Event of Default” has the meaning specified in Section 8.01.

“Excluded Taxes” means any taxes measured by net income (however denominated), franchise taxes, and branch profits taxes imposed on or with respect to the Lender or required to be withheld or deducted from a payment to the Lender, in each case, (a) imposed as a result of the lender being organized under the laws of, or having its principal office or its applicable lending office located in, the jurisdiction imposing such tax (or any political subdivision thereof) or (b) that are Other Connection Taxes.

“Facility Termination Date” means the date as of which all of the following shall have occurred: (a) the Term Commitment has terminated and (b) all Obligations have been paid in full (other than contingent indemnification obligations).

“FASB ASC” means the Accounting Standards Codification of the Financial Accounting Standards Board.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by the Lender.

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

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

“Funding Indemnity Letter” means a funding indemnity letter in form and substance reasonably acceptable to the Lender.

“GAAP” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and in the statements and pronouncements of the Financial Accounting Standards Board or in such other statement by such other entity as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination, consistently applied; provided that in the event Borrower converts to use the International Financial Reporting Standards by the International Accounting Standards Board or other method of accounting, as may hereafter be required or permitted by the SEC, then the term “GAAP” as used in this Agreement shall be deemed

Exhibit 4(g)

to mean and refer to such International Financial Reporting Standards or such other method of accounting instead, which are applicable to the circumstances as of the date of determination, consistently applied.

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

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

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

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

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

“Immaterial Transaction” means any transaction or event described in Section 8.01(i) or Section 8.01(j) so long as, after giving effect to such transaction or event, all Subsidiaries that have become subject to such transactions or events during the 12-month period ending on the date of such transaction or event (a) had consolidated total assets with a fair market value not exceeding 5% of Consolidated Assets as of the end of the most recent fiscal quarter for which financial statements have been filed with the SEC and (b) had total revenues not exceeding 5% of the Borrower’s consolidated total revenues for the period ending on the last day of such fiscal quarter.

Exhibit 4(g)

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

“Indemnified Taxes” means (a) taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of the Borrower under any Loan Document and (b) to the extent not otherwise described in (a) hereof, Other Taxes.

“Indemnitees” has the meaning specified in Section 10.04(b).

“Information” has the meaning specified in Section 10.07.

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

“Interest Payment Date” means, (a) as to any Eurodollar Rate Loan, the last day of each Interest Period applicable to such Term Loan and the Maturity Date; provided, however, that if any Interest Period for a Eurodollar Rate Loan exceeds three (3) months, the respective dates that fall every three (3) months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan, the last Business Day of each March, June, September and December and the Maturity Date.

“Interest Period” means, as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date one (1), two (2), three (3) or six (6) months thereafter (in each case, subject to availability), as selected by the Borrower in its Loan Notice or such other period that is twelve months or less requested by the Borrower and consented to by the Lender; provided that:

(a) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period shall extend beyond the Maturity Date.

“Investment Grade Rating” has the meaning assigned to such term in Section 7.02.

“Lender” means Bank of America, N.A. and its successors and assigns.

Exhibit 4(g)

“Lender’s Office” means the Lender’s address and, as appropriate, account as set forth on Schedule 1.01(a), or such other address or account as the Lender may from time to time notify the Borrower; which office may include any Affiliate of the Lender or any domestic or foreign branch of the Lender or such Affiliate.

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

“Loan Documents” means, collectively, this Agreement and all other certificates, agreements, documents and instruments executed and delivered, in each case, by or on behalf of the Borrower pursuant to the foregoing.

“Loan Notice” means a notice of (a) a Term Borrowing, (b) a conversion of Term Loans from one Type to the other, or (c) a continuation of Eurodollar Rate Loans, pursuant to Section 2.02(a), which, if in writing, shall be substantially in the form of Exhibit B or such other form as may be approved by the Lender (including any form on an electronic platform or electronic transmission system as shall be approved by the Lender), appropriately completed and signed by a Responsible Officer of the Borrower

“London Banking Day” means any day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

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

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

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

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

“Maturity Date” means February 10, 2021; provided, however, that, if such date is not a Business Day, the Maturity Date shall be the next preceding Business Day.

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

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

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

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

“Notice of Loan Prepayment” means a notice of prepayment with respect to a Term Loan, which shall be substantially in the form of Exhibit C or such other form as may be approved by the Lender (including any form on an electronic platform or electronic transmission system as shall be approved by the Lender), appropriately completed and signed by a Responsible Officer of the Borrower.

“Obligations” means (a) all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower arising under any Loan Document or otherwise with respect to any Term Loan and (b) all costs and expenses incurred in connection with enforcement and collection of the foregoing, including the fees, charges and disbursements of counsel, in each case whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest, expenses and fees that accrue after the commencement by or against the Borrower or any Affiliate thereof pursuant to any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest, expenses and fees are allowed claims in such proceeding.

“OFAC” has the meaning assigned to such term in Section 5.15.

“Other Connection Taxes” means taxes imposed as a result of a present or former connection between the Lender and the jurisdiction imposing such tax (other than connections arising from the Lender having executed, delivered, become a party to, performed its obligations under, received payment under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Term Loan or Loan Document).

“Other Taxes” means all present or future stamp, court or documentary, intangible, recording, filing or similar taxes that arise from any payment made under from the execution, delivery performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such taxes that are Other Connection Taxes imposed with respect to any assignment.

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

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

“Permitted Encumbrances” means:

(a) Liens imposed by law for taxes, assessments or similar charges incurred in the ordinary course of business that are not yet due or are being contested in compliance with Section 6.04, provided that enforcement of such Liens is stayed pending such contest;

(b) landlords’, vendors’, carriers’, warehousemen’s, mechanics’, materialmen’s, contractors’, repairmen’s and other like Liens imposed by law, arising in the ordinary course of business and securing obligations which are not delinquent or are being contested, provided that enforcement of such Liens is stayed pending such contest;

(c) pledges and deposits made in the ordinary course of business in compliance with workers’ compensation, unemployment insurance and other social security laws or regulations (but not ERISA);

(d) pledges and deposits to secure the performance of bids, trade contracts, leases, purchase agreements, government contracts, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business, and other than promissory notes and contracts for the repayment of borrowed money;

(e) Liens (including contractual security interests) in favor of a financial institution (including securities firms) encumbering deposit accounts or checks or instruments for collection, commodity accounts or securities accounts (including the right of set-off) at or held by such financial institution in the ordinary course of its commercial business and which secure only liabilities owed to such financial institution arising out of or resulting from its maintenance of such account or otherwise are within the general parameters customary in the financial industry;

(f) judgment liens in respect of judgments that do not constitute an Event of Default under Section 8.01(k);

Exhibit 4(g)

- (g) any interest of a lessor or licensor in property under an operating lease under which the Borrower or any Subsidiary is lessee or licensee, and any restriction or encumbrance to which the interest of such lessor or licensor is subject;
- (h) Liens arising from filed UCC-1 financing statements relating solely to leases not prohibited by this Agreement;
- (i) leases or subleases granted to others that do not materially interfere with the ordinary conduct of business of the Borrower and its Subsidiaries;
- (j) licenses of Intellectual Property granted by the Borrower or any Subsidiary in the ordinary course of business and not materially interfering with the ordinary conduct of the business of the Borrower and its Subsidiaries;
- (k) easements, servitudes (contractual and legal), zoning restrictions, rights of way, encroachments, minor defects and irregularities in title and other similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not render title to such property unmarketable or materially interfere with the ability of the Borrower and its Subsidiaries, as the case may be, to utilize their respective properties for their intended purposes;
- (l) Liens securing obligations, neither assumed by the Borrower or any Subsidiary nor on account of which the Borrower or any Subsidiary customarily pays interest, upon real estate on which the Borrower or any Subsidiary has a right-of-way, easement, franchise or other servitude or of which the Borrower or any Subsidiary is the lessee, for the purpose of locating transmission and distribution lines and related support structures, pipe lines, substations, measuring stations, tanks, pumping or delivery equipment or similar equipment, or service buildings incidental to any of the foregoing;
- (m) Liens with respect to properties involved in the production of oil, gas and other minerals, unitization and pooling agreements and orders, operating agreements, royalties, reversionary interests, preferential purchase rights, farmout agreements, gas balancing agreements and other agreements, in each case that are customary in the oil, gas and mineral production business in the general area of such property and that are entered into in the ordinary course of business;
- (n) Liens in favor of Governmental Authorities encumbering assets acquired in connection with a government grant program, and the right reserved to, or vested in, any Governmental Authority by the terms of any right, power, franchise, grant, license, or permit, or by any provision of law, to purchase, condemn, recapture or designate a purchaser of any property;
- (o) Liens on Margin Stock to the extent that a prohibition on such Liens would violate Regulation U;
- (p) Liens on any cash collateral for letters of credit issued under the Borrower's primary revolving credit facility upon the occurrence of an event of default thereunder or to cover an issuing lender's credit exposure under such facility with respect to a defaulting lender thereunder;
- (q) customary Liens for the fees and expenses of trustees and escrow agents pursuant to any indenture, escrow agreement or similar agreement establishing a trust or escrow arrangement;
- (r) agreements for and obligations (other than repayment of borrowed money) relating to the joint or common ownership, operation, and use of property, including Liens under joint venture or similar agreements securing obligations incurred in the conduct of operations or consisting of a purchase option, call or right of first refusal with respect to the Equity Interests in such jointly owned Person; and
- (s) Liens granted on cash or invested funds constituting proceeds of any sale or disposition of property deposited into escrow accounts to secure indemnification, adjustment of purchase price or similar obligations incurred in connection with such sale or disposition, in an amount not to exceed the amount of gross proceeds received from such sale or disposition.
- (t)

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

Exhibit 4(g)

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

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

“Plan Asset Regulations” means 29 CFR § 2510.3-101 *et seq.*, as modified by Section 3(42) of ERISA, as amended from time to time.

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

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

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

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

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

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

“Request for Term Borrowing” means, with respect to a Term Borrowing, conversion or continuation of Term Loans, a Loan Notice.

“Responsible Officer” means (a) the chief executive officer, president, chief financial officer, treasurer, assistant treasurer or controller of the Borrower and (b) solely for purposes of the delivery of incumbency certificates pursuant to Section 4.01, the secretary or any assistant secretary of the Borrower and (c) solely for purposes of notices given pursuant to Article II, any other officer or employee of the Borrower so designated by any of the foregoing officers in a notice to the Lender or any other officer or employee of the Borrower designated in or pursuant to an agreement between the Borrower and the Lender. Any document delivered hereunder that is signed by a Responsible Officer of the Borrower shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of the Borrower and such Responsible Officer shall be conclusively presumed to have acted on behalf of the Borrower. To the extent requested by the Lender, each Responsible Officer will provide an incumbency certificate and to the extent requested by the Lender, appropriate authorization documentation, in form and substance satisfactory to the Lender.

“Restricted Person” has the meaning assigned to such term in Section 5.15.

“S&P” means Standard & Poor’s Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc., and any successor thereto.

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

Exhibit 4(g)

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

“Subsidiary” means, as to any Person, any corporation, association, partnership, limited liability company, joint venture or other business entity of which such Person or any Subsidiary of such Person, directly or indirectly, either (a) in respect of a corporation, owns or controls more than 50% of the outstanding Equity Interests having ordinary voting power to elect a majority of the board of directors or similar managing body, irrespective of whether a class or classes shall or might have voting power by reason of the happening of any contingency or (b) in respect of an association, partnership, joint venture or other business entity, is entitled to share in more than 50% of the profits and losses, however determined. Unless the context otherwise requires, any reference to a Subsidiary shall be deemed to refer to a Subsidiary of the Borrower.

“SWLP Mortgage” means the Mortgage and Deed of Trust, dated as of March 1, 1943, between Superior Water, Light and Power Company and U.S. Bank National Association (successor to First Bank (N.A.) as successor to Chemical Bank and Trust Company as Corporate Trustee and Howard B. Smith as Co-Trustee) as Trustee.

“Term Borrowing” means a borrowing consisting of simultaneous Term Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Interest Period made by the Lender pursuant to Section 2.01.

“Term Commitment” means the Lender’s obligation to make Term Loans to the Borrower pursuant to Section 2.01. The Term Commitment on the Closing Date shall be \$200,000,000.

“Term Facility” means (a) at any time during the Availability Period, the sum of (i) the aggregate amount of the Term Commitment at such time and (ii) the aggregate principal amount of the Term Loans outstanding at such time and (b) thereafter, the aggregate principal amount of the Term Loans outstanding at such time.

“Term Loan” means an advance made by the Lender under the Term Facility.

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

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

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

“Type” means, with respect to a Term Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

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

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

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

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

1.02 Other Interpretive Provisions.

With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including the Loan Documents and any articles, bylaws, operation agreement or other organizational document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, amended and restated, modified, extended, restated, replaced or supplemented from time to time (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (iii) the words “hereto,” “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Preliminary Statements, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Preliminary Statements, Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory rules, regulations, orders and provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified, extended, restated, replaced or supplemented from time to time, and (vi) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including;” the words “to” and “until” each mean “to but excluding;” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.03 Accounting Terms.

(a) Except as otherwise expressly provided herein, as used in the Loan Documents and in any certificate, opinion or other document made or delivered pursuant thereto, accounting terms not defined in Section 1.01, and accounting terms partly defined in Section 1.01, to the extent not defined, shall have the respective meanings given to them under GAAP. If at any time any change in GAAP (including any change to the International Financial Reporting Standards by the International Accounting Standards Board or other method of accounting, as may hereafter be required or permitted by the SEC) would affect the computation of any financial requirement set forth in this Agreement, the Lender and the Borrower shall negotiate in good faith to amend such requirement to reflect such change in GAAP, provided that, until so amended, (i) such requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrower shall provide to the Lender financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such requirement made before and after giving effect to such change in GAAP.

(b) Notwithstanding anything to the contrary contained in Section 1.03(a) or in the definition of “Capital Lease Obligations,” in the event of an accounting change requiring all leases to be capitalized, only those leases

(assuming for purposes hereof that such leases were in existence on the date hereof) that would constitute capital leases in conformity with GAAP on the date hereof shall be considered capital leases, and all calculations and deliverables under this Agreement or any other Loan Document shall be made or delivered, as applicable, in accordance therewith.

1.04 Rounding.

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

1.05 Times of Day; Rates.

Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

The Lender does not warrant, nor accept responsibility, nor shall the Lender have any liability with respect to the administration, submission or any other matter related to the rates in the definition of "Eurodollar Rate" or with respect to any comparable or successor rate thereto.

ARTICLE II

TERM COMMITMENT AND TERM BORROWINGS

2.01 Term Loans.

Subject to the terms and conditions set forth herein, the Lender agrees to make loans to the Borrower, in Dollars, from time to time in up to six (6) draws, on any Business Day during the Availability Period for the Term Facility, in an aggregate amount not to exceed the Term Facility. Each Term Borrowing shall consist of Term Loans made by the Lender. Term Borrowings repaid or prepaid may not be reborrowed. Term Loans may be Base Rate Loans or Eurodollar Rate Loans, as further provided herein; provided, however, any Term Borrowing made on the Closing Date or any of the three (3) Business Days following the Closing Date shall be made as Base Rate Loans unless the Borrower delivers a Funding Indemnity Letter not less than three (3) Business Days prior to the date of such Term Borrowing.

2.02 Term Borrowings, Conversions and Continuations of Term Loans.

(a) Notice of Term Borrowing. Each Term Borrowing, each conversion of Term Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the Borrower's irrevocable notice to the Lender, which may be given by (i) telephone or (ii) a Loan Notice; provided that any telephonic notice must be confirmed promptly by delivery to the Lender of a Loan Notice. Each such notice must be received by the Lender not later than 11:00 a.m. (A) three (3) Business Days prior to the requested date of any Term Borrowing of, conversion to or continuation of Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to Base Rate Loans, and (B) on the requested date of any Term Borrowing of Base Rate Loans; provided, however, that if the Borrower wishes to request Eurodollar Rate Loans having an Interest Period other than one (1), two (2), three (3) or six (6) months in duration as provided in the definition of "Interest Period", the applicable notice must be received by the Lender not later than 11:00 a.m. four (4) Business Days prior to the requested date of such Term Borrowing, conversion or continuation. Not later than 11:00 a.m., three (3) Business Days before the requested date of such Term Borrowing, conversion or continuation, the Lender shall notify the Borrower (which notice may be by telephone) whether or not the requested Interest Period is available. Each Term Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall be, unless otherwise agreed by Lender, in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof (or, in connection with any conversion or continuation of a Term Loan, if less, the entire principal thereof then outstanding). Each Term Borrowing of or conversion to Base Rate Loans shall be, unless otherwise agreed

by Lender, in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof (or, in connection with any conversion or continuation of a Term Loan, if less, the entire principal thereof then outstanding). Each Loan Notice (whether telephonic or written) shall specify (i) whether the Borrower is requesting a Term Borrowing, a conversion of Term Loans from one Type to the other, or a continuation of Term Loans, as the case may be, under the Term Facility, (ii) the requested date of the Term Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Term Loans to be borrowed, converted or continued, (iv) the Type of Term Loans to be borrowed or to which existing Term Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of Term Loan in a Loan Notice or if the Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Term Loans shall be made as, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loans. If the Borrower requests a Term Borrowing of, conversion to, or continuation of Eurodollar Rate Loans in any such Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one (1) month.

(b) Advances. Following receipt of a Loan Notice, upon satisfaction of the applicable conditions set forth in Section 4.02 (and, if such Term Borrowing is the initial Term Borrowing, Section 4.01), the Lender shall make the requested funds available to the Borrower either by (i) crediting the account of the Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Lender by the Borrower.

(c) Eurodollar Rate Loans. Except as otherwise provided herein, a Eurodollar Rate Loan may be continued or converted only on the last day of an Interest Period for such Eurodollar Rate Loan. During the existence of a Default, no Term Loans may be requested as, converted to or continued as Eurodollar Rate Loans without the consent of the Lender, and the Lender may demand that any or all of the outstanding Eurodollar Rate Loans be converted immediately to Base Rate Loans.

(d) Interest Periods. After giving effect to all Term Borrowings, all conversions of Term Loans from one Type to the other, and all continuations of Term Loans as the same Type, there shall not be more than ten Interest Periods in effect in respect of the Term Facility.

2.03 Optional Prepayments.

The Borrower may, upon notice to the Lender pursuant to delivery to the Lender of a Notice of Loan Prepayment, at any time or from time to time voluntarily prepay Term Loans in whole or in part without premium or penalty subject to Section 3.05; provided that, unless otherwise agreed by the Lender (a) such notice must be received by Lender not later than 11:00 a.m. (i) three (3) Business Days prior to any date of prepayment of Eurodollar Rate Loans and (ii) on the date of prepayment of Base Rate Loans; (b) any prepayment of Eurodollar Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof; and (c) any prepayment of Base Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Term Loans to be prepaid and, if Eurodollar Rate Loans are to be prepaid, the Interest Period(s) of such Term Loans. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05.

2.04 Termination or Reduction of Term Commitment.

(a) Mandatory. The aggregate Term Commitment shall be automatically and permanently reduced to zero on the last day of the Availability Period for the Term Facility.

(b) Voluntary. The Borrower may at any time terminate, or from time to time reduce, the Term Commitment upon three (3) Business Days' notice to the Lender, provided that the Borrower shall not terminate or reduce the Term Commitment to an amount below which, after giving effect to any concurrent prepayment or repayment of the Term

Loans in accordance with Section 2.03, the aggregate principal amount of the Term Loans outstanding at such time would exceed the Term Commitment.

(c) Payment of Fees. All fees in respect of the Term Facility accrued until the effective date of any termination of the Term Facility shall be paid on the effective date of such termination.

2.05 Repayment of Term Loans. The Borrower promises to repay to the Lender the aggregate principal amount of all Term Loans outstanding on the Maturity Date, unless accelerated sooner pursuant to Section 8.02.

2.06 Interest and Default Rate.

(a) Interest. Subject to the provisions of Section 2.06(b), (i) each Eurodollar Rate Loan under the Term Facility shall bear interest on the outstanding principal amount thereof for each Interest Period from the applicable borrowing date at a rate per annum equal to the Eurodollar Rate for such Interest Period plus the Applicable Rate; and (ii) each Base Rate Loan under the Term Facility shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate. To the extent that any calculation of interest or any fee required to be paid under this Agreement shall be based on (or result in) a rate that is less than zero, such rate shall be deemed zero for purposes of this Agreement.

(b) Default Rate.

(i) If any amount of principal of any Term Loan is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable laws.

(ii) If any amount (other than principal of any Term Loan) payable by the Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, then upon the request of the Lender such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable laws.

(iii) Upon the request of the Lender, while any Event of Default exists (including a payment default), all outstanding Obligations may accrue at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable laws.

(iv) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest Payments. Interest on each Term Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.07 Fees.

The Borrower shall pay to the Lender such fees as shall have been separately agreed upon in writing in the amounts and at the times so specified. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

2.08 Computation of Interest and Fees.

All computations of interest for Base Rate Loans (including Base Rate Loans determined by reference to the Eurodollar Rate) shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which

results in more fees or interest, as applicable, being paid than if computed on the basis of a 365 day year). Interest shall accrue on each Term Loan for the day on which the Term Loan is made, and shall not accrue on a Term Loan, or any portion thereof, for the day on which the Term Loan or such portion is paid, provided that any Term Loan that is repaid on the same day on which it is made shall bear interest for one (1) day. Each determination by the Lender of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

2.09 Payments Generally.

All payments to be made by the Borrower shall be made free and clear of and without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Lender at the Lender's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. All payments received by the Lender after 2:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. Except as otherwise specifically provided for in this Agreement, if any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

ARTICLE III

TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 Taxes.

If any payments to the Lender under this Agreement are made from outside the United States, the Borrower will not deduct any foreign taxes from any payments it makes to the Lender. If any such taxes are imposed on any payments made by the Borrower (including payments under this paragraph), the Borrower will pay the taxes and will also pay to the Lender, at the time interest is paid, any additional amount which the Lender specifies as necessary to preserve the after-tax yield the Lender would have received if such taxes had not been imposed. As soon as practicable after any payment of taxes by the Borrower to a Governmental Authority, as provided in this Section 3.01, the Borrower will deliver to the Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return reporting such payment or other evidence of such payment reasonably satisfactory to the Lender.

The Borrower will confirm that it has paid the taxes by giving the Lender official tax receipts (or notarized copies) within thirty (30) days after the due date.

3.02 Illegality.

If Lender determines that any law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for Lender or its Lender's Office to perform any of its obligations hereunder or to make, maintain or fund or charge interest with respect to any Term Borrowing or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by Lender to the Borrower, (a) any obligation of Lender to issue, make, maintain, fund or charge interest with respect to any such Term Borrowing or continue Eurodollar Rate Loans or to convert Base Rate Loans to Eurodollar Rate Loans shall be suspended, and (b) if such notice asserts the illegality of Lender making or maintaining Base Rate Loans the interest rate on which is determined by reference to the Eurodollar Rate component of the Base Rate, the interest rate on which Base Rate Loans of Lender shall, if necessary to avoid such illegality, be determined by Lender without reference to the Eurodollar Rate component of the Base Rate, in each case until Lender notifies the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, (i) the Borrower shall, upon demand from Lender, prepay or, if applicable, convert all Eurodollar Rate Loans of Lender to Base Rate Loans (the interest rate on such Base Rate Loans shall, if necessary to avoid such illegality, be determined by Lender without reference to the Eurodollar Rate component of the Base Rate), either on the last day of the Interest Period therefor, if Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if Lender may not lawfully continue to maintain

such Eurodollar Rate Loans and (ii) if such notice asserts the illegality of Lender determining or charging interest rates based upon the Eurodollar Rate, the Lender shall during the period of such suspension compute the Base Rate applicable to Lender without reference to the Eurodollar Rate component thereof until the Borrower is advised in writing by Lender that it is no longer illegal for Lender to determine or charge interest rates based upon the Eurodollar Rate. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

3.03 Inability to Determine Rates.

If in connection with any request for a Eurodollar Rate Loan or a conversion to or continuation thereof, the Lender determines that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Loan, (b) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan or in connection with an existing or proposed Base Rate Loan, or (c) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to the Lender of funding such Eurodollar Rate Loan, the Lender will promptly so notify the Borrower. Thereafter, (i) the obligation of the Lender to make or maintain Eurodollar Rate Loans shall be suspended (to the extent of the affected Eurodollar Rate Loans or Interest Periods), and (ii) in the event of a determination described in the preceding sentence with respect to the Eurodollar Rate component of the Base Rate, the utilization of the Eurodollar Rate component in determining the Base Rate shall be suspended, in each case until the Lender revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Term Borrowing of, conversion to or continuation of Eurodollar Rate Loans (to the extent of the affected Eurodollar Rate Loans or Interest Periods) or, failing that, will be deemed to have converted such request into a request for a Term Borrowing of Base Rate Loans in the amount specified therein. Notwithstanding the foregoing, in the case of such pending request, the Lender, in consultation with the Borrower, may establish an alternative interest rate for funding Term Loans in the applicable currency and amount, and with the same Interest Period as the Term Loan requested to be made, converted or continued, as the case may be in which case, such alternative rate of interest shall apply with respect to such Term Loans.

3.04 Increased Costs; Reserves on Eurodollar Rate Loans.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended by, the Lender (except any reserve requirement contemplated by Section 3.04(e));

(ii) subject the Lender to any taxes on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto in respect thereof (other than (A) Indemnified Taxes and (B) Excluded Taxes); or

(iii) impose on the Lender or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Loans made by the Lender;

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

(b) Capital Requirements. If the Lender determines that any Change in Law affecting the Lender or the Lender's Office or the Lender's holding company, if any, regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on the Lender's capital or on the capital of the Lender's holding company, if any, as a consequence of this Agreement, the Term Commitment of the Lender or the Term Loans made by the Lender, to a level below that which the Lender or the Lender's holding company could have achieved but for such Change in

Law (taking into consideration the Lender's policies and the policies of the Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to the Lender such additional amount or amounts as will compensate the Lender or the Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of the Lender setting forth the amount or amounts necessary to compensate the Lender or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay the Lender the amount shown as due on any such certificate within ten (10) Business Days after receipt thereof.

(d) Reserves on Eurodollar Rate Loans. The Borrower shall pay to the Lender, (i) as long as the Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each Eurodollar Rate Loan equal to the actual costs of such reserves allocated to such Term Loan by the Lender (as determined by the Lender in good faith, which determination shall be conclusive), and (ii) as long as the Lender shall be required to comply with any reserve ratio requirement or analogous requirement of any central banking or financial regulatory authority imposed in respect of the maintenance of the Term Commitment or the funding of the Term Loans, such additional costs (expressed as a percentage per annum and rounded upwards, if necessary, to the nearest five decimal places) equal to the actual costs allocated to such Term Commitment or Term Loan by the Lender (as determined by the Lender in good faith, which determination shall be conclusive), which in each case shall be due and payable on each date on which interest is payable on such Term Loan, provided the Borrower shall have received at least ten (10) Business Days' prior notice of such additional interest or costs from the Lender. If the Lender fails to give notice ten (10) Business Days prior to the relevant Interest Payment Date, such additional interest shall be due and payable ten (10) Business Days from receipt of such notice.

(e) Delay in Requests. Failure or delay on the part of the Lender to demand compensation pursuant to the foregoing provisions of this Section 3.04 shall not constitute a waiver of the Lender's right to demand such compensation, provided that the Borrower shall not be required to compensate the Lender pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than six (6) months prior to the date that the Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of the Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the six (6) month period referred to above shall be extended to include the period of retroactive effect thereof).

3.05 Compensation for Losses.

Upon demand of the Lender from time to time, the Borrower shall promptly compensate the Lender for and hold the Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Term Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Term Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise); or

(b) any failure by the Borrower (for a reason other than the failure of the Lender to make a Term Loan) to prepay, borrow, continue or convert any Term Loan other than a Base Rate Loan on the date or in the amount notified by the Borrower;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Term Loan or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by the Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrower to the Lender under this Section 3.05, the Lender shall be deemed to have funded each Eurodollar Rate Loan made by it at the Eurodollar Rate for such Term Loan by a

matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Loan was in fact so funded.

3.06 Survival.

All of the Borrower's obligations under this Article III shall survive termination of the Term Commitment and repayment of all other Obligations hereunder.

ARTICLE IV

CONDITIONS PRECEDENT TO TERM BORROWINGS

4.01 Conditions of Initial Term Borrowing.

The obligation of the Lender to make the initial Term Borrowing hereunder is subject to satisfaction of the following conditions precedent:

(a) Execution of Term Loan Agreement; Loan Documents. The Lender shall have received (i) counterparts of this Agreement, executed by a Responsible Officer of the Borrower and (ii) counterparts of any other Loan Document, executed by a Responsible Officer of the Borrower and a duly authorized officer of each other Person party thereto.

(b) Legal Opinions. The Lender shall have received favorable written opinions (addressed to the Lender and dated on or prior to the Closing Date) from Margaret A. Thickens, Vice President, Chief Legal Officer and Corporate Secretary of the Borrower, and Cohen Tauber Spievack & Wagner P.C., special counsel to the Borrower, covering such matters relating to the Borrower, the Loan Documents and the Transactions as the Lender may reasonably request. The Borrower hereby requests such counsel to deliver such opinion.

(c) Organizational Documents, etc. The Lender shall have received such documents and certificates as the Lender or its counsel may reasonably request relating to (i) the organization, existence and good standing of the Borrower (including (A) a certificate of incorporation of the Borrower, certified as of a recent date by the Secretary of State of the jurisdiction of its incorporation, and (B) certificates of good standing (or comparable certificates) for the Borrower, certified as of a recent date prior to the Closing Date, by the Secretaries of State (or comparable officials) of the jurisdiction of its incorporation and each other jurisdiction in which it is qualified to do business, (ii) the authorization of the Transactions, (iii) the incumbency of its officer or officers who may sign the Loan Documents, including therein a signature specimen of such officer or officers, and (iv) any other legal matters relating to the Borrower, the Loan Documents or the Transactions, all in form and substance reasonably satisfactory to the Lender and its counsel.

(d) Officer's Certificate. The Lender shall have received a certificate, in form and substance satisfactory to the Lender, dated on or prior to the Closing Date and signed by the chief executive officer, treasurer or another Financial Officer acceptable to the Lender, certifying that the conditions set forth in Section 4.02(a) and Section 4.02(b) are satisfied as of the Closing Date.

(g) KYC. (i) The Lender shall have received, at least five days prior to the Closing Date, all documentation and other information regarding the Borrower requested in connection with applicable "know your customer" and anti-money laundering rules and regulations, including the PATRIOT Act, to the extent requested in writing of the Borrower at least 10 days prior to the Closing Date and (ii) to the extent the Borrower qualifies as a "legal entity customer" under the Beneficial Ownership Regulation, at least five days prior to the Closing Date, if the Lender has requested, in a written notice to the Borrower at least 10 days prior to the Closing Date, a Beneficial Ownership Certification in relation to the Borrower shall have received such Beneficial Ownership Certification.

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

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

4.02 Conditions to all Term Borrowings.

The obligation of the Lender to honor any Request for Term Borrowing (other than a Loan Notice requesting only a conversion of Term Loans to the other Type, or a continuation of Eurodollar Rate Loans) is subject to the following conditions precedent:

(a) Representations and Warranties. The representations and warranties of the Borrower contained in Article II, Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall (i) with respect to representations and warranties that contain a materiality qualification, be true and correct on and as of the date of such Term Borrowing and (ii) with respect to representations and warranties that do not contain a materiality qualification, be true and correct in all material respects on and as of the date of such Term Borrowing; provided that to the extent any such representation or warranty is stated to have been made as of an earlier date, it is true and correct as of such earlier date.

(b) Default. No Default shall exist, or would result from such proposed Term Borrowing or from the application of the proceeds thereof.

(c) Request for Term Borrowing. The Lender shall have received a Request for Term Borrowing in accordance with the requirements hereof.

Each Request for Term Borrowing (other than a Loan Notice requesting only a conversion of Term Loans to the other Type or a continuation of Eurodollar Rate Loans) submitted by the Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 4.02(a) and (b) have been satisfied on and as of the date of the applicable Term Borrowing.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lender that:

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

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

5.03 Governmental Approvals; No Conflicts.

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

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

5.04 Financial Condition; No Material Adverse Change.

(c) The Borrower has previously delivered to the Lender copies of (i) its Form 10-K for the fiscal year ended December 31, 2018, containing the audited consolidated balance sheet of the Borrower and its Subsidiaries and the related audited consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the fiscal year ending December 31, 2018, and (ii) the unaudited consolidated balance sheet of the Borrower and its Subsidiaries and the related unaudited consolidated statements of income, equity and cash flows for the fiscal quarter ended September 30, 2019 (collectively, including the applicable related notes and schedules, the "Borrower Financial Statements"). All such financial statements have been prepared in accordance with GAAP and fairly present in all material respects the consolidated financial condition and results of the operations of the Borrower and its Subsidiaries as of the dates and for the periods indicated therein (subject, in the case of unaudited financial statements, to the absence of footnotes and to normal, year-end audit adjustments).

(d) Since September 30, 2019, there has been no Material Adverse Change.

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

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

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

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

5.09 Disclosure.

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

(f) As of the Closing Date, to the best knowledge of the Borrower, the information included in the Beneficial Ownership Certification provided on or prior to the Closing Date to the Lender in connection with this Agreement is true and correct in all respects.

5.10 Subsidiaries. As of the date hereof, the Borrower has only the Subsidiaries set forth on Schedule 5.10. Schedule 5.10 sets forth with respect to each Subsidiary, the identity of each Person that owns Equity Interests in such Subsidiary and the percentage of the issued and outstanding Equity Interests owned by each such Person. The shares of each Subsidiary (excluding any Immaterial Subsidiary) are duly authorized, validly issued, fully paid and non-assessable and are owned free and clear of any Liens, other than Liens permitted pursuant to Section 7.01.

5.11 Use of Proceeds; Federal Reserve Regulations.

(g) The proceeds of the Term Loans will be used for general corporate purposes not inconsistent with the terms of this Agreement.

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

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

5.12 EEA Financial Institutions. The Borrower is not an EEA Financial Institution.

5.13 Anti-Money Laundering and Anti-Terrorism Finance Laws. The Borrower has implemented and maintains in effect policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws. To the extent applicable, Borrower is in compliance, in all material respects, with Anti-Corruption Laws, anti-money laundering laws and anti-terrorism finance laws including the Bank Secrecy Act and the PATRIOT Act (the "Anti-Terrorism Laws").

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

5.15 Sanctions Laws. Neither the Borrower nor, to the knowledge of the Borrower, any Affiliate or broker or other agent of the Borrower acting or benefiting in any capacity in connection with the Term Loans, is any of the following (a "Restricted Person"): (i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001; (ii) a Person that is named as a "specially designated national and blocked person" on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC") at its official website or any replacement website or other replacement official publication of such list or similarly named by any similar foreign governmental authority; (iii) an agency of the government of a country, an organization controlled by a country, or a Person resident in a country that is subject to a sanctions program identified on the lists maintained by OFAC; or (iv) a Person that derives more than 10% of its assets or operating income from investments in or transactions with any such country, agency, organization or person. Further, none of the proceeds from the Term Loans shall be used to finance any operations, investments or activities in, or make any payments to, any such country, agency, organization or Person subject to OFAC sanctions.

5.16 Plan Assets; Prohibited Transactions. None of the Borrower or any of its Subsidiaries is an entity deemed to hold "plan assets" (within the meaning of the Plan Asset Regulations), and neither the execution, delivery nor performance of the transactions contemplated under this Agreement, including the making of any Term Loan hereunder, will give rise to a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

ARTICLE VI

AFFIRMATIVE COVENANTS

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

6.01 Financial Statements and Other Information. The Borrower will furnish to the Lender:

(j) As soon as available, but in any event within 120 days after the end of each fiscal year, (i) a copy of the Borrower's Annual Report on Form 10-K in respect of such fiscal year required to be filed by the

Exhibit 4(g)

Borrower with the SEC, together with the financial statements attached thereto, and (ii) the Borrower's audited consolidated balance sheet and related consolidated statements of income, stockholder's equity and cash flows as of the end of and for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by the Accountants (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial conditions and results of operations of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP consistently applied during such fiscal year;

(k) As soon as available, but in any event within 60 days after the end of each of the first three fiscal quarters of each fiscal year, (i) a copy of the Borrower's Quarterly Report on Form 10-Q in respect of such fiscal quarter required to be filed by the Borrower with the SEC, together with the financial statements attached thereto, and (ii) the Borrower's unaudited consolidated balance sheet and related consolidated statements of income, stockholder's equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by a duly authorized Financial Officer as presenting fairly in all material respects the financial conditions and results of operations of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year end audit adjustments and the absence of footnotes;

(l) Within 60 days after the end of each of the first three fiscal quarters and within 120 days after the end of the last fiscal quarter, a Compliance Certificate, signed by a Financial Officer (or such other officer as shall be acceptable to the Lender) as to the Borrower's compliance, as of such fiscal quarter ending date, with Section 7.05, and as to the absence of any Default as of such fiscal quarter ending date and the date of such certificate (or if a Default existed or exists, the nature thereof); and

(m) promptly following any request therefor, (i) such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of the Loan Documents, as the Lender may reasonably request and (ii) information and documentation reasonably requested by the Lender for purposes of compliance with applicable "know your customer" and anti-money laundering rules and regulations, including the PATRIOT Act and the Beneficial Ownership Regulation.

6.02 Notices of Material Events. The Borrower will furnish the following to the Lender:

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

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

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

(q) prompt written notice of any change by any Rating Agency in a Senior Debt Rating; and

(r) any change in the information provided in the Beneficial Ownership Certification delivered to the Lender that would result in a change to the list of beneficial owners identified in such certification.

Each notice delivered under Section 6.02(a) or Section 6.02(c) shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Exhibit 4(g)

Documents required to be delivered pursuant to Section 6.01(a), Section 6.01(b), Section 6.02(b) or Section 6.02(c) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (a) on which the Borrower posts such documents, or provides a link thereto, on the Borrower's website on the Internet at the website address listed in Section 10.02; or (b) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which the Lender has access (whether a commercial, third-party website or whether sponsored by the Lender), provided that: (i) the Borrower shall deliver paper copies of such documents to the Lender if the Lender requests that the Borrower deliver such paper copies until a written request to cease delivering paper copies is given by the Lender and (ii) the Borrower shall notify the Lender (by facsimile or electronic mail) of the posting of any such documents and provide to the Lender by electronic mail electronic versions (i.e., soft copies) of such documents.

6.03 Legal Existence. Except as permitted under Section 7.02, the Borrower shall maintain its legal existence in good standing in the jurisdiction of its organization or formation and in each other jurisdiction in which the failure so to do would reasonably be expected to have a Material Adverse Effect, and cause each of the Subsidiaries to maintain its qualification to do business and good standing in each jurisdiction in which the failure so to do would reasonably be expected to have a Material Adverse Effect (it being understood that the foregoing shall not prohibit the Borrower from dissolving or terminating the existence of any Subsidiary that is inactive or whose preservation otherwise is no longer desirable in the conduct of the business of the Borrower and its Subsidiaries considered as a whole).

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

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

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

6.07 Observance of Legal Requirements. The Borrower shall observe and comply in all material respects, and cause each of its Subsidiaries so to do, with all laws, regulations and orders of any Governmental Authority which now or at any time hereafter may be applicable to it, including ERISA and all Environmental Laws, a violation of which would individually or collectively reasonably be expected to have a Material Adverse Effect, except such thereof as shall be contested in good faith and, if applicable, by appropriate proceedings diligently conducted by it.

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

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

ARTICLE VII

NEGATIVE COVENANTS

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

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

- (s) Liens now existing or hereafter arising in favor of the Lender under the Loan Documents;
 - (t) Permitted Encumbrances;
 - (u) any Lien existing on any property prior to the acquisition thereof by the Borrower or any Subsidiary, or existing on any property of any Person that becomes a Subsidiary after the Closing Date prior to the time such Person becomes a Subsidiary or that is merged with or into or consolidated with the Borrower or any Subsidiary prior to such merger or consolidation, provided that (i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary or such merger or consolidation, as the case may be, (ii) such Lien shall not apply to any other property of the Borrower or any Subsidiary and (iii) such Lien shall secure only those obligations and liabilities that it secures on the date of such acquisition or the date such Person becomes a Subsidiary of the Borrower or such merger or consolidation, as the case may be;
 - (v) Liens (including precautionary Liens in connection with Capital Lease Obligations) on fixed or capital assets and other property (including any natural gas, oil or other mineral assets, pollution control facilities, electrical generating plants, equipment and machinery, and related accounts, financial assets, contracts and general intangibles) acquired, constructed, explored, drilled, developed, improved, repaired or serviced (including in connection with the financing of working capital and ongoing maintenance) by the Borrower or any Subsidiary, provided that (i) such security interests and the obligations and liabilities secured thereby are incurred prior to or within 270 days after the acquisition of the relevant asset or the completion of the relevant construction, exploration, drilling, development, improvement, repair or servicing (including the relevant financing of working capital and ongoing maintenance), as the case may be, (ii) the obligations and liabilities secured thereby do not exceed the cost of acquiring, constructing, exploring, drilling, developing, improving, repairing or servicing (including the financing of working capital and ongoing maintenance in respect of) the relevant assets, and (iii) such security interests shall not apply to any other property beyond the relevant property set forth in this Section 7.01(d) (and in the case of construction or improvement, any theretofore unimproved real property on which the property so constructed or the improvement is located) and Section 7.01(f), as applicable, of the Borrower or any Subsidiary;
 - (w) Liens created under or in connection with the Mortgage and the SWLP Mortgage;
 - (x) Liens on any Equity Interest owned or otherwise held by or on behalf of the Borrower or any Subsidiary in any Person created as a special purpose, bankruptcy-remote Person for the sole and exclusive purpose of engaging in activities in connection with the owning and operating of property in connection with any project financing permitted to be secured under Section 7.01(d);
 - (y) Liens created to secure Indebtedness of any Subsidiary to the Borrower or to any other Subsidiary;
 - (z) rights reserved to or vested in others to take or receive any part of any coal, ore, gas, oil and other minerals, any timber and/or any electric capacity or energy, gas, water, steam and any other product
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Exhibit 4(g)

developed, produced, manufactured, generated, purchased or otherwise acquired by the Borrower or by others on property of the Borrower or any of its Subsidiaries, provided that no Lien described in this paragraph shall secure Indebtedness;

(aa) Liens created for the sole purpose of extending, renewing or replacing in whole or in part Indebtedness secured by any lien, mortgage or security interest referred to in the foregoing Section 7.01(a) through Section 7.01(h), provided that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement and that such extension, renewal or replacement, as the case may be, shall be limited to all or a part of the property or indebtedness that secured the lien or mortgage so extended, renewed or replaced (and any improvements on such property);

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

(ac) Liens on all CoBank Equities now owned or hereafter acquired by the Borrower; and

(ad) any Lien, in addition to those described in the foregoing Section 7.01(a) through Section 7.01(k), securing obligations that, together with all other obligations secured pursuant to this Section 7.01(l), do not exceed 10% of Consolidated Assets at the time of the incurrence thereof.

7.02 Merger; Consolidation. The Borrower shall not, and shall not permit any Subsidiary (excluding any Immaterial Subsidiary) to undergo a division (as defined in Section 18-217 of the Delaware Limited Liability Company Act) or consolidate with or merge into any other Person (other than a merger of a Subsidiary into, or a consolidation of a Subsidiary with, the Borrower or another Subsidiary), unless:

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

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

(ag) in the case of a transaction involving the Borrower, either (i) the Borrower shall be the surviving entity thereof, or in the event the Borrower shall not be the surviving entity thereof, each of the following conditions shall be satisfied: (A) such surviving entity shall have been incorporated or otherwise formed in a State of the United States with substantially all of its assets and business located and conducted in the United States, (B) such surviving entity shall, immediately after giving effect to such transaction, have an Investment Grade Rating and (C) such surviving entity shall have expressly assumed the obligations of the Borrower under the Loan Documents pursuant to a writing in form and substance satisfactory to the Lender; and (ii) the Lender shall have received a certificate signed by a duly authorized officer of the Borrower identifying the Person to be merged with or into, or consolidated with, or acquired by, the Borrower, and certifying as to each of the matters set forth in Sections 7.02(a), 7.02(b) and 7.02(c)(i).

For purposes of Section 7.02(c) above, “Investment Grade Rating” means a Senior Debt Rating from at least two Rating Agencies equal to (1) for any transaction where the surviving entity has a Senior Debt Rating, a rating for such surviving entity of BBB- or higher from S&P or Fitch or Baa3 or higher from Moody’s and (2) for any transaction where the surviving entity is an indirect or direct holding company for a public utility that does not have a Senior Debt Rating, a rating for such surviving entity’s primary utility Subsidiary of BBB- or higher from S&P or Fitch or Baa3 or higher from Moody’s.

7.03 Transactions with Affiliates. The Borrower shall not, and shall not permit any of its Subsidiaries to, sell, transfer, lease or otherwise dispose of (including pursuant to a merger) any property or assets to, or purchase, lease or otherwise acquire (including pursuant to a merger) any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except in the ordinary course of business at prices and on terms and conditions not less materially favorable to the Borrower or such Subsidiary, as the case may be, than could be obtained on an arm’s-length basis from unrelated third parties, provided that this Section shall not apply to (i) any transaction that is in compliance

with applicable laws and regulations of the Federal Energy Regulatory Commission, the WPS or the MPUC pertaining to affiliate transactions or is authorized by a tariff or rate schedule which has been approved by a Governmental Authority or performed in accordance with its orders, (ii) any transaction that is otherwise permitted under Section 7.02 and (iii) transactions pursuant to any contract in effect on the date hereof, as the same may be amended, extended or replaced from time to time so long as such contract as so amended, extended or replaced is, taken as a whole, not materially less favorable to the Borrower and its Subsidiaries than under those contracts in effect on the date hereof.

7.04 Permitted Hedge Agreements. The Borrower shall not enter into any Hedge Agreements other than (a) Permitted Hedge Agreements and (b) transactions in futures, floors, collars and similar Hedge Agreements involving the stock price of a Person involved in a merger transaction permitted by Section 7.02.

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

7.06 Anti-Money Laundering and Anti-Terrorism Finance Laws; Foreign Corrupt Practices Act; Sanctions Laws; Restricted Person. The Borrower shall not, and shall not permit any Subsidiary to, (i) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any prohibition set forth in any Anti-Terrorism Law, (ii) cause or permit any of the funds that are used to repay any obligation under the Loan Documents to be derived from any unlawful activity with the result that the making of the Term Loans would be in violation of any applicable law, (iii) use any part of the proceeds of the Term Loans, in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws; (iv) use any of the proceeds from the Term Loans to finance any operations, investments or activities in, or make any payments to, any Restricted Person or in any manner that would result in the violation of any applicable sanctions.

7.07 Use of Proceeds. The Borrower shall not, and shall not permit any Subsidiary to, use the proceeds of the Term Loans, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase assets from or securities from or issued by, or to repay any obligation to the extent such purchase or repayment constitutes a “covered transaction” (as defined in Section 23A of the Federal Reserve Act (12 U.S.C. § 371c)) owed to, an “affiliate” of the Lender, as such term is defined in Regulation W promulgated by the Board.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

8.01 Events of Default.

Any of the following shall constitute an Event of Default:

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

(b) the Borrower shall fail to pay any interest on any Term Loan or any fee, commission or any other amount (other than an amount referred to in Section 8.01(a)) payable under any Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five Business Days;

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

Exhibit 4(g)

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 6.03 (with respect to the Borrower's existence), Section 7.02, Section 7.04, Section 7.05 or Section 7.06;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 7.01 or Section 7.03 and such failure shall continue unremedied for a period of ten days after the Borrower shall have obtained knowledge thereof.

(f) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in any Loan Document to which it is a party (other than those specified in Section 8.01(a), Section 8.01(b), Section 8.01(d) or Section 8.01(e)), and such failure shall continue unremedied for a period of 30 days after the Borrower shall have obtained knowledge thereof;

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

(h) any event or condition occurs that results in any Material Obligations becoming due prior to their scheduled maturity or payment date, or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Obligations or any trustee or agent on its or their behalf to cause any Material Obligations to become due prior to their scheduled maturity or payment date or to require the prepayment, repurchase, redemption or defeasance thereof prior to their scheduled maturity or payment date (in each case after giving effect to any applicable cure period), provided that this Section 8.01(h) shall not apply to (i) Indebtedness that becomes due as a result of a notice of voluntary prepayment or redemption delivered by the Borrower or a Subsidiary, (ii) secured Indebtedness that becomes due solely as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness, (iii) intercompany indebtedness or (iv) the exercise of any contractual right to cause the prepayment of any Material Obligations (other than the exercise of a remedy for an event of default under the applicable contract or agreement);

(i) except for Immaterial Transactions and transactions expressly permitted by Section 6.03 with respect to Subsidiaries, the Borrower or any Subsidiary shall (i) suspend or discontinue its business, (ii) make an assignment for the benefit of creditors, (iii) generally not pay its debts as such debts become due, (iv) admit in writing its inability to pay its debts as they become due, (v) file a voluntary petition in bankruptcy, (vi) become insolvent (however such insolvency shall be evidenced), (vii) file any petition or answer seeking for itself any reorganization, arrangement, composition, readjustment of debt, liquidation or dissolution or similar relief under any present or future statute, law or regulation of any jurisdiction, (viii) petition or apply to any tribunal for any receiver, custodian or any trustee for any substantial part of its property, (ix) be the subject of any such proceeding filed against it which remains undismissed for a period of 45 days, (x) file any answer admitting or not contesting the material allegations of any such petition filed against it or any order, judgment or decree approving such petition in any such proceeding, (xi) seek, approve, consent to, or acquiesce in any such proceeding, or in the appointment of any trustee, receiver, sequestrator, custodian, liquidator, or fiscal agent for it, or any substantial part of its property, or an order is entered appointing any such trustee, receiver, custodian, liquidator or fiscal agent and such order remains in effect for 45 days, or (xii) take any formal action for the purpose of effecting any of the foregoing or looking to the liquidation or dissolution of the Borrower or any Subsidiary;

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

bankruptcy, insolvency or similar law) of the affairs of the Borrower or any Subsidiary, and any such decree or order continues unstayed and in effect for a period of 45 days;

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

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

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

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

(o) a Change in Control shall occur; or

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

If a Default shall have occurred under the Loan Documents, then such Default will continue to exist until it either is cured (to the extent specifically permitted) in accordance with the Loan Documents or is otherwise expressly waived by Lender as determined in accordance with Section 10.01; and once an Event of Default occurs under the Loan Documents, then such Event of Default will continue to exist until it is expressly waived by the Lender, as required hereunder in Section 10.01.

8.02 Remedies upon Event of Default.

If any Event of Default occurs and is continuing, the Lender may take any or all of the following actions:

(a) declare the Term Commitment to be terminated, whereupon such commitment and obligation shall be terminated;

(b) declare the unpaid principal amount of all outstanding Term Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; and

(c) exercise all rights and remedies available to it under the Loan Documents or applicable law or equity;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States, the obligation of the Lender to make Term Loans shall automatically terminate, the unpaid principal amount of all outstanding Term Loans and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the Lender.

8.03 Application of Funds.

After the exercise of remedies provided for in Section 8.02 (or after the Term Loans have automatically become immediately due and payable) or if at any time insufficient funds are received by and available to the Lender to pay

fully all Obligations then due hereunder, any amounts received on account of the Obligations shall be applied by the Lender in its sole discretion.

ARTICLE IX

RESERVED

ARTICLE X

MISCELLANEOUS

10.01 Amendments, Etc.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrower therefrom, shall be effective unless in writing signed by the Lender and the Borrower and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

10.02 Notices; Effectiveness; Electronic Communications.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by fax transmission or e-mail transmission as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, to the address, fax number, e-mail address or telephone number specified for the Borrower or the Lender on Schedule 1.01.

Notices and other communications sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices and other communications sent by fax transmission shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices and other communications delivered through electronic communications to the extent provided in subsection (b) below shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lender hereunder may be delivered or furnished by electronic communication (including e-mail, FPML messaging and Internet or intranet websites) pursuant to procedures approved by the Lender. The Lender or the Borrower may each, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

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

For purposes of Section 6.02, the Borrower's website is www.allete.com.

(c) Change of Address, Etc. Each of the Borrower and the Lender may change its address, fax number or telephone number or e-mail address for notices and other communications hereunder by notice to the other parties hereto.

(d) Reliance by Lender. The Lender shall be entitled to rely and act upon any notices (including, without limitation, telephonic or electronic notices, Loan Notices and Notice of Loan Prepayment) purportedly given by or on behalf of the Borrower and which the Lender, in good faith, believes to be genuine, even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrower shall indemnify the Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Borrower, provided that such indemnity shall not be available to the extent that such losses, costs, expenses and liabilities are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of the Lender or such Related Party. All telephonic notices to and other telephonic communications with the Lender may be recorded by either party, and each of the parties hereto hereby consents to such recording.

10.03 No Waiver; Cumulative Remedies; Enforcement.

No failure by the Lender to exercise, and no delay by the Lender in exercising, any right, remedy, power or privilege hereunder or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder or under any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided, and provided under each other Loan Document, are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10.04 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Lender and its Affiliates (including the reasonable fees, charges and disbursements of counsel for the Lender), in connection with the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated) and (ii) all reasonable out-of-pocket expenses incurred by the Lender (including the reasonable fees, charges and disbursements of any counsel for the Lender), in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with Term Loans made hereunder, including all such reasonable out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Term Loans.

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

the gross negligence or willful misconduct of such Indemnitee or (B) a breach in bad faith by such Indemnitee or arising solely from claims between or among one or more Indemnitees.

(c) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, the Borrower shall not assert, and the Borrower hereby waives, and acknowledges that no other Person shall have, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Term Loan or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby (except for any claims by the Borrower for damages arising from the gross negligence or willful misconduct of such Indemnitee; provided that no Indemnitee shall be liable for any such damages except to the extent determined by a court of competent jurisdiction in a final nonappealable judgment).

(d) Payments. All amounts due under this Section shall be payable not later than ten (10) Business Days after written demand therefor.

(e) Survival. The agreements in this Section and the indemnity provisions of Section 10.02(d) shall survive the termination of the Term Commitment and the repayment, satisfaction or discharge of all the other Obligations.

10.05 Payments Set Aside.

To the extent that any payment by or on behalf of the Borrower is made to the Lender, or the Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred.

10.06 Successors and Assigns.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Lender, and the Lender may not assign or otherwise transfer any of its rights or obligations hereunder except (i) by an assignment in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (c) of this Section, or (iii) by way of pledge or assignment of a security interest in accordance with the provisions of subsection (d) of this Section.

(b) Assignments by Lender. The Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement; provided, that, unless such assignment is to an Affiliate of the Lender:

(i) the aggregate amount of the principal outstanding balance subject to such assignment shall not be less than \$5,000,000, except in the case of an assignment of the entire remaining amount of the Term Loan or unless the Borrower consents to such assignment; and

(ii) the Borrower shall have consented to such assignment (such consent not to be unreasonably withheld or delayed), unless an Event of Default has occurred and is continuing; provided that the Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Lender within five (5) Business Days after having received notice thereof.

(c) Participations. The Lender may at any time, without the consent of, or notice to, the Borrower, sell participations to any Person in all or any portion of the Lender's rights and/or obligations under this Agreement; provided that (i) the Lender's obligations under this Agreement shall remain unchanged, (ii) the Lender shall remain solely responsible to the Borrower for the performance of such obligations, and (iii) the Borrower shall continue to deal solely and directly with the Lender in connection with the Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which the Lender sells such a participation shall provide that the Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement.

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

10.07 Treatment of Certain Information: Confidentiality.

(a) Treatment of Certain Information. The Lender agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (i) to its Affiliates, its auditors and to its Related Parties that need to know such information (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (ii) to the extent required or requested by any regulatory authority purporting to have jurisdiction over such Person or its Related Parties (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (iii) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (iv) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (v) subject to an agreement containing provisions substantially the same as those of this Section, to (A) any assignee of or participant in, or any prospective assignee of or participant in, any of its rights and obligations under this Agreement or (B) any actual or prospective party (or its Related Parties) to any swap, derivative or other transaction under which payments are to be made by reference to the Borrower and its obligations, this Agreement or payments hereunder, (vi) on a confidential basis to any rating agency in connection with rating the Borrower or its Subsidiaries or the credit facilities provided hereunder, (vii) with the consent of the Borrower or to the extent such Information (A) becomes publicly available other than as a result of a breach of this Section or (B) becomes available to the Lender or any of its Affiliates on a nonconfidential basis from a source other than the Borrower. For purposes of this Section, "Information" means all information received from the Borrower or any Subsidiary relating to the Borrower or any Subsidiary or any of their respective businesses, other than any such information that is available to the Lender on a nonconfidential basis prior to disclosure by the Borrower or any Subsidiary, provided that, in the case of information received from the Borrower or any Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information. In addition, the Lender may disclose the existence of this Agreement and information about this Agreement to market data collectors, similar service providers to the lending industry and service providers the Lender in connection with the administration of this Agreement, the other Loan Documents and the Term Commitment.

(b) Press Releases. The Borrower and its Affiliates agree that they will not in the future issue any press releases or other public disclosure using the name of the Lender or its Affiliates or referring to this Agreement or any of the Loan Documents without the prior written consent of the Lender, unless (and only to the extent that) the Borrower or such Affiliate is required to do so under law and then, the Borrower or such Affiliate will, to the extent permitted by applicable law and practicable, consult with such Person before issuing such press release or other public disclosure.

(c) Customary Advertising Material. The Borrower consents to the publication by the Lender, at the Lender's own expense, of customary advertising material relating to the transactions contemplated hereby using the name, product photographs, logo or trademark of the Borrower, provided that such use complies with the Borrower's logo and trademark standards.

10.08 Right of Setoff.

If an Event of Default shall have occurred and be continuing, the Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by the Lender or any such Affiliate to or for the credit or the account of the Borrower against any and all of the Obligations now or hereafter existing under this Agreement or any other Loan Document to the Lender or its Affiliates, irrespective of whether or not the Lender or Affiliate shall have made any demand under this Agreement or any other Loan Document and although such Obligations may be contingent or unmatured, secured or unsecured, or are owed to a branch, office or Affiliate of the Lender different from the branch, office or Affiliate holding such deposit or obligated on such indebtedness. The rights of the Lender and its Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that the Lender or its Affiliates may have. The Lender agrees to notify the Borrower promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

10.09 Interest Rate Limitation.

Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable law (the "Maximum Rate"). If the Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Term Loans or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

10.10 Counterparts; Integration; Effectiveness.

This Agreement and each of the other Loan Documents may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents, and any separate letter agreements with respect to fees payable to the Lender, constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Lender and when the Lender shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement or any other Loan Document, or any certificate delivered thereunder, by fax transmission or e-mail transmission (e.g. "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this Agreement or such other Loan Document or certificate. Without limiting the foregoing, to the extent a manually executed counterpart is not specifically required to be delivered under the terms of any Loan Document, upon the request of any party, such fax transmission or e-mail transmission shall be promptly followed by such manually executed counterpart.

10.11 Survival of Representations and Warranties.

All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Lender, regardless of any investigation made by the Lender or on its behalf and notwithstanding that the Lender may have had notice or knowledge of any Default at the time of any Term Borrowing, and shall continue in full force until the Facility Termination Date.

10.12 Severability.

If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.13 Governing Law; Jurisdiction; Etc.

(a) GOVERNING LAW. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (EXCEPT, AS TO ANY OTHER LOAN DOCUMENT, AS EXPRESSLY SET FORTH THEREIN) AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT (EXCEPT, AS TO ANY OTHER LOAN DOCUMENT, AS EXPRESSLY SET FORTH THEREIN) AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(b) SUBMISSION TO JURISDICTION. THE BORROWER IRREVOCABLY AND UNCONDITIONALLY AGREES THAT IT WILL NOT COMMENCE ANY ACTION, LITIGATION OR PROCEEDING OF ANY KIND OR DESCRIPTION, WHETHER IN LAW OR EQUITY, WHETHER IN CONTRACT OR IN TORT OR OTHERWISE, AGAINST THE LENDER OR ANY RELATED PARTY IN ANY WAY RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS RELATING HERETO OR THERETO, IN ANY FORUM OTHER THAN THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS TO THE JURISDICTION OF SUCH COURTS AND AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION, LITIGATION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION, LITIGATION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. THE BORROWER IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN SECTION 10.13(b) OF THIS SECTION. THE BORROWER IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

10.14 Waiver of Jury Trial.

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

10.15 Acknowledgment Regarding Any Support QFCs.

(a) To the extent that the Loan Documents provide support, through a guarantee or otherwise, for any swap contract or any other agreement or instrument that is a QFC (such support, “QFC Credit Support”, and each such QFC, a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”) in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States): In the event a Covered Entity that is party to a Supported QFC (each, a “Covered Party”) becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States.

(b) As used in this Section 10.15, the following terms have the following meanings:

“BHC Act Affiliate” of a party means an “affiliate” (as such term is defined under, and interpreted in accordance with, 12 U.S.C 1841(k)) of such party.

“Covered Entity” means any of the following:

- (i) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);
 - (ii) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or
 - (iii) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).
-

“Default Right” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“QFC” has the meaning assigned to the term “qualified financial contract” in, and shall be interpreted in accordance with, 12 U.S.C. 5390(c)(8)(D).

10.16 No Advisory or Fiduciary Responsibility.

In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower acknowledges and agrees, and acknowledges its Affiliates’ understanding, that: (a) (i) the services regarding this Agreement provided by the Lender and any Affiliate thereof are arm’s-length commercial transactions between the Borrower and its Affiliates, on the one hand, and the Lender and its Affiliates, on the other hand, (ii) the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (iii) the Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (b) (i) the Lender and its Affiliates each is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary, for Borrower or any of its Affiliates, or any other Person and (ii) neither the Lender nor any of its Affiliates has any obligation to the Borrower or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (c) the Lender and its Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and neither the Lender nor any of its Affiliates has any obligation to disclose any of such interests to the Borrower or any of its Affiliates. To the fullest extent permitted by law, the Borrower hereby waives and releases any claims that it may have against the Lender or any of its Affiliates with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transactions contemplated hereby.

10.17 Electronic Execution.

The words “delivery,” “execute,” “execution,” “signed,” “signature,” and words of like import in any Loan Document or any other document executed in connection herewith shall be deemed to include electronic signatures, the electronic matching of assignment terms and contract formations on electronic platforms approved by the Lender, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act; provided that notwithstanding anything contained herein to the contrary, the Lender is under no obligation to agree to accept electronic signatures in any form or in any format unless expressly agreed to by the Lender pursuant to procedures approved by it; provided further without limiting the foregoing, upon the request of the Lender, any electronic signature shall be promptly followed by such manually executed counterpart.

10.18 USA PATRIOT Act Notice.

The Lender hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow the Lender to identify the Borrower in accordance with the Act. The Borrower agrees to, promptly following a request by the Lender, provide all such other documentation and information that the Lender requests in order to comply with its ongoing obligations under applicable “know your customer” and anti-money laundering rules and regulations, including the Act.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

BORROWER:

ALLETE, INC.

By:

Name:

Title:

LENDER: BANK OF AMERICA, N.A.,

as Lender

By:

Name:

Title:

SCHEDULE 1.01

NOTICES

If to the **Borrower**, to it at:

ALLETE, Inc.
30 West Superior Street,
Duluth, Minnesota 55802,
Attention of: Patrick L. Cutshall, Treasurer

Phone: 218-723-3978
Fax: 218-723-3912
Email: pcutshall@allete.com

If to the **Lender**, to it at:

Bank of America, N.A.
201 E. Washington Street
Phoenix, Arizona 85004
Attention of: Susan Mobley

Phone: 602-523-6409
Email: susan.e.mobley@bofa.com

SCHEDULE 5.05/5.06

DISCLOSED MATTERS

None.

SCHEDULE 5.10

LIST OF SUBSIDIARIES¹

ALLETE Automotive Services, LLC
ALLETE Enterprises, Inc.
 ALLETE Clean Energy, Inc.
 ACE O&M, LLC
 ACE Solar LLC
 ACE Wind LLC
 ACE Mid-West Holdings, LLC
 MWW Holdings, LLC
 Lake Benton Power Associates LLC
 Lake Benton Holdings LLC
 Lake Benton Power Partners L.L.C.
 Storm Lake Power Partners I LLC
 Storm Lake II Power Associates LLC
 Storm Lake II Holdings LLC
 Storm Lake Power Partners II LLC
 Northern Wind Energy, LLC
 Chanarambie Power Partners, LLC
 Viking Wind Holdings, LLC
 Viking Wind Partners, LLC
 Buffalo Ridge Wind Farm, LLC
 Moulton Heights Wind Power Project, LLC
 Muncie Power Partners, LLC
 North Ridge Wind Farm, LLC
 Vandy South Project, LLC
 Viking Wind Farm, LLC
 Vindy Power Partners, LLC
 Wilson-West Wind Farm, LLC
 MINNIGAN HOLDCO, LLC
 ACE Gopher Holdings, LLC
 ACE Lincoln Heights Holdings, LLC
 Windy Dog - I, LLC
 Wally's Wind Farm, LLC
 Roadrunner - I, LLC
 Salty Dog - I, LLC
 Salty Dog - II, LLC
 Breezy Bucks - I, LLC
 Breezy Bucks - II, LLC
 DAJAW Transmission, LLC²
 Cisco Holdings, LLC
 Christoffer Wind Energy I LLC
 Christoffer Wind Energy II LLC
 Christoffer Wind Energy III LLC
 Christoffer Wind Energy IV LLC

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

² The limited liability companies in the tier above DAJAW, LLC each own 14.3% of DAJAW, LLC.

Cisco Wind Energy, LLC³

ACE West Holdings, LLC
Condon Wind Power, LLC
 ACE GAWW Class B LLC
 Great American West Wind, LLC
 South Peak Wind, LLC
 Glen Ullin Energy Center, LLC

Armenia Holdings, LLC
 AMW I Holding, LLC
 Armenia Mountain Wind, LLC
 Armenia Mountain Wind II, LLC
 ACE South Holdings, LLC
 Thunder Spirit Wind, LLC

Red Lake Solar, LLC
ALLETE Enterprises QOF, LLC⁴
 Diamond Spring QOZB, LLC
 ACE DS Class B LLC
 Diamond Spring, LLC
 Diamond Spring Renewables, LLC

ALLETE Power Systems, Inc.
ALLETE Renewable Resources, Inc.
ASW Partners, LLC
 ALLETE South Wind, LLC
ALLETE Transmission Holdings, Inc.
BNI Energy, Inc.
 BNI Coal, Ltd.
MP Affiliate Resources, Inc.
Rainy River Energy Corporation
South Shore Energy, LLC
Upper Minnesota Properties, Inc.
 Upper Minnesota Properties - Development, Inc.

ALLETE Properties, LLC
 ALLETE Commercial, LLC
Lehigh Acquisition, LLC
 Florida Landmark Communities, LLC
 Lehigh Corporation
 Mardem, LLC
 Palm Coast Holdings, Inc.
 Port Orange Holdings, LLC
 Interlachen Lakes Estates, LLC

Palm Coast Land, LLC
ALLETE Water Services, Inc.
 Florida Water Services Corporation
 Energy Replacement Property, LLC

Energy Land, Incorporated
MP Investments, Inc.
RendField Land Company, Inc.
Superior Water, Light and Power Company

¹ The limited liability companies in the tier above Cisco Wind Energy, LLC each own 25% of Cisco Wind Energy, LLC.

² Jointly owned with ALLETE Clean Energy, Inc.

Exhibit A

FORM OF COMPLIANCE CERTIFICATE

For the fiscal [quarter][year] ended _____, 20__.

I, _____, [Title] of ALLETE, Inc., a Minnesota corporation (the “Borrower”) hereby certify that, to the best of my knowledge and belief, with respect to that certain Term Loan Agreement dated as of January 10, 2020 (as amended, modified, restated or supplemented from time to time, the “Term Loan Agreement”; all of the defined terms in the Term Loan Agreement are incorporated herein by reference) between the Borrower and Bank of America, N.A., as Lender:

[Use following paragraph (a) for fiscal year-end financial statements]

(a) The Borrower has delivered the year-end audited financial statements required by Section 6.01(a) of the Term Loan Agreement for the fiscal year of the Borrower ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

[Use following paragraph (a) for fiscal quarter-end financial statements]

(a) The Borrower has delivered the unaudited financial statements required by Section 6.01(b) of the Term Loan Agreement for the fiscal quarter of the Borrower ended as of the above date. Such financial statements fairly present in all material respects the financial conditions and results of operations of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year end audit adjustments and the absence of footnotes.

(b) As of _____ (the date of the fiscal quarter or year, as applicable, most recently ended) and as of the date of this Compliance Certificate, or, if none, the Closing Date) no Default or Event of Default has occurred under the Term Loan Agreement;

Delivered herewith are detailed calculations demonstrating compliance by the Borrower with the financial covenants contained in Section 7.05 of the Term Loan Agreement as of the end of the fiscal period referred to above.

[signature page follows]

This _____ day of _____, 20__.

ALLETE, INC.,
a Minnesota corporation

By:
Name:
Title:

Attachment to Compliance Certificate

Computation of Financial Covenants

1. Total Indebtedness \$ _____
2. Total Capitalization \$ _____
3. Total Indebtedness to Total Capitalization Ratio (Line A1 ÷ A2) _____ to 1.0

Maximum Permitted 0.65 to 1.0

Exhibit B

FORM OF LOAN NOTICE

Date: _____, _____

To: Bank of America, N.A., as Lender

Ladies and Gentlemen:

Reference is made to that certain Term Loan Agreement, dated as of January 10, 2020 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Term Loan Agreement," the terms defined therein being used herein as therein defined), between ALLETE, Inc., a Minnesota corporation (the "Borrower") and Bank of America, N.A., as Lender.

The undersigned hereby requests (select one):

A Borrowing of Term Loans

A conversion or continuation of Term Loans

1. On _____ (a Business Day).

2. In the amount of \$ _____.

3. Comprised of _____.
[Type of Loan requested]

4. For Eurodollar Rate Loans: with an Interest Period of ____ months.

[With respect to such Borrowing, the Borrower hereby represents and warrants that (i) such request complies with the requirements of Section 2.01 of the Term Loan Agreement and (ii) each of the conditions set forth in Section 4.02 of the Term Loan Agreement have been satisfied on and as of the date of such Borrowing.]

[signature page follows]

ALLETE, INC.,
a Minnesota corporation

By:
Name:
Title:

¹ Include for Borrowings.

Exhibit C

FORM OF Notice of Loan Prepayment

TO: Bank of America, N.A., as Lender

RE: Term Loan Agreement, dated as of January 10, 2020 by and between ALLETE, Inc., a Minnesota corporation (the “Borrower”) and Bank of America, N.A., as Lender (as amended, modified, extended, restated, replaced, or supplemented from time to time, the “Term Loan Agreement”); capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Term Loan Agreement)

DATE: [Date]

The Borrower hereby notifies the Lender that on _____² pursuant to the terms of Section 2.03 of the Term Loan Agreement, the Borrower intends to prepay/repay the following Term Loans as more specifically set forth below:

Optional prepayment of Term Loans in the following amount(s):

Eurodollar Rate Loans: \$ _____³
Applicable Interest Period:

Base Rate Loans: \$ _____⁴

Delivery of an executed counterpart of a signature page of this notice by fax transmission or other electronic mail transmission (e.g. “pdf” or “tif”) shall be effective as delivery of a manually executed counterpart of this notice.

[signature page follows]

² Specify date of such prepayment.

³ Any prepayment of Eurodollar Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof (or if less, the entire principal amount thereof outstanding).

⁴ Any prepayment of Base Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof (or if less, the entire principal amount thereof outstanding).

ALLETE, INC.,
a Minnesota corporation

By:

Name:

Title:

**Description of Securities
Registered Pursuant to Section 12
of the Securities Exchange Act of 1934**

As of January 1, 2020 (“Description Date”), ALLETE, Inc. (“ALLETE”) had one class of securities registered under Section 12 of the Securities Exchange Act of 1934: its common stock, without par value. The common stock is listed on The New York Stock Exchange (“NYSE”) under the symbol “ALE”. The following description is as of the Description Date, unless otherwise noted.

DESCRIPTION OF ALLETE, Inc. COMMON STOCK

General. The following statements describing ALLETE's common stock are not intended to be a complete description. For additional information, please see ALLETE's Articles of Incorporation and Bylaws. Each of these documents has been previously filed with the Securities and Exchange Commission ("SEC") and are exhibits to ALLETE's Annual Report on Form 10-K to which this Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 is an exhibit. Reference is also made to the laws of the State of Minnesota.

ALLETE has the following capital stock authorized by its Articles of Incorporation: 80,000,000 shares of common stock, without par value, and 3,616,000 shares of preferred stock. As of February 1, 2020, there were 51696497 shares of common stock issued and outstanding and no shares of preferred stock issued and outstanding.

Dividend Rights. ALLETE's common stock is entitled to dividends only after ALLETE has provided for dividends and any sinking fund requirements on any issued and outstanding preferred stock. ALLETE's Articles of Incorporation contain provisions which would restrict net income available for the payment of cash dividends on outstanding common stock in the event that shares of ALLETE's preferred stock were outstanding and certain common stock equity capitalization ratios were not met.

Voting Rights (Non-Cumulative Voting). Holders of ALLETE's common stock are entitled to receive notice of and to vote at any meeting of shareholders. Each share of ALLETE's common stock, as well as each share of any of ALLETE's issued and outstanding preferred stock, is entitled to one vote. Holders of ALLETE's common stock do not have cumulative voting rights. Each director is elected by the vote of a majority of the votes cast with respect to the director at a meeting of shareholders called for such purpose at which a quorum is present. At any such meeting for which the number of nominees (other than nominees withdrawn on or before the sixtieth (60th) day before the first anniversary of the preceding year's annual shareholder meeting) exceeds the number of directors to be elected, directors are elected by a plurality of the votes present and entitled to vote on the election of directors. In addition, whenever dividends on any of ALLETE's preferred stock are in default in the amount of four full quarterly payments or more, and until all the dividends in default are paid, the holders of ALLETE's preferred stock are entitled, as one class, to elect a majority of the directors. ALLETE's common stock, as one class, would then elect the minority.

The Articles of Incorporation include detailed procedures and other provisions relating to these rights and their termination, including:

- quorums;
- terms of directors elected;
- vacancies;
- class voting;
- meetings; and
- adjournments.

The Articles of Incorporation contain provisions that make it difficult to obtain control of ALLETE through transactions not having the approval of the board of directors of ALLETE. These provisions include:

- a provision requiring the affirmative vote of 75 percent of the outstanding shares of all classes of ALLETE's capital stock, present and entitled to vote, in order to authorize certain mergers or consolidations, or sales or leases of a significant amount of assets, of ALLETE, and other significant transactions that may have an effect on the control of ALLETE. Any of those transactions are required to meet certain “fair price” and procedural requirements. Neither a 75 percent shareholder vote nor a “fair price” is required for any of those transactions that have been approved by a majority of the “Disinterested Directors,” as that term is defined in the Articles of Incorporation;
 - a provision permitting a majority of the Disinterested Directors to determine whether the above requirements have been satisfied; and
 - a provision providing that some parts of the Articles of Incorporation cannot be altered unless approved by 75 percent of the outstanding shares of all classes of ALLETE's capital stock, present and entitled to vote, unless the alteration is recommended to the shareholders by a majority of the Disinterested Directors. The parts of the Articles of Incorporation that cannot be altered except as stated above include some parts relating to:
-

Exhibit 4(h)

- mergers or consolidations, or sales or leases of a significant amount of assets, of ALLETE, and other significant transactions that may have an effect on the control of ALLETE; and
- the number, election, terms of office and removal of directors of ALLETE and the way in which vacancies on the board of directors are filled.

Liquidation Rights. After ALLETE has satisfied creditors and the preferential liquidation rights of any of its outstanding preferred stock, the holders of its common stock are entitled to share ratably in the distribution of all remaining assets.

Miscellaneous. Holders of ALLETE's common stock have no preemptive or conversion rights. ALLETE's common stock is listed on the New York Stock Exchange. The transfer agent and registrar for ALLETE's common stock is EQ Shareowner Services.

**ALLETE Executive Annual Incentive Plan
Form of Award
Effective 2020
[Eligible Executive Employees]**

Target Award Opportunity

Base Salary \$

Times

Award Opportunity (percent of base salary) %

Equals

Target Award \$

Performance Levels and Award Amounts

Goal Performance Level	Payout as Percent of Target Award	Award Amount
Superior	200%	\$
Target	100%	\$
Threshold	44%	\$
Below Threshold	0%	\$

Goals

	Goal Weighting
Financial Goals	
Net Income	50%
Cash from Operating Activities	20%
Strategic & Operational & Values Goals	<u>30%</u>
	100%

Compensation Subject to Compensation Recovery Policy

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

ALLETE
EXECUTIVE LONG-TERM INCENTIVE COMPENSATION PLAN
RESTRICTED STOCK UNIT GRANT

[Effective 2020]

[Eligible Executive Employees]

Name

In accordance with the terms of ALLETE's Executive Long-Term Incentive Compensation Plan, as amended (the "Plan"), and as determined by and through the Executive Compensation Committee of ALLETE's Board of Directors, ALLETE hereby grants to you (the "Participant") Restricted Stock Units ("RSU's") as set forth below, payable in the form of ALLETE Common Stock, subject to the terms and conditions set forth in this Grant, including Annex A hereto, and all documents incorporated herein by reference:

Number of Restricted Stock Units:

Date of Grant:

Vesting Period:

This Grant is made in accordance with the Plan.

Further terms and conditions of the Grant are set forth in Annex A hereto, which is an integral part of this Grant.

Any term, provision or condition applicable to the Restricted Stock Units set forth in the Plan and not set forth herein is hereby incorporated by reference. To the extent any provision hereof is inconsistent with a Plan provision, the Plan provision will govern.

YOU SHOULD CAREFULLY READ AND REVIEW THE TERMS AND CONDITIONS SET FORTH IN THIS GRANT, INCLUDING ANNEX A HERETO, WHICH CONTAINS IMPORTANT INFORMATION, INCLUDING MANDATORY CLAIMS AND ARBITRATION PROCEDURES.

You will be deemed to have accepted this Grant on the Date of Grant, and all its associated terms and conditions, including the mandatory claims and arbitration procedures set forth in Annex A, unless you notify the Company of your non-acceptance of the Grant by contacting the Manager - Compensation, Benefits, and Talent Acquisition, in writing within sixty (60) days of the Date of Grant.

IN WITNESS WHEREOF, ALLETE has caused this Grant to be executed by its Chairman and Chief Executive Officer as of the date and year first above written.

ALLETE

By: _____
Chairman & CEO

Attachment: Annex A

ANNEX A
TO
ALLETE
EXECUTIVE LONG-TERM INCENTIVE COMPENSATION PLAN
RESTRICTED STOCK UNIT GRANT

The grant of restricted stock units (each, a “RSU”) under the ALLETE Executive Long-Term Incentive Compensation Plan (the “Plan”), evidenced by the Grant to which this is annexed, is subject to the following additional terms and conditions:

1. **Form and Timing of Payment.** Subject to the provisions hereof, each RSU will be paid in the form of one share of ALLETE common stock (each, a “Share”), plus accrued Dividend Equivalents. Shares will be deposited into your ALLETE Invest Direct plan account. Except as otherwise provided in sections 3 and 4, below, payment will be made during the period ending sixty days after the end of the vesting period; provided, however, the Participant will not be permitted, directly or indirectly, to designate the taxable year of the distribution. Payment will be subject to withholding Shares equal in value to the minimum amount of tax required to be withheld by law.

2. **Dividend Equivalents.** You will receive Dividend Equivalents in connection with the RSUs granted. Dividend Equivalents will be calculated and credited to you at the time the underlying RSUs are paid. Dividend Equivalents will be in the form of additional RSUs, which will be added to the number of RSUs subject to the grant, and will equal the number of Shares (including fractional Shares) that could have been purchased on applicable dividend payment dates, based on the closing ALLETE common stock price as reported in the consolidated transaction reporting system on that date, with cash dividends that would have been paid on the underlying RSUs, if such RSUs were Shares. Dividend Equivalents will only become payable if and to the extent the underlying RSUs vest and become payable.

3. **Payment Upon Retirement, Death or Disability; Forfeiture Upon Other Termination of Employment, Default on Certain Agreements or Unsatisfactory Job Performance.**

3.1 Subject to Section 3.4 below, if during the vesting period you (i) Retire, (ii) die while employed by a Related Company, or (iii) become Disabled, a portion of the unvested RSUs subject to the Grant will vest and be paid to you (or your beneficiary or estate) during the period ending sixty days after such event; provided, however, you will not be permitted, directly or indirectly, to designate the taxable year of the distribution. Except as otherwise provided in Section 4, payment pursuant to this Section 3.1 will be prorated, after giving effect to accumulated Dividend Equivalents, based on the number of whole calendar months within the vesting period that had elapsed as of the date of Retirement, death or Disability in relation to the number of calendar months in the vesting period. For purposes of this calculation, you will be credited with a whole month if you were employed on the 15th of the month.

3.2 Except as otherwise provided in Section 4, if during the vesting period or prior to payment of all RSUs you have a Separation from Service for any reason other than those specified in Section 3.1 above, all unvested or unpaid RSUs subject to the Grant (and related Dividend Equivalents) will be forfeited on the date of such Separation from Service.

3.3 If during the vesting period or prior to payment of all RSUs you are demoted, you default on any written agreement with a Related Company related to a restrictive employment covenant (such as confidentiality, non-disclosure, non-competition, non-solicitation, or the like), or if

ALLETE determines, in its sole discretion, that your job performance is unsatisfactory, ALLETE may cancel or amend your grant relating to any unpaid RSUs, resulting in the forfeiture of some portion or all of your unpaid RSUs (and related Dividend Equivalents).

3.4 Notwithstanding anything herein to the contrary, if you become entitled to a payment of the RSUs by reason of your Retirement and if you are a Specified Employee on the date of such Retirement, payment shall not be made until the earlier of: (i) the expiration of the six-month period beginning on the date of your Retirement, or (ii) the date of your death. The payment to which a Specified Employee would otherwise be entitled during this six-month period shall be paid, together with Dividend Equivalents that have accrued during this six-month delay, during the seventh month following the date of the Participant's Retirement, or, if earlier, the date of the Participant's death.

4. Change in Control. Upon a Change in Control, unless the Committee provides otherwise prior to the Change in Control, outstanding unvested RSUs shall be prorated (as described below) and such prorated RSUs shall immediately vest and be payable to you during the period ending sixty days after the Change in Control. The RSUs will not be subject to proration and immediately vest, however, if and to the extent that the Grant is, in connection with the Change in Control, fully assumed by the successor corporation or parent thereof; in such case, the RSUs shall be prorated and immediately vest upon your termination of employment by the successor corporation for reasons other than cause within 18 months following the Change in Control and be payable to the Participant during the period ending sixty days after the termination of employment. Any payment on account of or in connection with a Change in Control will be prorated, after giving effect to the accumulation of Dividend Equivalents, based on the number of whole calendar months within the vesting period that had elapsed as of the date of the Change in Control or termination of employment, as applicable, in relation to the number of calendar months in the vesting period. For purposes of this calculation, you will be credited with a whole month if you were employed on the 15th of the month. In no event will you be permitted, directly or indirectly, to designate the taxable year of the distribution on account of or in connection with a Change in Control.

5. Compensation Recovery Policy. The Grant is subject to the terms of any compensation recovery policy or policies established by ALLETE as may be amended from time to time ("Compensation Recovery Policy"). ALLETE hereby incorporates into the Grant the terms of the Compensation Recovery Policy.

6. Section 409A Compliance. This Grant is intended to comply with Section 409A or an exemption thereunder, and, accordingly, to the maximum extent permitted, the Plan and the Grant shall be interpreted and administered in compliance therewith. Notwithstanding any other provision of the Grant, payments provided pursuant to the Grant may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments pursuant to the Grant that may be excluded from Section 409A as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. To the extent that any provision of the Grant would cause a conflict with the requirements of Section 409A or would cause the administration of the Grant to fail to satisfy Section 409A, such provision shall be deemed null and void to the extent permitted by applicable law. Nothing herein shall be construed as a guarantee of any particular tax treatment. ALLETE makes no representation that the Grant complies with Section 409A and in no event shall ALLETE be liable for the payment of any taxes and penalties that you may incur under Section 409A.

7. Claims Procedure and Arbitration. The Grant is subject to the following claims procedures:

7.1 Mandatory Claims Procedures. If you or any person acting on your behalf (the “Claimant”) has any claim or dispute related in any way to the Grant or to the Plan, the Claimant must follow these claims procedures. All claims must be brought no later than one year following the date on which the claim first arose and any claim not submitted within such time limit will be waived.

7.2 Claim Submission. Any claim must be made in writing to the Claims Administrator. The Claims Administrator, or its delegate, shall notify the Claimant of the resolution of the Claim within 90 days after receipt of the claim; provided, however, if the Claims Administrator determines that an extension is necessary, the 90-day period shall be extended to up to 180 days upon notice to that effect to the Claimant.

7.3 Notice of Denial. If a claim is wholly or partially denied, the denial notice shall contain (i) the reason or reasons for denial of the claim, and (ii) references to the pertinent Plan provisions upon which the denial is based. Unless the claim is submitted for arbitration as provided below and in the Plan, the Claims Administrator’s decision or action shall be final, conclusive and binding on all persons having any interest in the Plan.

7.4 Arbitration. If, after exhausting the procedures set forth above, a Claimant wishes to pursue legal action, any action by the Claimant with respect to a claim, must be resolved by arbitration in the manner described herein.

- a) Time Limits. A Claimant seeking arbitration of any determination by the Claims Administrator must, within six (6) months of the date of the Claims Administrator’s final decision, file a demand for arbitration with the American Arbitration Association submitting the Claim to resolution by arbitration. A Claimant waives any claim not filed timely in accordance with this Section.
- b) Rules Applicable to Arbitration. The arbitration process shall be conducted in accordance with the Commercial Law Rules of the American Arbitration Association.
- c) Venue. The arbitration shall be conducted in Minneapolis, Minnesota.
- d) Binding Effect. The decision of the arbitrator with respect to the claim will be final and binding upon the Company and the Claimant. By participating in the Plan, and accepting the Grant, you, on behalf of yourself and any person with a Claim relating to your Grant, agree to waive any right to sue in court or to pursue any other legal right or remedy that might otherwise be available in connection with the resolution of the Claim.
- e) Enforceability. Judgment upon any award entered by an arbitrator may be entered in any court having jurisdiction over the parties.
- f) Waiver of Class, Collective, and Representative Actions. Any claim shall be heard without consolidation of such claims with any other person or entity. To the fullest extent permitted by law, whether in court or in arbitration, by participating in the Plan, you waive any right to commence, be a party to in any way, or be an actual or putative class member of any class, collective, or representative action arising out of or relating to any claim, and you agree that any claim may only be initiated or maintained and decided on an individual basis.
- g) Standard of Review. Any decision of an arbitrator on a claim shall be limited to determining whether the Claims Administrator’s decision or action was arbitrary or

capricious or was unlawful. The arbitrator shall adhere to and apply the deferential standard of review set out in *Conkright v. Frommert*, 130 S. Ct. 1640 (2010), *Metropolitan Life Insurance Co. v. Glenn*, 554 U.S. 105 (2008), and *Firestone Tire and Rubber Company v. Bruch*, 489 U.S. 101 (1989), and shall accord due deference to the determinations, interpretations, and construction of the Plan document by the Claim's Administrator.

- h) General Procedures.
- i. Arbitration Rules. The arbitration hearing will be conducted under the AAA Commercial Arbitration Rules (as amended or revised from time to time by AAA) (hereinafter the "AAA Rules"), before one AAA arbitrator who is from the Large, Complex Case Panel and who has experience with matters involving executive compensation and equity compensation plans. The AAA Rules and the terms and procedures set forth here may conflict on certain issues. To the extent that the procedures set forth here conflict with the AAA Rules, the procedures set forth here shall control and be applied by the arbitrator. Notwithstanding the amount of the claim, the Procedures for Large, Complex Commercial Disputes shall not apply.
 - ii. Substantive Law. The arbitrator shall apply the substantive law (and the laws of remedies, if applicable), of Minnesota or federal law, or both, depending upon the claim. Except to the extent required by applicable law, the Claimant shall keep any arbitration decision or award strictly confidential and not disclose to anyone other than his or her spouse, attorney, or tax advisor.
 - iii. Authority. The arbitrator shall have jurisdiction to hear and rule on prehearing disputes and is authorized to hold prehearing conferences by telephone or in person as the arbitrator deems necessary. The arbitrator will have the authority to hear a motion to dismiss and/or a motion for summary judgment by any party and in doing so shall apply the standards governing such motions under the Federal Rules of Civil Procedure.
 - iv. Pre-Hearing Procedures. Each party may take the deposition of not more than one individual and the expert witness, if any, designated by another party. Each party will have the right to subpoena witnesses in accordance with the Federal Arbitration Act, Title 9 of the United States Code. Additional discovery may be had only if the arbitrator so orders, upon a showing of substantial need.
 - v. Fees and Costs. Administrative arbitration fees and arbitrator compensation shall be borne equally by the parties, and each party shall be responsible for its own attorney's fees, if any; provided, however, that the Committee will authorize payment by the Company of all administrative arbitration fees, arbitrator compensation and attorney's fees if the Committee concludes that a Claimant has substantially prevailed on his or her claims. Unless prohibited by statute, the arbitrator shall assess attorney's fees against a party upon a showing that such party's claim, defense or position is frivolous, or unreasonable, or factually groundless. If either party pursues a claim by any means other than those set forth in this Article, the responding party shall be entitled to dismissal of such action, and the recovery of all costs and attorney's fees and losses related to such action, unless prohibited by statute.
- (a) Interstate Commerce and the Federal Arbitration Act. The Company is involved in transactions involving interstate commerce, and the employee's employment with the Company involves such commerce. Therefore, the Federal Arbitration Act,

Title 9 of the United States Code, will govern the interpretation, enforcement, and all judicial proceedings regarding the arbitration procedures in this Section.

8. Ratification of Actions. By receiving the Grant or other benefit under the Plan, you and each person claiming under or through you shall be conclusively deemed to have indicated your acceptance and ratification of, and consent to, any action taken under the Plan or the Grant by ALLETE, the Board, or the Committee.

9. No Impact on Other Benefits. The Grant or payment on account thereof shall not be taken into account in determining any benefits under any severance, retirement, welfare, insurance or other benefit plan of ALLETE or any affiliate except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

10. Notices. Any notice hereunder to ALLETE shall be addressed to ALLETE, 30 West Superior Street, Duluth, Minnesota 55802, Attention: Manager - Compensation, Benefits, and Talent Acquisition, Human Resources, and any notice hereunder to you shall be directed to your address as indicated by ALLETE's records, subject to the right of either party to designate at any time hereafter in writing some other address.

11. Governing Law and Severability. To the extent not preempted by the Federal law, the Grant will be governed by and construed in accordance with the laws of the State of Minnesota, without regard to its conflicts of law provisions. In the event any provision of the Grant shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Grant, and the Grant shall be construed and enforced as if the illegal or invalid provision had not been included.

12. Definitions. Capitalized terms not otherwise defined herein shall have the meanings given them in the Plan. The following definitions apply to the Grant and this Annex A:

12.1 **"Claims Administrator"** means ALLETE's Chief Executive Officer, unless the claimant is (or is acting on behalf of) an ALLETE executive officer (within the meaning of Exchange Act Rule 3b-7), in which case the Claims Administrator is the Executive Compensation Committee of the Board of Directors.

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

- (i) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulations section 1.409A-3(i)(5)(v)(B)), acquires ownership of stock of the Company that, together with stock previously held by the acquirer, constitutes more than fifty (50%) percent of the total fair market value or total voting power of Company stock. If any one Person, or more than one Person acting as a group, is considered to own more than fifty (50%) percent of the total fair market value or total voting power of Company stock, the acquisition of additional stock by the same Person or Persons acting as a group does not cause a Change in Control. An increase in the percentage of stock owned by any one Person, or Persons acting as a group, as a result of a transaction in which Company acquires its stock in exchange for property, is treated as an acquisition of stock;
- (ii) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulations section 1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the twelve (12) month period ending on the date of the most

- recent acquisition by that Person or Persons) ownership of Company stock possessing at least thirty (30%) percent of the total voting power of Company stock;
- (iii) the date a majority of the members of the Company's board of directors is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the board of directors prior to the date of appointment or election; or
 - (iv) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulations section 1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by that Person or Persons) assets from the Company that have a total gross fair market value equal to at least forty (40%) percent of the total gross fair market value of all the Company's assets immediately prior to the acquisition or acquisitions. For this purpose, "gross fair market value" means the value of the corporation's assets, or the value of the assets being disposed of, without regard to any liabilities associated with these assets.

In determining whether a Change in Control occurs, the attribution rules of Code section 318 apply to determine stock ownership. The stock underlying a vested option is treated as owned by the individual who holds the vested option, and the stock underlying an unvested option is not treated as owned by the individual who holds the unvested option. The term "Person" used in this definition means any individual, corporation (including any non-profit corporation), general, limited or limited liability partnership, limited liability company, joint venture, estate, trust, firm, association, organization or other entity or any governmental or quasi-governmental authority, organization, agency or body.

12.3 "**Code**" means the Internal Revenue Code of 1986, as it may be amended from time to time.

12.4 "**Disability**" or "**Disabled**" means a physical or mental condition in which the Participant is:

- (v) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months;
- (vi) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under the Employer's accident and health plan;
- (vii) determined to be totally disabled by the Social Security Administration; or
- (viii) disabled pursuant to an Employer-sponsored disability insurance arrangement provided that the definition of disability applied under such disability insurance program complies with the foregoing definition of Disability.

12.5 "**Related Company**" means the ALLETE, Inc. and all persons with whom the ALLETE, Inc. would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control); provided that in applying Code sections 1563(a)(1), (2), and (3) for purposes of determining a controlled group of corporations under Code section 414(b), the language "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Code sections 1563(a)

(1), (2), and (3), and in applying Treasury Regulations section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Code section 414(c), “at least 50 percent” is used instead of “at least 80 percent” each place it appears in Treasury Regulations section 1.414(c)-2.

12.6 “**Retirement**” or “**Retires**” means Separation from Service, for reasons other than death or Disability, on or after attaining normal retirement age or early retirement age as defined in the most applicable qualified retirement plan sponsored by the Related Company that employed the Participant immediately preceding the Separation from Service, without regard to whether the Participant is a participant in such plan, or if the employer Related Company does not sponsor such retirement plan, on or after attaining Normal Retirement Age or Early Retirement Age as defined in the ALLETE and Affiliated Companies Retirement Plan A, without regard to whether the Participant is a participant under the ALLETE and Affiliated Companies Retirement Plan A.

12.7 “**Section 409A**” means Section 409A of the Code and Treasury Regulations section 1.409A-1 et seq., as they both may be amended from time to time, or other guidance issued by the Treasury Department and Internal Revenue Service thereunder.

12.8 “**Separation from Service**” means that the Participant terminates employment within the meaning of Treasury Regulations section 1.409A-1(h) and other applicable guidance with all Related Companies. Whether a termination of employment has occurred is determined under the facts and circumstances, and a termination of employment shall occur if all Related Companies and the Participant reasonably anticipate that no further services shall be performed after a certain date or that the level of bona fide services the Participant shall perform after such date (as an employee or an independent contractor) shall permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services to the Related Companies if the Participant has been providing services to the Related Companies less than 36 months). A Participant shall not be considered to separate from service during a bona fide leave of absence for less than six (6) months or longer if the Participant retains a right to reemployment with any Related Company by contract or statute. With respect to disability leave, a Participant shall not be considered to separate from service for 29 months unless the Participant otherwise terminates employment or is terminated by all Related Companies.

12.9 “**Specified Employee**” means an Participant who is subject to the six-month delay rule described in Code section 409A(2)(B)(i), determined in accordance with guidelines adopted by the Board from time to time as permitted by Section 409A of the Code and Treasury Regulations section 1.409A-1 et seq., as they both may be amended from time to time, and other guidance issued by the Treasury Department and Internal Revenue Service thereunder.

ALLETE
EXECUTIVE LONG-TERM INCENTIVE COMPENSATION PLAN
PERFORMANCE SHARE GRANT

[Effective 2020]

[Eligible Executive Employees]

Name

In accordance with the terms of ALLETE's Executive Long-Term Incentive Compensation Plan, as amended (the "Plan"), and as determined by and through the Executive Compensation Committee of ALLETE's Board of Directors, ALLETE hereby grants to you (the "Participant") Performance Shares, as set forth below, subject to the terms and conditions set forth in this Grant, including Annex A and Annex B hereto and all documents incorporated herein by reference:

Number of Performance Shares Granted:

Date of Grant:

Performance Period:

Performance Goals:

See Annex B

This Grant is made in accordance with the Plan.

Further terms and conditions of the Grant are set forth in Annex A hereto and Performance Goals are set forth in Annex B hereto, both of which are integral parts of this Grant.

Any term, provision or condition applicable to the Performance Shares set forth in the Plan and not set forth herein is hereby incorporated by reference. To the extent any provision hereof is inconsistent with a Plan provision, the Plan provision will govern.

YOU SHOULD CAREFULLY READ AND REVIEW THE TERMS AND CONDITIONS SET FORTH IN THIS GRANT, INCLUDING ANNEX A HERETO, WHICH CONTAINS IMPORTANT INFORMATION, INCLUDING MANDATORY CLAIMS AND ARBITRATION PROCEDURES.

You will be deemed to have accepted this Grant on the Date of Grant and all its associated terms and conditions, including the mandatory claims and arbitration procedures set forth in Annex A, unless you notify the Company of your non-acceptance of the Grant by contacting the Manager - Compensation, Benefits, and Talent Acquisition, in writing within sixty (60) days of the Date of Grant.

IN WITNESS WHEREOF, ALLETE has caused this Grant to be executed by its Chairman and Chief Executive Officer as of the date and year first above written.

ALLETE

By: _____
Chairman & CEO

Attachments: Annex A and Annex B

ANNEX A
TO
ALLETE
EXECUTIVE LONG-TERM INCENTIVE COMPENSATION PLAN
PERFORMANCE SHARE GRANT

The Performance Share Grant to which this is annexed is subject to the following additional terms and conditions:

1. Dividend Equivalents. You will receive Dividend Equivalents with respect to Performance Shares that are earned and payable. Dividend Equivalents are calculated and credited to you after the Performance Period has ended. The Dividend Equivalents will be in the form of additional Performance Shares, which will be added to the number of Performance Shares earned, and will equal the number of Shares (including fractional Shares) that could have been purchased on applicable dividend payment dates, based on the closing ALLETE common stock price as reported in the consolidated transaction reporting system on that date, with cash dividends that would have been paid on underlying Performance Shares, if such Performance Shares were Shares. Dividend Equivalents will only become payable if and to the extent the underlying Performance Shares are earned and become payable.

2. Satisfaction of Goals. Performance Shares remain unearned unless and until Performance Goals are achieved. After the Performance Period has ended, the Executive Compensation Committee (the "Committee") will determine the extent to which the Performance Goals have been met. You will not earn any Performance Shares if the threshold performance level has not been met. Subject to the provisions of Section 4 below and to provisions in the Plan for change in control, Performance Shares will be earned as follows: If the threshold level has been met, you will have earned 50% of the Performance Shares (as increased by the Dividend Equivalents). If the target level has been met, you will have earned 100% of the Performance Shares (as increased by the Dividend Equivalents). If the superior level has been met, you will have earned 200% of the Performance Shares (as increased by the Dividend Equivalents). Straight line interpolation will be used to determine earned awards based on achievement of goals between the threshold, target and superior levels.

3. Payment. Subject to the provisions of Section 4 below and to provisions in the Plan for Change in Control, Performance Shares (as increased by the Dividend Equivalents) shall be paid in full after the Committee has determined the extent to which Performance Goals have been met and within two and one half months after the end of the Performance Period. Payment shall be made, after withholding Performance Shares in an amount equal in value to the minimum amount of tax required to be withheld by law, by depositing ALLETE common stock into your Invest Direct account. Performance Share awards shall not vest until paid.

4. Payment Upon Death, Retirement or Disability; Forfeiture of Unvested Performance Shares Upon Demotion, Unsatisfactory Job Performance, Default on Certain Agreements or Other Separation from Service.

4.1 If during a Performance Period you (i) Retire, (ii) die while employed by a Related Company, or (iii) become Disabled, you (or your beneficiary or estate) will receive a payment of any Performance Shares (as increased by the Dividend Equivalents) after the end of the Performance Period in accordance with Section 3 above. The payment shall be prorated based upon the number of whole calendar months within the Performance Period which had elapsed as

of the date of death, Retirement or Disability in relation to the number of calendar months in the full Performance Period. A whole month is counted in the calculation if you were in the position as of the 15th of the month.

4.2 If after the end of a Performance Period, but before any or all Performance Shares have been paid, you Retire, die or become Disabled, you (or your beneficiary or estate) will be entitled to full payout of all earned Performance Shares (as increased by the Dividend Equivalents) in accordance with Section 3 above.

4.3 If, prior to payment of all Performance Shares, you are demoted, you default on any written agreement with a Related Company related to a restrictive employment covenant (such as confidentiality, non-disclosure, non-competition, non-solicitation, or the like) or ALLETE determines, in its sole discretion, that your job performance is unsatisfactory, ALLETE reserves the right to cancel or amend your grant relating to any unpaid Performance Shares, with the result that some portion or all of your unpaid Performance Shares (and related Dividend Equivalents) will be forfeited.

4.4 If you have a Separation from Service for any reason other than those specified in subsection 4.1 above, all Performance Shares (and related Dividend Equivalents), to the extent not yet paid, shall be forfeited on the date of such Separation from Service, except as otherwise provided by the Committee.

5. Compensation Recovery Policy. The Grant is subject to the terms of any compensation recovery policy or policies established by ALLETE as may be amended from time to time (“Compensation Recovery Policy”). ALLETE hereby incorporates into the Grant the terms of the Compensation Recovery Policy.

6. Section 409A Compliance. This Grant is intended to comply with Section 409A of the Code (“Section 409A”) or an exemption thereunder, and, accordingly, to the maximum extent permitted, the Plan and the Grant shall be interpreted and administered in compliance therewith. Notwithstanding any other provision of the Grant, payments provided pursuant to the Grant may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments pursuant to the Grant that may be excluded from Section 409A as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. To the extent that any provision of the Grant would cause a conflict with the requirements of Section 409A or would cause the administration of the Grant to fail to satisfy Section 409A, such provision shall be deemed null and void to the extent permitted by applicable law. Nothing herein shall be construed as a guarantee of any particular tax treatment. ALLETE makes no representation that the Grant complies with Section 409A and in no event shall ALLETE be liable for the payment of any taxes and penalties that you may incur under Section 409A.

7. Claims Procedure and Arbitration. The Grant is subject to the following claims procedures:

7.1 Mandatory Claims Procedures. If you or any person acting on your behalf (the “Claimant”) has any claim or dispute related in any way to the Grant or to the Plan, the Claimant must follow these claims procedures. All claims must be brought no later than one year following the date on which the claim first arose and any claim not submitted within such time limit will be waived.

7.2 Claim Submission. Any claim must be made in writing to the Claims Administrator. The Claims Administrator, or its delegate, shall notify the Claimant of the resolution of the claim within 90 days after receipt of the claim; provided, however, if the Claims Administrator determines that an extension is necessary, the 90-day period shall be extended to up to 180 days upon notice to that effect to the Claimant.

7.3 Notice of Denial. If a claim is wholly or partially denied, the denial notice shall contain (i) the reason or reasons for denial of the claim, and (ii) references to the pertinent Plan provisions upon which the denial is based. Unless the claim is submitted for arbitration as provided below and in the Plan, the Claims Administrator's decision or action shall be final, conclusive and binding on all persons having any interest in the Plan.

7.4 Arbitration. If, after exhausting the procedures set forth above, a Claimant wishes to pursue legal action, any action by the Claimant with respect to a claim, must be resolved by arbitration in the manner described herein.

- a) Time Limits. A Claimant seeking arbitration of any determination by the Claims Administrator must, within six (6) months of the date of the Claims Administrator's final decision, file a demand for arbitration with the American Arbitration Association submitting the claim to resolution by arbitration. A Claimant waives any claim not filed timely in accordance with this Section.
- b) Rules Applicable to Arbitration. The arbitration process shall be conducted in accordance with the Commercial Law Rules of the American Arbitration Association.
- c) Venue. The arbitration shall be conducted in Minneapolis, Minnesota.
- d) Binding Effect. The decision of the arbitrator with respect to the claim will be final and binding upon the Company and the Claimant. By participating in the Plan, and accepting the Grant, you, on behalf of yourself and any person with a Claim relating to your Grant, agree to waive any right to sue in court or to pursue any other legal right or remedy that might otherwise be available in connection with the resolution of the Claim.
- e) Enforceability. Judgment upon any award entered by an arbitrator may be entered in any court having jurisdiction over the parties.
- f) Waiver of Class, Collective, and Representative Actions. Any claim shall be heard without consolidation of such claims with any other person or entity. To the fullest extent permitted by law, whether in court or in arbitration, by participating in the Plan, you waive any right to commence, be a party to in any way, or be an actual or putative class member of any class, collective, or representative action arising out of or relating to any claim, and you agree that any claim may only be initiated or maintained and decided on an individual basis.
- g) Standard of Review. Any decision of an arbitrator on a claim shall be limited to determining whether the Claims Administrator's decision or action was arbitrary or capricious or was unlawful. The arbitrator shall adhere to and apply the deferential standard of review set out in *Conkright v. Frommert*, 130 S. Ct. 1640 (2010), *Metropolitan Life Insurance Co. v. Glenn*, 554 U.S. 105 (2008), and *Firestone Tire and Rubber Company v. Bruch*, 489 U.S. 101 (1989), and shall accord due deference to the determinations, interpretations, and construction of the Plan document by the Claims Administrator.
- h) General Procedures.

- i. Arbitration Rules. The arbitration hearing will be conducted under the AAA Commercial Arbitration Rules (as amended or revised from time to time by AAA) (hereinafter the “AAA Rules”), before one AAA arbitrator who is from the Large, Complex Case Panel and who has experience with matters involving executive compensation and equity compensation plans. The AAA Rules and the terms and procedures set forth here may conflict on certain issues. To the extent that the procedures set forth here conflict with the AAA Rules, the procedures set forth here shall control and be applied by the arbitrator. Notwithstanding the amount of the claim, the Procedures for Large, Complex Commercial Disputes shall not apply.
- ii. Substantive Law. The arbitrator shall apply the substantive law (and the laws of remedies, if applicable), of Minnesota or federal law, or both, depending upon the claim. Except to the extent required by applicable law, the Claimant shall keep any arbitration decision or award strictly confidential and not disclose to anyone other than his or her spouse, attorney, or tax advisor.
- iii. Authority. The arbitrator shall have jurisdiction to hear and rule on prehearing disputes and is authorized to hold prehearing conferences by telephone or in person as the arbitrator deems necessary. The arbitrator will have the authority to hear a motion to dismiss and/or a motion for summary judgment by any party and in doing so shall apply the standards governing such motions under the Federal Rules of Civil Procedure.
- iv. Pre-Hearing Procedures. Each party may take the deposition of not more than one individual and the expert witness, if any, designated by another party. Each party will have the right to subpoena witnesses in accordance with the Federal Arbitration Act, Title 9 of the United States Code. Additional discovery may be had only if the arbitrator so orders, upon a showing of substantial need.
- v. Fees and Costs. Administrative arbitration fees and arbitrator compensation shall be borne equally by the parties, and each party shall be responsible for its own attorney’s fees, if any; provided, however, that the Committee will authorize payment by the Company of all administrative arbitration fees, arbitrator compensation and attorney’s fees if the Committee concludes that a Claimant has substantially prevailed on his or her claims. Unless prohibited by statute, the arbitrator shall assess attorney’s fees against a party upon a showing that such party’s claim, defense or position is frivolous, or unreasonable, or factually groundless. If either party pursues a claim by any means other than those set forth in this Article, the responding party shall be entitled to dismissal of such action, and the recovery of all costs and attorney’s fees and losses related to such action, unless prohibited by statute.
- (a) Interstate Commerce and the Federal Arbitration Act. The Company is involved in transactions involving interstate commerce, and the employee’s employment with the Company involves such commerce. Therefore, the Federal Arbitration Act, Title 9 of the United States Code, will govern the interpretation, enforcement, and all judicial proceedings regarding the arbitration procedures in this Section.

8. Ratification of Actions. By receiving the Grant or other benefit under the Plan, you and each person claiming under or through you shall be conclusively deemed to have indicated your acceptance and ratification of, and consent to, any action taken under the Plan or the Grant by ALLETE, the Board or the Committee.

9. No Impact on Other Benefits. The Grant or payment on account thereof shall not be taken into account in determining any benefits under any severance, retirement, welfare, insurance or other benefit plan of ALLETE or any affiliate except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

10. Notices. Any notice hereunder to ALLETE shall be addressed to ALLETE, 30 West Superior Street, Duluth, Minnesota 55802, Attention: Manager - Compensation, Benefits, and Talent Acquisition, Human Resources, and any notice hereunder to you shall be directed to your address as indicated by ALLETE's records, subject to the right of either party to designate at any time hereafter in writing some other address.

11. Governing Law and Severability. To the extent not preempted by the Federal law, the Grant will be governed by and construed in accordance with the laws of the State of Minnesota, without regard to its conflicts of law provisions. In the event any provision of the Grant shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Grant, and the Grant shall be construed and enforced as if the illegal or invalid provision had not been included.

12. Definitions. Capitalized terms not otherwise defined herein shall have the meanings given them in the Plan. The following definitions apply to the Grant and this Annex A:

12.1 **"Claims Administrator"** means ALLETE's Chief Executive Officer, unless the claimant is (or is acting on behalf of) an ALLETE executive officer (within the meaning of Exchange Act Rule 3b-7), in which case the Claims Administrator is the Executive Compensation Committee of the Board of Directors.

12.2 **"Code"** means the Internal Revenue Code of 1986, as it may be amended from time to time.

12.3 **"Disability"** or **"Disabled"** means a physical or mental condition in which the Participant is:

- (a) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months;
- (b) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under the Employer's accident and health plan;
- (c) determined to be totally disabled by the Social Security Administration; or
- (d) disabled pursuant to an Employer-sponsored disability insurance arrangement provided that the definition of disability applied under such disability insurance program complies with the foregoing definition of Disability.

12.4 **"Related Company"** means ALLETE, Inc. and all persons with whom the ALLETE, Inc. would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control); provided that in applying Code sections 1563(a)(1), (2), and (3) for purposes of

determining a controlled group of corporations under Code section 414(b), the language “at least 50 percent” is used instead of “at least 80 percent” each place it appears in Code sections 1563(a)(1), (2), and (3), and in applying Treasury Regulations section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Code section 414(c), “at least 50 percent” is used instead of “at least 80 percent” each place it appears in Treasury Regulations section 1.414(c)-2.

12.5 “**Retirement**” or “**Retires**” means Separation from Service, for reasons other than death or Disability, on or after attaining normal retirement age or early retirement age as defined in the most applicable qualified retirement plan sponsored by the Related Company that employed the Participant immediately preceding the Separation from Service, without regard to whether the Participant is a participant in such plan, or if the employer Related Company does not sponsor such retirement plan, on or after attaining Normal Retirement Age or Early Retirement Age as defined in the ALLETE and Affiliated Companies Retirement Plan A, without regard to whether the Participant is a participant under the ALLETE and Affiliated Companies Retirement Plan A.

12.6 “**Separation from Service**” means that the Participant terminates employment within the meaning of Treasury Regulations section 1.409A-1(h) and other applicable guidance with all Related Companies. Whether a termination of employment has occurred is determined under the facts and circumstances, and a termination of employment shall occur if all Related Companies and the Participant reasonably anticipate that no further services shall be performed after a certain date or that the level of bona fide services the Participant shall perform after such date (as an employee or an independent contractor) shall permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services to the Related Companies if the Participant has been providing services to the Related Companies less than 36 months). A Participant shall not be considered to separate from service during a bona fide leave of absence for less than six (6) months or longer if the Participant retains a right to reemployment with any Related Company by contract or statute. With respect to disability leave, a Participant shall not be considered to separate from service for 29 months unless the Participant otherwise terminates employment or is terminated by all Related Companies.

- a) Waiver of Class, Collective, and Representative Actions. Any claim shall be heard without consolidation of such claims with any other person or entity. To the fullest extent permitted by law, whether in court or in arbitration, by participating in the Plan, you waive any right to commence, be a party to in any way, or be an actual or putative class member of any class, collective, or representative action arising out of or relating to any claim, and you agree that any claim may only be initiated or maintained and decided on an individual basis.
- b) Standard of Review. Any decision of an arbitrator on a claim shall be limited to determining whether the Claims Administrator’s decision or action was arbitrary or capricious or was unlawful. The arbitrator shall adhere to and apply the deferential standard of review set out in *Conkright v. Frommert*, 130 S. Ct. 1640 (2010), *Metropolitan Life Insurance Co. v. Glenn*, 554 U.S. 105 (2008), and *Firestone Tire and Rubber Company v. Bruch*, 489 U.S. 101 (1989), and shall accord due deference to the determinations, interpretations, and construction of the Plan document by the Claims Administrator.

c) General Procedures.

- i. Arbitration Rules. The arbitration hearing will be conducted under the AAA Commercial Arbitration Rules (as amended or revised from time to time by AAA) (hereinafter the “AAA Rules”), before one AAA arbitrator who is from the Large, Complex Case Panel and who has experience with matters involving executive compensation and equity compensation plans. The AAA Rules and the terms and procedures set forth here may conflict on certain issues. To the extent that the procedures set forth here conflict with the AAA Rules, the procedures set forth here shall control and be applied by the arbitrator. Notwithstanding the amount of the claim, the Procedures for Large, Complex Commercial Disputes shall not apply.
 - ii. Substantive Law. The arbitrator shall apply the substantive law (and the laws of remedies, if applicable), of Minnesota or federal law, or both, depending upon the claim. Except to the extent required by applicable law, the Claimant shall keep any arbitration decision or award strictly confidential and not disclose to anyone other than his or her spouse, attorney, or tax advisor.
 - iii. Authority. The arbitrator shall have jurisdiction to hear and rule on prehearing disputes and is authorized to hold prehearing conferences by telephone or in person as the arbitrator deems necessary. The arbitrator will have the authority to hear a motion to dismiss and/or a motion for summary judgment by any party and in doing so shall apply the standards governing such motions under the Federal Rules of Civil Procedure.
 - iv. Pre-Hearing Procedures. Each party may take the deposition of not more than one individual and the expert witness, if any, designated by another party. Each party will have the right to subpoena witnesses in accordance with the Federal Arbitration Act, Title 9 of the United States Code. Additional discovery may be had only if the arbitrator so orders, upon a showing of substantial need.
 - v. Fees and Costs. Administrative arbitration fees and arbitrator compensation shall be borne equally by the parties, and each party shall be responsible for its own attorney’s fees, if any; provided, however, that the Committee will authorize payment by the Company of all administrative arbitration fees, arbitrator compensation and attorney’s fees if the Committee concludes that a Claimant has substantially prevailed on his or her claims. Unless prohibited by statute, the arbitrator shall assess attorney’s fees against a party upon a showing that such party’s claim, defense or position is frivolous, or unreasonable, or factually groundless. If either party pursues a claim by any means other than those set forth in this Article, the responding party shall be entitled to dismissal of such action, and the recovery of all costs and attorney’s fees and losses related to such action, unless prohibited by statute.
- d) Interstate Commerce and the Federal Arbitration Act. The Company is involved in transactions involving interstate commerce, and the employee’s employment with the Company involves such commerce. Therefore, the Federal Arbitration Act, Title 9 of the United States Code, will govern the interpretation, enforcement, and all judicial proceedings regarding the arbitration procedures in this Section.

8. Ratification of Actions. By receiving the Grant or other benefit under the Plan, you and each person claiming under or through you shall be conclusively deemed to have indicated your acceptance and ratification of, and consent to, any action taken under the Plan or the Grant by ALLETE, the Board or the Committee.

9. No Impact on Other Benefits. The Grant or payment on account thereof shall not be taken into account in determining any benefits under any severance, retirement, welfare, insurance or other benefit plan of ALLETE or any affiliate except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

10. Notices. Any notice hereunder to ALLETE shall be addressed to ALLETE, 30 West Superior Street, Duluth, Minnesota 55802, Attention: Manager - Compensation and Benefits, Human Resources, and any notice hereunder to you shall be directed to your address as indicated by ALLETE's records, subject to the right of either party to designate at any time hereafter in writing some other address.

11. Governing Law and Severability. To the extent not preempted by the Federal law, the Grant will be governed by and construed in accordance with the laws of the State of Minnesota, without regard to its conflicts of law provisions. In the event any provision of the Grant shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Grant, and the Grant shall be construed and enforced as if the illegal or invalid provision had not been included.

12. Definitions. Capitalized terms not otherwise defined herein shall have the meanings given them in the Plan. The following definitions apply to the Grant and this Annex A:

12.1 **"Claims Administrator"** means ALLETE's Chief Executive Officer, unless the claimant is (or is acting on behalf of) an ALLETE executive officer (within the meaning of Exchange Act Rule 3b-7), in which case the Claims Administrator is the Executive Compensation Committee of the Board of Directors.

12.2 **"Code"** means the Internal Revenue Code of 1986, as it may be amended from time to time.

12.3 **"Disability"** or **"Disabled"** means a physical or mental condition in which the Participant is:

- (a) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months;
- (b) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under the Employer's accident and health plan;
- (c) determined to be totally disabled by the Social Security Administration; or

- (d) disabled pursuant to an Employer-sponsored disability insurance arrangement provided that the definition of disability applied under such disability insurance program complies with the foregoing definition of Disability.

12.4 **“Related Company”** means ALLETE, Inc. and all persons with whom the ALLETE, Inc. would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control); provided that in applying Code sections 1563(a)(1), (2), and (3) for purposes of determining a controlled group of corporations under Code section 414(b), the language “at least 50 percent” is used instead of “at least 80 percent” each place it appears in Code sections 1563(a)(1), (2), and (3), and in applying Treasury Regulations section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Code section 414(c), “at least 50 percent” is used instead of “at least 80 percent” each place it appears in Treasury Regulations section 1.414(c)-2.

12.5 **“Retirement”** or **“Retires”** means Separation from Service, for reasons other than death or Disability, on or after attaining normal retirement age or early retirement age as defined in the most applicable qualified retirement plan sponsored by the Related Company that employed the Participant immediately preceding the Separation from Service, without regard to whether the Participant is a participant in such plan, or if the employer Related Company does not sponsor such retirement plan, on or after attaining Normal Retirement Age or Early Retirement Age as defined in the ALLETE and Affiliated Companies Retirement Plan A, without regard to whether the Participant is a participant under the ALLETE and Affiliated Companies Retirement Plan A.

12.6 **“Separation from Service”** means that the Participant terminates employment within the meaning of Treasury Regulations section 1.409A-1(h) and other applicable guidance with all Related Companies. Whether a termination of employment has occurred is determined under the facts and circumstances, and a termination of employment shall occur if all Related Companies and the Participant reasonably anticipate that no further services shall be performed after a certain date or that the level of bona fide services the Participant shall perform after such date (as an employee or an independent contractor) shall permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services to the Related Companies if the Participant has been providing services to the Related Companies less than 36 months). A Participant shall not be considered to separate from service during a bona fide leave of absence for less than six (6) months or longer if the Participant retains a right to reemployment with any Related Company by contract or statute. With respect to disability leave, a Participant shall not be considered to separate from service for 29 months unless the Participant otherwise terminates employment or is terminated by all Related Companies.

Effective 2020
[Eligible Executive Employees]
ANNEX B
TO
ALLETE
Executive Long Term Incentive Compensation Plan
Performance Share Grant

Financial Measure:

Fifty percent (50%) of the total performance share opportunity is based on Total Shareholder Return (TSR) computed over the three-year performance period January 1, 2020 to December 31, 2022.

Fifty percent (50%) of the total performance share opportunity is based on the Company's Compound Annual Growth Rate (CAGR) computed over the three-year performance period January 1, 2020 to December 31, 2022.

Performance Share Award (TSR metric):

Achievement will be weighted on TSR performance in accordance with ALLETE's TSR ranking as follows: at the 85th percentile or higher among the peer group (superior performance), 200% of the weighted Performance Share Grant will be earned. If ALLETE's TSR ranking is at the 50th percentile among the peer group (target performance), 100% of the weighted Performance Share Grant will be earned. If ALLETE's TSR ranking is at the 30th percentile (threshold performance), 50% of the weighted Performance Share Grant will be earned. If TSR ranking is below threshold, no weighted Performance Shares will be earned. Straight-line interpolation will be used to determine earned awards based on the TSR ranking between threshold, target and superior.

Peer Group:

The integrated utility companies comprising Edison Electric Institute (EEI) Stock Index as of December 31, 2022 that have been in the EEI Stock Index for at least three years as of December 31, 2022 will constitute the peer group used to determine actual payout results. The table below lists the EEI Stock Index as of December 31, 2019, based on published information available as of that date:

Alliant Energy Corporation	El Paso Electric Company	OGE Energy Corp.
Ameren Corporation	Entergy Corporation	Otter Tail Corporation
American Electric Power Company	Evergy Inc.	PG&E Corporation
Avangrid, Inc.	Eversource Energy	Pinnacle West Capital Corporation
Avista Corporation	Exelon Corporation	PNM Resources, Inc.
Black Hills Corporation	FirstEnergy Corporation	Portland General Electric Company
CenterPoint Energy, Inc.	Hawaiian Electric Industries, Inc.	PPL Corporation
CMS Energy Corporation	IDACORP, Inc.	Public Service Enterprise Group, Inc.
Consolidated Edison, Inc.	MDU Resources Group, Inc.	Sempra Energy
Dominion Energy, Inc.	MGE Energy, Inc.	The Southern Company
DTE Energy Company	NextEra Energy, Inc.	Unitil Corporation
Duke Energy Corporation	NiSource, Inc.	WEC Energy Group, Inc.
Edison International	NorthWestern Corporation	Xcel Energy, Inc.

Any Company that is no longer included in the EEI Stock Index as of December 31, 2022 due to corporate restructuring during the performance period (e.g., mergers, acquisitions, divestitures, spin-offs, etc.) will be excluded from the results calculation entirely. If a corporate restructuring during the performance

period results in a company remaining in the EEI Stock Index following the transaction (and thus not being excluded from the results calculation entirely), from the point of the transaction forward, the results calculation will track only the entity that remains in the EEI Stock Index and ignore other entities, regardless of whether such other entities are publicly traded.

Performance Share Award (CAGR metric):

CAGR will be calculated by using the proforma Earnings per Share (EPS) at the beginning of the three-year performance period and the proforma EPS at the end the three-year performance period. Achievement will be weighted on CAGR performance in accordance with the following table:

Compound Annual Growth Rate	Payout Percentage (% of Target Award)
Superior []%	200%
Target []%	100%
Threshold []%	50%

If CAGR percentage result is below threshold, no weighted Performance Shares will be earned. Straight-line interpolation will be used to determine earned awards based on the CAGR percentage result between threshold, target and superior.

SUBSIDIARIES OF THE REGISTRANT
As of December 31, 2019

Name of Organization (a)	State or Country
ALLETE, Inc. (d/b/a ALLETE; Minnesota Power; Minnesota Power, Inc.; Minnesota Power & Light Company)	Minnesota
ALLETE Automotive Services, LLC	Minnesota
ALLETE Enterprises, Inc.	Minnesota
ALLETE Clean Energy, Inc.	Minnesota
ACE O&M, LLC	Delaware
ACE Solar LLC	Delaware
Red Lake Solar, LLC	Delaware
ACE Wind LLC	Delaware
ACE Mid-West Holdings, LLC	Delaware
ACE Gopher Holdings, LLC	Delaware
ACE Lincoln Heights Holdings, LLC	Delaware
Cisco Holdings, LLC	Delaware
MINNIGAN HOLDCO, LLC	Delaware
MWW Holdings, LLC	Delaware
Lake Benton Power Associates LLC	Delaware
Lake Benton Holdings LLC	Delaware
Lake Benton Power Partners L.L.C.	Delaware
Storm Lake Power Partners I LLC	Delaware
Storm Lake II Power Associates LLC	Delaware
Storm Lake II Holdings LLC	Delaware
Storm Lake Power Partners II LLC	Delaware
Northern Wind Energy, LLC	Delaware
Chanarambie Power Partners, LLC	Delaware
Viking Wind Holdings, LLC	Delaware
ACE South Holdings, LLC	Delaware
Diamond Spring QOZB, LLC	Delaware
ACE DS Class B LLC	Delaware
Diamond Spring, LLC	Delaware
Diamond Spring Renewables, LLC	Delaware
ACE West Holdings, LLC	Delaware
ACE GAWW Class B LLC	Delaware
Great American West Wind, LLC	Delaware
Glen Ullin Energy Center, LLC	Delaware
South Peak Wind LLC	Delaware
Condon Wind Power, LLC	Delaware
Armenia Holdings, LLC	Delaware
AMW I Holding, LLC	Delaware
Armenia Mountain Wind, LLC	Delaware
Armenia Mountain Wind II, LLC	Delaware
Thunder Spirit Wind, LLC	Delaware
ALLETE Enterprises QOF, LLC	Delaware
ALLETE Power Systems, Inc.	Minnesota
ALLETE Renewable Resources, Inc.	North Dakota
ALLETE Transmission Holdings, Inc.	Wisconsin
ASW Partners, LLC	Delaware
ALLETE South Wind, LLC	Delaware
Nobles 2 Power Partners, LLC	Delaware
BNI Energy, Inc.	North Dakota
BNI Coal, Ltd.	North Dakota

(a) Certain insignificant subsidiaries are omitted.

Name of Organization <i>(a)</i>	State or Country
MP Affiliate Resources, Inc.	Minnesota
Rainy River Energy Corporation	Minnesota
South Shore Energy, LLC	Wisconsin
Upper Minnesota Properties, Inc.	Minnesota
Upper Minnesota Properties - Development, Inc.	Minnesota
ALLETE Properties, LLC <i>(d/b/a ALLETE Properties)</i>	Minnesota
ALLETE Commercial, LLC	Florida
Lehigh Acquisition, LLC	Delaware
Florida Landmark Communities, LLC	Florida
Lehigh Corporation	Florida
Mardem, LLC	Florida
Palm Coast Holdings, Inc.	Florida
Port Orange Holdings, LLC	Florida
Interlachen Lakes Estates, LLC	Florida
Palm Coast Land, LLC	Florida
ALLETE Water Services, Inc.	Minnesota
Florida Water Services Corporation	Florida
Energy Replacement Property, LLC	Minnesota
Energy Land, Incorporated	Wisconsin
MP Investments, Inc.	Delaware
RendField Land Company, Inc.	Minnesota
Superior Water, Light and Power Company	Wisconsin

(a) Certain insignificant subsidiaries are omitted.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-232905, 333-231030) and Form S-8 (Nos. 333-162890, 333-183051, 333-190336, 333-207846, 333-228120) of ALLETE, Inc. of our report dated February 13, 2020, relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota
February 13, 2020

**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, Bethany M. Owen, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2019, of ALLETE, Inc.;
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: February 13, 2020

/s/ Bethany M. Owen

Bethany M. Owen

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, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2019, of ALLETE, Inc.;
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: February 13, 2020

/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 Annual Report on Form 10-K of ALLETE for the fiscal year ended December 31, 2019, (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: February 13, 2020

/s/ Bethany M. Owen

Bethany M. Owen
President and Chief Executive Officer

Date: February 13, 2020

/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 December 31, 2019, BNI Energy, owner of Center Mine, received no citations under Section 104(a) of the Mine Safety Act; five citations were received for the year ended December 31, 2019, one of which was a significant and substantial citation. For the year ended December 31, 2019, BNI Energy paid \$1,311 in penalties for citations closed during the period. For the year ended December 31, 2019, 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: February 13, 2020
Investor Contact: Vince Meyer
218-723-3952
vmeyer@allete.com

NEWS

ALLETE, Inc. reports 2019 earnings of \$3.59 per share; initiates 2020 earnings guidance; will construct significant new clean energy projects in 2020

DULUTH, Minn. - ALLETE, Inc. (NYSE: ALE) today reported 2019 earnings of \$3.59 per share on net income of \$185.6 million and operating revenue of \$1.2 billion. Reported results from 2018 were \$3.38 per share on net income of \$174.1 million and operating revenue of \$1.5 billion.

Net income in 2019 includes a gain on the sale of U.S. Water Services of \$0.26 per share, of which \$0.04 per share was recognized in the fourth quarter of 2019 for the favorable settlement of a U.S. Water Services patent infringement case, offset by \$0.02 per share of U.S. Water Services operating results prior to sale. Earnings in 2018 included \$0.30 per share, in total, from the gain on ALLETE Clean Energy's sale of a wind energy facility of \$0.20 per share, contributions from U.S. Water Services operating results, and change in fair value of the contingent consideration liability.

"We completed many strategic initiatives in 2019 that position ALLETE for additional success in a clean energy landscape," said President and Chief Executive Officer Bethany Owen. "2020 will be another year of large scale renewable energy projects that will benefit our customers and the environment while creating value for our shareholders. In 2019 ALLETE made approximately \$500 million dollars in renewable energy investments, and we plan to invest over \$450 million again in 2020."

"ALLETE is well positioned to thrive as all facets of an increasingly clean energy future unfold," stated Executive Chairman Al Hodnik. "In addition to our team delivering 2019 on plan financial results, the Board recently raised the dividend for the 10th year in a row. I have every confidence that Bethany's strong values based leadership, her proven ability to position while executing and her laser focus on talent development will assure ALLETE's momentum continues as a new decade dawns."

ALLETE's Regulated Operations segment, which includes Minnesota Power, Superior Water, Light and Power (SWL&P) and the Company's investment in the American Transmission Co. (ATC), recorded net income of \$154.4 million, compared to \$131.0 million in 2018. Earnings reflect higher net income at Minnesota Power primarily due to lower operating and maintenance and property tax expense, increased cost recovery rider revenue, higher transmission margins and higher fuel adjustment clause recoveries. These increases were partially offset by lower kilowatt-hour sales and associated margins from retail and municipal customers. Net income at SWL&P increased over last year due to higher rates implemented the first of this year, and ALLETE's earnings in ATC were higher than in 2018 primarily due to additional equity investments and period over period changes in ATC's estimate of a refund liability related to MISO return on equity complaints.

ALLETE Clean Energy recorded 2019 net income of \$12.4 million compared to \$33.7 million in 2018. Earnings in 2018 included the sale of a wind energy facility to Montana-Dakota Utilities of \$10.2 million and \$3.0 million of production tax credits that resulted from the retrospective qualification of additional wind turbine generators in 2016 and 2017. Net income in 2019 included lower revenue resulting from lower non-cash amortization related to the expiration of power sales agreements and higher depreciation expense. These decreases were partially offset by \$5.3 million of additional production tax credits generated in 2019 compared to production tax credits generated in 2018 as ALLETE Clean Energy continues to execute its refurbishment strategy.

Corporate and Other businesses, which include BNI Energy and ALLETE Properties, recorded net income of \$19.9 million in 2019 compared to net income of \$6.2 million in 2018. Net income in 2019 included the gain on sale of U.S. Water Services of \$13.2 million after-tax and higher earnings on cash and short-term investments. Net income in 2018 included a \$2.0 million after-tax benefit for the change in fair value of the contingent consideration liability.

Details of the Company's 2020 earnings guidance were filed as part of today's Form 8-K filing.

Live Webcast on February 13, 2020; financial slides posted on company website

ALLETE's earnings conference call will be at 10:00 a.m. (EST), February 13, 2020, at which time management will discuss 2019 financial results and 2020 earnings guidance. To participate in the call, analysts are asked to dial 877-303-5852, pass code 8597772, ten minutes prior to the start time and refer to the "ALLETE's Conference Call Announcing 2019 Financial Results." All interested parties may listen to the live audio-only webcast accompanied by financial slides, which will be available on ALLETE's Investor Relations website <http://investor.allete.com/events-presentations>. A replay of the call will be available through February 18, 2020 by calling (855) 859-2056, pass code 8597772. 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., and has an eight percent equity interest in the American Transmission Co. More information about ALLETE is available at www.allete.com. *ALE-CORP*

The statements contained in this release and statements that ALLETE may make orally in connection with this release that are not historical facts, are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties and investors are directed to the risks discussed in documents filed by ALLETE with the Securities and Exchange Commission.

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

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

ALLETE, Inc.
Consolidated Statement of Income
For the Periods Ended December 31, 2019 and 2018

	Quarter Ended		Year to Date	
	2019	2018	2019	2018
Millions Except Per Share Amounts				
Operating Revenue				
Contracts with Customer – Utility	\$256.3	\$270.2	\$1,042.4	\$1,059.5
Contracts with Customer – Non-utility	45.4	172.4	186.5	415.5
Other – Non-utility	2.9	5.7	11.6	23.6
Total Operating Revenue	304.6	448.3	1,240.5	1,498.6
Operating Expenses				
Fuel, Purchased Power and Gas – Utility	94.8	106.9	390.7	407.5
Transmission Services – Utility	14.0	16.8	69.8	69.9
Cost of Sales – Non-utility	18.8	109.4	80.6	218.0
Operating and Maintenance	63.3	86.9	264.3	340.5
Depreciation and Amortization	50.4	52.2	202.0	205.6
Taxes Other than Income Taxes	13.5	14.1	53.3	57.9
Other	—	(2.0)	—	(2.0)
Total Operating Expenses	254.8	384.3	1,060.7	1,297.4
Operating Income	49.8	64.0	179.8	201.2
Other Income (Expense)				
Interest Expense	(16.0)	(16.3)	(64.9)	(67.9)
Equity Earnings	6.4	4.5	21.7	17.5
Gain on Sale of U.S. Water Services	3.0	—	23.6	—
Other	4.1	2.1	18.7	7.8
Total Other Expense	(2.5)	(9.7)	(0.9)	(42.6)
Income Before Non-Controlling Interest and Income Taxes	47.3	54.3	178.9	158.6
Income Tax Benefit	(2.3)	(6.8)	(6.6)	(15.5)
Net Income	\$49.6	\$61.1	\$185.5	\$174.1
Less: Non-Controlling Interest in Subsidiaries	(0.1)	—	(0.1)	—
Net Income Attributable to ALLETE	\$49.7	\$61.1	\$185.6	\$174.1
Average Shares of Common Stock				
Basic	51.7	51.5	51.6	51.3
Diluted	51.8	51.7	51.7	51.5
Basic Earnings Per Share of Common Stock	\$0.96	\$1.19	\$3.59	\$3.39
Diluted Earnings Per Share of Common Stock	\$0.96	\$1.18	\$3.59	\$3.38
Dividends Per Share of Common Stock	\$0.5875	\$0.56	\$2.35	\$2.24

Consolidated Balance Sheet
Millions

	Dec. 31, 2019	Dec. 31, 2018		Dec. 31, 2019	Dec. 31, 2018
Assets			Liabilities and Equity		
Cash and Cash Equivalents	\$69.3	\$69.1	Current Liabilities	\$507.4	\$405.1
Other Current Assets	200.2	265.2	Long-Term Debt	1,400.9	1,428.5
Property, Plant and Equipment – Net	4,377.0	3,904.4	Deferred Income Taxes	212.8	223.6
Regulatory Assets	420.5	389.5	Regulatory Liabilities	560.3	512.1
Equity Investments	197.6	161.1	Defined Benefit Pension & Other Postretirement Benefit Plans	172.8	177.3
Goodwill and Intangibles – Net	1.0	223.3	Other Non-Current Liabilities	293.0	262.6
Other Non-Current Assets	217.2	152.4	Equity	2,335.6	2,155.8
Total Assets	\$5,482.8	\$5,165.0	Total Liabilities and Equity	\$5,482.8	\$5,165.0

ALLETE, Inc. Income (Loss)	Quarter Ended December 31,		Year to Date December 31,	
	2019	2018	2019	2018
Millions				
Regulated Operations	\$40.2	\$31.3	\$154.4	\$131.0
ALLETE Clean Energy	5.9	17.8	12.4	33.7
U.S. Water Services	—	2.7	(1.1)	3.2
Corporate and Other	3.6	9.3	19.9	6.2
Net Income Attributable to ALLETE	\$49.7	\$61.1	\$185.6	\$174.1
Diluted Earnings Per Share	\$0.96	\$1.18	\$3.59	\$3.38

Statistical Data

Corporate				
Common Stock				
High	\$87.83	\$82.82	\$88.60	\$82.82
Low	\$78.25	\$72.42	\$72.50	\$66.64
Close	\$81.17	\$76.22	\$81.17	\$76.22
Book Value	\$43.19	\$41.85	\$43.19	\$41.85

Kilowatt-hours Sold

Millions				
Regulated Utility				
Retail and Municipal				
Residential	301	304	1,130	1,140
Commercial	347	351	1,390	1,426
Industrial	1,888	1,843	7,277	7,261
Municipal	153	195	672	798
Total Retail and Municipal	2,689	2,693	10,469	10,625
Other Power Suppliers	891	977	3,185	3,953
Total Regulated Utility	3,580	3,670	13,654	14,578

Regulated Utility Revenue

Millions				
Regulated Utility Revenue				
Retail and Municipal Electric Revenue				
Residential	\$31.9	\$33.6	\$125.9	\$126.1
Commercial	33.4	35.5	139.5	141.9
Industrial	117.9	120.3	473.9	465.2
Municipal	9.2	13.1	48.6	54.9
Total Retail and Municipal	192.4	202.5	787.9	788.1
Other Power Suppliers	41.8	43.0	153.7	170.3
Other (Includes Water and Gas Revenue)	22.1	24.7	100.8	101.1
Total Regulated Utility Revenue	\$256.3	\$270.2	\$1,042.4	\$1,059.5

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.