SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **SEPTEMBER 30, 2004**

or

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

Commission File Number **1-3548**

ALLETE, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota	**41-0418150**
(State of Incorporation)	(IRS Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

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

Yes X No ____

Common Stock, no par value,
29,552,037 shares outstanding
as of October 31, 2004

INDEX

DEFINITIONS

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

Abbreviation or Acronym	Term
2003 Form 10-K	ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 2003
ADESA	ADESA, Inc.
AICPA	American Institute of Certified Public Accountants
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, Inc.
APB	Accounting Principles Board
Aqua America	Aqua America, Inc.
BNI Coal	BNI Coal, Ltd.
Company	ALLETE, Inc. and its subsidiaries
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
FSP	Financial Accounting Standards Board Staff Position
GAAP	Accounting Principles Generally Accepted in the United States
IPO	Initial Public Offering
IRS	Internal Revenue Service
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
Note ___	Note ___ to the consolidated financial statements in this Form 10-Q
NYSE	New York Stock Exchange
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards No.
Split Rock Energy	Split Rock Energy LLC
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
WDNR	Wisconsin Department of Natural Resources

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

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

Forward-looking statements involve estimates, assumptions, risks and uncertainties and are qualified in their entirety by reference to, and are accompanied by, the following important factors, which are difficult to predict, contain uncertainties, are beyond our control and may cause actual results or outcomes to differ materially from those contained in forward-looking statements:

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

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this report are discussed in Item 7 under the heading “Factors that May Affect Future Results” beginning on page 46 of our 2003 Form 10-K. Risk factors associated with our Automotive Services business are no longer applicable to ALLETE as that business was spun off as of September 20, 2004. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by us in our 2003 Form 10-K and in our other reports filed with the SEC that attempt to advise interested parties of the factors that may affect our business.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions - Unaudited

	September 30, 2004	December 31, 2003
Assets		
Current Assets		
Cash and Cash Equivalents	$ 172.7	$ 113.4
Accounts Receivable (Less Allowance of $1.5 and $1.3)	72.0	63.3
Inventories	38.5	31.8
Prepayments and Other	19.4	16.5
Discontinued Operations	2.2	476.7
Total Current Assets	304.8	701.7
Property, Plant and Equipment – Net	885.0	919.3
Investments	190.6	170.1
Other Assets	63.1	62.9
Discontinued Operations	5.8	1,247.3
Total Assets	$1,449.3	$3,101.3
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$ 27.2	$ 28.3
Accrued Taxes and Interest	21.1	29.8
Notes Payable	–	53.0
Long-Term Debt Due Within One Year	1.9	35.6
Other	24.5	38.8
Discontinued Operations	6.5	340.7
Total Current Liabilities	81.2	526.2
Long-Term Debt	389.5	514.7
Accumulated Deferred Income Taxes	157.9	167.3
Other Liabilities	156.1	154.6
Discontinued Operations	2.2	278.3
Commitments and Contingencies		
Total Liabilities	786.9	1,641.1
Shareholders' Equity		
Common Stock Without Par Value, 43.3 Shares Authorized 29.5 and 29.1 Shares Outstanding	395.3	859.2
Unearned ESOP Shares	(16.4)	(45.4)
Accumulated Other Comprehensive Loss – Continuing Operations	(8.4)	(9.0)
Accumulated Other Comprehensive Gain – Discontinued Operations	–	23.5
Retained Earnings	291.9	631.9
Total Shareholders' Equity	662.4	1,460.2
Total Liabilities and Shareholders' Equity	$1,449.3	$3,101.3

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF INCOME
Millions Except Per Share Amounts - Unaudited

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Operating Revenue	$183.2	$170.1	$582.7	$530.3
Operating Expenses				
Fuel and Purchased Power	71.9	64.9	218.0	197.2
Operating and Maintenance	69.0	55.3	221.3	194.7
Depreciation	12.3	12.6	37.2	38.4
Taxes Other than Income	6.7	7.1	21.5	22.7
Total Operating Expenses	159.9	139.9	498.0	453.0
Operating Income from Continuing Operations	23.3	30.2	84.7	77.3
Other Income (Expense)				
Interest Expense	(7.5)	(13.2)	(25.7)	(38.0)
Other	(18.4)	0.5	(21.4)	2.4
Total Other Expense	(25.9)	(12.7)	(47.1)	(35.6)
Income (Loss) from Continuing Operations Before Income Taxes	(2.6)	17.5	37.6	41.7
Income Tax Expense (Benefit)	(2.0)	6.6	14.4	16.1
Income (Loss) from Continuing Operations Before Change in Accounting Principle	(0.6)	10.9	23.2	25.6
Income from Discontinued Operations – Net of Tax	13.7	36.7	79.3	110.7
Change in Accounting Principle – Net of Tax	–	–	(7.8)	–
Net Income	$ 13.1	$ 47.6	$ 94.7	$136.3
Average Shares of Common Stock				
Basic	28.5	27.7	28.3	27.5
Diluted	28.6	27.8	28.5	27.6
Basic Earnings (Loss) Per Share of Common Stock				
Continuing Operations	$(0.03)	$0.40	$0.82	$0.93
Discontinued Operations	0.48	1.32	2.80	4.02
Change in Accounting Principle	–	–	(0.28)	–
	$0.45	$1.72	$3.34	$4.95
Diluted Earnings (Loss) Per Share of Common Stock				
Continuing Operations	$(0.02)	$0.40	$0.82	$0.93
Discontinued Operations	0.47	1.31	2.78	4.00
Change in Accounting Principle	–	–	(0.27)	–
	$0.45	$1.71	$3.33	$4.93
Dividends Per Share of Common Stock	$0.8475	$0.8475	$2.5425	$2.5425

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	Nine Months Ended September 30, 2004	2003
Operating Activities		
Income from Continuing Operations	$ 15.4	$ 25.6
Change in Accounting Principle	7.8	–
Depreciation	37.2	38.4
Deferred Income Taxes	(2.8)	(2.4)
Changes in Operating Assets and Liabilities		
Accounts Receivable	(8.7)	19.6
Inventories	(6.7)	1.9
Prepayments and Other	(2.9)	1.8
Accounts Payable	(1.1)	(1.0)
Other Current Liabilities	(23.0)	(5.0)
Other Assets	(0.2)	(3.0)
Other Liabilities	1.5	(3.3)
Net Operating Activities from Discontinued Operations	119.9	208.3
Cash from Operating Activities	136.4	280.9
Investing Activities		
Proceeds from Sale of Available-For-Sale Securities	1.6	6.4
Changes to Investments	15.7	(1.9)
Additions to Property, Plant and Equipment	(48.8)	(53.6)
Other	5.1	6.9
Net Investing Activities from (for) Discontinued Operations	60.1	(84.3)
Cash from (for) Investing Activities	33.7	(126.5)
Financing Activities		
Issuance of Common Stock	38.5	29.3
Issuance of Long-Term Debt	8.6	26.3
Changes in Notes Payable – Net	(53.0)	169.4
Reductions of Long-Term Debt	(129.9)	(274.0)
Dividends on Common Stock	(71.3)	(69.0)
Net Financing Activities from (for) Discontinued Operations	(18.6)	40.5
Cash for Financing Activities	(225.7)	(77.5)
Effect of Exchange Rate Changes on Cash – Discontinued Operations	–	30.5
Change in Cash and Cash Equivalents	(55.6)	107.4
Cash and Cash Equivalents at Beginning of Period *(a)*	229.5	203.0
Cash and Cash Equivalents at End of Period *(a)*	$173.9	$310.4
Supplemental Cash Flow Information		
Cash Paid During the Period for		
Interest – Net of Capitalized	$42.8	$55.1
Income Taxes	$61.8	$35.3

(a) Included $1.2 million of cash from Discontinued Operations at September 30, 2004 ($196.2 million at September 30, 2003) and $116.1 million at December 31, 2003 ($138.0 million at December 31, 2002).

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with our 2003 Form 10-K. In our opinion, all adjustments necessary for a fair presentation of the results for the interim periods have been included. The results of operations for an interim period may not give a true indication of the results for the year.

NOTE 1. DISCONTINUED OPERATIONS

Automotive Services. On September 20, 2004 the spin-off of Automotive Services was completed by distributing to ALLETE shareholders all of ALLETE's shares of ADESA common stock. One share of ADESA common stock was distributed for each outstanding share of ALLETE common stock held at the close of business on September 13, 2004, the record date. The distribution was made from ALLETE's retained earnings to the extent of ADESA's undistributed earnings ($363.4 million) with the remainder made from common stock ($600.2 million).

In June 2004 ADESA issued 6.3 million shares of common stock through an IPO priced at $24.00 per share which netted proceeds of $136.0 million after transaction costs, issued $125 million of senior notes and borrowed $275 million under a new $525 million credit facility. With these funds, ADESA repaid previously existing debt and all intercompany debt outstanding to ALLETE. The IPO represented 6.6 percent of ADESA's 94.9 million shares outstanding. As a result of the IPO, we accounted for the 6.6 percent public ownership of ADESA as a minority interest and continued to own and consolidate the remaining portion of ADESA until the spin-off was completed on September 20, 2004.

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we have reported our Automotive Services business in Discontinued Operations.

Water Services. During 2003, we sold, under condemnation or imminent threat of condemnation, substantially all of our water assets in Florida for a total sales price of approximately $445 million. Income from discontinued operations for 2003 included a $71.6 million after-tax gain on the sale of substantially all our Water Services businesses ($0.2 million first quarter; $0.2 million second quarter; $3.0 million third quarter; $68.2 million fourth quarter). The gain was net of all selling, transaction and employee termination benefit expenses, as well as impairment losses on certain remaining assets.

In June 2004 we essentially concluded our strategy to exit our Water Services businesses when we completed the sale of our North Carolina water assets and the sale of the remaining 72 water and wastewater systems in Florida. Aqua America purchased our North Carolina water assets for $48 million and assumed approximately $28 million in debt, and also purchased 63 of our water and wastewater systems in Florida for $14 million. Seminole County purchased the remaining 9 Florida systems for a total of $4 million. The FPSC approved the Seminole County transaction in September 2004. The transaction relating to the sale of 63 water and wastewater systems in Florida to Aqua America remains subject to regulatory approval by the FPSC. The approval process may result in an adjustment to the final purchase price based on the FPSC's determination of plant investment for the systems. Income from discontinued operations for the nine months ended September 30, 2004 included a $5.2 million after-tax gain on the sale of North Carolina water assets and remaining water and wastewater systems in Florida ($0.4 million of after-tax expenses first quarter; $5.8 million net gain second quarter; $0.2 million of after-tax expenses third quarter). We expect to sell our water assets in Georgia in 2004.

The net cash proceeds from the sale of all water assets in 2003 and 2004, after transaction costs, retirement of most Florida Water debt and payment of income taxes, were approximately $300 million. These net proceeds were used to retire debt at ALLETE.

In October 2003 the FPSC voted to initiate an investigation into the ratemaking considerations of the gain on sale of Florida Water's assets, and whether gains should be shared with the previous customers of Florida Water. In June 2004 Florida enacted legislation which provides that gains or losses resulting from the purchase or condemnation of a utility's assets, which results in the loss of customers and revenue served by such assets, are to be borne by the shareholders of the utility. In accordance with this legislation, in September 2004 the FPSC closed all dockets related to its investigations into the ratemaking considerations of the gain on sale of Florida Water's assets.

NOTE 1. DISCONTINUED OPERATIONS (Continued)

Summary of Discontinued Operations

Millions

Income Statement	Quarter Ended September 30, 2004	Quarter Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Operating Revenue				
Automotive Services	$201.9	$226.4	$681.7	$701.8
Water Services	1.2	28.4	16.3	88.7
	$203.1	$254.8	$698.0	$790.5
Pre-Tax Income (Loss) from Operations				
Automotive Services	$25.8	$47.5	$132.8	$146.5
Water Services	(0.7)	8.9	(0.9)	29.6
	25.1	56.4	131.9	176.1
Income Tax Expense (Benefit)				
Automotive Services	11.4	19.2	54.0	58.7
Water Services	(0.3)	3.5	(0.3)	11.4
	11.1	22.7	53.7	70.1
Total Net Income from Operations	14.0	33.7	78.2	106.0
Gain (Loss) on Disposal				
Automotive Services	(0.1)	–	(6.7)	2.0
Water Services	(0.3)	4.5	14.4	5.6
	(0.4)	4.5	7.7	7.6
Income Tax Expense (Benefit)				
Automotive Services	–	–	(2.6)	0.7
Water Services	(0.1)	1.5	9.2	2.2
	(0.1)	1.5	6.6	2.9
Net Gain (Loss) on Disposal	(0.3)	3.0	1.1	4.7
Income from Discontinued Operations	$13.7	$36.7	$ 79.3	$110.7

Balance Sheet Information	September 30, 2004	December 31, 2003
Assets of Discontinued Operations		
Cash and Cash Equivalents	$1.2	$116.1
Other Current Assets	1.0	360.6
Property, Plant and Equipment	5.8	660.9
Investments	–	34.5
Goodwill	–	511.0
Other Intangibles	–	33.3
Other Assets	–	7.6
Liabilities of Discontinued Operations		
Current Liabilities	6.5	340.7
Long-Term Debt	–	252.8
Other Liabilities	2.2	25.5
Foreign Currency Translation Adjustment	–	23.5

NOTE 2. REVERSE STOCK SPLIT

On September 20, 2004 our one-for-three reverse common stock split became effective. All common share and per share amounts have been adjusted for all periods to reflect the one-for-three reverse stock split.

NOTE 3. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Accounting for Stock-Based Compensation. We have elected to account for stock-based compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, we recognize expense for performance share awards granted and do not recognize expense for employee stock options granted. The after-tax expense recognized in net income for performance share awards was approximately $0.8 million for the first nine months of 2004 ($1.2 million for the first nine months of 2003). The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation."

Effect of SFAS 123 Accounting for Stock-Based Compensation	Quarter Ended September 30, 2004	Quarter Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Millions Except Per Share Amounts				
Net Income				
As Reported	$13.1	$47.6	$94.7	$136.3
Less: Employee Stock Compensation Expense Determined Under SFAS 123 – Net of Tax	–	0.1	0.2	0.3
Pro Forma	$13.1	$47.5	$94.5	$136.0
Basic Earnings Per Share				
As Reported	$0.45	$1.72	$3.34	$4.95
Pro Forma	$0.45	$1.72	$3.34	$4.94
Diluted Earnings Per Share				
As Reported	$0.45	$1.71	$3.33	$4.93
Pro Forma	$0.45	$1.71	$3.32	$4.92

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

	2004	2003
Risk-Free Interest Rate	3.3%	3.1%
Expected Life – Years	5	5
Expected Volatility	28.1%	25.2%
Dividend Growth Rate	2%	2%

New Accounting Standards. In the third quarter of 2004 we adopted both FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (see Note 14) and EITF 03-16, "Accounting for Investments in Limited Liability Companies" (see Note 10).

NOTE 4. BUSINESS SEGMENTS

As a result of the spin-off of our Automotive Services business in September 2004 (see Note 1), we redefined our business into four segments. **Regulated Utility** includes our rate regulated electric, water and gas services in northeastern Minnesota and northwestern Wisconsin. **Nonregulated Energy Operations** includes our coal mining activities in North Dakota and nonregulated generation consisting primarily of generation from Taconite Harbor in northern Minnesota and generation secured through the Kendall County power purchase agreement. **Real Estate** includes our Florida real estate operations. **Other** includes our telecommunications activities, investments in emerging technologies, and general corporate charges and interest not specifically related to any one business segment. General corporate charges include employee salaries and benefits as well as legal and other outside service fees. **Discontinued Operations** includes our Automotive Services business that was spun off on September 20, 2004, our Water Services businesses, the majority of which were sold in 2003, and spin-off costs incurred by ALLETE. (See Note 1.)

Millions	Consolidated	Regulated Utility	Nonregulated Energy Operations	Real Estate	Other
For the Quarter Ended September 30, 2004					
Operating Revenue	$183.2	$136.1	$31.1	$5.2	$ 10.8
Fuel and Purchased Power	71.9	63.4	8.5	–	–
Operating and Other Expense	75.7	42.0	18.3	2.4	13.0
Depreciation Expense	12.3	9.7	1.9	–	0.7
Operating Income (Loss) from Continuing Operations	23.3	21.0	2.4	2.8	(2.9)
Interest Expense	(7.5)	(5.0)	(0.4)	(0.1)	(2.0)
Other Income (Expense)	(18.4)	–	0.2	–	(18.6)
Income (Loss) from Continuing Operations Before Income Taxes	(2.6)	16.0	2.2	2.7	(23.5)
Income Tax Expense (Benefit)	(2.0)	6.5	0.7	1.1	(10.3)
Income (Loss) from Continuing Operations	(0.6)	$ 9.5	$ 1.5	$1.6	$ (13.2)
Income from Discontinued Operations – Net of Tax	13.7				
Net Income	$ 13.1				
For the Quarter Ended September 30, 2003					
Operating Revenue	$170.1	$127.1	$30.2	$6.1	$ 6.7
Fuel and Purchased Power	64.9	52.8	12.1	–	–
Operating and Other Expense	62.4	38.6	11.7	2.8	9.3
Depreciation Expense	12.6	10.2	1.9	–	0.5
Operating Income (Loss) from Continuing Operations	30.2	25.5	4.5	3.3	(3.1)
Interest Expense	(13.2)	(5.2)	(0.4)	–	(7.6)
Other Income (Expense)	0.5	(0.1)	–	–	0.6
Income (Loss) from Continuing Operations Before Income Taxes	17.5	20.2	4.1	3.3	(10.1)
Income Tax Expense (Benefit)	6.6	8.0	1.3	1.4	(4.1)
Income (Loss) from Continuing Operations	10.9	$ 12.2	$ 2.8	$1.9	$ (6.0)
Income from Discontinued Operations – Net of Tax	36.7				
Net Income	$ 47.6				

NOTE 4. BUSINESS SEGMENTS (Continued)

Millions	Consolidated	Regulated Utility	Nonregulated Energy Operations	Real Estate	Other
For the Nine Months Ended September 30, 2004					
Operating Revenue	$582.7	$414.3	$91.0	$39.6	$ 37.8
Fuel and Purchased Power	218.0	186.4	31.6	–	–
Operating and Other Expense	242.8	132.3	50.5	14.2	45.8
Depreciation Expense	37.2	29.5	5.6	–	2.1
Operating Income (Loss) from Continuing Operations	84.7	66.1	3.3	25.4	(10.1)
Interest Expense	(25.7)	(14.3)	(1.2)	(0.2)	(10.0)
Other Income (Expense)	(21.4)	0.1	1.2	–	(22.7)
Income (Loss) from Continuing Operations Before Income Taxes	37.6	51.9	3.3	25.2	(42.8)
Income Tax Expense (Benefit)	14.4	19.8	0.7	10.4	(16.5)
Income (Loss) from Continuing Operations Before Change in Accounting Principle	23.2	$ 32.1	$ 2.6	$14.8	$ (26.3)
Income from Discontinued Operations – Net of Tax	79.3				
Change in Accounting Principle	(7.8)				
Net Income	$ 94.7				
Total Assets	$1,449.3*(a)*	$1,081.6	$161.3	$74.8	$123.6
Property, Plant and Equipment – Net	$885.0	$729.6	$117.1	–	$38.3
Accumulated Depreciation	$766.6	$717.6	$40.1	–	$8.9
Capital Expenditures	$65.0*(a)*	$38.4	$6.6	–	$3.8
For the Nine Months Ended September 30, 2003					
Operating Revenue	$530.3	$385.8	$85.1	$34.3	$ 25.1
Fuel and Purchased Power	197.2	165.6	31.6	–	–
Operating and Other Expense	217.4	128.2	42.7	14.6	31.9
Depreciation Expense	38.4	30.9	5.6	0.1	1.8
Operating Income (Loss) from Continuing Operations	77.3	61.1	5.2	19.6	(8.6)
Interest Expense	(38.0)	(15.4)	(1.4)	(0.1)	(21.1)
Other Income (Expense)	2.4	5.0	0.5	–	(3.1)
Income (Loss) from Continuing Operations Before Income Taxes	41.7	50.7	4.3	19.5	(32.8)
Income Tax Expense (Benefit)	16.1	20.2	1.1	8.2	(13.4)
Income (Loss) from Continuing Operations	25.6	$ 30.5	$ 3.2	$11.3	$ (19.4)
Income from Discontinued Operations – Net of Tax	110.7				
Net Income	$136.3				
Total Assets	$3,478.7*(a)*	$1,007.0	$182.3	$81.0	$89.8
Property, Plant and Equipment – Net	$911.5	$729.0	$144.8	–	$37.7
Accumulated Depreciation	$735.9	$694.2	$35.3	–	$6.4
Capital Expenditures	$98.7*(a)*	$33.1	$17.8	–	$2.7

(a) Discontinued Operations represented $8.0 million of total assets in 2004 ($2,118.6 million in 2003) and $16.2 million of capital expenditures in 2004 ($45.1 million in 2003).

NOTE 5. INVESTMENTS

At September 30, 2004 Investments included the real estate assets of ALLETE Properties, debt and equity securities consisting primarily of securities held for employee benefits, and our emerging technology investments. We account for our emerging technology investments under the equity method. (See Note 10.)

Investments	September 30, 2004	December 31, 2003
Millions		
Real Estate Assets	$ 74.8	$ 78.5
Debt and Equity Securities	100.2	54.1
Emerging Technology Investments	15.6	37.5
	$190.6	$170.1

Debt and equity securities included $54.9 million of ADESA stock held by an ESOP as part of our Retirement Savings and Stock Ownership Plan. The ESOP received the ADESA shares as a result of the spin-off of ADESA on September 20, 2004. The ADESA shares relate to unearned ESOP shares of ALLETE common stock that have not yet been allocated to participants. We report ADESA stock held by the ESOP as available-for-sale under SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities.” Available-for-sale securities are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income, net of tax; gains and losses are recognized in earnings when securities are sold. In October 2004 the ESOP sold 2.7 million shares of ADESA stock related to unearned ESOP shares for total proceeds of $54.0 million. This resulted in an after-tax gain of $9.2 million which will be recognized in the fourth quarter of 2004. (See Note 13.)

NOTE 6. SHORT-TERM BORROWINGS

In April 2004 ALLETE used internally generated funds and proceeds from the sale of water assets to repay the remaining $53.0 million outstanding on a $250 million credit agreement which would have expired in July 2004.

NOTE 7. LONG-TERM DEBT

In January 2004 we used internally generated funds to retire approximately $3.5 million in principal amount of Industrial Development Revenue Bonds Series 1994-A, due January 1, 2004.

In July 2004 we repaid $125 million in principal amount of 7.80% Senior Notes due 2008. Proceeds from the sale of our water assets and proceeds received from ADESA were used to repay this debt. As a result of the redemption, we recognized an expense of $18.5 million in the third quarter of 2004 comprised of an early redemption premium and the write-off of unamortized debt issuance costs.

In August 2004 we issued $111 million in principal amount of 4.95% Collateralized Pollution Control Refunding Revenue Bonds Series 2004 due 2022. Proceeds were used to redeem $111 million in principal amount of 6% Collateralized Pollution Control Refunding Revenue Bonds Series E due 2022.

NOTE 8. OTHER INCOME (EXPENSE)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Millions				
Debt Prepayment Premium and Unamortized Debt Issuance Costs	$(18.5)	–	$(18.5)	–
Loss on Emerging Technology Investments	(1.0)	–	(6.9)	$(3.8)
Split Rock Energy Equity Income (Loss)	–	$(0.2)	–	5.0
Investments and Other Income	1.1	0.7	4.0	1.2
	$(18.4)	$ 0.5	$(21.4)	$ 2.4

NOTE 9. INCOME TAX EXPENSE

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Millions				
Current Tax Expense				
Federal	$ 0.4	$ 3.7	$11.7	$12.8
State	1.1	2.4	5.5	4.5
	1.5	6.1	17.2	17.3
Deferred Tax Expense (Benefit)				
Federal	(2.2)	1.3	(0.5)	0.2
State	(1.1)	(0.3)	(1.3)	(0.3)
	(3.3)	1.0	(1.8)	(0.1)
Deferred Tax Credits	(0.2)	(0.5)	(1.0)	(1.1)
Income Tax Expense on Continuing Operations	(2.0)	6.6	14.4	16.1
Income Tax Expense on Discontinued Operations	11.0	24.2	60.3	73.0
Income Tax Benefit on Change in Accounting Principle	–	–	(5.5)	–
Total Income Tax Expense	$ 9.0	$30.8	$69.2	$89.1

NOTE 10. ADOPTION OF NEW ACCOUNTING PRINCIPLES

In the third quarter of 2004, we adopted EITF 03-16, "Accounting for Investments in Limited Liability Companies," which requires the use of the equity method of accounting for investments in all limited liability companies, including investments we have in venture capital funds included in our emerging technology portfolio. EITF 03-16 was issued in the second quarter of 2004. We had previously accounted for these investments under the cost method of accounting. EITF 03-16 is effective for reporting periods beginning after June 15, 2004. Pursuant to EITF 03-16, the effect of adoption is reported as the cumulative effect of a change in accounting principle.

The cumulative effect of this change on prior years was an after-tax loss of $7.8 million, which was recorded as a change in accounting principle and reflected in income for the nine months ended September 30, 2004. The effect of the change on the quarter ended September 30, 2004 decreased net income by $0.6 million (increased net income by $1.1 million for the nine months ended September 30, 2004). If the equity method of accounting had been used in 2003, net income for the quarter ended September 30, 2003 would have increased $0.1 million and net income for the nine months ended September 30, 2003 would have decreased $0.8 million, or $0.03 per share.

The effect of the change to equity accounting for our venture capital funds and the impact of adoption of FSP 106-2 (see Note 14) on the first and second quarters of 2004 is as follows:

	Quarter Ended	
Effects of Changes in Accounting Principle	**March 31, 2004**	**June 30, 2004**
Millions Except Per Share Amounts		
Net Income		
As Reported	$52.5	$34.7
Effect of Change in Accounting for Venture Capital Funds	0.2	1.5
Effect of Adoption of FSP 106-2	–	0.5
Before Cumulative Effect of Change in Accounting Principle	52.7	36.7
Cumulative Effect on Prior Years (to December 31, 2003) of Change in Accounting for Venture Capital Funds	(7.8)	–
As Restated	$44.9	$36.7
Basic Earnings Per Share		
As Reported	$1.87	$1.22
Effect of Change in Accounting for Venture Capital Funds	0.01	0.05
Effect of Adoption of FSP 106-2	–	0.02
Before Cumulative Effect of Change in Accounting Principle	1.88	1.29
Cumulative Effect on Prior Years (to December 31, 2003) of Change in Accounting for Venture Capital Funds	(0.28)	–
As Restated	$1.60	$1.29
Diluted Earnings Per Share		
As Reported	$1.86	$1.22
Effect of Change in Accounting for Venture Capital Funds	–	0.05
Effect of Adoption of FSP 106-2	–	0.02
Before Cumulative Effect of Change in Accounting Principle	1.86	1.29
Cumulative Effect on Prior Years (to December 31, 2003) of Change in Accounting for Venture Capital Funds	(0.27)	–
As Restated	$1.59	$1.29

NOTE 11. EARNINGS PER SHARE

The difference between basic and diluted earnings per share arises from outstanding stock options and performance share awards granted under our Executive and Director Long-Term Incentive Compensation Plans.

	Quarter Ended September 30,			Nine Months Ended September 30,		
Reconciliation of Basic and Diluted Earnings Per Share	**Basic**	**Dilutive Securities**	**Diluted**	**Basic**	**Dilutive Securities**	**Diluted**
Millions Except Per Share Amounts						
2004						
Net Income (Loss) from Continuing Operations Before Change in Accounting Principle	$(0.6)	–	$(0.6)	$23.2	–	$23.2
Common Shares	28.5	0.1	28.6	28.3	0.2	28.5
Per Share from Continuing Operations	$(0.03)	–	$(0.02)	$0.82	–	$0.82
2003						
Net Income (Loss) from Continuing Operations Before Change in Accounting Principle	$10.9	–	$10.9	$25.6	–	$25.6
Common Shares	27.7	0.1	27.8	27.5	0.1	27.6
Per Share from Continuing Operations	$0.40	–	$0.40	$0.93	–	$0.93

NOTE 12. COMPREHENSIVE INCOME

For the quarter ended September 30, 2004 total comprehensive income was a $3.7 million loss ($47.4 million of income for the quarter ended September 30, 2003). For the nine months ended September 30, 2004 total comprehensive income was $71.8 million ($170.3 million for the nine months ended September 30, 2003). Total comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale, additional pension liability and foreign currency translation adjustments.

Accumulated Other Comprehensive Gain (Loss)	**September 30, 2004**	**December 31, 2003**
Millions		
Unrealized Gain on Securities	$ 1.4	$ 0.8
Additional Pension Liability	(9.8)	(9.8)
Foreign Currency Translation Adjustment – Discontinued Operations	–	23.5
	$(8.4)	$14.5

NOTE 13. EMPLOYEE STOCK AND INCENTIVE PLANS

We sponsor a leveraged ESOP as part of our Retirement Savings and Stock Ownership Plan. On September 20, 2004 the ESOP received ADESA shares as a result of the spin-off of ADESA. At September 30, 2004 the ESOP held 3.3 million shares of ADESA related to unearned ESOP shares that have not yet been allocated to participants. The ESOP is required to sell the ADESA stock, and will use the proceeds to purchase ALLETE common stock on the open market. We expect to receive an IRS letter ruling that will allow us up to approximately 600 days from September 20, 2004 to complete the sale of the ADESA shares and the purchase of ALLETE stock. Pursuant to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans," unallocated ALLETE common stock currently held and purchased by the ESOP will be treated as unearned ESOP shares and not considered as outstanding for earnings per share computations. ESOP shares are included in earnings per share computations after they are allocated to participants. In October 2004 the ESOP sold 2.7 million shares of ADESA stock related to unearned ESOP shares for total proceeds of $54.0 million. Approximately 0.6 million shares of ADESA stock related to unearned ESOP shares remain in the ESOP and will be sold under the direction of an independent trustee.

NOTE 13. EMPLOYEE STOCK AND INCENTIVE PLANS (Continued)

The employee stock options outstanding at the date of the spin-off were converted to reflect the spin-off and one-for-three reverse stock split. This conversion was done to preserve the noncompensatory nature of the options under FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation."

NOTE 14. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

	Pension		Postretirement Health and Life	
Components of Periodic Benefit Expense	**2004**	**2003**	**2004**	**2003**
Millions				
For the Quarter Ended September 30,				
Service Cost	$ 2.1	$ 1.7	$ 0.9	$ 0.9
Interest Cost	5.2	4.8	1.6	1.7
Expected Return on Plan Assets	(6.9)	(7.2)	(1.2)	(1.0)
Amortization of Prior Service Costs	0.2	0.2	–	–
Amortization of Net Loss	0.4	–	0.1	–
Amortization of Transition Obligation	0.1	0.1	0.6	0.6
Periodic Benefit Expense (Benefit)	$ 1.1	$ (0.4)	$ 2.0	$ 2.2
For the Nine Months Ended September 30,				
Service Cost	$ 6.3	$ 5.1	$ 3.0	$ 2.7
Interest Cost	15.6	14.6	5.0	5.1
Expected Return on Plan Assets	(20.7)	(21.6)	(3.4)	(3.0)
Amortization of Prior Service Costs	0.6	0.6	–	–
Amortization of Net Loss	1.2	–	0.4	–
Amortization of Transition Obligation	0.2	0.2	1.8	1.8
Periodic Benefit Expense (Benefit)	$ 3.2	$ (1.1)	$ 6.8	$ 6.6

In May 2004 the FASB issued FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (Act), which provides accounting and disclosure guidance for employers that sponsor postretirement health care plans that provide prescription drug benefits. FSP 106-2 requires that the accumulated postretirement benefit obligation and postretirement benefit cost reflect the impact of the Act upon adoption. We provide postretirement health benefits that include prescription drug benefits, and expect our postretirement prescription drug benefits to qualify us for the federal subsidy to be provided for under the Act. We adopted FSP 106-2 in the third quarter of 2004. The impact of adoption reduced our after-tax postretirement medical expense by $0.5 million for the three months ended September 30, 2004 and $1.0 million for the nine months ended September 30, 2004. In addition, our accumulated postretirement benefit obligation has been reduced by $12.3 million.

NOTE 15. COMMITMENTS, GUARANTEES AND CONTINGENCIES

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

Minnesota Power is entitled to approximately 71 percent of the Unit's output under the Agreement. After 2005 and upon compliance with a two-year advance notice requirement, Minnkota Power has the option to reduce Minnesota Power's entitlement by 5 percent annually, to a minimum of 50 percent. In December 2003 we received notice from Minnkota Power that they will reduce our output entitlement, effective January 1, 2006, by 5 percent to approximately 66 percent. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Minnesota Power's payment obligation will be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At September 30, 2004 Square Butte had total debt outstanding of $297.4 million. Total annual debt service for Square Butte is expected to be approximately $23 million in each of the years 2004 through 2008. Variable operating costs include the price of coal purchased from BNI Coal, our subsidiary, under a long-term contract. Minnesota Power's payments to Square Butte are approved as a purchased power expense for ratemaking purposes by both the MPUC and the FERC.

Leasing Agreements. In September 2004 BNI Coal entered into an operating lease agreement for a new dragline that was placed in service at BNI Coal's mine on September 30, 2004. BNI Coal is obligated to make lease payments totaling $2.8 million annually for the lease term which expires in 2027. BNI Coal has the option at the end of the lease term to renew the lease at a fair market rental, to purchase the dragline at fair market value, or to surrender the dragline and pay a $3.0 million termination fee.

We lease other properties and equipment under operating lease agreements with terms expiring through 2013. The aggregate amount of minimum lease payments for all of these other operating leases is $3.2 million in 2005, $3.1 million in 2006, $2.7 million in 2007, $1.9 million in 2008 and $4.2 million thereafter.

Kendall County Power Purchase Agreement. We have 275 MW of nonregulated generation (non rate-base generation sold at market-based rates to the wholesale market) through an agreement with an independent power producer that extends through September 2017. Under the agreement we pay a fixed capacity charge for the right, but not the obligation, to capacity and energy from a 275-MW generating unit at a facility in Kendall County near Chicago, Illinois. The annual fixed capacity charge is approximately $21 million. We are also responsible for arranging the natural gas fuel supply. Our strategy is to enter into long-term contracts to sell a significant portion of the 275 MW from the Kendall County facility; the balance will be sold in the spot market through short-term agreements. We currently have 130 MW (100 MW in 2003) of long-term capacity sales contracts for the Kendall County generation, with 50 MW expiring in April 2012 and 80 MW expiring in September 2017. Neither the Kendall County agreement nor the related sales contracts are derivatives under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." To date, the Kendall County facility has operated at a loss due to negative spark spreads (the differential between electric and natural gas prices) in the wholesale power market and our resulting inability to cover the fixed capacity charge on unsold capacity (currently 145 MW). We expect the facility to continue to generate losses until such time as spark spreads improve or we are able to enter into additional long-term capacity sales contracts. We are currently exploring options to minimize or eliminate these ongoing losses.

Coal and Shipping Contracts. We have three coal supply agreements with various expiration dates ranging from December 2006 to December 2009. We also have rail and shipping agreements for transportation of all of our coal with various expiration dates ranging from December 2005 to December 2011. Our minimum annual obligation under these coal and shipping agreements ranges from approximately $28 million in 2004 to $10 million in 2008.

Emerging Technology Investments. We have investments in emerging technologies through minority investments in venture capital funds structured as limited liability companies, and direct investments in privately-held start-up companies. We have committed to make additional investments in certain emerging technology holdings. The total future commitment was $4.6 million at September 30, 2004 ($4.8 million at December 31, 2003) and is expected to be invested at various times through 2007.

NOTE 15. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters. Our businesses are subject to regulation by various federal, state and local authorities concerning environmental matters. We do not currently anticipate that potential expenditures for environmental matters will be material; however, we are unable to predict the outcome of the issues discussed below.

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

SWL&P Manufactured Gas Plant. In May 2001 SWL&P received notice from the WDNR that the City of Superior had found soil contamination on property adjoining a former Manufactured Gas Plant (MGP) site owned and operated by SWL&P from 1889 to 1904. The WDNR requested SWL&P to initiate an environmental investigation. The WDNR also issued SWL&P a Responsible Party letter in February 2002. The environmental investigation is underway. In February 2003 SWL&P submitted a Phase II environmental site investigation report to the WDNR. This report identified some MGP-like chemicals that were found in the soil near the former plant site. During March and April 2003 sediment samples were taken from nearby Superior Bay. The report on the results of this sampling was completed and sent to the WDNR during the first quarter of 2004. The next phase of the investigation is to determine any impact to soil or ground water between the former MGP site and Superior Bay. The site work for this phase of the investigation was performed during October 2004. Although it is not possible to quantify the potential clean-up cost until the investigation is completed, a $0.5 million liability was recorded in December 2003 to address the known areas of contamination. We have recorded a corresponding dollar amount as a regulatory asset to offset this liability. The PSCW has approved SWL&P's deferral of these MGP environmental investigation and potential clean-up costs for future recovery in rates, subject to a regulatory prudency review. ALLETE maintains pollution liability insurance coverage that includes coverage for SWL&P. A claim has been filed with respect to this matter. The insurance carrier has issued a reservation of rights letter and we continue to work with the insurer to determine the availability of insurance coverage.

Minnesota Power Coal-Fired Generating Facilities. During 2002 Minnesota Power received and responded to a third request from the EPA, under Section 114 of the federal Clean Air Act Amendments of 1990 (Clean Air Act), seeking additional information regarding capital expenditures at all of its coal-fired generating stations. This action is part of an industry-wide investigation assessing compliance with the New Source Review and the New Source Performance Standards (emissions standards that apply to new and changed units) of the Clean Air Act at electric generating stations. We have received no feedback from the EPA based on the information we submitted. There is, however, ongoing litigation involving the EPA and other electric utilities for alleged violations of these rules. It is expected that the outcome of some of the cases could provide the utility industry direction on this topic. We are unable to predict what actions, if any, may be required as a result of the EPA's request for information. As a result, we have not accrued any liability for this environmental matter.

Square Butte Generating Facility. In June 2002 Minnkota Power, the operator of Square Butte, received a Notice of Violation from the EPA regarding alleged New Source Review violations at the M.R. Young Station which includes the Square Butte generating unit. The EPA claims certain capital projects completed by Minnkota Power should have been reviewed pursuant to the New Source Review regulations potentially resulting in new air permit operating conditions. Minnkota Power has held several meetings with the EPA to discuss the alleged violations. Discussions with the EPA are ongoing and we are unable to predict the outcome or cost impacts. If Square Butte is required to make significant capital expenditures to comply with EPA requirements, we expect such capital expenditures to be debt financed. Our future cost of purchased power would include our pro rata share of this additional debt service.

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

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

ALLETE's operations are comprised of four business segments. **Regulated Utility** includes retail and wholesale rate regulated electric, water and gas services in northeastern Minnesota and northwestern Wisconsin under the jurisdiction of state and federal regulatory authorities. **Nonregulated Energy Operations** includes nonregulated generation (non-rate base generation sold at market-based rates to the wholesale market) consisting primarily of generation from Taconite Harbor in northern Minnesota and generation secured through the Kendall County power purchase agreement. Nonregulated Energy Operations also includes our coal mining activities in North Dakota. **Real Estate** includes our Florida real estate operations. **Other** includes our telecommunications activities, investments in emerging technologies, and general corporate charges and interest not specifically related to any one business segment. General corporate charges include employee salaries and benefits as well as legal and other outside service fees. **Discontinued Operations** includes our Automotive Services business that was spun off on September 20, 2004, our Water Services businesses, the majority of which were sold in 2003, and spin-off costs incurred by ALLETE.

On September 20, 2004 the spin-off of Automotive Services was completed by distributing to ALLETE shareholders all of ALLETE's shares of ADESA common stock. Through a June 2004 IPO our Automotive Services business, doing business as ADESA, Inc. (NYSE: KAR), issued 6.3 million shares of common stock. This represented 6.6 percent of ADESA's common stock outstanding. ALLETE owned the remaining 93.4 percent of ADESA until the spin-off was completed. (See Note 1.) ADESA's SEC filings are available through the SEC's website at www.sec.gov.

CONSOLIDATED OVERVIEW

Net income for the quarter and nine months ended September 30, 2004 decreased 72 percent and 31 percent, respectively, from the same periods in 2003 and diluted earnings per share for the quarter and nine months ended September 30, 2004 decreased 74 percent and 32 percent, respectively, from the same periods in 2003. The decrease was primarily attributable to reduced earnings from discontinued operations which include both Water and Automotive Services, a $10.9 million after-tax debt prepayment cost at ALLETE, and a $7.8 million non-cash after-tax charge for a change in accounting principle related to investments in our emerging technology portfolio (see Note 10).

Income from continuing operations represents the activities that are part of ALLETE subsequent to the spin-off of ADESA. For the quarter ended September 30, 2004, income (loss) from continuing operations before the change in accounting principle was a $0.6 million, or $0.02 per diluted share, loss ($10.9 million, or $0.40 per diluted share, of income for the quarter ended September 30, 2003). For the nine months ended September 30, 2004, income from continuing operations before the change in accounting principle was $23.2 million, or $0.82 per diluted share ($25.6 million, or $0.93 per diluted share, for the nine months ended September 30, 2003). Both the quarter and nine months ended September 30, 2004 included the $10.9 million, or $0.38 per share, after-tax debt prepayment cost incurred in July as part of ALLETE's financial restructuring in preparation for the spin-off of ADESA.

Millions Except Per Share Amounts	Quarter Ended September 30, 2004	2003	Nine Months Ended September 30, 2004	2003
Operating Revenue				
Regulated Utility	$136.1	$127.1	$414.3	$385.8
Nonregulated Energy Operations	31.1	30.2	91.0	85.1
Real Estate	5.2	6.1	39.6	34.3
Other	10.8	6.7	37.8	25.1
	$183.2	$170.1	$582.7	$530.3
Operating Expenses				
Regulated Utility	$115.1	$101.6	$348.2	$324.7
Nonregulated Energy Operations	28.7	25.7	87.7	79.9
Real Estate	2.4	2.8	14.2	14.7
Other	13.7	9.8	47.9	33.7
	$159.9	$139.9	$498.0	$453.0
Total Interest and Other Income (Expense)				
Regulated Utility	$ (5.0)	$ (5.3)	$(14.2)	$(10.4)
Nonregulated Energy Operations	(0.2)	(0.4)	–	(0.9)
Real Estate	(0.1)	–	(0.2)	(0.1)
Other	(20.6)	(7.0)	(32.7)	(24.2)
	$ (25.9)	$(12.7)	$(47.1)	$(35.6)
Net Income (Loss)				
Regulated Utility	$ 9.5	$12.2	$32.1	$ 30.5
Nonregulated Energy Operations	1.5	2.8	2.6	3.2
Real Estate	1.6	1.9	14.8	11.3
Other	(13.2)	(6.0)	(26.3)	(19.4)
Continuing Operations	(0.6)	10.9	23.2	25.6
Discontinued Operations	13.7	36.7	79.3	110.7
Change in Accounting Principle	–	–	(7.8)	–
	$13.1	$47.6	$94.7	$136.3
Diluted Average Shares of Common Stock	28.6	27.8	28.5	27.6
Diluted Earnings Per Share of Common Stock				
Continuing Operations	$(0.02)	$0.40	$0.82	$0.93
Discontinued Operations	0.47	1.31	2.78	4.00
Change in Accounting Principle	–	–	(0.27)	–
	$0.45	$1.71	$3.33	$4.93
Kilowatthours Sold				
Regulated Utility				
Retail and Municipals				
Residential	233.7	250.2	772.8	787.0
Commercial	334.7	347.5	960.9	963.5
Industrial	1,736.9	1,535.6	5,273.7	4,909.2
Municipals	211.1	231.8	613.9	636.9
Other	19.9	20.5	57.9	59.3
	2,536.3	2,385.6	7,679.2	7,355.9
Other Power Suppliers	260.2	504.4	645.8	1,012.5
	2,796.5	2,890.0	8,325.0	8,368.4
Nonregulated Energy Operations	349.4	400.4	1,198.0	1,100.6
	3,145.9	3,290.4	9,523.0	9,469.0

NET INCOME

The following net income discussion summarizes a comparison of the nine months ended September 30, 2004 to the nine months ended September 30, 2003.

Regulated Utility net income in 2004 was up $1.6 million reflecting a 7 percent increase in kilowatthour sales to our industrial customers partially offset by higher pension expense, and increased costs associated with maintenance outages at Company generating facilities and a scheduled outage at Square Butte. Overall, regulated utility kilowatthour sales were similar to last year (down 1 percent) as a 4 percent increase in sales to retail and municipal customers reduced the energy available for sale to other power suppliers.

Nonregulated Energy Operations net income in 2004 was down $0.6 million as a 9 percent increase in nonregulated generation kilowatthour sales was more than offset by higher operating expenses. Operating expenses in 2004 reflected increased costs for sulfur dioxide emission allowances, while 2003 reflected a $0.5 million reduction in costs accrued in 2002 related to the deferral of a generation project in Superior, Wisconsin.

Real Estate net income was $3.5 million higher in 2004 reflecting an increase in the number as well as the profitability of real estate sales closing during the first nine months of 2004. The timing of real estate sales varies from quarter to quarter.

Other reflected $6.9 million of additional expense in 2004. The additional expense resulted primarily from a $10.9 million debt prepayment cost associated with the retirement of long-term debt as a part of our financial restructuring in preparation for the spin-off of ADESA. Unallocated interest expense, however, was $6.5 million less in 2004 due to the retirement of long-term debt in 2003 and early 2004 with the proceeds from the sale of our Water Services businesses and the early retirement of $125 million of long-term debt in July 2004. Earnings on invested proceeds from the sale of our Water Services businesses and cash received from ADESA after the IPO partially offset less income from our emerging technology investments and additional costs incurred as a result of the reverse stock split.

Discontinued Operations net income decreased $31.4 million in 2004.

Automotive Services net income was down $14.4 million, or 16 percent, primarily due to an $8.5 million debt prepayment cost related to the early redemption of ADESA debt in August 2004, costs associated with the business separation, and additional corporate charges and separation expenses incurred as ADESA prepared to be a stand-alone publicly traded company. Net income for 2004 was also down because of a 6.6 percent reduction in our ownership of ADESA since the June 2004 IPO and a partial month of operations for September due to the spin-off. The total number of vehicles sold at ADESA's vehicle auction facilities decreased 2 percent in 2004. Conversion rates, however, continued to exceed last year (63.2 percent in 2004; 61.5 percent in 2003). A 13 percent increase in the number of loan transactions resulted from an increase in the number of active dealers combined with an increase in floorplan utilization by the existing dealer base. Net income also included $4.1 million of charges in 2004 in connection with a lawsuit related to ADESA's vehicle import business and a $1.3 million recovery in 2003 from the settlement of a lawsuit associated with ADESA's vehicle transport business.

Water Services net income decreased $17.0 million, primarily because 2003 included nine months of operations, or $18.2 million, from water and wastewater systems sold. The majority of Florida systems were sold in the fourth quarter of 2003. North Carolina assets were sold in June 2004. Net income in 2004 included a $5.2 million gain on the sale of water assets ($3.4 million in 2003).

Change in Accounting Principle reflected the cumulative effect on prior years (to December 31, 2003) of changing to the equity method of accounting for investments in limited liability companies included in our emerging technology portfolio. (See Note 10.)

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2004 AND 2003

Regulated Utility

Operating revenue was up $9.0 million, or 7 percent, in 2004 primarily due to higher fuel clause recoveries resulting from increased purchased power costs (see operating expenses below). Overall, regulated utility kilowatthour sales were down 3 percent as a 6 percent increase in sales to retail and municipal customers was more than offset by decreased sales to other power suppliers. Much of the increase in retail and municipal electric sales was attributable to large industrial customers due to higher production levels in 2004. Sales to other power suppliers decreased primarily due to the increased requirements of our retail customers. Scheduled maintenance outages at one of our generating facilities and Square Butte (see Outlook – Regulated Utility) also contributed to less energy being available for sale to other power suppliers.

Revenue from electric sales to taconite customers accounted for 24 percent of consolidated operating revenue in 2004 (19 percent in 2003). Electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in both 2004 and 2003.

Operating expenses were up $13.5 million, or 13 percent, in 2004 primarily reflecting increased purchased power expense necessitated by scheduled maintenance outages at one of our generating facilities and Square Butte (see Outlook – Regulated Utility). In addition, 2004 included higher pension expense, and increased costs associated with the scheduled maintenance outages.

Nonregulated Energy Operations

Operating revenue was up $0.9 million, or 3 percent, in 2004 primarily due to an increase in revenue from contract services as a result of work being done for American Transmission Company on the Duluth-to-Wausau transmission line. These services do not result in any profit margin. (See operating expenses below.) The increase in contract services was mostly offset by reduced nonregulated kilowatthour sales. Nonregulated kilowatthour sales in total were down 13 percent in 2004 primarily due to lower kilowatthour sales at the Kendall County facility.

Operating expenses were up $3.0 million, or 12 percent, in 2004 primarily due to expenses related to the contract services being done for American Transmission Company. Fuel and purchased power expense was down compared to last year due to lower kilowatthour sales in 2004. Operating expenses in 2003 reflected a $0.9 million reduction in costs accrued in 2002 related to the deferral of a generation project in Superior, Wisconsin.

Real Estate

Operating revenue and ***operating expenses*** were both down in 2004 primarily due to fewer land sales. Operating revenue was down $0.9 million, or 15 percent, and operating expenses were down $0.4 million, or 14 percent.

Other

Operating revenue was up $4.1 million, or 61 percent, in 2004 reflecting increased revenue from our telecommunications business due to more equipment sales.

Operating expenses were up $3.9 million, or 40 percent, in 2004 mostly due to higher cost of goods sold associated with increased sales at our telecommunications business. Corporate charges increased $0.1 million ($3.8 million in 2004; $3.7 million in 2003) reflecting reverse stock split expenses.

Total interest and other income (expense) reflected $13.6 million of additional expense in 2004. In 2004 we incurred an $18.5 million debt prepayment cost related to the early redemption of $125 million in senior notes and recorded $1.0 million of equity losses related to our emerging technology investments. These additional expenses were partially offset by a $5.6 million decrease in interest expense not specifically related to any one business segment ($2.0 million in 2004; $7.6 million in 2003). With proceeds from the sale of our Water Services businesses and internally generated cash in 2003 and 2004, we redeemed our quarterly income preferred securities and various long-term debt issuances which lowered interest expense in 2004.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

Regulated Utility

Operating revenue was up $28.5 million, or 7 percent, in 2004 primarily due to higher fuel clause recoveries resulting from increased purchased power costs (see operating expenses below). Overall, regulated utility kilowatthour sales were similar to last year (down 1 percent) as a 4 percent increase in sales to retail and municipal customers reduced the energy available for sale to other power suppliers. Much of the increase in retail and municipal electric sales was attributable to large industrial customers due to higher production levels in 2004. Outages at Company generating facilities and a scheduled maintenance outage at Square Butte (see Outlook – Regulated Utility) also contributed to less energy being available for sale to other power suppliers.

Revenue from electric sales to taconite customers accounted for 23 percent of consolidated operating revenue in 2004 (21 percent in 2003). Electric sales to paper and pulp mills accounted for 8 percent of consolidated operating revenue in both 2004 and 2003.

Operating expenses in total were up $23.5 million, or 7 percent, in 2004 primarily reflecting increased purchased power expense necessitated by outages at Company generating facilities and Square Butte (see Outlook – Regulated Utility). In addition, 2004 included higher pension expense, and increased costs associated with the outages. These increases were partially offset by the absence of a power marketing demand payment associated with a purchased power agreement that expired in October 2003.

Total interest and other income (expense) reflected $3.8 million less income in 2004 primarily due to the loss of equity in net income from Split Rock Energy. Minnesota Power withdrew from Split Rock Energy trading activities effective November 1, 2003 and all participation in February 2004.

Nonregulated Energy Operations

Operating revenue was up $5.9 million, or 7 percent, in 2004 primarily due to an increase in revenue from contract services as a result of work being done for American Transmission Company on the Duluth-to-Wausau transmission line. These services do not result in any profit margin (see operating expenses below). Revenue was also higher in 2004 due to a 9 percent increase in nonregulated generation kilowatthour sales.

Operating expenses were up $7.8 million, or 10 percent, in 2004 primarily due to expenses related to the contract services being done for American Transmission Company. In addition, 2004 operating expenses reflected increased costs for sulfur dioxide emission allowances, while 2003 reflected a $0.9 million reduction in costs accrued in 2002 related to the deferral of a generation project in Superior, Wisconsin.

Total interest and other income (expense) reflected $0.9 million of additional income in 2004 primarily due to more Minnesota land sales and less interest expense in 2004.

Real Estate

Operating revenue was up $5.3 million, or 15 percent, in 2004 as a result of more land sales. In 2004 12 large real estate sales contributed $24.4 million to revenue, while in 2003 nine large real estate sales contributed $15.9 million to revenue.

Operating expenses were down $0.5 million, or 3 percent, in 2004 because the cost basis of property sold in 2004 was lower than in 2003.

Other

Operating revenue was up $12.7 million, or 51 percent, in 2004 reflecting increased revenue from our telecommunications business due to more equipment sales.

Operating expenses were up $14.2 million, or 42 percent, in 2004 mostly due to higher cost of goods sold associated with increased sales at our telecommunications business. Corporate charges increased $2.2 million ($11.9 million in 2004; $9.7 million in 2003) reflecting higher incentive compensation and benefit costs, and expenses related to the reverse stock split.

Total interest and other income (expense) reflected $8.5 million of additional expense in 2004 primarily due to an $18.5 million debt prepayment cost related to the early redemption of $125 million in senior notes in 2004 and $5.5 million of impairment losses recorded related to our emerging technology investments. These additional expenses were partially offset by an $11.1 million decrease in interest expense not specifically related to any one business segment ($10.0 million in 2004; $21.1 million in 2003). With proceeds from the sale of our Water Services businesses and internally generated cash in 2003 and 2004, we redeemed our quarterly income preferred securities and various long-term debt issuances which lowered interest expense in 2004. In 2003 we recognized $3.5 million of losses related to the sale of shares we held directly in publicly-traded emerging technology investments.

CRITICAL ACCOUNTING POLICIES

Certain accounting measurements under applicable GAAP involve management's judgment about subjective factors and estimates, the effects of which are inherently uncertain. Accounting measurements that we believe are most critical to our reported results of operations and financial condition include: impairment of long-lived assets, pension and postretirement health and life actuarial assumptions, valuation of investments and provisions for environmental remediation. These policies are reviewed with the Audit Committee of our Board of Directors on a regular basis and summarized in our 2003 Form 10-K.

OUTLOOK

2004 Earnings Guidance. Following the spin-off of our Automotive Services in September 2004 (see Note 1), our remaining operations are comprised of Regulated Utility, Nonregulated Energy Operations, Real Estate and Other (formerly classified as (1) Energy Services, and (2) Investments and Corporate Charges). In 2003 net income from these operations totaled $29.8 million, excluding $1.5 million of spin-off related costs reclassified to Discontinued Operations. Based on our performance for the nine months ended September 30, 2004 and fourth quarter projections, our expectation for income from continuing operations before change in accounting principle (excluding the $10.9 million debt prepayment cost incurred in 2004) is approximately $38 million for 2004, an increase of 28 percent over 2003. Earnings for the nine months ended September 30, 2004 have benefited from the improved performance of the taconite industry. Minnesota taconite production is projected to be approximately 40 million tons in 2004 as compared to 35 million in 2003.

The above guidance does not include any gains or losses resulting from the ESOP's sale of ADESA stock received in the spin-off. (See Note 13.) In October 2004 the ESOP sold 2.7 million shares of ADESA stock related to unearned ESOP shares for total proceeds of $54.0 million; 2.5 million of the shares were sold directly to ADESA. This resulted in an after-tax gain of $9.2 million which will be recognized in the fourth quarter of 2004. Approximately 0.6 million shares of ADESA stock related to unearned ESOP shares remain in the ESOP and will be sold under the direction of an independent trustee.

The ESOP will use proceeds from the sale of ADESA stock to purchase ALLETE common stock on the open market. We expect to receive an IRS letter ruling that will allow us up to approximately 600 days from September 20, 2004 to complete the sale of the ADESA shares and the purchase of ALLETE stock. Pursuant to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans," unallocated ALLETE common stock currently held and purchased by the ESOP will be treated as unearned ESOP shares and not considered as outstanding for earnings per share computations. ESOP shares are included in earnings per share computations after they are allocated to participants. Also in October 2004, ADESA purchased 0.7 million shares of ADESA stock held by ALLETE's pension plan.

Regulated Utility. In February 2004 we experienced a generator failure at our 534-MW Boswell Energy Center Unit 4 (Unit 4). Unit 4 came back into service in June. As a result of the failure, we replaced significant components of the generator at a capital cost of approximately $6 million. The majority of the replacement cost was covered by insurance, subject to a deductible of $1 million. We entered into power purchase agreements to replace the power lost during the Unit 4 outage. The cost of this additional power was recovered through the regulated utility fuel adjustment clause in Minnesota. While Unit 4 was down, some work originally planned for 2005 and 2006 was done during the outage to minimize future outages. This outage did not have a material impact on our results of operations. Wisconsin Public Power, Inc. owns 20 percent of Unit 4. Because of the outage at our Boswell Energy Center, a multi-week scheduled maintenance outage on Unit 1 at our Laskin Energy Center was deferred until third quarter 2004. The 55-MW Unit 1 was back in service in early October.

In September 2004 Square Butte began a scheduled multi-week maintenance outage which was completed at the end of October. Our pro rata share of the cost is expected to be approximately $6 million pretax.

In September 2004 we filed an integrated resource plan (Resource Plan) with the MPUC detailing our retail energy demand projections and our energy sourcing options to meet the projected demand over the next 15 years. In the Resource Plan we predict energy demand by customers in our service territory will increase at an average annual rate of 1.7 percent to 2019. The Resource Plan includes growth of 20 to 30 megawatts per year primarily from residential and smaller commercial expansion, and a sustainable positive outlook from large power customers in northeastern Minnesota, such as taconite processing facilities and paper mills. We expect to realize a reduction in generating resource supply over the next few years under the terms of a long-term energy supply contract with Square Butte. The combination of increased demands and reduced supply means we will need to secure additional base load energy to serve our customers in future years.

The Resource Plan sets forth several options designed to meet the predicted growing base load energy demand in the region. The options range from purchasing additional power to building new base load energy generation facilities. We will work with state regulators and stakeholders over the next several months to discuss the Resource Plan. We anticipate that the MPUC will formally consider the Resource Plan by mid-2005.

Nonregulated Energy Operations. The Kendall County facility has operated at a loss due to negative spark spreads (the differential between electric and natural gas prices) in the wholesale power market and our resulting inability to cover the fixed capacity charge on unsold capacity (currently 145 MW). We expect the facility to continue to generate losses until such time as spark spreads improve or we are able to enter into additional long-term capacity sales contracts. This may result in annual after-tax losses of up to approximately $8 million depending on demand for unit output and spark spreads. We are currently exploring options to minimize or eliminate these ongoing losses.

In October 2004 our 75-MW (rated capacity) Taconite Harbor Unit 1 began a scheduled outage which is expected to be completed by mid-November 2004.

Real Estate. ALLETE Properties, our Florida real estate operations, owns approximately 18,000 acres of land near Fort Myers, Palm Coast and Ormond Beach, Florida, as well as Winter Haven Citi Centre, a retail shopping center in Winter Haven, Florida. We add value to the land through entitlements and infrastructure improvements, and then sell it at current market prices. Historically, proceeds from land sales have been three to four times our carrying value. Rental income at the retail shopping center in Winter Haven provides a recurring stream of revenue. At September 30, 2004 our basis in land held by ALLETE Properties was $46.9 million. ALLETE Properties occasionally provides seller financing, and outstanding finance receivables were $9.7 million at September 30, 2004 with maturities ranging up to ten years. Outstanding finance receivables accrue interest at market-based rates. At September 30, 2004 ALLETE Properties also had $18.2 million of other assets which consisted primarily of Winter Haven Citi Centre. We may selectively acquire additional land if it meets our strategy of adding value through entitlement and infrastructure improvements.

Sale of Remaining Water Assets. In June 2004 we essentially concluded our strategy to exit our Water Services businesses when we completed the sale of our North Carolina water assets and the sale of the remaining 72 water and wastewater systems in Florida. The net cash proceeds from the sale of all water assets in 2003 and 2004, after transaction costs, retirement of most Florida Water debt and payment of income taxes, were approximately $300 million. These net proceeds were used to strengthen our balance sheet and retire debt. We continue to expect to sell our water assets in Georgia in 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Activities

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

Excluding Discontinued Operations, consolidated cash and cash equivalents was $172.7 million at September 30, 2004, an increase of $59.3 million since December 31, 2003.

During the first nine months of 2004 we repaid $182.9 million in outstanding debt using a combination of internally generated funds, proceeds from the sale of our Water Services assets and proceeds received from ADESA. (See Note 1.) We also refinanced $111 million in long-term debt at a lower interest rate. See Notes 6 and 7 for additional detail on debt repaid.

During the first nine months of 2004 and 2003, cash flow from operating activities was affected by a number of factors representative of normal operations.

Working Capital. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. Approximately 1.1 million original issue shares of our common stock are available for issuance through *Invest Direct*, our direct stock purchase and dividend reinvestment plan.

Dividends. On October 20, 2004 our Board of Directors declared a dividend of 30 cents per share on ALLETE common stock payable December 1, 2004 to shareholders of record at the close of business November 15, 2004.

Securities

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

Off-Balance Sheet Arrangements

Off-balance sheet arrangements are discussed in Note 15.

Contractual Obligations and Commercial Commitments

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 our consolidated balance sheet plus interest.

Unconditional purchase obligations represent our Square Butte and Kendall County power purchase agreements, and minimum purchase commitments under coal and rail contracts.

Under our power purchase agreement with Square Butte that extends through 2026, we are obligated to pay our pro rata share of Square Butte's costs based on our entitlement to the output of Square Butte's 455 MW coal-fired generating unit near Center, North Dakota. Our payment obligation is suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. The following table reflects our share of future debt service based on our current output entitlement of 71 percent through 2005, 66 percent thereafter. In December 2003 we received notice from Minnkota Power that they will reduce our output entitlement,

effective January 1, 2006, by 5 percent to approximately 66 percent. Minnkota Power has the option to reduce our entitlement by 5 percent annually, to a minimum of 50 percent. (See Note 15.)

Under the Kendall County agreement, we pay a fixed capacity charge for the right, but not the obligation, to utilize one 275-MW generating unit near Chicago, Illinois. We are responsible for arranging the natural gas fuel supply and are entitled to the electricity produced. (See Note 15.)

	Payments Due by Period			
Contractual Obligations	**Total**	**2005-2007**	**2008-2009**	**2010 and After**
Millions				
Long-Term Debt	$ 585.3	$183.5	$ 79.1	$322.7
Operating Lease Obligations	78.3	17.4	9.0	51.9
Unconditional Purchase Obligations	657.0	146.2	89.1	421.7
	$1,320.6	$347.1	$177.2	$796.3

Capital Requirements

Continuing Operations. Capital expenditures for continuing operations are expected to be $62.6 million for 2004. Capital expenditures for continuing operations for the nine months ended September 30, 2004 totaled $48.8 million ($53.6 million in 2003). Expenditures for the nine months ended September 30, 2004 included $38.4 million for Regulated Utility, $6.6 million for Nonregulated Energy Operations and $3.8 million for Other which consisted of $3.5 million for our telecommunications business and $0.3 million for general corporate purposes. Internally generated funds were the primary source of funding for these expenditures.

Discontinued Operations. Capital expenditures for discontinued operations for the nine months ended September 30, 2004 totaled $16.2 million ($45.1 million in 2003). Expenditures for the nine months ended September 30, 2004 included $13.1 million for Automotive Services capital expenditures incurred prior to the September 2004 spin-off and $3.1 million to maintain our remaining Water Services businesses while they were in the process of being sold.

ENVIRONMENTAL MATTERS AND OTHER

Our businesses are subject to regulation by various federal, state and local authorities concerning environmental matters. We do not currently anticipate that potential expenditures for environmental matters will be material; however, we are unable to predict the outcome of the issues discussed in Note 15.

NEW ACCOUNTING STANDARDS

New accounting standards are discussed in Note 3.

Readers are cautioned that forward-looking statements including those contained above, should be read in conjunction with our disclosures under the heading: "SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995" located on page 3 of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SECURITIES INVESTMENTS

Investments include certain securities held for an indefinite period of time which are accounted for as available-for-sale securities. Available-for-sale securities are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income, net of tax. Unrealized losses that are other than temporary are recognized in earnings. At September 30, 2004 our available-for-sale securities portfolio consisted of ADESA common stock held in our Retirement Savings and Stock Ownership Plan (see Note 13) and securities in a grantor trust established to fund certain employee benefits. Our available-for-sale securities portfolio had a fair value of $76.0 million at September 30, 2004 ($20.2 million at December 31, 2003) and a total unrealized after-tax gain of $1.4 million at September 30, 2004 ($0.8 million at December 31, 2003).

As part of our emerging technology portfolio, we have several minority investments in venture capital funds and direct investments in privately-held start-up companies. We account for our investment in venture capital funds under the equity method and account for our direct investment in privately-held companies under the cost method. The total carrying value of our emerging technology portfolio was $15.6 million at September 30, 2004, down $21.9 million from December 31, 2003. The decline was primarily due to a change to the equity method of accounting for the venture capital funds (see Note 10) and impairments related to investments in privately-held companies. Our policy is to review these investments quarterly for impairment by assessing such factors as continued commercial viability of products, cash flow and earnings. Any impairment would reduce the carrying value of the investment. During the second quarter of 2004 we recorded $5.5 million ($3.2 million after taxes) of impairment losses primarily related to direct investments in certain privately-held start-up companies whose future business prospects have diminished significantly. Recent developments at these companies indicated that future commercial viability is unlikely, as is new financing necessary to continue development.

INTEREST RATE SENSITIVE FINANCIAL INSTRUMENTS

	Principal Cash Flow by Expected Maturity Date						
September 30, 2004	**2004**	**2005**	**2006**	**2007**	**2008**	**Thereafter**	**Total**
Dollars in Millions							
Long-Term Debt							
Fixed Rate	$0.2	$0.8	$1.5	$115.8	$56.5	$155.9	$330.7
Average Interest Rate – %	7.0	7.3	6.3	7.1	7.0	5.4	6.3
Variable Rate	$0.5	$1.0	$0.8	$3.3	$0.8	$54.3	$60.7
Average Interest Rate – % *(a)*	2.8	3.0	3.0	1.7	3.0	1.6	1.6

(a) Assumes rate in effect at September 30, 2004 remains constant through remaining term.

COMMODITY PRICE RISK

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

POWER MARKETING

Our power marketing activities consist of (i) purchasing energy in the wholesale market for resale in our regulated service territories when retail energy requirements exceed generation output, and (ii) selling excess available regulated utility generation and purchased power, as well as selling nonregulated generation.

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

We have approximately 500 MW of nonregulated generation available for sale to the wholesale markets. This primarily consists of about 200 MW at our Taconite Harbor facility in northern Minnesota and 275 MW obtained through a 15-year power purchase agreement with an independent power producer at a facility in Kendall County near Chicago, Illinois.

Taconite Harbor's capability of approximately 200 MW has been sold through various short-term and long-term capacity and energy contracts. Short term, we have approximately 116 MW of capacity and energy sales contracts, all of which expire on April 30, 2005. Long term, we have entered into two capacity and energy sales contracts totaling 175 MW (201 MW including a 15 percent reserve) which are effective May 1, 2005 and expire on April 30, 2010. Both contracts contain fixed monthly capacity charges and fixed minimum energy charges. One contract provides for an annual escalator to the energy charge based on increases in our cost of coal, subject to a small minimum annual escalation. The other contract provides that the energy charge will be the greater of a fixed minimum charge or an amount based on the variable production cost of a combined cycle natural gas unit. Our exposure in the event of a full or partial outage at our Taconite Harbor facility is significantly limited under both contracts. When the buyer is notified at least two months prior to an outage, there is no exposure. Outages with less than two months notice are subject to an annual duration limitation typical of this type of contract. We also have a 50 MW capacity and energy sales contract that extends through April 2008 and a 15 MW energy sales contract that extends through May 2007. The 50 MW capacity and energy sales contract has fixed pricing through January 2006 and market-based pricing thereafter.

Under the Kendall County agreement, which expires in September 2017, we pay a fixed capacity charge for the right, but not the obligation, to capacity and energy from a 275-MW generating unit. We are responsible for arranging the natural gas fuel supply. Our strategy is to sell a significant portion of this generation through long-term contracts of various durations. The balance will be sold in the daily spot market or through short-term contracts. We currently have long-term capacity sales contracts for 130 MW, with 50 MW expiring in April 2012 and the balance expiring in September 2017. To date, the Kendall County facility has operated at a loss due to negative spark spreads (the differential between electric and natural gas prices) in the wholesale power market and our resulting inability to cover the fixed capacity charge on the unsold capacity (currently 145 MW). We expect the facility to continue to generate losses until such time as spark spreads improve or we are able to enter into additional long-term capacity sales contracts. This may result in annual after-tax losses of up to approximately $8 million depending on demand for unit output and spark spreads. We are currently exploring options to minimize or eliminate these ongoing losses.

ITEM 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

Material legal and regulatory proceedings are included in the discussion of Other Information in Item 5 and are incorporated by reference herein.

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

ALLETE Common Stock Repurchases For the Quarter Ended September 30, 2004 *(a)*	Total Number of Shares Purchased *(b)*	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
For the Calendar Month				
July	–	–	–	–
August	62,001	$80.25	–	–
September	8,015	$81.71	–	–
	70,016	$80.41	–	–

(a) Adjusted for the one-for-three reverse stock split effective September 20, 2004.

(b) Reflected shares of ALLETE common stock repurchased to complete the spin-off of ADESA. There were no shares repurchased pursuant to stock-for-stock exercises of employee options granted under the ALLETE Executive Long-Term Incentive Compensation Plan during the third quarter of 2004.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

Reference is made to our 2003 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to our 2003 Form 10-K.

Ref. Page 14. – Table – Minimum Revenue and Demand Under Contract

Minimum Revenue and Demand Under Contract As of November 1, 2004	Minimum Annual Revenue *(a)*	Monthly Megawatts
2004	$108.2	693
2005	$69.6	417
2006	$38.1	202
2007	$33.3	181
2008	$23.5	133

(a) Based on past experience, we believe revenue from our large power customers will be substantially in excess of the minimum contract amounts.

Ref. Page 18 – First Paragraph
Ref. Form 10-Q for the quarter ended March 31, 2004, Page 26 – Fourth Paragraph
Ref. Form 10-Q for the quarter ended June 30, 2004, Page 32 – Second Paragraph

In August 2004 Minnesota Power and American Transmission Company entered into a Design and Construction Services Agreement for Transmission Facilities governing Minnesota Power's work on the Minnesota portion of the Duluth-to-Wausau transmission line. Petitions addressing the regulatory jurisdiction over the agreement are currently being drafted. Construction on the transmission line in Minnesota is expected to be completed in 2005.

On September 9, 2004 the MPUC dismissed a complaint that alleged that American Transmission Company is the ultimate beneficiary and owner of the transmission line in Minnesota and is not a jurisdictional utility under Minnesota law, and that American Transmission Company lacks the power of eminent domain and the ability to conduct business in Minnesota. The dismissed complaint alleged that ultimate ownership of the line was not clear and that the technical aspects of the line have changed significantly since the Minnesota Environmental Quality Board approved Minnesota Power's exemption request to build the 12 miles of line in Minnesota. The MPUC chose to assert jurisdiction over the issue of the transfer of ownership of the Minnesota portion of the line to American Transmission Company and directed Minnesota Power to make a filing that either requests MPUC approval under state regulations or identifies why such approval is not required.

ITEM 6. EXHIBITS

Exhibit Number	
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, effective 12:00 p.m. Eastern Time on September 20, 2004 (filed as Exhibit 3 to the September 21, 2004 Form 8-K, File No. 1-3548).
4(a)	Twenty-third Supplemental Indenture, dated as of August 1, 2004, between ALLETE and The Bank of New York and Douglas J. MacInnes, as Trustees.
4(b)	Indenture of Trust, dated as of August 1, 2004, between the City of Cohasset, Minnesota and U.S. Bank National Association, as Trustee relating to $111 Million Collateralized Pollution Control Refunding Revenue Bonds.
4(c)	Loan Agreement, dated as of August 1, 2004, between the City of Cohasset, Minnesota and ALLETE relating to $111 Million Collateralized Pollution Control Refunding Revenue Bonds.
4(d)	Certificate of Adjustment to the Rights Agreement as amended, dated as of July 24, 1996, between Minnesota Power & Light Company (now ALLETE) and the Corporate Secretary of the Company, as Rights Agent.
+10(a)	ALLETE Director Compensation Trust Agreement, effective October 11, 2004.
31(a)	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Section 1350 Certification of Periodic Report by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ *Management contract or compensatory plan or arrangement.*

SIGNATURES

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

ALLETE, Inc.

November 4, 2004

/s/ James K. Vizanko
James K. Vizanko
Senior Vice President and Chief Financial Officer

November 4, 2004

/s/ Mark A. Schober
Mark A. Schober
Senior Vice President and Controller

EXHIBIT INDEX

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ALLETE, Inc.

(formerly Minnesota Power & Light Company and formerly Minnesota Power, Inc.)

TO

THE BANK OF NEW YORK

(formerly Irving Trust Company)

AND

DOUGLAS J. MACINNES

(successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May, J. A. Vaughan and W. T. Cunningham)

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

Twenty-third Supplemental Indenture

Providing among other things for

First Mortgage Bonds, Pollution Control Series F

(Twenty-ninth Series)

Dated as of August 1, 2004

TWENTY-THIRD SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of August 1, 2004, by and between ALLETE, INC. (formerly Minnesota Power & Light Company and formerly Minnesota Power, Inc.), a corporation of the State of Minnesota, whose post office address is 30 West Superior Street, Duluth, Minnesota 55802 (hereinafter sometimes called the "Company"), and THE BANK OF NEW YORK (formerly Irving Trust Company), a corporation of the State of New York, whose post office address is 101 Barclay Street, New York, New York 10286 (hereinafter sometimes called the "Corporate Trustee"), and DOUGLAS J. MACINNES (successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May, J. A. Vaughan and W. T. Cunningham), whose post office address is 1784 W. McGalliard Avenue, Hamilton, New Jersey 08610 (said Douglas J. MacInnes being hereinafter sometimes called the "Co-Trustee" and the Corporate Trustee and the Co-Trustee being hereinafter together sometimes called the "Trustees"), as Trustees under the Mortgage and Deed of Trust, dated as of September 1, 1945, between the Company and Irving Trust Company and Richard H. West, as Trustees, securing bonds issued and to be issued as provided therein (hereinafter sometimes called the "Mortgage"), reference to which mortgage is hereby made, this indenture (hereinafter sometimes called the "Twenty-third Supplemental Indenture") being supplemental thereto:

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

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

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

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

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

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

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

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

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

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

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

Designation	**Dated as of**
First Supplemental Indenture	March 1, 1949
Second Supplemental Indenture	July 1, 1951
Third Supplemental Indenture	March 1, 1957
Fourth Supplemental Indenture	January 1, 1968
Fifth Supplemental Indenture	April 1, 1971
Sixth Supplemental Indenture	August 1, 1975
Seventh Supplemental Indenture	September 1, 1976
Eighth Supplemental Indenture	September 1, 1977
Ninth Supplemental Indenture	April 1, 1978
Tenth Supplemental Indenture	August 1, 1978
Eleventh Supplemental Indenture	December 1, 1982
Twelfth Supplemental Indenture	April 1, 1987
Thirteenth Supplemental Indenture	March 1, 1992
Fourteenth Supplemental Indenture	June 1, 1992
Fifteenth Supplemental Indenture	July 1, 1992
Sixteenth Supplemental Indenture	July 1, 1992
Seventeenth Supplemental Indenture	February 1, 1993
Eighteenth Supplemental Indenture	July 1, 1993
Nineteenth Supplemental Indenture	February 1, 1997
Twentieth Supplemental Indenture	November 1, 1997
Twenty-First Supplemental Indenture	October 1, 2000
Twenty-Second Supplemental Indenture	July 1, 2003

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

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

Series	Principal Amount Issued	Principal Amount Outstanding
3-1/8% Series due 1975	$ 26,000,000	None
3-1/8% Series due 1979	4,000,000	None
3-5/8% Series due 1981	10,000,000	None
4-3/4% Series due 1987	12,000,000	None
6-1/2% Series due 1998	18,000,000	None
8-1/8% Series due 2001	23,000,000	None
10-1/2% Series due 2005	35,000,000	None
8.70% Series due 2006	35,000,000	None
8.35% Series due 2007	50,000,000	None
9-1/4% Series due 2008	50,000,000	None
Pollution Control Series A	111,000,000	None
Industrial Development Series A	2,500,000	None
Industrial Development Series B	1,800,000	None
Industrial Development Series C	1,150,000	None
Pollution Control Series B	13,500,000	None
Pollution Control Series C	2,000,000	None
Pollution Control Series D	3,600,000	None
7-3/4% Series due 1994	55,000,000	None
7-3/8% Series due March 1, 1997	60,000,000	None
7-3/4% Series due June 1, 2007	55,000,000	None
7-1/2% Series due August 1, 2007	35,000,000	$35,000,000
Pollution Control Series E	111,000,000	111,000,000
7% Series due March 1, 2008	50,000,000	50,000,000
6-1/4% Series due July 1, 2003	25,000,000	None
7% Series due February 15, 2007	60,000,000	60,000,000
6.68% Series due November 15, 2007	20,000,000	20,000,000
Floating Rate First Mortgage Bonds due October 20, 2003	250,000,000	None
Collateral Series A	255,000,000	None

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

WHEREAS, Section 8 of the Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder and of coupons to be attached to coupon bonds of such series shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not

inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such bonds are to be issued and/or secured under the Mortgage; and

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

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

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

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That the Company, in consideration of the premises and of One Dollar to it duly paid by the Trustees at or before the ensealing and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustees and in order further to secure the payment of both the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, as heretofore supplemented, according to their tenor and effect and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances) unto THE BANK OF NEW YORK and DOUGLAS J. MACINNES, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all property, real, personal and mixed, of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind or nature acquired by the Company after the date of the execution and delivery of the Mortgage, as heretofore supplemented (except any herein or in the Mortgage, as heretofore supplemented,

expressly excepted), now owned or, subject to the provisions of subsection (I) of Section 87 of the Mortgage, hereafter acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Twenty-third Supplemental Indenture) all lands, power sites, flowage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants for the generation of electricity by steam, water and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water works, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, electric, gas and other machines, regulators, meters, transformers, generators, motors, electrical, gas and mechanical appliances, conduits, cables, water, steam heat, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture and chattels; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of electric current, gas, steam heat or water for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

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

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

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

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

IN TRUST NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as supplemented, this Twenty-third Supplemental Indenture being supplemental thereto.

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

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

ARTICLE I
Twenty-ninth Series of Bonds

SECTION 1. (I) There shall be a series of bonds designated "Pollution Control Series F" (herein sometimes referred to as the "Twenty-ninth Series"), each of which shall bear the descriptive title "First Mortgage Bond", and the form thereof, established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Twenty-ninth Series shall be dated as in Section 10 of the Mortgage provided, mature on the maturity date of the Cohasset Bonds (as defined herein) or upon earlier acceleration or redemption, issued as fully registered bonds in denominations of Five Thousand Dollars and, at the option of the Company, in any multiple or multiples of Five Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and shall bear interest from August 19, 2004, at the rate borne by the Cohasset Bonds, payable when interest on the Cohasset Bonds is payable, the principal and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

(II) The bonds of the Twenty-ninth Series shall be authenticated and delivered from time to time, upon the request of the Company to the Corporate Trustee, to, and registered in the name of, the trustee under the Indenture of Trust, dated as of August 1, 2004 (herein called the "Cohasset Indenture") of the City of Cohasset, Minnesota (the "City"), in order to evidence the obligation of the Company to repay amounts borrowed in connection with the sale of the bonds from time to time issued under the Cohasset Indenture (herein called the "Cohasset Bonds") pursuant to the Loan Agreement, dated as of August 19, 2004, between the City and the Company (hereinafter called the "Loan Agreement"), together with interest thereon. Such request of the Company shall specify the terms and principal amount of the bonds of the Twenty-ninth Series to be authenticated and delivered pursuant to such request and be accompanied by such certificates, opinions and other documents required under the Mortgage.

The Company shall receive a credit against its obligation to make any payment of the principal of or interest on the bonds of this series, whether at maturity, upon redemption or otherwise, in an amount equal to, and such obligation shall be fully or partially, as the case may be, satisfied and discharged to the extent of, the amount, if any, credited pursuant to the Cohasset Indenture against the payment required to be made by or for the account of the City in respect of the corresponding payment of the principal of or interest on the Cohasset Bonds.

The Corporate Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the bonds of the Twenty-ninth Series as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the trustee under the Cohasset Indenture, signed by its

President, a Vice President or a Trust Officer, stating that the corresponding payment of principal of or interest on the Cohasset Bonds has become due and payable and has not been fully paid and specifying the amount of funds required to make such payment.

(III) If an Event of Default described in Section 701(a) or (b) of the Cohasset Indenture shall have occurred, in determining whether or not any payment of the principal of or interest on the bonds of the Twenty-ninth Series shall have been made in full, moneys received by the trustee under the Cohasset Indenture from the Company shall, to the extent of the amount remaining to be paid by the Company pursuant to subsection (e) of Section 3.02 of the Loan Agreement be deemed to have been paid under said subsection (e) and not to have been paid on the bonds of the Twenty-ninth Series.

The Corporate Trustee may conclusively presume that no Event of Default described in Section 701(a) or (b) of the Cohasset Indenture shall have occurred unless and until it shall have received a written notice from the trustee under the Cohasset Indenture, signed by its President, a Vice President or a Trust Officer stating that such an event has occurred.

(IV) From time to time, pursuant to Section 5.04 of the Loan Agreement, the Company may amend the terms of the bonds of the Twenty-ninth Series in order to evidence the amended obligation of the Company under the Loan Agreement. Upon receipt of a Company request specifying the amended terms of the bonds of the Twenty-ninth Series and requesting the authentication and delivery of amended certificates for such bonds, together with a written notice signed by an officer of the trustee under the Cohasset Indenture confirming that such amended terms comply with the requirements of Section 5.04 of the Loan Agreement, the Trustee shall authenticate and deliver such amended certificates to the trustee under the Cohasset Indenture. Upon such delivery of the amended certificates, the certificates for the corresponding bonds of the Twenty-ninth Series previously held by the trustee under the Cohasset Indenture shall be deemed superceded by the amended certificates and shall thereafter be deemed obsolete, null and void. The obsolete certificates need not be delivered to the Trustee prior to the delivery of the amended certificates, but shall be cancelled or destroyed if and when surrendered by the trustee under the Cohasset Indenture.

(V) On the date that any of the Cohasset Bonds or the Additional Cohasset Bonds are required to be redeemed pursuant to Section 301(c) of the Cohasset Indenture, an equal principal amount of bonds of the Twenty-ninth Series shall be redeemed at such principal amount plus accrued interest to such redemption date.

The Corporate Trustee may conclusively presume that no event shall have occurred which would require the Company to redeem bonds of the Twenty-ninth Series pursuant to this Section (V) unless and until it shall have received a written notice from the trustee under the Cohasset Indenture, signed by its President, a Vice President or a Trust Officer, stating that such an event shall have occurred, specifying the date thereof and describing such event in reasonable detail.

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

Bonds of the Twenty-ninth Series shall not be transferable except to any successor trustee under the Cohasset Indenture, any such transfer to be made (subject to the provisions of Section 12 of the Mortgage) at the office or agency of the Company in the Borough of Manhattan, The City of New York.

The Company hereby waives any right to make a charge for any exchange or transfer of bonds of the Twenty-ninth Series.

Upon the delivery of this Twenty-third Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage, there shall be an initial issue of bonds of the Twenty-ninth Series for the aggregate principal amount of $111,000,000.

ARTICLE II
Miscellaneous Provisions

SECTION 2. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words "and July 1, 2022" after the words "July 16, 2004."

SECTION 3. Subject to the amendments provided for in this Twenty-third Supplemental Indenture, the terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Twenty-third Supplemental Indenture, have the meanings specified in the Mortgage, as heretofore supplemented.

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

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

SECTION 5. Whenever in this Twenty-third Supplemental Indenture any party hereto is named or referred to, this shall, subject to the provisions of Articles XVI and XVII of the

Mortgage, as heretofore supplemented, be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Twenty-third Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustees shall, subject as aforesaid, bind and inure to the benefit of the respective successors and assigns of such party whether so expressed or not.

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

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

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

IN WITNESS WHEREOF, ALLETE, Inc. has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, and The Bank of New York has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by one of its Vice Presidents or one of its Assistant Vice Presidents and its corporate seal to be attested by one of its Assistant Treasurers, one of its Vice Presidents or one of its Assistant Vice Presidents, and Douglas J. MacInnes has hereunto set his hand and affixed his seal, all in The City of New York, as of the day and year first above written.

ALLETE, INC.

By /s/ James K. Vizanko
James K. Vizanko
Senior Vice President and Chief
Financial Officer

Attest:

/s/ Deborah A. Amberg
Deborah A. Amberg
Vice President, General Counsel
and Secretary

Executed, sealed and delivered by ALLETE, Inc.
in the presence of:

/s/ Dawn LaPointe

/s/ Marsha Jones

THE BANK OF NEW YORK,
as Corporate Trustee

By /s/ M. Ryan
Ming Ryan
Vice President

Attest:

By /s/ J. Salovitch-Miller
Julie Salovitch-Miller
Vice President

Executed, sealed and delivered by THE BANK OF NEW YORK and DOUGLAS J. MACINNES in the presence of:

/s/ Kisha Holder
Kisha Holder

/s/ S. Poindexter
Stacey Poindexter

/s/ Douglas J. MacInnes

DOUGLAS J. MACINNES

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

On this 11th day of August, 2004, before me, a Notary Public within and for said County, personally appeared JAMES K. VIZANKO and DEBORAH A. AMBERG, to me personally known, who, being each by me duly sworn, did say that they are respectively the Senior Vice President and Chief Financial Officer and the Vice President, General Counsel and Secretary of ALLETE, INC. of the State of Minnesota, the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said JAMES K. VIZANKO and DEBORAH A. AMBERG acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 11th day of August, 2004, JAMES K. VIZANKO, to me known to be the Senior Vice President and Chief Financial Officer, and DEBORAH A. AMBERG, to me known to be the Vice President, General Counsel and Secretary of the above named ALLETE, INC., the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are respectively the Senior Vice President and Chief Financial Officer and the Vice President, General Counsel and Secretary of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors and stockholders, and said JAMES K. VIZANKO and DEBORAH A. AMBERG then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 11th day of August, 2004, before me personally came JAMES K. VIZANKO and DEBORAH A. AMBERG, to me known, who, being by me duly sworn, did depose and say that they respectively reside at 1340 Mississippi Avenue, Duluth, Minnesota, and 1923 West Kent Road, Duluth, Minnesota; that they are respectively the Vice President and Chief Financial Officer and the Vice President, General Counsel and Secretary of ALLETE, INC., one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

GIVEN under my hand and notarial seal this 11th day of August, 2004.

/s/ Jodi M. Nash

JODI M. NASH
NOTARY PUBLIC – MINNESOTA
My Commission Expires Jan. 31, 2005

[NOTARY SEAL]

STATE OF NEW YORK)
) SS:
COUNTY OF NEW YORK)

On this 17th day of August, 2004, before me, a Notary Public within and for said County, personally appeared Ming Ryan and Julie Salovitch-Miller, to me personally known, who, being each by me duly sworn, did say that they are each a Vice President of THE BANK OF NEW YORK of the State of New York, the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said Ming Ryan and Julie Salovitch-Miller acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 17th day of August, 2004, Ming Ryan, to me known to be a Vice President, and Julie Salovitch-Miller, known to me to be a Vice President, of the above named THE BANK OF NEW YORK, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are each a Vice President of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said Ming Ryan and Julie Salovitch-Miller then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 17th day of August, 2004, before me personally came Ming Ryan and Julie Salovitch-Miller, to me known, who, being by me duly sworn, did depose and say that they respectively reside at 33 Hudson Street, Jersey City, NJ 07302, and 19 Thoreau Drive, Manalapan, NJ 07726; that they are each a Vice President of THE BANK OF NEW YORK, one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

GIVEN under my hand and notarial seal this 17th day of August, 2004.

/s/ Robert Hirsh
Robert Hirsch
Notary Public State of New York
No. 01H16076679
Qualified in Rockland County
Commission Expires July 1, 2006

STATE OF NEW YORK)
) SS:
COUNTY OF NEW YORK)

On this 17th day of August, 2004, before me personally appeared DOUGLAS J. MACINNES, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

Personally came before me this 17th day of August, 2004, the above named DOUGLAS J. MACINNES, to me known to be the person who executed the foregoing instrument, and acknowledged the same.

On the 17th day of August, 2004, before me personally came DOUGLAS J. MACINNES, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same.

GIVEN under my hand and notarial seal this 17th day of August, 2004.

/s/ Robert Hirsh
Robert Hirsch
Notary Public State of New York
No. 01H16076679
Qualified in Rockland County
Commission Expires July 1, 2006

This instrument was drafted by ALLETE, Inc., 30 West Superior Street, Duluth, Minnesota 55802.

Exhibit 4(b)

INDENTURE OF TRUST

between

CITY OF COHASSET, MINNESOTA

and

U.S. BANK NATIONAL ASSOCIATION,

as Trustee

Dated as of August 1, 2004

$111,000,000 Collateralized Pollution Control Refunding Revenue Bonds
(ALLETE, Inc. Project), Series 2004

INDENTURE OF TRUST

TABLE OF CONTENTS

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

INDENTURE OF TRUST

This INDENTURE OF TRUST, dated as of August 1, 2004 (the "Indenture"), between the CITY OF COHASSET, MINNESOTA, a municipal corporation organized and existing under the laws of the State of Minnesota (the "Issuer"), and U.S. Bank National Association, a national banking association duly organized and existing and authorized to accept and execute trusts of the character herein set out under the laws of the United States, and having its principal corporate trust office located in St. Paul, Minnesota, as trustee (the "Trustee").

W I T N E S S E T H:

WHEREAS, the Issuer is authorized and empowered under Minnesota Statutes, Sections 469.152 to 469.165, as amended (as hereinafter defined, the "Act"), to issue revenue bonds to finance, in whole or in part, the cost of the acquisition, construction, reconstruction, improvement, betterment or extension of, and to acquire, construct and hold, properties, real or personal, used or useful in a revenue-producing enterprise or in the abatement or control of air or water pollution in connection with a revenue-producing enterprise engaged in business, and to refund revenue bonds previously issued under the Act; and

WHEREAS, under the provisions of the Act and at the request of ALLETE, Inc., a Minnesota corporation (hereinafter called the "Company"), the City of Bass Brook, Minnesota (the predecessor to the Issuer) previously issued $111,000,000 aggregate principal amount of its 6% Collateralized Pollution Control Revenue Bonds (Minnesota Power & Light Company Project), Series 1992 (hereinafter called the "Refunded Bonds"), the proceeds from the sale of which were used for the purpose of refinancing a portion of the costs of the acquisition, construction and equipping of certain pollution control facilities at units 1, 2 and 4 of the Clay Boswell steam electric generating station owned in part by the Company and located in the City of Cohasset, Minnesota; and

WHEREAS, under the provisions of the Act and at the request of the Company, the Issuer has duly authorized the issuance and sale of its Collateralized Pollution Control Refunding Revenue Bonds (ALLETE, Inc. Project), Series 2004 (the "Series 2004 Bonds"), issuable under and upon the terms of this Indenture, the proceeds from the sale of which will be loaned by the Issuer to the Company for the purpose of refunding the Refunded Bonds; and

WHEREAS, all things have been done that are necessary to make the Bonds, when executed by the Issuer and authenticated and delivered hereunder, the valid special, limited obligations of the Issuer, and to constitute this Indenture a valid contract for the security of the Bonds, in accordance with their and its terms.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

The Issuer, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Series 2004 Bonds and any Additional Bonds (as hereinafter defined) (collectively, the "Bonds") by the Owners (as hereinafter defined) thereof, in order to secure the payment of the principal of, premium, if any, and interest on the Bonds according to their tenor and effect and the performance and observance by the Issuer of all of its covenants expressed or implied herein and in the Bonds, does hereby

pledge, and convey, assign and grant to the Trustee a security interest in, the property described in paragraphs (a), (b) and (c) below (said property referred to herein as the "Trust Estate"):

(a) all rights, title and interest of the Issuer (including, but not limited to, the right to enforce any of the terms thereof) in, to and under (1) the Loan Agreement, including all Receipts and Revenues of the Issuer from the Loan Agreement and all other payments owing to the Issuer and paid by the Company under the Loan Agreement (except the Issuer's rights to payment of its fees and expenses and to indemnification as set forth in the Loan Agreement and as otherwise expressly set forth therein), including without limitation its rights to delivery of the First Mortgage Bonds issued and delivered by the Company, and (2) all financing statements or other instruments or documents evidencing, securing or otherwise relating to the loan of the proceeds of the Bonds; and

(b) the money and investments from time to time held by or on behalf of the Trustee in the funds and accounts under the terms of this Indenture (provided that any moneys or obligations deposited with or paid to the Trustee for the redemption or payment of Bonds which are deemed to have been paid in accordance with Article V hereof shall not constitute a part of the Trust Estate but will be held for and applied only to the payment of such Bonds); and

(c) any and all other property (real, personal or mixed) of every kind and nature from time to time, by delivery or by writing of any kind, pledged, assigned or transferred as and for additional security under this Indenture by the Issuer or by anyone in its behalf or with its written consent, to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

TO HAVE AND TO HOLD all the same to the Trustee and its successors and assigns forever;

BUT IN TRUST, NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all Owners of the Bonds issued under and secured by this Indenture, without privilege, priority or distinction as to lien or otherwise of any of the Bonds over any of the others except as otherwise expressly provided herein.

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns, shall well and truly pay or cause to be paid the principal of the Bonds and the premium, if any, and interest due or to become due thereon, at the times and in the manner mentioned in the Bonds, according to the true intent and meaning thereof, or shall provide, as permitted hereby, for the payment thereof by depositing with the Trustee sums sufficient to pay the entire amount due or to become due thereon, and shall well and truly keep, perform, and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it and shall pay to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof; then upon such final payment this Indenture and the rights hereby granted shall cease, terminate, and become null and void; otherwise this Indenture to be and remain in full force and effect.

ARTICLE I

DEFINITIONS, RULES OF CONSTRUCTION

Section 101 Definitions of Words and Terms. All words and phrases defined in the preambles of this Indenture shall have the same meaning in this Indenture, except as otherwise appears in this Section. In addition, the following terms shall have the following meanings, unless the context otherwise requires:

"Act" means Minnesota Statutes, Sections 469.152 to 469.165, as amended, and all acts supplemental thereto or amendatory thereof.

"Additional Bonds" means any Bonds issued under this Indenture, other than the Series 2004 Bonds.

"Affiliate" means any Person which "controls," or is "controlled" by, or is under common "control" with, the Company. For purposes of this definition, a Person "controls" another Person when the first Person possesses or exercises directly, or indirectly through one or more other affiliates or related entities, the power to direct the management and policies of the other Person, whether through the ownership of voting rights, membership, the power to appoint members, trustees or directors, by contract, or otherwise.

"Authorized Denominations" means, in respect of a series of Bonds, denominations of $5,000 or any integral multiple thereof.

"Book-Entry System" means, in respect of a series of Bonds, the global book-entry system used by a Securities Depository appointed pursuant to Section 203 hereof to effect the transfer of beneficial ownership interests in such Bonds.

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

"Bond Fund" means the fund by that name created by Section 401 of this Indenture.

"Bondowner" means the Owner of a Bond.

"Bonds" means the Series 2004 Bonds and any Additional Bonds.

"Business Day" means a day other than (a) a Saturday, Sunday or legal holiday, and (b) a day on which banks located in any city in which the principal corporate trust office of the Trustee or the principal office of any Paying Agent is located are required or authorized by law to remain closed.

"Cede & Co." means Cede & Co., as nominee of The Depository Trust Company, New York, New York.

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

"Company" means ALLETE, Inc., a Minnesota corporation, and its permitted successors and assigns under the Loan Agreement.

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

"Costs of Issuance" means "issuance costs" with respect to Bonds described in Section 147(g) of the Code and any regulations thereunder, including but not limited to the following:

(a) underwriters' compensation (whether realized directly or derived through purchase of Bonds at a discount below the price at which they are expected to be sold to the public);

(b) counsel fees (including bond counsel, underwriters' counsel, Issuer's counsel, as well as any other specialized counsel fees incurred in connection with the borrowing);

(c) financial advisor fees of any financial advisor to the Issuer incurred in connection with the issuance of such Bonds;

(d) rating agency fees;

(e) trustee, escrow agent and paying agent fees;

(f) accountant fees and other expenses related to issuance of such Bonds;

(g) printing costs (for such Bonds and of the preliminary and final Official Statement relating to such Bonds); and

(h) fees and expenses of the Issuer incurred in connection with the issuance of such Bonds.

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

"Defeasance Obligations" means:

(a) Government Obligations which are not subject to redemption prior to maturity;

(b) obligations of any state or political subdivision of any state, the interest on which is excluded from gross income for federal income tax purposes and which meet the following conditions:

(1) the obligations (A) are not subject to redemption prior to maturity or (B) the trustee for such obligations has been given irrevocable instructions concerning their calling and redemption and the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;

(2) the obligations are secured by cash or noncallable Government Obligations that may be applied only to payment of principal of, premium, if any, and interest payments on such obligations;

(3) the sufficiency of such cash and noncallable Government Obligations to pay in full all principal of, interest, and premium, if any, on such obligations has been verified by the report of an independent certified public accountant (a "Verification") and no substitution of Government Obligations shall be permitted except with cash or other Government Obligations and upon delivery of a new Verification;

(4) such cash and Government Obligations serving as security for the obligations are held in an irrevocable escrow by an escrow agent or a trustee in trust for the owners of such obligations, at least one year has passed since the establishment of such escrow and the issuer of such obligations is not, and has not been since the establishment of such escrow, a debtor in a proceeding commenced under the United States Bankruptcy Code;

(5) the Trustee has received an Opinion of Counsel that such cash and Government Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent;

(6) the Trustee has received an Opinion of Bond Counsel delivered in connection with the original issuance of such obligations to the effect that the interest on such obligations was exempt for purposes of federal income taxation, and the Trustee has received an Opinion of Bond Counsel delivered in connection with the establishment of the irrevocable escrow to the effect that the establishment of the escrow will not result in the loss of any exemption for purposes of federal income taxation to which interest on such obligations would otherwise be entitled;

(7) the Trustee has received an unqualified opinion of nationally recognized bankruptcy counsel to the effect that the payment of principal of and

interest on such obligations made from such escrow would not be avoidable as preferential payments and recoverable under the United States Bankruptcy Code should the obligor or any other person liable on such obligations become a debtor in a proceeding commenced under the United States Bankruptcy Code; and

(8) the obligations are rated in the highest rating category by a nationally recognized securities rating service; or

(c) obligations (including participation certificates) issued or guaranteed by an agency of the United States of America or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, including but not limited to those of the Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, the Farm Credit System and Federal National Mortgage Association.

"Determination of Taxability," when used with respect to a series of Bonds, means a final, nonappealable determination by the Internal Revenue Service or by a court of competent jurisdiction in the United States that, as a result of failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Loan Agreement or as a result of the inaccuracy of any representation or agreement made by the Company under the Loan Agreement, the interest payable on Bonds of the series is includable for federal income tax purposes in the gross income of the owners thereof (other than an owner who is a "substantial user" of the projects refinanced thereby or a "related person" thereto within the meaning of Section 103(b)(13) of the 1954 Code), which final determination follows proceedings of which the Company has been given written notice and in which the Company, at its sole expense and to the extent deemed sufficient by the Company, has been given an opportunity to participate, either directly or in the name of the owners of Bonds of the series.

"Electronic Notice" means notice transmitted through a time-sharing terminal or facsimile machine, if operative as between any two parties, or if not operative, in writing or by telephone (promptly confirmed in writing).

"Event of Default" has the meaning given such term in Section 701 hereof.

"Facilities" means the Refinanced Pollution Control Facilities, as now existing or hereafter improved, which are described generally in Exhibit A to the Loan Agreement.

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

"First Mortgage Bonds" means the first mortgage bonds issued and delivered under the First Mortgage as required by Section 3.02 of the Loan Agreement.

"First Mortgage Trustee" means the corporate trustee under the First Mortgage, its successors in trust and their assigns.

"Government Obligations" means the following:

(a) bonds, notes, certificates of indebtedness, treasury bills or other securities constituting direct obligations of, or obligations the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America; and

(b) evidences of direct ownership of a proportionate or individual interest in future interest or principal payments on specified direct obligations of, or obligations the payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian.

"Indenture" means this Indenture of Trust as originally executed by the Issuer and the Trustee, as from time to time amended and supplemented by Supplemental Indentures in accordance with the provisions of this Indenture.

"Interest Payment Date" means each January 1 and July 1.

"Issuer" means the City of Cohasset, Minnesota, and any successors to its functions hereunder.

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

"Loan" means the loan of the proceeds of the Bonds made by the Issuer to the Company pursuant to the Loan Agreement.

"Loan Agreement" means the Loan Agreement, of even date herewith, between the Issuer and the Company, as from time to time amended or supplemented by Supplemental Loan Agreements in accordance with the provisions of Article X hereof.

"Loan Payments" means the payments of principal of and interest on the Loan referred to in Section 3.02 of the Loan Agreement.

"1954 Code" means the Internal Revenue Code of 1954, as amended, and, when appropriate, any statutory predecessor thereto, and all applicable regulations thereunder and any applicable official rulings, announcements, notices, procedures and judicial determinations relating to the foregoing.

"Opinion of Bond Counsel" means a written opinion of Bond Counsel.

"Opinion of Counsel" means a written opinion of Counsel.

"Original Purchaser" means, in respect of a series of Bonds, the Person who purchases Bonds of the series from the Issuer.

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

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

(b) Bonds for whose payment or redemption money or Defeasance Obligations in the necessary amount have been deposited with the Trustee or any Paying Agent in trust for the owners of such Bonds as provided in Section 501 of this Indenture, provided that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

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

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

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

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

"Participants" means those financial institutions for whom the Securities Depository effects book-entry transfers and pledges of securities deposited with the Securities Depository, as such listing of Participants exists at the time of such reference.

"Paying Agent" means the Trustee and any other commercial bank or trust institution organized under the laws of any state of the United States of America or any national banking association designated pursuant to this Indenture or any Supplemental Indenture as paying agent for any Bonds at which the principal of, redemption premium, if any, and interest on such Bonds shall be payable.

"Permitted Investments" means, if and to the extent the same are at the time legal for investment of funds held under this Indenture:

(a) Government Obligations;

(b) bonds, notes or other obligations of any state of the United States or any political subdivision of any state, which at the time of their purchase are rated in either of the two highest rating categories by a Rating Service;

(c) certificates of deposit or time or demand deposits constituting direct obligations of any bank, bank holding company, savings and loan association, trust company or other financial institution, except that investments may be made only in certificates of deposit or time or demand deposits which are:

(1) Insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation, or any other similar United States Government deposit insurance program then in existence; or

(2) Continuously and fully secured by securities described in paragraph (a) above, which have a market value, exclusive of accrued interest, at all times at least equal to the principal amount of such certificates of deposit or time or demand deposits; or

(3) Issued by a bank, bank holding company, savings and loan association, trust company or other financial institution whose outstanding unsecured long-term debt is rated at the time of issuance in either of the two highest rating categories by a Rating Service;

(d) repurchase agreements with any bank, bank holding company, savings and loan association, trust company or other financial institution organized under the laws of the United States or any state, that are continuously and fully secured by any one or more of the securities described in paragraph (a) above and which have a market value, exclusive of accrued interest, at all times at least equal to the principal amount of such repurchase agreements, provided that each such repurchase agreement conforms to current industry standards as to form and time, is in commercially reasonable form, is for a commercially reasonable period, results in transfer of legal title to identified Government Obligations which are segregated in a custodial or trust account for the benefit of the Trustee, and further provided that Government Obligations acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value thereof or the repurchase price thereof set forth in the applicable repurchase agreement;

(e) investment agreements constituting an obligation of a bank, bank holding company, savings and loan association, trust company, insurance company, financial institution or other credit provider whose outstanding unsecured long-term debt is rated at the time of such agreement in either of the two highest rating categories by a Rating Service;

(f) short term discount obligations of the Federal National Mortgage Association and the Government National Mortgage Association; and

(g) money market mutual funds that are registered with the federal Securities and Exchange Commission, meeting the requirements of Rule 2a-7 under the Investment

Company Act of 1940 and that are rated in either of the two highest categories by a Rating Service, including mutual funds from which the Trustee or its affiliates receive fees for investment advisory or other services to the fund.

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

"Plant" means the Clay Boswell steam electric generating station located in the City of Cohasset, Minnesota, and owned in part by the Company.

"Rating Service" means each of Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc., and Moody's Investor's Service, Inc., if a series of Bonds is rated by such rating service at the time, or any other nationally recognized securities rating service acceptable to the Company that maintains a rating on any of the Bonds.

"Receipts and Revenues of the Issuer from the Loan Agreement" means all moneys paid or payable to the Trustee for the account of the Issuer by the Company in respect of the principal of and interest on the First Mortgage Bonds, or pursuant to Section 3.02(e) or 8.01 of the Loan Agreement, and all receipts of the Trustee credited under the provisions of this Indenture against such payments.

"Redemption Fund" means the fund by that name created by Section 401 hereof.

"Refunded Bonds" means the 6% Collateralized Pollution Control Refunding Revenue Bonds (Minnesota Power & Light Company Project), Series 1992, issued by the City of Bass Brook, Minnesota (the predecessor in interest to the Issuer) in the original principal amount of $111,000,000.

"Regular Record Date" means the close of business on the 15th day (whether or not a Business Day) of the calendar month immediately preceding the Interest Payment Date.

"Related Party" means any Person which is a member of the same controlled group with, or a related person to, the Issuer, within the meaning of Section 1.150-1 of the Treasury Regulations.

"Replacement Bonds" means Bonds issued to the beneficial owners of such Bonds in accordance with Section 203 hereof.

"Securities Depository" means for any series of Bonds, The Depository Trust Company, New York, New York, and its successors and assigns, or any successor securities depository appointed pursuant to Section 203 hereof.

"Series 2004 Bonds" means any bond or bonds of the series of Collateralized Pollution Control Refunding Revenue Bonds (ALLETE, Inc. Project), Series 2004, aggregating the principal amount of $111,000,000, to be issued, authenticated and delivered under and pursuant to this Indenture.

"Sinking Fund Payment Date" means one of the dates set forth in any applicable provision of a Supplemental Indenture for the making of mandatory principal redemptions with respect to the Bonds.

"Special Record Date" means, with respect to any Bond, the date established by the Trustee in connection with the payment of overdue interest on such Bond pursuant to Section 204 hereof.

"State" means the State of Minnesota.

"Stated Maturity" when used with respect to any Bond or any installment of interest thereon means the date specified in such Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

"Supplemental Indenture" means any indenture supplemental or amendatory to this Indenture entered into by the Issuer and the Trustee pursuant to Article IX of this Indenture.

"Supplemental Loan Agreement" means any agreement supplemental or amendatory to the Loan Agreement entered into by the Issuer and the Company pursuant to Article X hereof.

"Tax Compliance Certificate" means a No Arbitrage Certificate of the Company, executed upon the issuance of a series of Bonds hereunder, as such may be amended or supplemented from time to time in accordance with the provisions thereof.

"Transaction Documents" means this Indenture, the Bonds, the Loan Agreement, the Tax Compliance Certificate, the First Mortgage Bonds and those certificates given by the Issuer, the Company and the Trustee in connection with the issuance of the Bonds, including any and all amendments or supplements to any of the foregoing; provided, however, that when the words "Transaction Documents" are used in the context of the authorization, execution, delivery, approval or performance of Transaction Documents by a particular party, the same shall mean only those Transaction Documents that provide for or contemplate authorization, execution, delivery, approval or performance by such party.

"Trustee" means U.S. Bank National Association, and its successor or successors and any other corporation or association which at any time may be substituted in its place pursuant to and at the time serving as trustee under this Indenture.

"Trust Estate" means the revenues, money, investments, contract rights, general intangibles, and instruments and proceeds, products and accessions thereof as set forth in the Granting Clauses of this Indenture, and such other collateral, security and guarantees as shall from time to time be pledged to the Trustee by the Issuer as security for its obligations under the Bonds.

"United States Bankruptcy Code" means the United States Bankruptcy Reform Act of 1978, as amended from time to time, or any substitute or replacement legislation.

Section 102 Rules of Construction. For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires, the following rules of construction apply in construing the provisions of this Indenture:

(a) The terms defined in this Article include the plural as well as the singular.

(b) All accounting terms not otherwise defined herein shall have the meanings assigned to them, and all computations herein provided for shall be made, in accordance with generally accepted accounting principles to the extent applicable. The term "generally accepted accounting principles" refers to such principles in effect on the date of the determination, certification, computation or other action to be taken hereunder using or involving such terms provided, as applied to any entity that operates a utility or other discrete enterprise of a type with respect to which particular accounting principles from time to time shall have been generally adapted or modified, the term "generally accepted accounting principles" shall include the adaptations or modifications.

(c) All references in this instrument to designated "Articles," "Sections" and other subdivisions are to be the designated Articles, Sections and other subdivisions of this instrument as originally executed.

(d) The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision hereof.

(e) The Article and Section headings herein and in the Table of Contents are for convenience only and shall not affect the construction hereof.

(f) Whenever an item or items are listed after the word "including," such listing is not intended to be a listing that excludes items not listed.

(g) "Or" is not intended to be exclusive, but is intended to permit or encompass one, more or all of the alternatives conjoined.

(h) Any terms not defined herein but defined in the Loan Agreement shall have the meanings herein unless the context clearly requires otherwise.

Section 103 Characteristics of Certificate or Opinion. Every certificate or Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture shall include: (i) a statement that the person or persons making such certificate or opinion have read such covenant or condition and the definitions herein relating thereto; (ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate are based; (iii) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (iv) a statement whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate made or given by an officer of the Issuer may be based, insofar as it relates to legal matters, upon an Opinion of Counsel. Any such Opinion of Counsel may be based, insofar as it relates to factual matters information with respect to which is in the possession of the Issuer or the Company, upon the certificate of an officer or officers of the Issuer or the Company.

ARTICLE II

THE BONDS

Section 201 Authorization of Bonds; Terms of Series 2004 Bonds. (a) No Bonds may be issued under this Indenture except in accordance with the provisions of this Article. The total principal amount of Series 2004 Bonds that may be issued under this Indenture is limited as provided in this Section. Additional Bonds may be issued as provided in Section 202 hereof.

(b) There shall be issued under and secured by this Indenture a series of Bonds designated "Collateralized Pollution Control Refunding Revenue Bonds (ALLETE, Inc. Project), Series 2004," in the aggregate principal amount of $111,000,000, for the purpose of providing funds to make a loan to the Company to be used, with other available funds, to refund the Refunded Bonds.

The aggregate principal amount of the Series 2004 Bonds that may be authenticated and delivered and Outstanding under this Indenture is limited to and shall not exceed $111,000,000.

The Series 2004 Bonds shall be dated the date of their original issuance and delivery, and shall have a Stated Maturity of July 1, 2022, subject to prior redemption as provided in Article III hereof.

(c) The Series 2004 Bonds shall bear interest from their date or from the most recent date to which interest has been paid or duly provided for, at a rate per annum equal to 4.95%, payable on each Interest Payment Date as herein provided, commencing on January 1, 2005, until payment of the principal or redemption price thereof is made or provided for, whether at Stated Maturity, upon redemption, acceleration or otherwise.

The Series 2004 Bonds shall be issuable as fully registered bonds without coupons, in Authorized Denominations, in substantially the form set forth in Exhibit A attached to this Indenture, with such necessary or appropriate variations, omissions and insertions as are permitted or required by this Indenture. The Series 2004 Bonds may have endorsed thereon such legends or text as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or any custom, usage or requirement of law with respect thereto.

The Series 2004 Bonds shall be numbered from R-1 consecutively upward in order of issuance or in such other manner as the Trustee shall designate.

(d) The Series 2004 Bonds may forthwith upon the execution and delivery of this Indenture, or from time to time thereafter, be executed by the proper officers of the Issuer and

delivered to the Trustee for authentication, and shall thereupon be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

(1) A copy, certified by the City Clerk-Treasurer of the Issuer, of the resolution adopted by the Issuer authorizing the issuance of the Series 2004 Bonds and the execution of this Indenture, the Loan Agreement and the other Transaction Documents to which it is a party.

(2) A copy, certified by the Secretary or an Assistant Secretary of the Company, of the resolutions adopted by the Company authorizing the execution and delivery of the Loan Agreement and the other Transaction Documents to which it is a party, and approving this Indenture and the issuance and sale of the Series 2004 Bonds.

(3) An original executed counterpart of this Indenture, the Loan Agreement and the other Transaction Documents.

(4) A request and authorization to the Trustee on behalf of the Issuer, executed by an Issuer Representative, to authenticate and thereafter deliver the Series 2004 Bonds to the Original Purchasers thereof upon payment to the Trustee, for the account of the Issuer, of the purchase price thereof, and directing the Trustee as to the disposition of the proceeds of the Series 2004 Bonds. The Trustee shall be entitled to rely conclusively upon such request and authorization as to the names of the Original Purchasers and the amounts of such purchase price.

(5) An Opinion of Bond Counsel stating in effect and subject to customary assumptions and qualifications, that: (1) all conditions precedent provided in this Indenture relating to the authentication and delivery of the Series 2004 Bonds have been complied with; and (2) the Series 2004 Bonds, when issued and executed by the Issuer and authenticated and delivered by the Trustee, will be the valid and binding special, limited obligations of the Issuer in accordance with their terms and entitled to the benefits of and secured by the lien of this Indenture equally and ratably with all Outstanding Bonds, and will bear interest not includable in gross income for federal income tax purposes of the owners thereof except by reason of Section 103(b)(13) of the 1954 Code.

(6) An original duly executed counterpart or a duly certified copy of the supplemental indenture to the First Mortgage creating the First Mortgage Bonds.

(7) The First Mortgage Bonds.

When the documents specified above have been filed with the Trustee, and when the Series 2004 Bonds shall have been executed and authenticated as required by this Indenture, the Trustee shall deliver such Series 2004 Bonds to or upon the order of the Original Purchasers thereof, but only upon payment to the Trustee of the purchase price of the Series 2004 Bonds.

The proceeds of the sale of the Series 2004 Bonds, including accrued interest and premium thereon, if any, shall be immediately paid over to the Trustee, and the Trustee shall deposit and apply such proceeds as provided in Article IV hereof.

Section 202 Issuance of Additional Bonds. Additional Bonds (in addition to the Series 2004 Bonds) may be authenticated and delivered from time to time for one or more of the following purposes: (i) refunding and prepaying any Outstanding Bonds; (ii) refinancing any Outstanding Bonds as provided for in Section 5.04 of the Loan Agreement; (iii) financing the acquisition, construction, equipping or improvement of any property of the Company, including funds to capitalize interest during construction, (iv) refinancing the acquisition, construction, equipping or improvement of any property of the Company through the refunding of outstanding revenue bonds issued by a state or political subdivision or other indebtedness incurred by the Company, and (v) to pay expenses of the issuance of such Additional Bonds.

Additional Bonds may at any time and from time to time be executed by the Issuer and delivered to the Trustee for authentication, but only upon receipt by the Trustee of the following:

(1) A copy, certified by the City Clerk-Treasurer of the Issuer, of the resolution adopted by the Issuer authorizing the issuance of such Additional Bonds and the execution and delivery of the Supplemental Loan Agreement relating to the Additional Bonds and the Supplemental Indenture establishing the terms thereof.

(2) A copy, certified by the Secretary or an Assistant Secretary of the Company, of the resolutions adopted by the Company authorizing the execution and delivery of the Supplemental Loan Agreement relating to the Additional Bonds and approving the Supplemental Indenture and the issuance and sale of such Additional Bonds.

(3) A certificate of a Company Representative approving the issuance and delivery of the Additional Bonds.

(4) An executed counterpart of the Supplemental Indenture creating such Additional Bonds and of the Supplemental Loan Agreement providing for the expenditure of proceeds of the Additional Bonds.

(5) A request and authorization to the Trustee on behalf of the Issuer, executed by an Issuer Representative, to authenticate such Additional Bonds and deliver such Additional Bonds to the Original Purchaser thereof upon payment to the Trustee, for the account of the Issuer, of the purchase price thereof, and directing the Trustee as to the disposition of the proceeds of such Additional Bonds. The Trustee shall be entitled to rely conclusively upon such request and authorization as to the names of the Original Purchaser and the amounts of such purchase price.

(6) A certificate of an Issuer Representative stating that to the best of his or her knowledge no Event of Default is then subsisting and no event or condition which with the lapsing of time or the giving of notice, or both, would become an Event of Default has occurred, and that all conditions precedent provided for in this

Indenture relating to the authentication and delivery of such Additional Bonds have been complied with;

(7) A certificate of a Company Representative stating that to the best of his or her knowledge no "Event of Default" under the Loan Agreement is then subsisting and no event or condition which with the lapsing of time or the giving of notice, or both, would become such an "Event of Default" has occurred;

(8) An Opinion of Bond Counsel stating in effect, and subject to customary assumptions and qualifications: (a) that all conditions precedent provided in this Indenture relating to the authentication and delivery of such Additional Bonds have been complied with; (b) that the Additional Bonds whose authentication and delivery are then applied for, when issued and executed by the Issuer and authenticated and delivered by the Trustee, will be the valid and binding special, limited obligations of the Issuer in accordance with their terms and entitled to the benefits of and secured by the lien of this Indenture equally and ratably with all Outstanding Bonds and will bear interest not includable in gross income for federal income tax purposes of the owners thereof except by reason of Section 103(b)(13) of the 1954 Code or Section 147(a) of the Code; and (c) stating that the issuance of such Additional Bonds will not affect the tax-exempt nature for federal income tax purposes of any Bonds then outstanding.

(9) Written evidence, satisfactory to the Trustee, that each Rating Service will not reduce or withdraw its rating then assigned to the Outstanding Bonds as a result of the issuance of the Additional Bonds.

Any Additional Bonds shall be dated the date of original authentication and delivery thereof, shall bear interest at the rate or rates established pursuant to Section 202 hereof, and shall have Stated Maturities (provided that such Stated Maturities shall be on January 1 or July 1) and may be subject to redemption prior to their Stated Maturities at such times and prices and on such terms and conditions as may be provided by the Supplemental Indenture authorizing their issuance (provided that any mandatory sinking fund redemption dates shall be on a January 1 or July 1). Except to the extent expressly provided otherwise in a Supplemental Indenture creating the Additional Bonds, all Additional Bonds shall be payable and secured equally and ratably and on a parity with all Bonds theretofore issued and then Outstanding, entitled to the same benefits and security of this Indenture.

Section 203 Book-Entry System; Securities Depository. The Bonds of each series shall initially be registered to Cede & Co., the nominee for the initial Securities Depository, and no beneficial owner will receive certificates representing their respective interests in the Bonds, except in the event the Trustee issues Replacement Bonds as provided in this Section. It is anticipated that during the term of each series of Bonds, the Securities Depository will make book-entry transfers among its Participants and receive and transmit payment of principal of, premium, if any, and interest on, such Bonds to the Participants until and unless the Trustee authenticates and delivers Replacement Bonds to the beneficial owners as described in the following paragraph.

If (1) the Company determines (A) that the Securities Depository is unable to properly discharge its responsibilities, or (B) that the Securities Depository is no longer qualified to act as a securities depository and registered clearing agency under the Securities Exchange Act of 1934, as amended (the "1934 Act"), or (C) that the continuation of a Book-Entry System to the exclusion of the Bonds of any or all series being issued to any Bondowner other than the Securities Depository or its nominee is no longer in the best interests of the beneficial owners of such Bonds, or (2) the Trustee receives written notice from Participants having interests in not less than 50% of the principal amount of the Bonds Outstanding, as shown on the records of the Securities Depository (and certified to such effect by the Securities Depository), that the Participants have determined that the continuation of a Book-Entry System to the exclusion of any Bonds being issued to any Bondowner other than the Securities Depository or its nominee is no longer in the best interests of the beneficial owners of the Bonds, then the Trustee shall notify the Bondowners of such determination or such notice and of the availability of bond certificates to owners requesting the same, and the Trustee shall register in the name of and authenticate and deliver Replacement Bonds to the beneficial owners or their nominees in principal amounts representing the interest of each, making such adjustments as it may find necessary or appropriate as to accrued interest and previous calls for redemption; provided, that in the case of a determination under (1)(A) or (1)(B) of this paragraph, the Company, with the consent of the Trustee, may select a successor securities depository in accordance with the following paragraph to effect book-entry transfers. In such event, all references to the Securities Depository herein shall relate to the period of time when the Securities Depository has possession of at least one Bond which is held in its Book-Entry System. Upon the issuance of Replacement Bonds, all references herein to obligations imposed upon or to be performed by the Securities Depository shall be deemed to be imposed upon and performed by the Trustee, to the extent applicable with respect to such Replacement Bonds. If the Securities Depository resigns and the Company, the Trustee or Bondowners are unable to locate a qualified successor of the Securities Depository in accordance with the following paragraph, then the Trustee shall authenticate and cause delivery of Replacement Bonds to Bondowners, as provided herein. The Trustee may rely on information from the Securities Depository and its Participants as to the names of the beneficial owners of the Bonds. The cost of printing, registration, authentication, and delivery of Replacement Bonds shall be paid by the Company.

In the event the Securities Depository resigns, is unable to properly discharge its responsibilities, or is no longer qualified to act as a securities depository and registered clearing agency under the 1934 Act, the Company may appoint a successor Securities Depository provided the Trustee receives written evidence satisfactory to the Trustee with respect to the ability of the successor Securities Depository to discharge its responsibilities. Any such successor Securities Depository shall be a securities depository which is a registered clearing agency under the 1934 Act, or other applicable statute or regulation that operates a securities depository upon reasonable and customary terms. The Trustee upon its receipt of a Bond or Bonds for cancellation shall cause the delivery of Bonds to the successor Securities Depository in appropriate denominations and form as provided herein.

Section 204 Method and Place of Payment. The principal of, redemption premium, if any, and interest on the Bonds shall be payable in any coin or currency of the United States of America which on the respective dates of payment thereof is legal tender for the payment of public and private debts.

The principal of and the redemption premium, if any, on all Bonds shall be payable by check or draft at maturity or upon earlier redemption to the Persons in whose names such Bonds are registered on the bond register maintained by the Trustee at the maturity or redemption date thereof, upon the presentation and surrender of such Bonds at the principal corporate trust office of the Trustee or the principal office of any Paying Agent named in the Bonds.

The interest payable on each Bond on any Interest Payment Date shall be paid by the Trustee to the registered owner of such Bond as shown on the bond register at the close of business on the Regular Record Date for such interest, (1) by check or draft mailed to such Owner at his address as it appears on the bond register or at such other address as is furnished to the Trustee in writing by such Owner, or (2) with respect to Bonds held by a Securities Depository, or at the written request addressed to the Trustee by any Owner of Bonds in the aggregate principal amount of at least $1,000,000 (or, if the principal amount of the Outstanding Bonds of any series is less than $1,000,000, the Owner of all Outstanding Bonds of such series), by electronic wire transfer in immediately available funds to the bank for credit to the ABA routing number and account number filed with the Trustee no later than five Business Days before a payment date, but no later than a Regular Record Date for any interest payment, that all such payments be made by wire transfer.

Interest on any Bond that is due and payable but not paid on the date due ("Defaulted Interest") shall cease to be payable to the Owner of such Bond on the relevant Regular Record Date and shall be payable to the Owner in whose name such Bond is registered at the close of business on a special record date (the "Special Record Date") for the payment of such Defaulted Interest, which Special Record Date shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment (which date shall be such as will enable the Trustee to comply with the next sentence hereof), and shall deposit with the Trustee at the time of such notice an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment; money deposited with the Trustee shall be held in trust for the benefit of the Owners of the Bonds entitled to such Defaulted Interest as provided in this Section. Following receipt of such funds the Trustee shall fix the Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Owner of a Bond entitled to such notice at the address of such Owner as it appears on the bond register not less than 10 days prior to such Special Record Date.

Subject to the foregoing provisions of this Section, each Bond delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Bond shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond and each such Bond shall bear interest from such date, that neither gain nor loss in interest shall result from such transfer, exchange or substitution.

Section 205 Execution and Authentication. The Bonds shall be executed on behalf of the Issuer by the manual or facsimile signatures of the Mayor and the City Clerk-Treasurer of the Issuer and said signatures shall be authenticated by the Trustee. It shall not be necessary for the seal of the Issuer to be affixed to or imprinted upon any Bond. If any officer whose manual or facsimile signature appears on any Bonds shall cease to hold such office before the authentication and delivery of such Bonds, such signature shall nevertheless be valid and sufficient for all purposes, the same as if such person had remained in office until delivery. Any Bond may be signed by such persons as at the actual time of the execution of such Bond shall be the proper officers to sign such Bond although at the date of such Bond such persons may not have been such officers.

No Bond shall be secured by, or be entitled to any lien, right or benefit under, this Indenture or be valid or obligatory for any purpose, unless there appears on such Bond a certificate of authentication substantially in the form provided for in Exhibit A hereto, executed by the Trustee by the manual signature of an authorized representative of the Trustee, and such certificate upon any Bond shall be conclusive evidence, and the only evidence, that such Bond has been duly authenticated and delivered hereunder. At any time and from time to time after the execution and delivery of this Indenture, the Issuer may deliver Bonds executed by the Issuer to the Trustee for authentication and the Trustee shall authenticate and deliver such Bonds as in this Indenture provided and not otherwise.

Section 206 Registration, Transfer and Exchange of Bonds. The Trustee shall cause to be kept at its principal corporate trust office a register (referred to herein as the "bond register") in which, subject to such reasonable regulations as it may prescribe, the Trustee shall provide for the registration, transfer and exchange of Bonds as herein provided. The Trustee is hereby appointed "bond registrar" for the purpose of registering Bonds and transfers of Bonds as herein provided.

Bonds may be transferred or exchanged only upon the bond register maintained by the Trustee as provided in this Section. Upon surrender for transfer or exchange of any Bond at the principal corporate trust office of the Trustee, the Issuer shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bonds of the same series, Stated Maturity, of any Authorized Denominations and of a like aggregate principal amount.

Every Bond presented or surrendered for transfer or exchange shall (if so required by the Issuer or the Trustee, as bond registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Trustee, as bond registrar, duly executed by the Owner thereof or his attorney or legal representative duly authorized in writing.

All Bonds issued upon any transfer or exchange of Bonds shall be the valid special, limited obligations of the Issuer, evidencing the same debt, and entitled to the same security and benefits under this Indenture, as the Bonds surrendered upon such transfer or exchange.

No service charge shall be made for any registration, transfer or exchange of Bonds, but the Trustee or Securities Depository may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of

Bonds, and such charge shall be paid before any such new Bond shall be delivered. The fees and charges of the Trustee for making any transfer or exchange and the expense of any bond printing necessary to effect any such transfer or exchange shall be paid by the Company. In the event any Owner fails to provide a correct taxpayer identification number to the Trustee, the Trustee may impose a charge against such Owner sufficient to pay any governmental charge required to be paid as a result of such failure. In compliance with Section 3406 of the Code, such amount may be deducted by the Trustee from amounts otherwise payable to such Owner hereunder or under the Bonds.

The Trustee shall not be required, (i) to transfer or exchange any Bond during a period beginning at the opening of business 15 days before the day of the first mailing of a notice of redemption of such Bond and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Bond so selected for redemption in whole or in part, during a period beginning at the opening of business on any Regular Record Date for such Bonds and ending at the close of business on the relevant Interest Payment Date therefor.

The Issuer, the Company, the Trustee and any agent of the Issuer, the Company or the Trustee may treat the Person in whose name any Bond is registered as the owner of such Bond for the purpose of receiving payment of principal of, and premium, if any, and interest on, such Bond and for all other purposes whatsoever, except as otherwise provided in this Indenture, whether or not such Bond is overdue, and, to the extent permitted by law, neither the Issuer, the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Person in whose name any Bond shall be registered on the bond register shall be deemed and regarded as the absolute owner thereof for all purposes, except as otherwise provided in this Indenture, and payment of or on account of the principal of and premium, if any, and interest on any such Bond shall be made only to or upon the order of the Owner thereof or his legal representative, but such registration may be changed as herein provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

At reasonable times and under reasonable regulations established by the Trustee, the bond register maintained by the Trustee may be inspected and copied by the Issuer, the Company or the Owners of 10% in principal amount of Bonds Outstanding or the authorized representative thereof, provided that the ownership of such Owner and the authority of any such designated representative shall be evidenced to the satisfaction of the Trustee.

Section 207 Temporary Bonds. Pending the preparation of definitive Bonds, the Issuer may execute, and upon request of the Issuer the Trustee shall authenticate and deliver, temporary Bonds which are printed, lithographed, typewritten, or otherwise produced, in any denomination, substantially of the tenor of the definitive Bonds in lieu of which they are issued, with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Bonds may determine, as evidenced by their execution of such Bonds. If temporary Bonds are issued, the Issuer will cause definitive Bonds to be prepared without unreasonable delay. After the preparation of definitive Bonds, the temporary Bonds shall be exchangeable for definitive Bonds upon surrender of the temporary Bonds at the principal corporate trust office of the Trustee, without charge to the Owner. Upon surrender for

cancellation of any one or more temporary Bonds, the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, temporary Outstanding Bonds shall in all respects be entitled to the security and benefits of this Indenture.

Section 208 Mutilated, Destroyed, Lost and Stolen Bonds. If (i) any mutilated Bond is surrendered to the Trustee, or the Issuer and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Bond, and (ii) there is delivered to the Issuer and the Trustee such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Issuer or the Trustee that such Bond has been acquired by a bona fide purchaser, the Issuer shall execute and upon its request the Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Bond, a new Bond of the same series and Stated Maturity and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the Issuer in its discretion may, instead of issuing a new Bond, pay such Bond.

Upon the issuance of any new Bond under this Section, the Issuer and the Trustee may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith.

Every new Bond issued pursuant to this Section in lieu of any destroyed, lost or stolen Bond, shall constitute an original additional contractual obligation of the Issuer, whether or not the destroyed, lost or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the security and benefits of this Indenture equally and ratably with all other Outstanding Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Bonds.

Section 209 Cancellation of Bonds. All Bonds surrendered for payment, redemption, transfer, exchange or replacement, if surrendered to the Trustee, shall be promptly cancelled by the Trustee, and, if surrendered to any Paying Agent other than the Trustee, shall be delivered to the Trustee and, if not already cancelled, shall be promptly cancelled by the Trustee. The Issuer or the Company may at any time deliver to the Trustee for cancellation any Bonds previously authenticated and delivered hereunder, which the Issuer or the Company may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly cancelled by the Trustee. No Bond shall be authenticated in lieu of or in exchange for any Bond cancelled as provided in this Section, except as expressly provided by this Indenture. All cancelled Bonds held by the Trustee shall be destroyed and disposed of by the Trustee in accordance with applicable record retention requirements. The Trustee shall execute and deliver to the Issuer and the Company a certificate describing the Bonds so cancelled and destroyed.

ARTICLE III

REDEMPTION AND PURCHASE OF BONDS

Section 301 Redemption of Bonds. Additional Bonds shall be subject to redemption as provided in the Supplemental Indenture providing for the issuance thereof. The Series 2004 Bonds are subject to optional and mandatory redemption prior to Stated Maturity as follows:

(a) *Optional Redemption*. Series 2004 Bonds are subject to redemption by the Issuer, in whole or in part, in an amount evenly divisible by minimum Authorized Denominations, solely at the option of the Company, which shall be exercised upon the written direction of the Company, on July 1, 2014, and on any date thereafter, at a redemption price equal to 100% of the principal amount thereof, without premium, plus accrued interest thereon to the redemption date.

(b) *Extraordinary Optional Redemption*. The Series 2004 Bonds are subject to redemption and payment prior to the Stated Maturity thereof by the Issuer, solely at the option of the Company, which shall be exercised upon the written direction of the Company, in whole or in part on any Business Day, at a redemption price equal to 100% of the principal amount thereof, without premium, plus accrued interest thereon to the redemption date, if the Company shall declare, within 180 days following the occurrence of one of the following events, that it will cease to operate any element or unit of the Facilities by reason of the occurrence of such event: (a) the damage or destruction of all or substantially all of any element or unit of the Facilities or the Plant to which such Facilities relate to such extent that, in the reasonable opinion of the Company, the repair and restoration thereof would not be economical; (b) the condemnation of all or substantially all of any element or unit of the Facilities or such Plant or the taking by condemnation of such part, use or control of such element or unit of the Facilities or Plant as to render them or it unsatisfactory to the Company for their or its intended use; (c) if the Company has abandoned and removed from service all or a portion of the Facilities or all of its ownership interest in the Plant; (d) in the Company's reasonable opinion, unreasonable burdens or excessive liabilities shall have been imposed upon the Company with respect to the Facilities or the Plant or the operation thereof, including, but without being limited to, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of this Indenture, other than ad valorem taxes levied on the date of this Indenture upon privately owned property used for the same general purpose as the Facilities or the Plant; (e) as a result of any changes in the Constitution of the State or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final direction, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Company in good faith, this Indenture or the Loan Agreement becomes void or unenforceable or impossible of performance; or (f) if (1) the Company sells, leases or otherwise disposes of the Facilities or a substantial part thereof to a Person who is not an Affiliate of the Company, or changes or allows a change in the use of, such Facilities, or any substantial part thereof, and (2) there is delivered to the Issuer and the Trustee an Opinion of Bond Counsel to the effect that, unless the Series 2004 Bonds or a specified part thereof are redeemed and retired either prior to or concurrently with such sale, lease or other disposition, or change in use, or on a subsequent date prior to maturity, Bond Counsel is unable to render an unqualified opinion that such sale, lease or other disposition, or change in use, of all or such substantial part of such Facilities will not adversely affect the excludability from gross income, for federal income tax

purposes, of the interest on the series of Bonds that financed such Facilities and will not adversely affect the Company's ability to deduct interest payments made pursuant to the Agreement under Section 150(b) of the Code or a successor provision thereto.

(c) *Mandatory Redemption Upon a Determination of Taxability.* The Series 2004 Bonds shall be redeemed, at a redemption price equal to 100% of the principal amount thereof, without premium, on the earliest practicable Interest Payment Date, upon written notice to the Company by the Trustee of the occurrence of a Determination of Taxability with respect to the Series 2004 Bonds. The Trustee shall give prompt written notice to the Company of the occurrence of any event of which the Trustee has knowledge which could reasonably be expected to give rise to a Determination of Taxability. The Series 2004 Bonds shall be redeemed, either in whole or in part, in such principal amount that, upon such redemption, the interest payable on the Series 2004 Bonds remaining outstanding after such redemption would not be so includable for federal income tax purposes in the gross income of the owners thereof.

Section 302 Election To Redeem; Notice to Trustee. The Issuer shall elect to redeem Bonds subject to optional redemption upon receipt of a written direction of the Company. In case of any redemption at the election of the Issuer, the Company shall, in the name and on behalf of the Issuer, at least 40 days prior to the redemption date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee) give written notice to the Trustee directing the Trustee to call Bonds for redemption and give notice of redemption and specifying the redemption date, the principal amount, and maturities of Bonds to be called for redemption, the applicable redemption price or prices and the provision or provisions of this Indenture pursuant to which such Bonds are to be called for redemption.

The foregoing provisions of this Section shall not apply in the case of any mandatory redemption of Bonds under this Indenture, and the Trustee shall call Bonds for redemption and shall give notice of redemption pursuant to such mandatory redemption requirements without the necessity of any action by the Issuer or the Company and whether or not the Trustee shall hold in the Bond Fund money available and sufficient to effect the required redemption.

Section 303 Selection of Bonds To Be Redeemed; Bonds Redeemed in Part. Bonds may be redeemed only in the principal amount of minimum Authorized Denominations. If less than all Bonds are to be redeemed pursuant to Section 301(a) or 301(b) hereof (or the comparable provisions of a Supplemental Indenture), such Bonds shall be redeemed from the series and Stated Maturity or Maturities selected by the Company. If less than all Bonds of any series and Stated Maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Trustee from the Bonds of such series and Stated Maturity which have not previously been called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions equal to minimum Authorized Denominations of Bonds of a denomination larger than such minimum Authorized Denominations.

Any Bond which is to be redeemed only in part shall be surrendered at the place of payment therefor (with, if the Issuer or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the Owner thereof or his attorney or legal representative duly authorized in writing) and the Issuer

shall execute and the Trustee shall authenticate and deliver to the Owner of such Bond, without service charge, a new Bond or Bonds of the same series and Stated Maturity of any Authorized Denomination as requested by such Owner in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered. If the Owner of any such Bond shall fail to present such Bond to the Trustee for payment and exchange as aforesaid, said Bond shall, nevertheless, become due and payable on the redemption date to the extent of the unit or units of principal amount in minimum Authorized Denominations called for redemption (and to that extent only).

In lieu of surrender under the preceding paragraph, payment of the redemption price of a portion of any Bond may be made directly to the Owner thereof without surrender thereof, if there shall have been filed with the Trustee a written agreement of such Owner and, if such Owner is a nominee, the Person for whom such Owner is a nominee, that payment shall be so made and that such Owner will not sell, transfer or otherwise dispose of such Bond unless prior to delivery thereof such Owner shall present such Bond to the Trustee for notation thereon of the portion of the principal thereof redeemed or shall surrender such Bond in exchange for a new Bond or Bonds for the unredeemed balance of the principal of the surrendered Bond.

The Trustee shall promptly notify the Issuer and the Company in writing of the Bonds selected for redemption and, in the case of any Bond selected for partial redemption, the principal amount thereof to be redeemed.

Section 304 Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, official notice of any such redemption shall be given by the Trustee on behalf of the Issuer by mailing a copy of an official notice of such redemption by first class mail, at least 30 days prior to the redemption date, to each Owner of Bonds to be redeemed at the address shown on the bond register or at such other address as is furnished in writing by such Owner to the Trustee; provided that no defect in or failure to give any such redemption notice shall affect the validity of proceedings for the redemption of any Bond not affected by such defect or failure.

All official notices of redemption shall be dated and shall state:

(a) the redemption date;

(b) the redemption price;

(c) the principal amount of Bonds to be redeemed and, if less than all Bonds are to be redeemed, the identification by reference to serial numbers (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed;

(d) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date (unless sufficient moneys are not available to the Trustee to pay the redemption price);

(e) the place where the Bonds to be redeemed are to be surrendered for payment of the redemption price, which place of payment shall be the principal corporate trust office of the Trustee or the principal office of a Paying Agent; and

(f) as to any Bonds to be redeemed pursuant to Section 301(a) or (b), such notice is conditional upon moneys or Government Obligations, or a combination thereof, being on deposit with the Trustee in an amount sufficient to pay the redemption price on the redemption date; otherwise such redemption shall not be effective.

The failure of any Owner of Bonds to receive notice given as provided in this Section shall not affect the validity of any proceedings for the redemption of any Bonds. Any notice mailed as provided in this Section shall be conclusively presumed to have been duly given and shall become effective upon mailing, whether or not any Owner receives such notice.

In addition to the foregoing notice, further notice shall be given by the Trustee on behalf of the Issuer at least 35 days before the redemption date by certified mail or overnight delivery service to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds and to one or more national information services that disseminate notices of redemption of obligations such as the Bonds. Each further notice of redemption given shall contain the information required above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of issue of the Bonds of the series as originally issued; (iii) the rate of interest borne by each Bond being redeemed; (iv) the series and the Stated Maturity of each Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed. No defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

So long as the Securities Depository is effecting book-entry transfers of the Bonds, the Trustee shall provide the notices specified in this Section to the Securities Depository. It is expected that the Securities Depository shall, in turn, notify its Participants and that the Participants, in turn, will notify or cause to be notified the beneficial owners. Any failure on the part of the Securities Depository or a Participant, or failure on the part of a nominee of a beneficial owner of a Bond (having been mailed notice from the Trustee, the Securities Depository, a Participant or otherwise) to notify the beneficial owner of the Bond so affected, shall not affect the validity of the redemption of such Bond.

Section 305 Deposit of Redemption Price; Bonds Payable on Redemption Date. On or before any redemption date, the Issuer shall deposit with the Trustee or with a Paying Agent, moneys or Government Obligations, or a combination thereof, provided by the Company, in an amount sufficient to pay the redemption price of all the Bonds which are to be redeemed on that date. Such moneys and Government Obligations shall be held in trust for the benefit of the Persons entitled to such redemption price and shall not be deemed to be part of the Trust Estate.

With respect to notice of any redemption of the Bonds pursuant to Section 301(a) or (b), unless moneys or Government Obligations, or a combination thereof, shall be received by the Trustee prior to the giving of said notice sufficient to pay the principal of and premium, if any,

and interest on the Bonds to be so redeemed, said notice shall state that said redemption shall be conditional upon the receipt of such moneys or Government Obligations by the Trustee on or prior to the date fixed for such redemption. If such moneys or Government Obligations shall not have been so received on or prior to the redemption date, said notice shall be of no force and effect, the Issuer shall not redeem such Bonds and the Trustee shall give notice, in the manner in which the notice of redemption was given, that such moneys or Government Obligations were not so received.

Notice of redemption having been given in accordance with Section 304 hereof and the deposit of funds for redemption having been made, (i) the Bonds or portions thereof so to be redeemed (together with accrued interest thereon to the redemption date) shall be due and payable on the redemption date and at the redemption price specified in the notice of redemption, and on and after such date such Bonds shall cease to bear interest, (ii) such Bonds or portions thereof shall cease to be entitled to any lien, benefit or security under this Indenture, and (iii) the Owners of such Bonds or portions thereof shall have no rights in respect thereof except to receive payment of the redemption price thereof and accrued interest thereon to the redemption date. Upon surrender of any such Bond so called for redemption, such Bond (or portion thereof) shall be paid at the redemption price specified in the notice of redemption. Installments of interest with a due date on or prior to the redemption date shall be payable to the Owners of the Bonds registered as such on the relevant Regular Record Dates according to the terms of such Bonds and the provisions of Section 204. If any Bond called for redemption shall not be paid upon surrender thereof for redemption, the Bond shall continue to bear interest until paid at the rate specified in the Bond.

ARTICLE IV

FUNDS AND ACCOUNTS, APPLICATION OF BOND PROCEEDS AND OTHER MONEY

Section 401 Creation of Funds and Accounts. There are hereby created and ordered to be established in the custody of the Trustee the following special trust funds in the name of the Issuer to be designated as follows:

(a) "City of Cohasset—ALLETE, Inc. Refunded Bonds Redemption Fund" (the "Redemption Fund").

(b) "City of Cohasset—ALLETE, Inc. Bond Fund" (the "Bond Fund").

The Trustee is authorized to establish separate accounts within such funds or otherwise segregate money within such funds, on a book-entry basis or in such other manner as the Trustee may deem necessary or convenient, or as the Trustee shall be instructed by the Issuer.

Section 402 Deposit of Bond Proceeds and Other Money. The Issuer, for and on behalf of the Company, shall deposit with the Trustee all of the net proceeds of the Series 2004 Bonds, and the Trustee shall deposit and transfer or credit such proceeds, together with any other

money deposited with the Trustee to the Persons, Funds or Accounts specified in the request and authorization of the Issuer described in Section 201(d)(5) hereof.

Section 403 Redemption Fund. Money in the Redemption Fund shall be used to pay the principal of and a portion of the interest on (to the extent of investment income) the Refunded Bonds on August 23, 2004, or to reimburse the Company for the advance of its own funds for such purpose. Any payments of proceeds of the Series 2004 Bonds to be made to reimburse the Company shall be promptly made by wire transfer to the account designated by the Company upon delivery to the Trustee by the Company of a certificate of the trustee for the Refunded Bonds to be refunded by the Series 2004 Bonds that it has received funds sufficient to pay the redemption price of such Refunded Bonds in full.

Section 404 Bond Fund. The Trustee shall deposit and credit to the applicable account in the Bond Fund, as and when received, the following:

(a) That portion of the purchase price of Bonds paid by the Original Purchaser thereof equal to the accrued interest, if any, on the Bonds from the date thereof to the date of issuance and delivery thereof.

(b) All Loan Payments made by the Company pursuant to Section 3.02 of the Loan Agreement.

(c) Each of the payments made by the Company on the First Mortgage Bonds.

(d) Interest earnings and other income on Permitted Investments required to be deposited in the Bond Fund pursuant to Section 408 hereof.

(e) All other moneys received by the Trustee under and pursuant to any of the provisions of this Indenture or the Loan Agreement, when accompanied by directions from the Person depositing such moneys that such moneys are to be paid into the Bond Fund.

The money in the Bond Fund shall be held in trust and shall be applied solely in accordance with the provisions of this Indenture to pay the principal of and redemption premium, if any, and interest on the Bonds as the same become due and payable at maturity, upon redemption, by acceleration or otherwise.

The Trustee is to receive from the Company pursuant to Section 3.02 of the Loan Agreement the full amount of principal of, and premium, if any, and interest due on, the Bonds on each Interest Payment Date, Stated Maturity, redemption date, or acceleration date, as the case may be. If there is not sufficient money in the Bond Fund by 12:00 noon, New York City time, on any Interest Payment Date, Stated Maturity, redemption date, or acceleration date, as the case may be, to pay all principal of, premium, if any, and interest on the Bonds due on such date, the Trustee shall promptly give Electronic Notice to the Company of the amount of any such deficiency.

The Trustee is authorized and directed to withdraw sufficient funds from the Bond Fund to pay principal of, redemption premium, if any, and interest on the Bonds as the same become

due and payable at maturity or upon redemption and to make said funds so withdrawn available to any Paying Agent for the purpose of paying said principal, redemption premium, if any, and interest.

The Trustee, upon the written instructions from the Issuer given pursuant to written direction of the Company, shall use excess moneys in the Bond Fund to redeem all or part of the Bonds Outstanding and to pay interest to accrue thereon prior to such redemption and redemption premium, if any, on the next succeeding redemption date for which the required redemption notice may be given or on such later redemption date as may be specified by the Company, in accordance with the provisions of Article III hereof, so long as the Company is not in default with respect to any payments under the Loan Agreement and to the extent said moneys are in excess of the amount required for payment of Bonds theretofore matured or called for redemption. The Company may cause such excess money in the Bond Fund or such part thereof or other money of the Company, as the Company may direct, to be applied by the Trustee on a best efforts basis for the purchase of Bonds in the open market for the purpose of cancellation at prices not exceeding the principal amount thereof plus accrued interest thereon to the date of such purchase.

Upon satisfaction and discharge of this Indenture in accordance with Article V hereof, all amounts remaining in the Bond Fund shall be paid to the Company.

Section 405 Payments Due on Non-Business Days. In any case where the date of maturity of principal of, redemption premium, if any, or interest on the Bonds or the date fixed for redemption of any Bonds shall be a day other than a Business Day, then payment of principal, redemption premium, if any, or interest need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after such date.

Section 406 Nonpresentment of Bonds. In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise, or at the date fixed for redemption thereof, if funds sufficient to pay such Bond shall have been made available to the Trustee, all liability of the Issuer to the Owner thereof for the payment of such Bond, shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such funds in trust in a separate trust account, without liability for interest thereon, for the benefit of the Owner of such Bond, who shall thereafter be restricted exclusively to such funds for any claim of whatever nature on his part under this Indenture or on or with respect to said Bond. If any Bond shall not be presented for payment within three years following the date when such Bond becomes due, whether by maturity or otherwise, the Trustee shall repay to the Company the funds theretofore held by it for payment of such Bond, and such Bond shall, subject to the defense of any applicable statute of limitation, thereafter be an unsecured obligation of the Company, and the Owner thereof shall be entitled to look only to the Company for payment, and then only to the extent of the amount so repaid, and the Company shall not be liable for any interest thereon and shall not be regarded as a trustee of such money.

Section 407 Money To Be Held in Trust. All money deposited with or paid to the Trustee for the funds and accounts held under this Indenture, and all money deposited with or

paid to any Paying Agent under any provision of this Indenture shall be held by the Trustee or Paying Agent in trust and shall be applied only in accordance with the provisions of this Indenture and the Loan Agreement, and, until used or applied as herein provided, shall constitute part of the Trust Estate and be subject to the lien, terms and provisions hereof and shall not be commingled with any other funds of the Issuer or the Company except as provided under Section 408 hereof for investment purposes. Neither the Trustee nor any Paying Agent shall be under any liability for interest on any money received hereunder except such as may be agreed upon.

Section 408 Investment of Money. Money held in each of the funds and accounts under this Indenture shall, pursuant to written directions of the Company Representative, be invested and reinvested by the Trustee in accordance with the provisions of this Indenture and the Tax Compliance Certificate in Permitted Investments which mature or are subject to redemption by the owner thereof prior to the date such funds are expected to be needed; provided, however, that if a Company Representative fails to provide such written directions to the Trustee and this Indenture and the Tax Compliance Certificate do not otherwise direct or limit such investment, money as to which no written directions have been received shall be invested in investments described in paragraph (g) of the definition of "Permitted Investments." The Trustee hereby agrees to comply with all provisions with respect to the investment of moneys in the funds and accounts under this Indenture specified in the Tax Compliance Certificate. The Trustee may make any investments permitted by the provisions of this Section through its own bond department or short-term investment department and may pool money for investment purposes, except money held in any fund or account that are required to be yield restricted in accordance with the Tax Compliance Certificate, which shall be invested separately. Any such Permitted Investments shall be held by or under the control of the Trustee and shall be deemed at all times a part of the fund or account in which such money are originally held. The interest accruing on each fund or account and any profit realized from such Permitted Investments shall be credited to such fund or account, and any loss resulting from such Permitted Investments shall be charged to such fund or account. The Trustee shall sell or present for redemption and reduce to cash a sufficient amount of such Permitted Investments whenever it shall be necessary to provide money in any fund or account for the purposes of such fund or account and the Trustee shall not be liable for any loss resulting from such investments. Any money that are to be used to pay principal of or interest on or redemption price of Bonds shall be invested only in Government Obligations or shares of money market mutual funds that are registered with the federal Securities and Exchange Commission, meeting the requirements of Rule 2a-7 under the Investment Company Act of 1940 and that are rated in the highest rating category by Standard & Poor's Ratings Services and Moody's Investor's Service, Inc., such investments to mature or be subject to redemption at the option of the holder not later than (i) 30 days from the date of the investment, or (ii) the date the Trustee anticipates such funds are to be applied.

Section 409 Records and Reports of Trustee. The Trustee agrees to maintain such records with respect to any and all money or investments held by the Trustee pursuant to the provisions of this Indenture as are reasonably requested by the Issuer or the Company. The Trustee shall furnish to the Issuer and the Company a monthly report on the status of each of the funds and accounts established under this Article which are held by the Trustee, showing the balance in each such fund or account as of the first day of the preceding month, the total of

deposits to and the total of disbursements from each such fund or account, the dates of such deposits and disbursements, and the balance in each such fund or account on the last day of the preceding month. The Trustee shall render an annual accounting for each calendar year ending December 31 to the Issuer, the Company and any Bondowner requesting the same, showing in reasonable detail all financial transactions relating to the Trust Estate during the accounting period, including investment earnings and the balance in any funds or accounts created by this Indenture as of the beginning and close of such accounting period. Each of the Issuer and (by entering into the Loan Agreement) the Company acknowledges that regulations of the Comptroller of the Currency grant the Issuer and the Company the right to receive brokerage confirmations of security transactions as they occur. Each of the Issuer and (by entering into the Loan Agreement) the Company specifically waives such notification to the extent permitted by law and acknowledges that it will receive monthly and annual cash transaction statements, which will detail all investment transactions.

ARTICLE V

SATISFACTION AND DISCHARGE

Section 501 Payment, Discharge and Defeasance of Bonds. Bonds will be deemed to be paid and discharged and no longer Outstanding under this Indenture and will cease to be entitled to any lien, benefit or security of this Indenture if the Issuer shall pay or provide for the payment of such Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on such Bonds, as and when the same become due and payable;

(b) by delivering such Bonds to the Trustee for cancellation; or

(c) by depositing in trust with the Trustee or other Paying Agent moneys and Defeasance Obligations in an amount, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on such Bonds at or before their respective maturity or redemption dates (including the payment of the principal of, premium, if any, and interest payable on such Bonds to the maturity or redemption date thereof); provided that, if any such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption is given in accordance with the requirements of this Indenture or provision satisfactory to the Trustee is made for the giving of such notice.

In any case, if the Bonds are rated by a Rating Service, the Bonds shall not be deemed to have been paid or discharged by reason of any deposit pursuant to paragraphs (a) and/or (c) above unless such Rating Service shall have confirmed in writing to the Trustee that its rating will not be withdrawn or lowered as the result of any such deposit.

The foregoing notwithstanding, the liability of the Issuer in respect of such Bonds shall continue, but the Owners thereof shall thereafter be entitled to payment only out of the money and Defeasance Obligations deposited with the Trustee as aforesaid.

Moneys and Defeasance Obligations so deposited with the Trustee pursuant to this Section shall not be a part of the Trust Estate but shall constitute a separate trust fund for the benefit of the Persons entitled thereto. Such moneys and Defeasance Obligations shall be applied by the Trustee to the payment (either directly or through any Paying Agent, as the Trustee may determine) to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money and Defeasance Obligations have been deposited with the Trustee.

Section 502 Satisfaction and Discharge of Indenture. This Indenture and the lien, rights and interests created by this Indenture shall cease, terminate and become null and void (except as to any surviving rights of transfer or exchange of Bonds herein provided for) if the following conditions are met:

(a) the principal of, premium, if any, and interest on all Bonds has been paid or the Bonds have otherwise been deemed to be paid and discharged by meeting the conditions of Section 501;

(b) all other sums payable under this Indenture with respect to the Bonds are paid or provision satisfactory to the Trustee is made for such payment;

(c) the Trustee receives an Opinion of Bond Counsel (which may be based upon a ruling or rulings of the Internal Revenue Service) addressed and delivered to the Trustee and the Issuer to the effect that so providing for the payment of any Bonds will not cause the interest on the Bonds to be included in gross income for federal income tax purposes, notwithstanding the satisfaction and discharge of this Indenture; and

(d) the Trustee receives an Opinion of Counsel to the effect that all conditions precedent in this Section to the satisfaction and discharge of this Indenture have been complied with.

Thereupon, the Trustee shall execute and deliver to the Issuer a termination statement and such instruments of satisfaction and discharge of this Indenture as may be necessary and shall pay, assign, transfer and deliver to the Issuer, or other Persons entitled thereto, all money, securities and other property then held by it under this Indenture as a part of the Trust Estate, other than money or Defeasance Obligations held in trust by the Trustee as herein provided for the payment of the principal of, premium, if any, and interest on the Bonds.

Section 503 Rights Retained After Discharge. Notwithstanding the satisfaction and discharge of this Indenture, the rights of the Trustee under Section 804 shall survive, and the Trustee shall retain such rights, powers and duties under this Indenture as may be necessary and convenient for the payment of amounts due or to become due on the Bonds and the registration, transfer and exchange of Bonds as provided herein. Nevertheless, any money held by the Trustee or any Paying Agent for the payment of the principal of, redemption premium, if any, or

interest on any Bond remaining unclaimed for three years after the principal of all Bonds has become due and payable, whether at maturity or upon proceedings for redemption or by declaration as provided herein, shall then be paid to the Company, and the Owners of any Bonds not theretofore presented for payment shall thereafter be entitled to look only to the Company for payment thereof and all liability of the Trustee or any Paying Agent or the Issuer with respect to such moneys shall thereupon cease.

ARTICLE VI

GENERAL AND PARTICULAR COVENANTS OF THE ISSUER

Section 601 Issuer To Issue Bonds and Execute Indenture. The Issuer covenants that it is duly authorized under the Constitution and laws of the State to execute this Indenture, to issue the Bonds and to pledge and assign the Trust Estate in the manner and to the extent herein set forth; that all action on its part for the execution and delivery of this Indenture and the issuance of the Bonds has been duly and effectively taken; and that the Bonds in the hands of the Owners thereof are and will be valid and enforceable special, limited obligations of the Issuer according to the import thereof, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights to the extent applicable and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

Section 602 Limited Obligations. Under the provisions of the Act, the Bonds may not be payable from nor charged upon any fund other than the revenue pledged to the payment thereof, nor shall the Issuer be subject to any liability thereon. No Owner of the Bonds shall ever have the right to compel any exercise of the taxing power of the Issuer to pay the Bonds or the interest thereon, nor to enforce payment thereof against any property of the Issuer except as provided herein. The Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the Issuer except as provided herein. No Bond shall constitute a debt of the Issuer within the meaning of any constitutional or statutory limitation.

The Bonds and the interest thereon shall be special, limited obligations of the Issuer payable (except to the extent paid out of Bond proceeds or the income from the temporary investment thereof and under certain circumstances from insurance proceeds and condemnation awards) solely out of the Loan Payments and other payments derived by the Issuer under the Loan Agreement (except for fees and expenses payable to the Issuer, the Issuer's right to indemnification as set forth in the Loan Agreement and as otherwise expressly set forth therein), and are secured by a transfer, pledge and assignment of and a grant of a security interest in the Trust Estate to the Trustee and in favor of the Owners of the Bonds, as provided in this Indenture. The Bonds and interest thereon shall not be deemed to constitute a debt or liability of the Issuer, the State or of any political subdivision thereof within the meaning of any State constitutional provision or statutory or charter limitation and shall not constitute a pledge of the full faith and credit of the Issuer, the State or of any political subdivision thereof, but shall be payable solely from the funds provided for in the Loan Agreement and in this Indenture. The issuance of Bonds shall not, directly, indirectly or contingently, obligate the Issuer, the State or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment.

Section 603 Payment of Bonds. The Issuer shall duly and punctually pay or cause to be paid, but solely from the sources specified in this Indenture, the principal of, premium, if any, and interest on the Bonds in accordance with the terms of the Bonds and this Indenture.

Section 604 Performance of Covenants. The Issuer shall (to the extent within its control) faithfully perform or cause to be performed at all times any and all covenants, undertakings, stipulations and provisions which are to be performed by the Issuer contained in this Indenture, in the Bonds and in all proceedings pertaining thereto.

Section 605 Inspection of Books. The Issuer covenants and agrees that all books and documents in its possession relating to the Bonds, this Indenture and the Loan Agreement, and the transactions relating thereto shall at all reasonable times be open to inspection by such accountants or other agencies as the Trustee may from time to time designate. The Trustee covenants and agrees that all books and documents in its possession relating to the Bonds, this Indenture and the Loan Agreement, and the transactions relating thereto, shall be open to inspection by the Issuer during business hours upon reasonable notice.

Section 606 Enforcement of Rights. The Issuer agrees that the Trustee, as assignee, transferee, pledgee, and owner of a security interest under this Indenture in its name or in the name of the Issuer may enforce all rights of the Issuer and the Trustee and all obligations of the Company under and pursuant to the Loan Agreement and any other Transaction Documents for and on behalf of the Bondowners, whether or not the Issuer is in default hereunder. The Loan Agreement and all other documents, instruments or policies of insurance shall be delivered to and held by the Trustee.

Section 607 Tax Covenants. The Issuer (to the extent within its power or direction) covenants for the benefit of the Owners of the Bonds, with respect to the proceeds of the Bonds, including the earnings thereon, that no use of such proceeds or any other moneys of the Company or the Issuer will be made which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code on the date of such use and applicable to obligations issued on the date of issuance of the Bonds.

The Issuer agrees that so long as any of the Bonds remain Outstanding, it will (to the extent within its power or direction) comply with the provisions of the Tax Compliance Certificate applicable to the Issuer.

The Trustee agrees to comply with the provisions of the Tax Compliance Certificate, and upon receipt of the Tax Compliance Certificate and any other written letter or Opinion of Bond Counsel which sets forth such requirements, to comply with any statute, regulation or ruling that may apply to it as Trustee hereunder and relating to reporting requirements or other requirements necessary to preserve the exclusion from federal gross income of the interest on the Bonds. The Trustee from time to time may cause a firm of attorneys, consultants or independent accountants or an investment banking firm to supply the Trustee, on behalf of the Issuer, with such information as the Trustee, on behalf of the Issuer, may request in order to determine in a manner reasonably satisfactory to the Trustee, on behalf of the Issuer, all matters relating to (a) the actuarial yields on the Bonds as the same may relate to any data or conclusions necessary to verify that the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Code,

and (b) compliance with rebate requirements of Section 148(f) of the Code. Payment for costs and expenses incurred in connection with supplying the foregoing information shall be paid by the Company.

The foregoing covenants of this Section shall remain in full force and effect notwithstanding the defeasance of the Bonds pursuant to Article V of this Indenture or any other provision of this Indenture, until the final Stated Maturity of all Bonds Outstanding and payment thereof.

Section 608 Financing Statements. The Trustee will cause (and the Issuer will cooperate with the Trustee in causing) appropriate continuation statements with respect to financing statements filed in connection with the issuance of the initial series of Bonds, naming the Trustee as secured party with respect to the Trust Estate, to be duly filed and recorded in the appropriate state and county offices as required by the provisions of the Uniform Commercial Code or other similar law as adopted in the State and any other applicable jurisdiction, as from time to time amended, in order to perfect and maintain the security interests created by this Indenture, provided that the Trustee shall not be liable for any cost or expense in connection with any such filing or the preparation thereof, which cost or expense shall be paid, or reimbursed to the Trustee, by the Company in accordance with Section 6.04 of the Loan Agreement.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

Section 701 Events of Default. The term "Event of Default," wherever used in this Indenture, means any one of the following events (whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest on any Bond for a period of 60 days after such interest has become due and payable; or

(b) default in the payment of the principal of (or premium, if any, on) any Bond when the same becomes due and payable (whether at maturity, upon proceedings for redemption, by acceleration or otherwise); or

(c) default in the performance, or breach, of any covenant or agreement of the Issuer in the Bonds or in this Indenture (other than as specified in clauses (a) and (b) above), and continuance of such default or breach for a period of 90 days after there has been given to the Issuer and the Company by the Trustee or to the Issuer, the Company and the Trustee by the Owners of at least 25% in principal amount of the Bonds Outstanding, a written notice specifying such default or breach and requiring it to be remedied; provided, that if such default cannot be fully remedied within such 90-day period, but can reasonably be expected to be fully remedied, such default shall not constitute an Event of Default if the Issuer shall immediately upon receipt of such notice commence the curing of such

default and shall thereafter prosecute and complete the same with due diligence and dispatch; or

(d) any Event of Default under the Loan Agreement shall occur and is continuing and has not been waived.

With regard to any alleged default concerning which notice is given to the Company under the provisions of this Section, the Issuer hereby grants the Company full authority for the account of the Issuer to perform any covenant or obligation, the nonperformance of which is alleged in said notice to constitute a default, in the name and stead of the Issuer, with full power to do any and all things and acts to the same extent that the Issuer could do and perform any such things and acts in order to remedy such default.

Section 702 Acceleration of Maturity; Rescission and Annulment. If an Event of Default described in clause (a), (b) or (d) of Section 701 occurs and is continuing, and further upon the condition that, in accordance with the terms of the First Mortgage, the First Mortgage Bonds shall have become immediately due and payable pursuant to any provision of the First Mortgage, the principal of all Bonds Outstanding and the interest accrued thereon shall, without further action, become and be immediately due and payable.

The provisions of the preceding paragraph, however, are subject to the condition that any waiver of any "Default" under the First Mortgage and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event or Events of Default under this Indenture and a rescission and annulment of the consequences thereof, and the Trustee shall promptly give written notice of such waiver, rescission or annulment to the Issuer and the Company, and shall give notice thereof to all Owners of Bonds in the same manner as a notice of redemption; but no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

At any time after such a declaration of acceleration has been made, but before any judgment or decree for payment of money due on any Bonds has been obtained by the Trustee as provided in this Article, the Owners of a majority in principal amount of the Bonds Outstanding may, by written notice to the Issuer, the Company and the Trustee, rescind and annul such declaration and its consequences if

(a) there is deposited with the Trustee moneys sufficient to pay

(1) all overdue installments of interest on all Bonds,

(2) the principal of (and premium, if any, on) any Bonds which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Bonds,

(3) interest upon overdue installments of interest at the rate or rates prescribed therefor in the Bonds, and

(4) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(b) all Events of Default, other than the non-payment of the principal of Bonds which have become due solely by such declaration of acceleration, have been cured or have been waived as provided in Section 710 of this Indenture.

No such rescission and annulment shall affect any subsequent default or impair any right consequent thereon.

Section 703 Exercise of Remedies by the Trustee. Upon the occurrence and continuance of any Event of Default under this Indenture, unless the same is waived as provided in this Indenture, the Trustee shall have the following rights and remedies, in addition to any other rights and remedies provided under this Indenture or by law:

(a) *Right To Bring Suit, Etc.* The Trustee may pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding to enforce the payment of the principal of, premium, if any, and interest on the Bonds Outstanding, including interest on overdue principal (and premium, if any) and on overdue installments of interest, and any other sums due under this Indenture, to realize on or to foreclose any of its interests or liens under this Indenture or any other Transaction Document, to enforce and compel the performance of the duties and obligations of the Issuer as set forth in this Indenture and to enforce or preserve any other rights or interests of the Trustee under this Indenture with respect to any of the Trust Estate or otherwise existing at law or in equity.

(b) *Exercise of Remedies at Direction of Bondowners.* If requested in writing to do so by the Owners of not less than 25% in principal amount of Bonds Outstanding and if indemnified as provided in Section 802(e) of this Indenture, the Trustee shall exercise such one or more of the rights and powers conferred by this Section as the Trustee, being advised by Counsel, shall deem most expedient in the interests of the Owners of the Bonds; provided, however, that the Trustee shall have the right to decline to comply with any such request if the Trustee shall be advised by Counsel that the action so requested may not lawfully be taken or if the Trustee in good faith shall determine that such action would be unjustly prejudicial to the Owners of Bonds that are not parties to such request.

(c) *Appointment of Receiver.* Upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondowners under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate, pending such proceedings, with such powers as the court making such appointment shall confer.

(d) *Suits To Protect the Trust Estate.* The Trustee shall have power to institute and to maintain such proceedings as it may deem expedient to prevent any impairment of the Trust Estate by any acts which may be unlawful or in violation of this Indenture and to protect its interests and the interests of the Bondowners in the Trust Estate, including power to institute and maintain proceedings to restrain the enforcement of or compliance with any governmental

enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement of or compliance with such enactment, rule or order would impair the security under this Indenture or be prejudicial to the interests of the Bondowners or the Trustee, or to intervene (subject to the approval of a court of competent jurisdiction) on behalf of the Bondowners in any judicial proceeding to which the Issuer or the Company is a party and which in the judgment of the Trustee has a substantial bearing on the interests of the Bondowners.

(e) *Enforcement Without Possession of Bonds*. All rights of action under this Indenture or any of the Bonds may be enforced and prosecuted by the Trustee without the possession of any of the Bonds or the production thereof in any suit or other proceeding relating thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust. Any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and subject to the provisions of Section 707 hereof, be for the equal and ratable benefit of the Owners of the Bonds in respect of which such judgment has been obtained.

(f) *Restoration of Positions*. If the Trustee or any Bondowner has instituted any proceeding to enforce any right or remedy under this Indenture by suit, foreclosure, the appointment of a receiver, or otherwise, and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Bondowner, then and in every case the Issuer, the Trustee and the Bondowners shall, subject to any final determination in such proceeding, be restored to their former positions and rights under this Indenture, and thereafter all rights and remedies of the Trustee and the Bondowners shall continue as though no such proceeding had been instituted.

Section 704 Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Issuer or any other obligor upon the Bonds or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable, as therein expressed or by declaration or otherwise, and irrespective of whether the Trustee shall have made any demand on the Issuer for the payment of overdue principal, premium or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(a) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Outstanding Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Bondowners allowed in such judicial proceeding, and

(b) to collect and receive any money or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Bondowner to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments

directly to the Bondowners, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 804.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Bondowner any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Bondowner in any such proceeding.

Section 705 Limitation on Suits by Bondowners. No Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to this Indenture, or for the appointment of a receiver or trustee or for any other remedy under this Indenture, unless

(a) such Owner has previously given written notice to the Trustee of a continuing Event of Default;

(b) the Owners of not less than 25% in principal amount of the Bonds Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under this Indenture;

(c) such Owner or Owners have offered to the Trustee indemnity as provided in Section 804 of this Indenture against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in principal amount of the Outstanding Bonds;

it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the lien of this Indenture or the rights of any other Owners of Bonds, or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all Outstanding Bonds.

Notwithstanding the foregoing or any other provision in this Indenture, however, the Owner of any Bond shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond on the respective stated maturities expressed in such Bond (or, in the case of redemption, on the redemption date) and nothing contained in this Indenture shall affect or impair the right of any Owner to institute suit for the enforcement of any such payment.

Section 706 Control of Proceedings by Bondowners. The Owners of a majority in principal amount of the Bonds Outstanding shall have the right, during the continuance of an Event of Default,

(a) to require the Trustee to proceed to enforce this Indenture, either by judicial proceedings for the enforcement of the payment of the Bonds and the foreclosure of this Indenture, or otherwise; and

(b) to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture, provided that

(1) such direction shall not be in conflict with any rule of law or this Indenture,

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and

(3) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Owners not taking part in such direction.

Section 707 Application of Money Collected. Any money collected by the Trustee pursuant to this Article together with any other sums then held by the Trustee as part of the Trust Estate, shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: To the payment of all amounts due the Trustee under Section 804 of this Indenture;

Second: To the payment of the whole amount then due and unpaid upon the Outstanding Bonds for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, with interest (to the extent that such interest has been collected by the Trustee or a sum sufficient therefor has been so collected and payment thereof is legally enforceable at the respective rate or rates prescribed therefor in the Bonds) on overdue principal (and premium, if any) and on overdue installments of interest; and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon such Bonds, then to the payment of such principal and interest, without any preference or priority, ratably according to the aggregate amount so due; and

Third: The remainder, if any, to the Company or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Whenever money is to be applied by the Trustee pursuant to the provisions of this Section, such money shall be applied by it at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such money available for application and

the likelihood of additional money becoming available for such application in the future. Whenever the Trustee shall apply such money, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such money and of the fixing of any such date, and shall not be required to make payment to the Owner of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 708 Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee or to the Bondowners is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 709 Delay or Omission Not Waiver. No delay or omission of the Trustee or of any Owner of any Bond to exercise any right or remedy accruing upon an Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Bondowners may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Bondowners, as the case may be.

Section 710 Waiver of Past Defaults. Before any judgment or decree for payment of money due has been obtained by the Trustee as provided in this Article, the Owners of a majority in principal amount of the Bonds Outstanding may, by written notice delivered to the Trustee and the Issuer, on behalf of the Owners of all the Bonds waive any past default hereunder and its consequences, except a default

(a) in the payment of the principal of (or premium, if any) or interest on any Bond, or

(b) in respect of a covenant or provision hereof which under Article IX cannot be modified or amended without the consent of the Owner of each Outstanding Bond affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to or affect any subsequent or other default or impair any right or remedy consequent thereon.

Section 711 Advances by Trustee. If the Company shall fail to make any payment or perform any of its covenants in the Loan Agreement, the Trustee may, at any time and from time to time, use and apply any moneys held by it under this Indenture, or make advances, to effect payment or performance of any such covenant on behalf of the Company. All moneys so used or advanced by the Trustee, together with interest at the Trustee's announced prime rate per annum, shall be repaid by the Company upon demand and such advances shall be secured under this

Indenture prior to the Bonds. For the repayment of all such advances the Trustee shall have the right to use and apply any moneys at any time held by it under this Indenture but no such use of moneys or advance shall relieve the Company from any default under the Loan Agreement.

ARTICLE VIII

THE TRUSTEE AND PAYING AGENTS

Section 801 Acceptance of Trusts; Certain Duties and Responsibilities. The Trustee accepts and agrees to execute the trusts imposed upon it by this Indenture, but only upon the following terms and conditions:

(a) Except during the continuance of an Event of Default,

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(b) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(1) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by an authorized officer of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of a majority in principal amount of the Outstanding Bonds relating to the time, method and place of conducting any proceeding for

any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

Section 802 Certain Rights of Trustee. Except as otherwise provided in Section 801 of this Indenture:

(a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) The Trustee shall be entitled to rely upon a certificate of an Issuer Representative as to the sufficiency of any request or direction of the Issuer mentioned herein, the existence or non-existence of any fact or the sufficiency or validity of any instrument, paper or proceeding, or that a resolution in the form therein set forth has been adopted by the governing body of the Issuer has been duly adopted, and is in full force and effect. The Trustee shall be entitled to rely upon an Officer's Certificate as to the sufficiency of any request or direction of the Company mentioned herein, the existence or non-existence of any fact or the sufficiency or validity of any instrument, paper or proceeding, or that a resolution in the form therein set forth has been adopted by the governing board of the Company has been duly adopted, and is in full force and effect.

(c) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate of an Issuer Representative.

(d) The Trustee may consult with counsel, and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in reliance thereon.

(e) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Bondowners pursuant to this Indenture, unless such Bondowners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities (except as may result from the Trustee's own negligence or willful misconduct) which might be incurred by it in compliance with such request or direction.

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney.

(g) The Trustee assumes no responsibility for the correctness of the recitals contained in this Indenture and in the Bonds, except the certificate of authentication on the Bonds. The Trustee makes no representations to the value or condition of the Trust Estate or any part thereof, or as to the title thereto or as to the security afforded thereby or hereby, or as to the validity or sufficiency of this Indenture or of the Bonds. The Trustee shall not be accountable for the use or application by the Issuer or the Company of any of the Bonds or the proceeds thereof or of any money paid to or upon the order of the Issuer or the Company under any provision of this Indenture.

(h) The Trustee, in its individual or any other capacity, may become the owner or pledgee of Bonds and may otherwise deal with the Issuer or the Company with the same rights it would have if it were not Trustee.

(i) All money received by the Trustee shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received. Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law or by this Indenture. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Issuer or the Company.

(j) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 803 Notice of Defaults. The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Article IV of this Indenture, unless the Trustee shall be specifically notified in writing of such default by the Issuer, the Company or the Owners of at least 10% in principal amount of all Bonds Outstanding, and in the absence of such notice so delivered, the Trustee may conclusively assume there is no default except as aforesaid. Within 30 days after the occurrence of any default hereunder of which the Trustee is required to take notice or has received notice as provided in this Section, the Trustee shall give written notice of such default by mail to all Owners of Bonds as shown on the bond register maintained by the Trustee, unless such default shall have been cured or waived; provided, however, that, except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Bond, the Trustee shall be protected in withholding such notice if and so long as the Trustee in good faith determines that the withholding of such notice is in the interests of the Bondowners. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.

Section 804 Compensation and Reimbursement. The Trustee shall be entitled to payment or reimbursement

(a) from time to time for reasonable compensation for all reasonable and necessary services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise expressly provided herein, upon its request, for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to the Trustee's negligence, willful misconduct or bad faith; and

(c) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

All such payments and reimbursements shall be made by the Company as provided in Section 6.04 of the Loan Agreement.

The Trustee shall promptly notify the Company in writing of any claim or action brought against the Trustee in respect of which indemnity may be sought against the Company, setting forth the particulars of such claim or action, and the Company will assume the defense thereof, including the employment of counsel satisfactory to the Trustee and the payment of all expenses. The Trustee may employ separate counsel in any such action and participate in the defense thereof, and the reasonable fees and expenses of such counsel shall not be payable by the Company unless such employment has been specifically authorized by the Company.

Pursuant to the provisions of the Loan Agreement, the Company has agreed to pay to the Trustee all reasonable fees, charges, advances and expenses of the Trustee, and the Trustee agrees to look only to the Company for the payment of all reasonable fees, charges, advances and expenses of the Trustee and any Paying Agent as provided in the Loan Agreement. The Trustee agrees that the Issuer shall have no liability for any fees, charges and expenses of the Trustee.

As security for the payment of such compensation, expenses, reimbursements and indemnity under this Section, the Trustee shall be secured under this Indenture by a lien prior to the Bonds and otherwise as provided in Section 707 hereof, and shall have the right to use and apply any trust moneys held by it under Article IV hereof.

Section 805 Corporate Trustee Required; Eligibility. There shall at all times be a Trustee hereunder which shall be a bank or trust company organized and doing business under the laws of the United States of America or of any state thereof, authorized under such laws to exercise corporate trust powers, subject to supervision or examination by federal or state authority, and having a combined capital and surplus of at least $50,000,000. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such

supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect specified in this Article.

Section 806 Resignation and Removal of Trustee.

(a) The Trustee may resign at any time by giving 30 days' written notice thereof to the Issuer, the Company and each Owner of Bonds Outstanding as shown by the list of Bondowners required by this Indenture to be kept at the office of the Trustee. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(b) If the Trustee has or shall acquire any conflicting interest, it shall, within 90 days after ascertaining that it has a conflicting interest, or within 30 days after receiving written notice from the Issuer, the Company (so long as the Company is not in default under the Loan Agreement) or any Bondowner that it has a conflicting interest, either eliminate such conflicting interest or resign in the manner and with the effect specified in Subsection (a).

(c) The Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Company, the Issuer and the Trustee signed by the Owners of a majority in principal amount of the Outstanding Bonds. The Issuer, the Company or any Bondowner may at any time petition any court of competent jurisdiction for the removal for cause of the Trustee.

(d) The Trustee may be removed at any time (so long as no Event of Default has occurred and is continuing under this Indenture) by an instrument in writing signed by the Company and delivered to the Trustee. The foregoing notwithstanding, the Trustee may not be removed by the Company unless written notice of the delivery of such instrument signed by a Company Representative is mailed to the Owners of all Bonds Outstanding under this Indenture, which notice indicates the Trustee will be removed and replaced by the successor trustee named in such notice, such removal and replacement to become effective not less than 60 days from the date of such notice, unless the Owners of not less than 25% in aggregate principal amount of such Bonds Outstanding shall object in writing to such removal and replacement.

(e) If at any time:

(1) the Trustee shall fail to comply with subsection (b) after written request therefor by the Issuer, the Company or by any Bondowner, or

(2) the Trustee shall cease to be eligible under Section 805 and shall fail to resign after written request therefor by the Issuer, the Company or any Bondowner, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be

appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (a) the Issuer or the Company may remove the Trustee, or (b) any Bondowner may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(f) The Trustee shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Owners of Bonds as their names and addresses appear in the bond register maintained by the Trustee. Each notice shall include the name of the successor Trustee and the address of its principal corporate trust office.

(g) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 807.

Section 807 Appointment of Successor Trustee. If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Issuer, with the written consent of the Company (which consent shall not be unreasonably withheld) so long as no Event of Default under Section 701(f) or under the Loan Agreement has occurred and is continuing, or the Owners of a majority in principal amount of Bonds Outstanding (if an Event of Default hereunder or under the Loan Agreement has occurred and is continuing), by an instrument or concurrent instruments in writing delivered to the Issuer and the retiring Trustee, shall promptly appoint a successor Trustee. In case all or substantially all of the Trust Estate shall be in the possession of a receiver or trustee lawfully appointed, such receiver or trustee, by written instrument, may similarly appoint a temporary successor to fill such vacancy until a new Trustee shall be so appointed by the Issuer or the Bondowners. If, within 30 days after such resignation, removal or incapability or the occurrence of such vacancy, a successor Trustee shall be appointed in the manner herein provided, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the retiring Trustee and any temporary successor Trustee appointed by such receiver or trustee. If no successor Trustee shall have been so appointed and accepted appointment in the manner herein provided, any Bondowner may petition any court of competent jurisdiction for the appointment of a successor Trustee, until a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided. Every such successor Trustee appointed pursuant to the provisions of this Section shall be a bank with trust powers or trust company in good standing under the law of the jurisdiction in which it was created and by which it exists, meeting the eligibility requirements of this Article.

Section 808 Acceptance of Appointment by Successor. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Issuer, the Company and the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the estates, properties, rights,

powers, trusts and duties of the retiring Trustee; but, on request of the Issuer or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument conveying and transferring to such successor Trustee upon the trusts herein expressed all the estates, properties, rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder, subject nevertheless to its lien, if any, provided for in Section 804. Upon request of any such successor Trustee, the Issuer shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such estates, properties, rights, powers and trusts. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article VIII, shall be forthwith filed and/or recorded by the successor trustee in each recording office, if any, where the Indenture shall have been filed and/or recorded.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 809 Merger, Consolidation and Succession to Business. Any corporation or association into which the Trustee may be merged or with which it may be consolidated, or any corporation or association resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation or association succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation or association shall be otherwise qualified and eligible under this Article, and shall be vested with all of the title to the whole property or Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger or consolidation to such authenticating Trustee may adopt such authentication and deliver the Bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such Bonds.

Section 810 Co-Trustees and Separate Trustees. At any time or times, for the purpose of meeting the legal requirements of any jurisdiction in which any of the Trust Estate may at the time be located, or in the enforcement of any default or the exercise any of the powers, rights or remedies herein granted to the Trustee, or any other action which may be desirable or necessary in connection therewith, the Trustee shall have power to appoint, and, upon the written request of the Trustee or of the Owners of at least 25% in principal amount of the Bonds Outstanding, the Issuer shall for such purpose join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Trustee either to act as co-trustee, jointly with the Trustee, of all or any part of the Trust Estate, or to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such person or persons in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section. If the Issuer does not join in such appointment within 15 days after the receipt by it of a request so to do, or in case an Event of Default has occurred and is continuing, the Trustee alone shall have power to make such appointment.

Should any written instrument from the Issuer be required by any co-trustee or separate trustee so appointed for more fully confirming to such co-trustee or separate trustee such property, title, right or power, any and all such instruments shall, on request, be executed, acknowledged and delivered by the Issuer.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms, namely:

(a) The Bonds shall be authenticated and delivered, and all rights, powers, duties and obligations hereunder in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Trustee hereunder, shall be exercised solely, by the Trustee.

(b) The rights, powers, duties and obligations hereby conferred or imposed upon the Trustee in respect of any property covered by such appointment shall be conferred or imposed upon and exercised or performed by the Trustee or by the Trustee and such co-trustee or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under any law of any jurisdiction in which any particular act is to be performed, the Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such co-trustee or separate trustee.

(c) The Trustee at any time, by an instrument in writing executed by it, with the concurrence of the Issuer evidenced by a resolution, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section, and, in case an Event of Default has occurred and is continuing, the Trustee shall have power to accept the resignation of, or remove, any such co-trustee or separate trustee without the concurrence of the Issuer. Upon the written request of the Trustee, the Issuer shall join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section.

(d) No co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of the Trustee, or any other such trustee hereunder.

(e) Any request, demand, authorization, direction, notice, consent, waiver or other act of Bondowners delivered to the Trustee shall be deemed to have been delivered to each such co-trustee and separate trustee.

Section 811 No Transfer of First Mortgage Bonds. The Trustee covenants that it will not sell, assign or transfer the First Mortgage Bonds, except as required to effect transfer to any successor trustee under this Indenture.

Section 812 Voting of First Mortgage Bonds. The Trustee covenants and agrees, as the holder of the First Mortgage Bonds, to attend such meeting or meetings of bondholders under the First Mortgage or, at its option, to deliver its proxy in connection therewith, as relate to

matters with respect to which it is entitled to vote or consent. The Trustee shall vote the First Mortgage Bonds, or shall consent with respect thereto, in favor of amendments and modifications of the Mortgage of substantially the same effect as any or all of the following: (1) to make available as property additions nuclear fuel (and similar or analogous devices or substances) and to establish other provisions as to such fuel, devices or substances; (2) to allow property additions to be located anywhere in the United States of America or its coastal waters; (3) in addition, to make available as property additions any form of space satellites (including solar power satellites), space stations and other analogous facilities; and (4) to change "$5,000,000 or more" in the special provision for retirement of Company Bonds referred to under the caption "Special Provisions for Retirement of Company Bonds" to "a dollar amount greater than 20% of Company's net utility plant as shown by its audited financial statements for its most recent fiscal year ending prior to the commencement of such 12 month period." Either at any such meeting or meetings, or otherwise when the consent of the holders of the Company's first mortgage bonds issued under the First Mortgage is sought without a meeting, with respect to any amendments or modifications of the First Mortgage, the Trustee shall vote all First Mortgage Bonds then held by it, or consent with respect thereto, proportionately with what the Trustee reasonably believes will be the vote or consent of the holders of all other first mortgage bonds of the Company then outstanding under the First Mortgage the holders of which are eligible to vote or consent; provided, however, that the Trustee shall not vote as such holder in favor of, or give its consent to, any amendment or modification of the First Mortgage which is correlative to any amendment or modification of this Indenture referred to in Section 902 hereof without the prior consent and approval, obtained in the manner prescribed in said Section 902, of Owners of Bonds which would be required under said Section 902 for such correlative amendment or modification of this Indenture.

Section 813 Surrender of First Mortgage Bonds. The Trustee covenants that it will surrender First Mortgage Bonds to the corporate trustee under the First Mortgage in accordance with the provisions of Section 3.02(c) of the Loan Agreement.

Section 814 Designation of Paying Agents. The Trustee is hereby designated and agrees to act as principal Paying Agent for and in respect to the Bonds. The Issuer may, with the consent of the Company, cause the necessary arrangements to be made through the Trustee and to be thereafter continued for the designation of alternate Paying Agents, if any, and for the making available of funds hereunder for the payment of the principal of, premium, if any, and interest on the Bonds, or at the principal corporate trust office of said alternate Paying Agents. In the event of a change in the office of Trustee, the predecessor Trustee which has resigned or been removed shall cease to be trustee of any funds provided hereunder and Paying Agent for principal of, premium, if any, and interest on the Bonds, and the successor Trustee shall become such Trustee and Paying Agent unless a separate Paying Agent or Agents are appointed by the Issuer in connection with the appointment pursuant to Section 807 of any successor Trustee; provided that if such appointment of such successor Trustee required the Company's consent, the appointment of any separate Paying Agent in connection therewith may not be made without the Company's consent. Any alternate or separate Paying Agent appointed pursuant to this Section may be removed by the Issuer with the Company's consent.

ARTICLE IX

SUPPLEMENTAL INDENTURES

Section 901 Supplemental Indentures without Consent of Bondowners. Without the consent of, or notice to, the Owners of any Bonds, the Issuer and the Trustee may from time to time, and when required by this Indenture shall, enter into one or more Supplemental Indentures for any of the following purposes:

(a) to correct or amplify the description of any property at any time subject to the lien of this Indenture, or better to assure, convey and confirm unto the Trustee any property subject or required to be subjected to the lien of this Indenture, or to subject to the lien of this Indenture additional property;

(b) to add to the conditions, limitations and restrictions on the authorized amount, terms or purposes of issue, authentication and delivery of the Bonds, as herein set forth, additional conditions, limitations and restrictions thereafter to be observed;

(c) to provide for the issuance of Additional Bonds pursuant to Section 202 hereof;

(d) to evidence the appointment of a separate trustee or the succession of a new trustee under this Indenture;

(e) to add to the covenants of the Issuer or to the rights, powers and remedies of the Trustee for the benefit of the Owners of the Bonds or to surrender any right or power herein conferred upon the Issuer;

(f) to cure any ambiguity, to correct or supplement any provision in this Indenture which may be inconsistent with any other provision herein or to make any other change, with respect to matters or questions arising under this Indenture, which shall not be inconsistent with the provisions of this Indenture, provided such action shall not materially adversely affect the interests of the Owners of the Bonds; or

(g) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualification of this Indenture under the Trust Indenture Act of 1939, as amended, or under any similar federal statute hereafter enacted, or to permit the qualification of the Bonds for sale under the securities laws of the United States or any state of the United States.

Section 902 Supplemental Indentures with Consent of Bondowners. With the consent of the Owners of not less than a majority in principal amount of the Bonds then Outstanding affected by such Supplemental Indenture, the Issuer and the Trustee may enter into one or more Supplemental Indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Owners of the Bonds under this Indenture; provided, however, that no such Supplemental Indenture shall, without the consent of the Owner of each Outstanding Bond affected thereby,

(a) change the Stated Maturity of the principal of, or any installment of interest on, any Bond, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change any place of payment where, or the coin or currency in which, any Bond, or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date); or

(b) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose Owners is required for any such Supplemental Indenture, or the consent of whose Owners is required for any waiver provided for in this Indenture of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences; or

(c) modify the obligation of the Issuer to make payment on or provide funds for the payment of any Bond; or

(d) modify or alter the provisions of the proviso to the definition of the term "Outstanding"; or

(e) modify any of the provisions of this Section or Section 710 or 1002, except, with respect to any modification of this Section or Section 710, to increase any percentage provided thereby or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Owner of each Bond affected thereby; or

(f) permit the creation of any lien ranking prior to or on a parity with the lien of this Indenture with respect to any of the Trust Estate or terminate the lien of this Indenture on any property at any time subject hereto or deprive the Owner of any Bond of the security afforded by the lien of this Indenture.

The Trustee may in its discretion determine whether or not any Bonds would be affected by any Supplemental Indenture and any such determination shall be conclusive upon the Owners of all Bonds, whether theretofore or thereafter authenticated and delivered hereunder. The Trustee shall not be liable for any such determination made in good faith.

If at any time the Issuer shall request the Trustee to enter into any such Supplemental Indenture for any of the purposes of this Section, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Indenture to be mailed to each Owner of Bonds then Outstanding at the addresses appearing in the bond register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Bondowners. The Trustee shall not, however, be subject to any liability to any Bondowner by reason of its failure to mail such notice, and any such failure shall not affect the validity of such supplemental indenture when consented to and approved as provided in this Section. If the required percentage of Owners shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any

right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provision thereof. It shall not be necessary for the required percentage of Owners of Bonds under this Section to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such act shall approve the substance thereof. Upon the execution of any such Supplemental Indenture as in this Section permitted and provided, this Indenture shall be and be deemed to be modified and amended in accordance therewith.

Section 903 Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any Supplemental Indenture permitted by this Article or the modification thereby of the trusts created by this Indenture, the Trustee shall receive, and, subject to Section 801, shall be fully protected in relying upon, an Opinion of Bond Counsel addressed and delivered to the Trustee and the Issuer stating that the execution of such Supplemental Indenture is authorized or permitted by this Indenture, and that the execution and delivery thereof will not adversely affect the exclusion from federal gross income of interest on the Bonds. The Trustee may, but shall not, except to the extent required in the case of any Supplemental Indenture entered into under Section 901(g), be obligated to, enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 904 Effect of Supplemental Indentures. Upon the execution of any Supplemental Indenture under this Article, this Indenture shall be modified in accordance therewith and such Supplemental Indenture shall form a part of this Indenture for all purposes; and every Owner of Bonds theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 905 Reference in Bonds to Supplemental Indentures. Bonds authenticated and delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if required by the Trustee shall, bear a notation in form approved by the Trustee as to any matter provided for in such Supplemental Indenture. If the Issuer shall so determine, new Bonds so modified as to conform, in the opinion of the Trustee and the Issuer, to any such Supplemental Indenture may be prepared and executed by the Issuer and authenticated and delivered by the Trustee in exchange for Outstanding Bonds.

Section 906 Company's Consent to Supplemental Indentures. So long as the Company is not in default under the Loan Agreement, a Supplemental Indenture under this Article which affects any rights, powers, agreements or obligations of the Company, including, without limitation, rights, powers, agreements or obligations of the Company under the Loan Agreement, the First Mortgage Bonds and the Mortgage, or requires any revision of the Loan Agreement, the First Mortgage Bonds and the Mortgage, will not become effective unless and until the Company consents in writing to the execution and delivery of such Supplemental Indenture.

ARTICLE X

AMENDMENT OF LOAN AGREEMENT

Section 1001 Amendment, etc., to Loan Agreement Not Requiring Consent of Bondowners. The Trustee shall, without the consent of, or notice to, the Bondowners, consent to any amendment, change or modification of the Loan Agreement as may be required:

(a) by the provisions of the Loan Agreement or hereby;

(b) in connection with the issuance of any Additional Bonds;

(c) for the purpose of curing any ambiguity or formal defect or omission in the Loan Agreement; or

(d) to effect any other amendment to the Loan Agreement which, in the judgment of the Trustee, will not adversely affect the interests of the Bondowners.

Section 1002 Amendment, etc., to Loan Agreement Requiring Consent of Bondowners. Except for the amendments, changes or modifications as provided in Section 1001, the Trustee shall not consent to any other amendment, change or modification of the Loan Agreement without the giving of notice and the written approval or consent of the Owners of not less than a majority in principal amount of the Bonds then Outstanding given and procured in accordance with the procedure provided in this Section. If at any time the Issuer and the Company shall request the consent of the Trustee to any such proposed amendment, change or modification of the Loan Agreement, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification of the Loan Agreement to be given in the same manner as provided by Section 902 with respect to proposed supplemental indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the principal corporate trust office of the Trustee for inspection by all Owners of the Bonds. The Trustee shall not, however, be subject to any liability to any Owner of a Bond by reason of its failure to give such notice, and any such failure shall not affect the validity of such amendment, change or modification when consented to and approved as provided in this Section. If the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the execution of any such amendment, change or modification shall have consented thereto, then no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof.

Section 1003 Trustee Authorized To Join in Amendments; Reliance on Counsel. The Trustee is authorized to join with the Issuer and the Company in the execution and delivery of any amendment permitted by this Article and, in so doing, shall be fully protected by an opinion of Counsel that such amendment is so permitted and has been duly authorized by the Issuer and that all things necessary to make it a valid and binding agreement have been done.

ARTICLE XI

MEETINGS OF BONDOWNERS

Section 1101 Purposes for Which Bondowners' Meetings May Be Called. A meeting of Bondowners may be called at any time and from time to time for any of the following purposes:

(a) to give any notice to the Issuer, the Company or the Trustee, or to give any directions to the Trustee, or to consent to the waiving of any Default or Event of Default hereunder and its consequences, or to take any other action authorized to be taken by Bondowners pursuant to Section 705 or 706;

(b) to remove the Trustee pursuant to Section 806 or to appoint a successor trustee pursuant to Section 807;

(c) to consent to the execution of a supplemental indenture pursuant to Section 902, or to consent to the execution of an amendment, change or modification of the Loan Agreement pursuant to Section 1002; or

(d) to take any other action authorized to be taken by or on behalf of the Owners of any specified principal amount of the Bonds under any other provision hereof or under applicable law.

Section 1102 Place of Meetings of Bondowners. Meetings of Bondowners may be held at such place or places as the Trustee or, in the case of its failure to act, the Bondowners calling the meeting shall from time to time determine.

Section 1103 Call and Notice of Bondowners' Meetings.

(a) The Trustee may at any time call a meeting of Bondowners to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of Bondowners, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given by first class mail postage prepaid, to the Bondowners at the addresses shown on the registration books.

(b) In case at any time the Owners of at least 20% in aggregate principal amount of the Bonds outstanding shall have requested the Trustee to call a meeting of the Bondowners by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have given the notice of such meeting within 20 days after receipt of such request, then such Bondowners may determine the time and the place for such meeting and may call such meeting to take any action authorized in Section 1101 by giving notice thereof as provided in subsection (a) of this Section.

Section 1104 Persons Entitled To Vote at Bondowners' Meetings. To be entitled to vote at any meeting of Bondowners, a person shall be an Owner of one or more Outstanding Bonds, or a person appointed by an instrument in writing as proxy for a Bondowner by such a Bondowner. The only persons who shall be entitled to be present or to speak at any meeting of

Bondowners shall be the persons entitled to vote at such meeting and their Counsel, any representatives of the Trustee and its Counsel, any representatives of the Company and its Counsel and any representatives of the Issuer and its Counsel.

Section 1105 Determination of Voting Rights; Conduct and Adjournment of Meetings.

(a) Notwithstanding any other provisions hereof, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Bondowners in regard to proof of the holding of Bonds and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Bonds shall be proved in the manner specified in Section 1202 and the appointment of any proxy shall be proved in the manner specified in Section 1202 or by having the signature of the person executing the proxy witnessed or guaranteed by any bank, banker or trust company authorized by Section 1202 to certify to the holding of Bonds. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 1202 or other proof.

(b) The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by Bondowners as provided in subsection (b) of Section 1103, in which case the Bondowners calling the meeting shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Owners of a majority of the Bonds represented at the meeting and entitled to vote.

(c) At any meeting each Bondowner or proxy shall be entitled to one vote for each $5,000 principal amount of Outstanding Bonds held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Bond challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Bondowner or proxy.

(d) At any meeting of Bondowners, the presence of persons holding or representing Bonds in an aggregate principal amount sufficient under the appropriate provision hereof to take action upon the business for the transaction of which such meeting was called shall constitute a quorum. Any meeting of Bondowners called pursuant to Section 1103 may be adjourned from time to time by vote of the Owners (or proxies for the Owners) of a majority of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present; and the meeting may be held as so adjourned without further notice.

Section 1106 Counting Votes and Recording Action of Meetings. The vote upon any resolution submitted to any meeting of Bondowners shall be by written ballots on which shall be subscribed the signatures of the Bondowners or of their representatives by proxy and the number or numbers of the Outstanding Bonds held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their

verified written reports in duplicate of all votes cast at the meeting. A record, at least in triplicate, of the proceedings of each meeting of Bondowners shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 1103. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and copies shall be delivered to the Issuer and the Trustee. The Trustee's copy shall have attached thereto the ballots voted at the meeting and shall be preserved by the Trustee. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

Section 1107 Revocation by Bondowners. At any time prior to (but not after) the evidencing to the Trustee, in the manner provided in Section 1106, of the taking of any action by the Owners of the percentage in aggregate principal amount of the Bonds specified herein in connection with such action, any Owner of a Bond the number of which is included in the Bonds the Owners of which have consented to such action may, by filing written notice with the Trustee at its principal office and upon proof of holding as provided in Section 1202, revoke such consent so far as concerns such Bond. Except as aforesaid any such consent given by the Owner of any Bond shall be conclusive and binding upon such Owner and upon all future Owners of such Bond and of any Bond issued in exchange therefor or in lieu thereof, irrespective of whether or not any notation in regard thereto is made upon such Bonds. Any action taken by the Owners of the percentage in principal amount of the Bonds specified herein in connection with such action shall be conclusively binding upon the Issuer, the Company, the Trustee and the Owners of all the Bonds; provided that such action is authorized by this Indenture.

ARTICLE XII

NOTICES, CONSENTS AND ACTS OF BONDOWNERS

Section 1201 Notices. Except as otherwise provided herein, it shall be sufficient service of any notice, request, demand, authorization, direction, consent, waiver or other paper required or permitted by this Indenture to be made, given or furnished to or filed with the following Persons, if the same shall be delivered in person or duly mailed by first class mail, postage prepaid, at the following addresses:

(a) To the Issuer at:

City of Cohasset
305 Northwest 1st Avenue
Cohasset, Minnesota 55721
Attention: City Clerk-Treasurer

(b) To the Trustee at:

U.S. Bank National Association
Mail code EP-MN-WS3C

60 Livingston Avenue
St. Paul, Minnesota 55107
Attention: Corporate Trust

(c) To the Company at:

ALLETE, Inc.
30 West Superior Street
Duluth, Minnesota 55802
Attention: Chief Financial Officer

(d) To the Bondowners:

At the addresses of the Bondowners as shown on the bond register maintained by the Trustee under this Indenture.

(e) To Standard & Poor's at:

Standard & Poor's Ratings Service
25 Broadway
New York, New York 10004
Attention: Structured Finance Group

(f) To Moody's at:

Moody's Investors Service, Inc.
99 Church Street
New York, New York 10007
Attention: Structured Finance—Monitoring Group

If, because of the temporary or permanent suspension of mail service or for any other reason, it is impossible or impractical to mail any notice in the manner herein provided, then such delivery of notice in lieu thereof as shall be made with the approval of the Trustee shall constitute a sufficient notice.

If notice to Bondowners is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Bondowner shall affect the sufficiency of such notice with respect to other Bondowners. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Bondowners shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

The Trustee shall, prior to the execution and delivery of any Supplemental Indenture or consenting to any amendment to the Loan Agreement, cause notice of the proposed execution and delivery of such Supplemental Indenture or Supplemental Loan Agreement together with a copy of the proposed Supplemental Indenture or Supplemental Loan Agreement to be mailed to any rating agency then maintaining a rating on the Bonds at least 15 days prior to the proposed

date of execution and delivery of such Supplemental Indenture or Supplemental Loan Agreement. The Trustee shall also give notice to each Rating Service then maintaining a rating on the Bonds if:

(a) the Trustee resigns or is removed, or a new Trustee or Co-Trustee is appointed;

(b) there is a call for the redemption of all Bonds;

(c) all of the Bonds are paid or defeased in accordance with the provisions of this Indenture;

(d) an Event of Default or acceleration occurs or the Trustee waives any Event of Default or acceleration under this Indenture;

(e) any amendment is made to any of the other Transaction Documents;

(f) the giving of notice of a mandatory redemption of Bonds in whole or in part, or a payment of all principal, interest and premium, if any, on the Bonds; or

(g) appointment of a successor Paying Agent.

Section 1202 Acts of Bondowners. Any notice, request, demand, authorization, direction, consent, waiver or other action provided by this Indenture to be given or taken by Bondowners may be embodied in and evidenced by one or more substantially concurrent instruments of similar tenor signed by such Bondowners in person or by an agent duly appointed in writing. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Issuer or the Company. Proof of execution of any such instrument or of a writing appointing any such agent, or of the ownership of Bonds, shall be sufficient for any purpose of this Indenture and conclusive in favor of the Issuer and the Trustee, if made in the following manner:

(a) The fact and date of the execution by any Person of any such instrument or writing may be proved by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof, or by the affidavit of a witness of such execution. Whenever such execution is by an officer of a corporation or a member of a partnership on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his authority.

(b) The fact and date of execution of any such instrument or writing and the authority of any Person executing the same may also be proved in any other manner which the Trustee deems sufficient; and the Trustee may in any instance require further proof with respect to any of the matters referred to in this Section.

(c) The ownership of Bonds and the amount or amounts, numbers and other identification of such Bonds, and the date of holding the same, shall be proved by the bond register maintained by the Trustee.

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

Any notice, request, demand, authorization, direction, consent, waiver or other action by the Owner of any Bond shall bind every future owner of the same Bond and the owner of every Bond issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Bond.

Section 1203 Form and Contents of Documents Delivered to Trustee. Whenever several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to the other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Issuer stating that the information with respect to such factual matters is in the possession of the Issuer, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Whenever any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

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

ARTICLE XIII

MISCELLANEOUS PROVISIONS

Section 1301 Further Assurances. The Issuer shall do, execute, acknowledge and deliver such Supplemental Indentures and such further acts, instruments, financing statements and assurances as the Trustee may reasonably require for accomplishing the purposes of this Indenture.

Section 1302 Immunity of Officers, Employees and Members of Issuer. No recourse shall be had for the payment of the principal of or redemption premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained in this Indenture against any past, present or future officer, director, member, employee or agent of the Issuer, or of any successor public corporation, either directly or through the Issuer or any successor public corporation, under any rule of law or equity, statute or constitution, or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, directors, members, employees or agents as such is hereby expressly waived and released as a condition of and consideration for the execution of this Indenture and the issuance of Bonds.

Section 1303 Liability of Issuer Limited. It is understood and agreed by the Company and the Owners from time to time of the Bonds that no Bonds or any other document executed by the Issuer in connection with the issuance, sale, and delivery of the Bonds, or any obligation herein or therein imposed upon the Issuer or breach thereof, shall give rise to a pecuniary liability of the Issuer or a charge against its general credit or taxing powers or shall obligate the Issuer financially in any way except with respect to the Loan Agreement and the application of revenues therefrom and the proceeds of the Bonds. No failure of the Issuer to comply with any term, condition, covenant, or agreement herein shall subject the Issuer to liability for any claim for damages, costs or other financial or pecuniary charges except to the extent that the same can be paid or recovered from the Loan Agreement or revenues therefrom or proceeds of the Bonds. No execution on any claim, demand, cause of action, or judgment shall be levied upon or collected from the general credit, general funds, or taxing powers of the Issuer. In making the agreements, provisions and covenants set forth herein, the Issuer has not obligated itself except with respect to the Loan Agreement and the application of revenues thereunder as hereinabove provided. The Bonds constitute special obligations of the Issuer, payable solely from the revenues pledged to the payment thereof pursuant to this Indenture, and do not now and never shall constitute an indebtedness or a loan of the credit of the Issuer, the State or any political subdivision thereof or a charge against the general taxing powers of any of them within the meaning of any constitutional or statutory provision whatsoever.

Section 1304 Execution Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 1305 Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the State without giving effect to the conflicts-of-laws principles thereof.

Section 1306 Benefit of Indenture. This Indenture shall inure to the benefit of and shall be binding upon the Issuer and the Trustee and their respective successors and assigns, subject, however, to the limitations contained herein. With the exception of rights expressly conferred in this Indenture, nothing in this Indenture or in the Bonds, express or implied, shall give to any Person, other than the parties hereto and their successors and assigns hereunder, any separate trustee or co-trustee appointed under Section 810 and the Owners of Outstanding Bonds, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 1307 Severability. If any provision in this Indenture or in the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Indenture of Trust to be duly executed by their duly authorized officers, all as of the day and year first above written.

CITY OF COHASSET, MINNESOTA

By: Marian Barcus
Mayor

[SEAL]

Attest:

Debra Sakuson
City Clerk-Treasurer

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Title: **Vice President**

[Signature Page to Trust Indenture]

EXHIBIT A
to the
INDENTURE OF TRUST

Form of Series 2004 Bonds

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the issuer or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

UNITED STATES OF AMERICA
STATE OF MINNESOTA
COUNTY OF ITASCA

CITY OF COHASSET

COLLATERALIZED POLLUTION CONTROL REFUNDING REVENUE BOND
(ALLETE, INC. PROJECT),
SERIES 2004

No. R-1 $111,000,000

Date of Original Issue	Interest Rate	Maturity Date	CUSIP
August 19, 2004	4.95%	July 1, 2022	192472 BE7

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: ONE HUNDRED ELEVEN MILLION DOLLARS ($111,000,000)**********

The City of Cohasset, in the County of Itasca and State of Minnesota (hereinafter called the "Municipality"), for value received, promises to pay to the registered holder named above, or registered assigns, on the Maturity Date specified above, from the source and in the manner hereinafter provided, and upon presentation and surrender hereof at the principal corporate trust office of the Trustee hereinafter referred to, the principal amount specified above, and to pay, from the source and in the manner hereinafter provided, interest on said principal amount from the date of original issue hereof until said principal amount is paid or payment thereof is duly provided for, at the rate per annum specified above, except as the provisions below with respect to redemption of this Bond may become applicable hereto. Interest is computed on the basis of a 360 day year composed of twelve 30-day months and is payable semiannually on each January 1

and July 1 (hereinafter called an "Interest Payment Date"), commencing January 1, 2005, to the person in whose name this Bond is registered in the bond register maintained by the Trustee (herein called the "Owner") as of the close of business on the fifteenth day (whether or not a Business Day) of the calendar month next preceding such Interest Payment Date by check or draft mailed to such Owner at his address as it appears on the bond register or, at the written direction of any Owner of at least $1,000,000 in aggregate principal amount of the Bonds, by wire transfer in immediately available funds to an account designated by such Owner. The principal of and premium, if any, and interest on this Bond are payable in lawful money of the United States of America.

This Bond is one of an authorized issue of bonds of the Municipality (herein called the "Bonds") issued under, and all equally and ratably secured and entitled to the protection given by, an Indenture of Trust, dated as of August 1, 2004 (as it may be amended and supplemented, herein called the "Indenture"), duly executed and delivered by the Municipality to U.S. Bank National Association, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture). Reference is made to the Indenture, copies of which are on file in the offices of the Municipality and the Trustee, including all indentures supplemental thereto, for a statement of the nature and extent of the security for the Bonds, the rights, duties and obligations of the Municipality and the Trustee, the rights of the Owners of the Bonds, the manner in which the Indenture can be amended, and terms upon which the Bonds are issued and secured. All terms capitalized but not defined herein shall have the meanings assigned to them in the Indenture.

The Bonds are issued by the Municipality in the aggregate principal amount of $111,000,000 for the purpose of providing funds to be loaned by the Municipality to ALLETE, Inc., a Minnesota corporation (herein called the "Company"), pursuant to a Loan Agreement, dated as of August 1, 2004 (as it may be amended or supplemented, herein called the "Agreement"), for the purpose of refunding revenue bonds previously issued to refinance a portion of the costs of acquisition, construction and equipping of certain air and water pollution control facilities (the "Facilities") used by the Company in the operation of the Clay Boswell steam electric generating station owned in part by the Company and located in the Municipality (the "Plant"), thereby assisting activities in the public interest and for the public welfare of the State of Minnesota. To evidence its obligation to repay such loan, the Company will deliver to the Trustee its first mortgage bonds (the "First Mortgage Bonds") issued as an additional series under the Mortgage and Deed of Trust, dated as of September 1, 1945, from the Company to Irving Trust Company (now The Bank of New York) and Richard H. West (Douglas J. MacInnes, Successor), as trustees, as supplemented and to be supplemented (collectively referred to as the "First Mortgage").

All Bonds Outstanding are subject to redemption by the Municipality, solely at the option of the Company, in whole or in part, on any Business Day, at a redemption price equal to 100% of the principal amount thereof, without premium, plus accrued interest thereon to the redemption date, if the Company shall declare, within 180 days following the occurrence of one of the following events, that it will cease to operate any element or unit of the Facilities by reason of the occurrence of such event: (a) the damage or destruction of all or substantially all of any element or unit of the Facilities or the Plant to which such Facilities relate to such extent that, in the reasonable opinion of the Company, the repair and restoration thereof would not be

economical; (b) the condemnation of all or substantially all of any element or unit of the Facilities or such Plant or the taking by condemnation of such part, use or control of such element or unit of the Facilities or Plant as to render them or it unsatisfactory to the Company for their or its intended use; (c) if the Company has abandoned and removed from service all or a portion of the Facilities or all of its ownership interest in the Plant, (d) in the Company's reasonable opinion, unreasonable burdens or excessive liabilities shall have been imposed upon the Company with respect to the Facilities or the Plant or the operation thereof, including, but without being limited to, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Indenture, other than ad valorem taxes levied on the date of the Indenture upon privately owned property used for the same general purpose as the Facilities or the Plant; (e) as a result of any changes in the Constitution of the State of Minnesota or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final direction, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Company in good faith, the Indenture or the Loan Agreement becomes void or unenforceable or impossible of performance; or (f) if (1) the Company sells, leases or otherwise disposes of the Facilities or a substantial part thereof to a Person who is not an Affiliate of the Company, or changes or allows a change in the use of, such Facilities or any substantial part thereof, and (2) there is delivered to the Municipality and the Trustee an Opinion of Bond Counsel to the effect that, unless the Bonds or a specified part thereof are redeemed and retired either prior to or concurrently with such sale, lease or other disposition, or change in use, or on a subsequent date prior to maturity, Bond Counsel is unable to render an unqualified opinion that such sale, lease or other disposition, or change in use, of all or such substantial part of such Facilities will not adversely affect the excludability from gross income, for federal income tax purposes, of the interest on the series of Bonds that financed such Facilities and will not adversely affect the Company's ability to deduct interest payments made pursuant to the Agreement under Section 150(b) of the Internal Revenue Code of 1986, as amended, or a successor provision thereto.

All of the Bonds shall be subject to mandatory redemption, at a redemption price equal to 100% of the principal amount thereof, without premium, on the earliest practicable Interest Payment Date, upon written notice to the Company by the Trustee of the occurrence of a final, nonappealable determination by the Internal Revenue Service or a court of competent jurisdiction in the United States, that, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Agreement or as a result of the inaccuracy of any representation made by the Company under the Agreement, the interest payable on the Bonds is includable for federal income tax purposes in the gross income of the owners thereof (other than an owner who is a "substantial user" of the projects refinanced thereby or a "related person" thereto within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended), which final determination follows proceedings of which the Company has been given written notice and in which the Company, at its sole expense and to the extent deemed sufficient by the Company, has been given an opportunity to participate, either directly or in the name of the owners of the Bonds. The Bonds shall be redeemed, either in whole or in part, in such principal amount that, upon such redemption, the interest payable on the Bonds remaining outstanding after such redemption would not be so includable for federal tax purposes in the gross income of the owners thereof.

The Bonds also are subject to redemption in whole or in part in an amount evenly divisible by minimum Authorized Denominations, solely at the option of the Company, which shall be exercised upon the written direction of the Company, on July 1, 2014, and on any date thereafter, at a redemption price equal to 100% of the principal amount thereof, without premium, plus interest accrued on the principal amount so redeemed to the redemption date.

Notice of redemption shall be mailed (unless waived, as set forth in the Indenture) at least 30 days before the redemption date to each Owner of a Bond to be redeemed at the address shown on the bond register or at such other address as is furnished in writing by such owner to the Trustee; provided that no defect in or failure to give such notice of redemption by mail shall affect the validity of proceedings for redemption of any Bond not affected by such defect or failure. With respect to notice of any optional or extraordinary optional redemption of the Bonds, as described above, unless moneys or Government Obligations or a combination thereof, provided by the Company shall be received by the Trustee prior to the giving of said notice sufficient to pay the redemption price on the Bonds to be redeemed, said notice shall state that said redemption shall be conditional upon the receipt of such moneys or Governmental Obligations by the Trustee on or prior to the date fixed for such redemption. If such moneys or Governmental Obligations shall not have been so received on or prior to the redemption date, said notice shall be of no force and effect, the Municipality shall not redeem such Bonds and the Trustee shall give notice, in the manner in which the notice of redemption was given, that such moneys were not so received. All Bonds so called for redemption will cease to bear interest on the specified redemption date, provided funds for their redemption have been duly deposited, and, except for the purpose of payment, shall no longer be protected by the Indenture and shall not be deemed Outstanding under the provisions of the Indenture.

This Bond and the series of which it forms a part are issued pursuant to and in full compliance with the Constitution and laws of the State of Minnesota, particularly Minnesota Statutes Sections 469.152 to 469.165, as amended, and pursuant to resolutions adopted by the governing body of the Municipality, which resolutions authorize the execution and delivery of the Agreement, the Indenture and the Bonds, and are limited obligations payable solely from amounts to be received by the Municipality from the Company on the First Mortgage Bonds and otherwise pursuant to the Agreement, which amounts, if paid when due, will be sufficient to pay the principal of and premium, if any, and interest on the Bonds. Such payments are to be made to the Trustee for the account of the Municipality and credited to the Bond Fund provided for in the Indenture as a special trust fund account created by the Municipality and have been pledged for that purpose. The Bonds do not constitute an indebtedness of the Municipality within the meaning of any constitutional or statutory limitation and do not constitute or give rise to a pecuniary liability of the Municipality or a charge against its general credit or taxing powers. No Owner of any Bond shall ever have the right to compel any exercise of the taxing power of the Municipality to pay the principal of or premium, if any, or interest on the Bonds or to enforce payment thereof against any property of the Municipality other than the Trust Estate.

If provision is made for the payment of the principal of and premium, if any, and interest on this Bond in accordance with the Indenture, this Bond shall no longer be deemed Outstanding under the Indenture, shall cease to be entitled to the benefits of the Indenture, and shall thereafter be payable solely from the funds provided for the payment thereof.

If an Event of Default occurs, the principal of all Outstanding Bonds may become due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Municipality and the Owners of the Bonds at any time with the consent of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding. The Trustee may not vote the First Mortgage Bonds, or consent with respect thereto, in favor of a correlative modification or amendment of the First Mortgage without like consent, provided that the Trustee is required to vote or consent in favor of certain modifications and amendments enumerated in the Indenture that may be adopted without any consent of the Owners of the Bonds Outstanding under the Indenture. The Indenture also contains provisions permitting Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding, on behalf of the Owners of all the Bonds, to waive compliance with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Owner of this Bond shall be conclusive and binding upon such Owner and of any Bond issued in lieu hereof whether or not notation of such consent or waiver is made upon this Bond or such Bond.

The Owner of this Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under the Indenture, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Indenture. In certain events, on the conditions, in the manner and with the effect set forth in the Indenture, the principal of all Outstanding Bonds may become due and payable before the stated maturity thereof, together with interest accrued thereon.

The Bonds are issuable only as fully registered bonds without coupons in the denominations of $5,000 and any integral multiple of $5,000 in excess of $5,000. The Bonds are exchangeable for other Bonds in the form of fully registered bonds of the same aggregate principal amount and in authorized denominations, upon surrender thereof by the Owner thereof at the principal corporate trust office of the Trustee, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Trustee and executed by the Owner thereof or his attorney duly authorized in writing, in the manner and upon payment of the charges as provided in the Indenture.

This Bond is transferable by the Owner hereof upon surrender of this Bond for transfer at the principal corporate trust office of the Trustee, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Trustee and executed by, the Owner hereof or his attorney duly authorized in writing, in the manner and upon payment of the charges as provided in the Indenture. Thereupon the Municipality shall execute and the Trustee shall authenticate and deliver, in exchange for this Bond, one or more new Bonds in the name of the transferee, of an authorized denomination, in aggregate principal amount equal to the principal amount of this Bond.

The Municipality, the Trustee and the Company may treat the person in whose name this Bond is registered as the absolute holder hereof for all purposes whether or not this Bond is overdue, and shall not be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the issuance of this Bond and the series of which it forms a part does not exceed or violate any constitutional or statutory limitation of indebtedness.

This Bond shall not be valid or obligatory for any purpose or be entitled to any security or benefit under the Indenture unless the Certificate of Authentication hereon has been signed by the Trustee.

IN WITNESS WHEREOF, the City of Cohasset, Minnesota, by its governing body, has caused this Bond to be executed in its name by the facsimile signatures of the Mayor and the City Clerk-Treasurer and sealed with a facsimile of its official seal printed hereon.

Dated: August 19, 2004

_____
Mayor

(SEAL)

_____
City Clerk-Treasurer

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated therein and referred to in the within-mentioned Indenture.

U.S. Bank National Association,
as Trustee

By:

_____
Authorized Signature

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto _____, the within Bond and does hereby irrevocably constitute and appoint _____, attorney, to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any be guaranteed by a commercial bank or trust company or by a brokerage firm having a membership in one of the major stock exchanges.

SIGNATURE GUARANTEED: _____

Exhibit 4(c)

FINAL

LOAN AGREEMENT

between

CITY OF COHASSET, MINNESOTA

and

ALLETE, INC.

Dated as of August 1, 2004

Relating to

$111,000,000 Collateralized Pollution Control Refunding Revenue Bonds
(ALLETE, Inc. Project), Series 2004

TABLE OF CONTENTS

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

LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of August 1, 2004, between the CITY OF COHASSET, a municipal corporation of the State of Minnesota (as hereinafter defined, the "Issuer"), and ALLETE, INC., a Minnesota corporation (as hereinafter defined, the "Company").

W I T N E S S E T H:

WHEREAS, the Issuer is authorized and empowered under Minnesota Statutes, Sections 469.152 to 469.165, as amended (the "Act"), to issue revenue bonds to finance, in whole or in part, the cost of the acquisition, construction, reconstruction, improvement, betterment or extension of, and to acquire, construct and hold, properties, real or personal, used or useful in the abatement or control of air or water pollution in connection with a revenue-producing enterprise engaged in business, and to refund revenue bonds previously issued under the Act; and

WHEREAS, the Issuer proposes to issue and sell its revenue bonds under the Act to refund bonds previously issued by the City of Bass Brook, Minnesota (the predecessor to the Issuer), the proceeds of which will be used to refinance a portion of the costs of the acquisition, construction and equipping of certain air and water pollution control facilities at units 1, 2 and 4 of the Clay Boswell steam electric generating station owned in part by the Company and located in the City of Cohasset, Minnesota; and

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

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

ARTICLE I

DEFINITIONS; REFERENCES; CERTIFICATES AND OPINIONS; GENERAL PROVISIONS

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

"Act" means Minnesota Statutes, Sections 469.152 to 469.165, as amended, and all acts supplemental thereto or amendatory thereof.

"Additional Bonds" means any Bonds issued under the Indenture, other than the Series 2004 Bonds.

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

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

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

"Bonds" means the Series 2004 Bonds and any Additional Bonds.

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

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

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

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

"Determination of Taxability," when used with respect to a series of Bonds, means a final, nonappealable determination by the Internal Revenue Service or by a court of competent jurisdiction in the United States that, as a result of failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under this Agreement or as a result of the inaccuracy of any representation or agreement made by the Company under this Agreement, the interest payable on Bonds of the series is includable for federal income tax purposes in the gross income of the owners thereof (other than an owner who is a "substantial user" of the projects refinanced thereby or a "related person" thereto within the meaning of Section 103(b)(13) of the 1954 Code), which final determination follows proceedings of which the Company has been given written notice and in which the Company, at its sole expense and to the extent deemed sufficient by the Company, has been given an opportunity to participate, either directly or in the name of the owners of Bonds of the series.

"Facilities" means the facilities refinanced, in whole or in part, with the proceeds of the Refunded Bonds, which are described generally in Exhibit A to this Agreement.

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

"First Mortgage Bonds" means the bonds issued and delivered under the First Mortgage as required by Section 3.02 hereof.

"First Mortgage Trustee" means the corporate trustee under the First Mortgage, its successors in trust and their assigns.

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

"Issuer" means the City of Cohasset, Minnesota (the successor in interest to the City of Bass Brook, Minnesota), and any successors to its functions hereunder.

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

"1954 Code" means the Internal Revenue Code of 1954, as amended, and, when appropriate, any statutory predecessor thereto, and all applicable regulations thereunder and any applicable official rulings, announcements, notices, procedures and judicial determinations relating to the foregoing.

"Original Purchasers" means, with respect to the Series 2004 Bonds, UBS Financial Services Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

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

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

(b) Bonds for whose payment or redemption money or Defeasance Obligations in the necessary amount have been deposited with the Trustee or any Paying Agent in trust for the owners of such Bonds as provided in Section 501 of the Indenture, provided that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made;

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

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

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

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

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

"Plant" means the Clay Boswell steam electric generating station located in the City of Cohasset, Minnesota, and owned in part by the Company.

"Prior Pollution Control Bonds" means the Collateralized Pollution Control Revenue Bonds, Series 1978 Series A (Minnesota Power & Light Company Project) issued by the Town of Bass Brook (the predecessor political subdivision of the City of Bass Brook, Minnesota, which, in turn, is the predecessor in interest to the Issuer) in the aggregate principal amount of $111,000,000.

"Redemption Date" means August 23, 2004.

"Rebate Amount" has the meaning given such term in Section 6.05(b)(1) hereof.

"Refinanced Pollution Control Facilities" means the real and personal properties which comprise the facilities refinanced with proceeds of the Series 2004 Bonds as further described in Exhibit A hereto.

"Refunded Bonds" means the 6% Collateralized Pollution Control Refunding Revenue Bonds (Minnesota Power & Light Company Project), Series 1992 issued by the City of Bass Brook, Minnesota (the predecessor in interest to the Issuer) in the original principal amount of $111,000,000.

"Series 2004 Bonds" means any bond or bonds of the series of Collateralized Pollution Control Refunding Revenue Bonds (ALLETE, Inc. Project), Series 2004, aggregating the principal amount of $111,000,000, to be issued, authenticated and delivered under and pursuant to the Indenture.

"Spin-off" means the distribution by the Company to its shareholders of all or any portion of its shares of common stock of ADESA, Inc.

"State" means the State of Minnesota.

"Tax Certificate" means the Tax Certificate, dated August 19, 2004 of the Company.

"Tax Compliance Certificate" means the Tax Compliance Certificate dated August 19, 2004 of the Company.

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

In addition to the foregoing definitions, any terms not defined herein but defined in the Indenture (including, without limitation, in Section 101 thereof) shall have the meanings herein unless the context clearly requires otherwise.

Section 1.02. References. All references in this Agreement to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this Agreement as originally executed. The words "herein," "hereof," and "hereunder," and other words of similar import, refer to this Agreement as a whole and not to any particular Article, Section or other subdivision unless the context clearly indicates otherwise. The Article and Section headings herein and in the Table of Contents are for convenience only and shall not affect the construction hereof. Unless the context hereof clearly requires otherwise, the masculine shall include the feminine and vice versa and the singular shall include the plural and vice versa.

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

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

Section 1.04. Notices, etc. to Trustee, Issuer and Company. Any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by this Agreement shall be sufficient for every purpose hereunder if in writing and mailed by certified mail, postage prepaid, or delivered by an express or overnight delivery service (with a copy to

the other persons listed below), at the following addresses (or such other address as may be provided by any such person by notice):

To the Issuer:	City of Cohasset 305 Northwest 1st Avenue Cohasset, Minnesota 55721-9698 Attn: City Clerk-Treasurer
To the Company:	ALLETE, Inc. 30 West Superior Street Duluth, Minnesota 55802 Attn: Chief Financial Officer
To the Trustee:	U.S. Bank National Association Mail code EP-MN-WS3C 60 Livingston Avenue St. Paul, Minnesota 55107 Attention: Corporate Trust
To the First Mortgage Trustee:	The Bank of New York 101 Barclay Street New York, New York 10286 Attention: Corporate Trust

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

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

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

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

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

Section 1.10. Limitation of Liability. This Agreement is entered into by the Issuer pursuant to the Act, and, notwithstanding any provisions hereof, the Issuer's obligations hereunder are subject in all respects to the limitations of the Act. No agreements or provisions contained in this Agreement nor any agreement, covenant or undertaking by the Issuer contained

in any document executed by the Issuer in connection with the Facilities shall give rise to any pecuniary liability of the Issuer or a charge against their general credit or taxing powers, or shall obligate the Issuer financially in any way except with respect to the application of revenues hereunder and the proceeds of the Bonds. No failure of the Issuer to comply with any term, condition, covenant or agreement herein shall subject the Issuer to liability for any claim for damages, costs or other financial or pecuniary charge except to the extent that the same can be paid or recovered from the revenues hereunder or proceeds of the Bonds; and no execution on any claim, demand, cause of action or judgment shall be levied upon or collected from the general credit, general funds or taxing powers of the Issuer. Nothing herein shall preclude a proper party in interest from seeking and obtaining specific performance against the Issuer for any failure to comply with any term, condition, covenant or agreement herein; provided that no costs, expenses or other monetary relief shall be recoverable from the Issuer except as may be payable from the revenues hereunder.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

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

(a) The Issuer is a municipal corporation duly organized and validly existing under the Constitution and laws of the State.

(b) In authorizing the issuance of the Bonds to refund the Refunded Bonds the Issuer's purpose is, and in its judgment the effect thereof will be, to promote the public welfare by: the retention, encouragement and development of economically sound industry and commerce so as to prevent the emergence of or rehabilitate, so far as possible, blighted and marginal lands and areas of chronic unemployment; the development of industry to use the available resources of the community, in order to retain the benefit of the community's existing investment in educational and public service facilities; and halting the movement of talented, educated personnel of mature age to other areas and thus preserving the economic and human resources needed as a base for providing governmental services and facilities.

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

(d) To refund the Refunded Bonds, and in anticipation of the collection of the payments to be made by the Company pursuant to the First Mortgage Bonds and this Agreement, the Issuer has duly authorized the Series 2004 Bonds in the aggregate

principal amount of $111,000,000, to be issued upon the terms set forth in the Indenture, under the provisions of which certain of the Issuer's interests in this Agreement and the payments due hereunder are, as provided by the Act, pledged and a security interest therein granted to the Trustee as security for the payment of the principal of, premium, if any, and interest on the Bonds.

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

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

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

Section 2.02. Representations and Warranties of the Company. The Company makes the following representations and warranties as the basis for the undertakings on the part of the Issuer herein contained:

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

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

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

(d) The execution and delivery of this Agreement by the Company do not, and consummation of the transactions contemplated hereby and thereby and fulfillment of the terms hereof and thereof, including, without limitation, the issuance and delivery of the

First Mortgage Bonds, will not, result in a breach of any of the material terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other material agreement or instrument to which the Company is a party or by which it is now bound, or the Articles of Incorporation or Bylaws of the Company, or any present order, rule or regulation applicable to the Company of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its properties, or any statute of any jurisdiction applicable to the Company.

(e) There is not pending or, to the best knowledge of the Company, threatened any suit, action or proceeding against or affecting the Company before or by any court, arbitrator, administrative agency or other governmental authority that materially and adversely affects the validity, as to the Company, of any of the transactions contemplated by this Agreement or the ability of the Company to perform its obligations hereunder or as contemplated hereby.

(f) The Company does not rely on any warranty of the Issuer, either express or implied, as to the Facilities or the refunding of the Refunded Bonds or the adequacy of the loan made hereby for such refunding, and recognizes that, under the Act, the Issuer is not authorized to operate the Facilities or to expend any funds thereon, other than the revenues received by it therefrom or the proceeds of the Bonds, or other funds granted to it for purposes contemplated in the Act.

(g) The proceeds of the Series 2004 Bonds to be deposited in the Redemption Fund in accordance with Section 403 of the Indenture will be used to redeem the Refunded Bonds on the Redemption Date.

(h) The First Mortgage has been duly authorized by appropriate corporate proceedings on the part of the Company, has been duly executed and delivered and constitutes a legal, valid and binding instrument enforceable in accordance with its terms, except as the same may be limited by the laws of the states where property covered thereby is located affecting the remedies for the enforcement of the security provided for in the First Mortgage (which laws do not make such remedies inadequate for realization of the benefits of such security) or except as the same may be limited by bankruptcy, insolvency or similar laws; and the First Mortgage constitutes a valid mortgage effective to create a lien for the security of the First Mortgage Bonds upon the property now owned by the Company therein specifically described as subject to the lien thereof, except as otherwise provided therein with respect to specific property or classes of property.

(i) The First Mortgage Bonds will be duly authorized by the Company, will constitute legal, valid and binding obligations of the Company, will be secured by and entitled to the benefits of the First Mortgage equally and ratably, subject to the provisions of the First Mortgage relating to any sinking fund or similar fund for the benefit of the bonds of any particular series thereof, with all other bonds of the Company duly issued and outstanding under the First Mortgage, and (subject to the qualification expressed in the paragraph above with respect to the enforceability of certain of the remedial provisions of the First Mortgage) are enforceable in accordance with their terms.

(j) Each element or unit of the Facilities, as described in Exhibit A hereto, was designed to meet applicable federal, state and local requirements for the control of air and water pollution in effect at the time of issuance of the respective Prior Pollution Control Bonds, and the Facilities are being used to abate or control air or water pollution.

(k) The information and estimates heretofore furnished to the Issuer and Bond Counsel by the Company with respect to the nature and use of the Facilities and the expenditure of the proceeds of the Refunded Bonds and the Prior Pollution Control Bonds are true and correct and do not omit any statement, the omission of which would render any of the statements made therein misleading in the circumstances in which they are made.

(l) The facilities comprising the Facilities are used to abate or control water or atmospheric pollution or contamination by removing, altering, disposing or storing pollutants, contaminants, wastes or heat. Such facilities are designed for no significant purpose other than the control of pollution and the expenditures with respect thereto would not have been made but for the purpose of controlling pollution. The Minnesota Pollution Control Agency, which is the agency exercising jurisdiction, has certified that the Facilities, as designed, are in furtherance of the purpose of abating or controlling air or water pollution.

(m) At least 90% of the proceeds of the Prior Pollution Control Bonds, including any investment earnings thereon, has been used for the payment of costs of air or water pollution control facilities within the meaning of Section 103(b)(4)(F) of the 1954 Code.

(n) At least 90% of the proceeds of the Prior Pollution Control Bonds, including any investment earnings thereon, has been used to provide either land or property of a character subject to the allowance for depreciation under Section 167 of the Code and all amounts paid from the proceeds of the Prior Pollution Control Bonds were, for federal income tax purposes, chargeable to the capital account of the Company with respect to the Facilities or would have been so chargeable either with a proper election by the Company (for example, under Section 266 of the Code) or but for a proper election by the Company to deduct such amounts.

(o) The average maturity of the Series 2004 Bonds does not exceed 120% of the average reasonably expected economic life of the Facilities determined as of the date of issuance of the Series 2004 Bonds (all within the meaning of Section 147(b) of the Code).

(p) None of the proceeds of the Prior Pollution Control Bonds, the Refunded Bonds or the Series 2004 Bonds has been or will be used to provide any private or commercial golf course, country club, massage parlor, tennis club, skating facility (including roller skating, skate board and ice skating), racquet sports facility (including any handball or racquetball court), hot tub facility, suntan facility or racetrack, airplane, skybox or other private luxury box, health club facility, store the principal business of which is the sale of alcoholic beverages for consumption off premises or facility the

primary purpose of which is one of the following: retail food and beverage services, automobile sales or service, or the provision of recreation or entertainment.

(q) No obligations which are private activity bonds under Section 141 of the Code but bear interest which is excludable from gross income for purposes of federal income taxation, are sold at substantially the same time as the Series 2004 Bonds pursuant to the same plan of marketing which are payable in whole or in part by the Company or otherwise have with the Series 2004 Bonds any common or pooled security for the payment of debt service thereon.

(r) None of the proceeds of the Prior Pollution Control Bonds or the Refunded Bonds has been or will be used (directly or indirectly) to acquire land (or an interest therein) and none of the proceeds of the Prior Pollution Control Bonds or the Refunded Bonds has been or will be used for the acquisition of any property (or an interest therein) unless the first use of such property was pursuant to such acquisition.

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

(t) No proceeds of the Prior Pollution Control Bonds have been or will be used to finance any building or structure that is used primarily for the self storage of goods, wares or merchandise for compensation.

(u) The Facilities have been acquired, constructed and installed, and (except as described in clause (w) below) have been and will be used, by the Company for use in the Company's trade or business or for the production of income, within the meaning of Section 167 of the Code, and not for the purpose of resale.

(v) Except as described in clause (w) below, the Company was, and always has been, the only "principal user" of the Facilities within the meaning of Section 144(a)(3) of the Code and Section 103(b) of the 1954 Code.

(w) In September 1990, the Company sold an undivided 20% interest in Unit 4 of the Plant (including an undivided 20% interest in that portion of the Facilities associated with Unit 4) to Wisconsin Public Power, Inc. ("WPPI") and entered into various agreements with WPPI relating to the joint ownership, operation and maintenance of Unit 4. (The proceeds of such sale became general corporate funds of the Company and have not been pledged, nor are they available, to pay debt service on the Prior Pollution Control Bonds or the Refunded Bonds.)

ARTICLE III

THE LOAN

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

Section 3.02. Creation, Issuance, Delivery and Surrender of First Mortgage Bonds.

(a) The obligation of the Company to repay the loan made to it by the Issuer pursuant to Section 3.01 hereof shall be evidenced by the First Mortgage Bonds. The Company will create, in respect of the Bonds, a series of First Mortgage Bonds (i) maturing on such date and in such principal amount that, upon the stated maturity date of the Bonds, an equal principal amount of First Mortgage Bonds shall mature, (ii) bearing interest at the same rate, payable at the same times, as the Bonds, and (iii) requiring the redemption of all or an equal principal amount thereof on each date on which the Bonds are required to be redeemed pursuant to Section 301(b) of the Indenture.

(b) The Company shall receive a credit against its obligation to make any payment of the principal of or interest on the First Mortgage Bonds, whether at maturity, upon redemption or otherwise, in an amount equal to, and such obligation shall be fully or partially, as the case may be, satisfied and discharged to the extent of, the amount, if any, credited pursuant to the Indenture against the payment required to be made by or for the account of the Issuer in respect of the corresponding payment of the principal of or interest on the Bonds.

(c) The Issuer agrees with the Company that at the time any Bonds cease to be Outstanding (other than by reason of the applicability of clause (c) of the definition of Outstanding), the Trustee shall surrender to the First Mortgage Trustee a corresponding principal amount of First Mortgage Bonds.

(d) The Issuer covenants that it will not sell, assign or transfer the First Mortgage Bonds, except to the extent provided in Section 3.03 hereof. In view of the assignment referred to in said Section 3.03, the Issuer agrees that (i) the First Mortgage Bonds shall be issued and delivered to, and registered in the name of, the Trustee; (ii) the Indenture shall provide that the Trustee shall not sell, assign or transfer the First Mortgage Bonds, except as required to effect transfer to any successor trustee under the

Indenture; and (iii) the Company may take such actions as it shall deem to be desirable to effect compliance with such restrictions on transfer, including the placing of an appropriate legend on each First Mortgage Bond and the issuance of stop-transfer instructions to the First Mortgage Trustee or any other transfer agent under the First Mortgage.

(e) In consideration of the issuance and sale by the Issuer of the Bonds and the application of the proceeds thereof as provided herein and in the Indenture, the Company agrees to pay to the Trustee for deposit into the Bond Fund, in addition to the payments required to be made on the First Mortgage Bonds, such supplemental amounts at such times as may be necessary in order to assure that payment of the principal of and premium, if any, and interest on the Bonds shall be made when due, at maturity, upon unconditional proceedings for redemption or otherwise.

All payments required of the Company under this Section 3.02 shall be made directly to the Trustee at its principal corporate trust office, in funds immediately available to the Trustee, at or before 11:30 a.m., New York City time, on each date on which any principal, premium or interest is due on the Bonds, for the account of the Issuer, and shall be credited to the Bond Fund. In the event the Company should fail to make any of the payments required in this Section 3.02, the item so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company agrees to pay the same with interest thereon (including to the extent permitted by law interest on overdue installments of interest) at the rate borne by the Bonds as to which such default exists.

(f) The Company agrees that, if an Event of Default described in Section 701(a) or (b) of the Indenture shall have occurred, in determining whether or not any payment of the principal of or interest on the First Mortgage Bonds shall have been made in full, moneys received by the Trustee from the Company shall, to the extent of the amount remaining to be paid by the Company pursuant to subsection (e) of this Section 3.02, be deemed to have been paid under said subsection (e) and not to have been paid on the First Mortgage Bonds.

Section 3.03. Payments Assigned; Company's Obligations Unconditional. It is understood and agreed that all rights and interest of the Issuer under this Agreement, except for the Issuer's rights under Sections 6.02, 6.03 and 8.05 hereof, including the right to delivery of the First Mortgage Bonds and the payments to be made thereon, are to be pledged and a security interest therein granted to the Trustee. The Company assents to such pledge and grant of a security interest and agrees that the obligation of the Company to make the payments on the First Mortgage Bonds and the other payments due hereunder shall be absolute, irrevocable and unconditional and shall not be subject to any defense (other than payment) or any right of set-off, counterclaim or recoupment arising out of any breach by the Issuer or the Trustee or any other party under this Agreement, the Indenture or otherwise, or out of any obligation or liability at any time owing to the Company by the Issuer, the Trustee or any other party, and, further, that the payments on the First Mortgage Bonds and other payments due hereunder shall continue to be payable at the times and in the amounts therein specified, whether or not the Facilities or the Plant, or any portion thereof, shall have been destroyed by fire or other casualty, or title thereto,

or the use thereof, shall have been taken by the exercise of the power of eminent domain, and that there shall be no abatement of or diminution in any such payments by reason thereof, whether or not the Facilities or the Plant shall be used or useful and whether or not any applicable laws, regulations or standards shall prevent or prohibit the use of the Facilities or the Plant, or for any other reason. The Company will not suspend or discontinue any such payments, will perform and observe all of its other agreements in this Agreement, and, except as expressly permitted in this Agreement, will not terminate this Agreement for any cause, including but not limited to any acts or circumstances that may constitute failure of consideration, bankruptcy or insolvency of the Issuer or the Trustee, change in the tax or other laws or administrative rulings or actions of the United States of America or the State or any political subdivision thereof, or failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement or the Indenture.

Section 3.04. Payments Due on Non-Business Days. In any case where a payment to be made by the Company pursuant to this Agreement (including, but not limited to, a loan payment pursuant to Section 3.02 hereof) shall be due on a day that is not a Business Day, then such payment may be made on the next succeeding Business Day with the same force and effect as if made on the due date.

Section 3.05. Company's Remedies. Nothing contained in this Article shall be construed to release the Issuer from the performance of any of its agreements in this Agreement, and, if the Issuer should fail to perform any such agreement, the Company may institute such action against the Issuer as the Company may deem necessary to compel the performance, so long as such action shall not violate the Company's agreements in Section 3.03 hereof. The Company may at its own cost and expense, and in its own name, prosecute or defend any action or proceeding against third parties or take any other action which the Company deems reasonably necessary in order to secure or protect its interest in the Facilities and right of possession, occupancy and use thereof under this Agreement. In this event, the Issuer agrees to cooperate fully with the Company in any such action or proceeding if the Company shall so request and agree to pay all expenses.

ARTICLE IV

THE FACILITIES

Section 4.01. Completion and Location of the Facilities. The Company has caused the Facilities to be acquired, constructed and installed in accordance with the plans and specifications therefor. Except as described in Section 2.02(w) hereof, the Facilities are owned and operated by the Company. Each of the Facilities is located within the jurisdiction of the Issuer, and was, at the time of the issuance of the Refunded Bonds, located within the jurisdiction of the City of Bass, Minnesota.

Section 4.02. Maintenance of Facilities; Remodeling. So long as any Bonds are Outstanding, the Company shall cause the Facilities to be maintained, preserved and kept in good repair, working order and condition and from time to time cause to be made all necessary and proper repairs, replacements and renewals; provided, however, that, subject to the general provisions of Section 6.05 hereof, the Company will have no obligation to cause to be

maintained, preserved, kept, repaired, replaced or renewed any element or unit of the Facilities (a) the maintenance, preservation, keeping, repair, replacement or renewal of which becomes uneconomic to the owners thereof because of damage or destruction by a cause not within the control of such owners, or obsolescence (including economic obsolescence) or change in governmental standards and regulations, or the termination of the operation of the Plant, or any portion thereof, to which such element or unit of the Facilities is an adjunct, and (b) with respect to which the Company has furnished to the Issuer and the Trustee a certificate executed by a Company Representative that the maintenance, preservation, keeping, repair, replacement or renewal of such element or unit of the Facilities is being discontinued for one of the foregoing reasons, which shall be stated therein.

The Company shall have the privilege, at its own expense, of causing any of the Facilities to be remodeled or causing substitutions, modifications or improvements to be made to the Facilities from time to time as it, in its discretion, may deem to be desirable for its uses and purposes, which remodeling, substitutions, modifications and improvements shall be included under the terms of this Agreement as part of the Facilities.

Section 4.03. Insurance. So long as any Bonds are Outstanding, the Company agrees to maintain or cause to be maintained such fire, casualty, public liability and other insurance with respect to the Facilities as is customarily carried by electric utility companies with respect to similar facilities. All proceeds of such insurance shall be for the account of the Company.

Section 4.04. Condemnation. As between the Issuer and the Company, the Company shall be entitled to the entire proceeds of any condemnation award or portion thereof made for damages to or takings of the Plant, the Facilities or other property.

Section 4.05. Payment of Taxes; Discharge of Liens. The Company will:

(a) pay, or make provision for payment of, all lawful taxes and assessments, including income, profits, property or excise taxes, if any, or other municipal or governmental charges, levied or assessed by any federal, state or municipal government or political body upon the Facilities or upon any amounts payable pursuant to Section 3.02 hereof when the same shall become due; provided that the Company may in good faith contest any such tax or assessment in appropriate legal proceedings, and in such event may permit the items so contested to remain unpaid during the period of such contest and any appeal therefrom, unless the Issuer or the Trustee shall notify the Company in writing that, in the opinion of Counsel, by nonpayment of any such items the lien of the Indenture as to the amounts payable on the First Mortgage Bonds or pursuant to Section 3.02 hereof will be materially endangered, in which event the Company shall promptly pay all such unpaid items; and

(b) pay or cause to be satisfied and discharged or make adequate provision to satisfy and discharge, within 60 days after the same shall accrue, any lien or charge upon any amounts payable on the First Mortgage Bonds or pursuant to Section 3.02 hereof, and all lawful claims or demands which, if unpaid, might be or become a lien upon such amounts; provided that the Company may in good faith contest any such lien or charge or claims or demands in appropriate legal proceedings, and in such event may permit the

items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom, unless the Issuer or the Trustee shall notify the Company in writing that, in the opinion of Counsel, by nonpayment of any such items the lien of the Indenture as to the amounts payable on the First Mortgage Bonds or pursuant to Sections 3.02 hereof will be materially endangered, in which event the Company shall promptly pay and cause to be satisfied and discharged all such unpaid items.

Section 4.06. Use of Facilities. So long as any Series 2004 Bonds are Outstanding, the Company will cause the Facilities to be used for the abatement or control of air and water pollution or such other use as will not impair the status of the interest on such Series 2004 Bonds as exempt from federal income taxation.

Section 4.07. Issuer's and Trustee's Access to Facilities. The Company agrees that the Issuer and Trustee shall have the right, upon appropriate prior notice to the Company, to have reasonable access to the Plant and Facilities during normal business hours for the purpose of making examinations and inspections of the same.

ARTICLE V

REDEMPTION OF BONDS

Section 5.01. Prepayment of Loan. The Company may at any time transmit funds directly to the Trustee, for deposit in the Bond Fund, in addition to amounts, if any, otherwise required at that time pursuant to this Agreement, and direct that said money be utilized by the Trustee for redemption of Bonds which are then or will be redeemable in accordance with their terms on a date specified by the Company, provided notice is properly given in accordance with Section 302 of the Indenture.

Section 5.02. Option To Prepay Loan and To Direct Redemption of Bonds. The Company shall have the option to prepay the loan in whole or in part upon the conditions set forth for redemption of the Bonds under Section 301(b) of the Indenture. In any such case, the Company shall, to exercise its option hereunder, notify the Issuer and Trustee in writing within 180 days following occurrence of the event permitting such redemption, designating a redemption date, and, prior to said redemption date, deposit with the Trustee a sum sufficient, with other funds held by the Trustee and available for such purpose, to redeem such Bonds then Outstanding.

Section 5.03. Obligation To Prepay Loan and Redeem Bonds Upon Certain Events. The Company shall be obligated to repay the loan from the proceeds of the Series 2004 Bonds (in whole or in part, based upon the portion of the Series 2004 Bonds required to be redeemed), to the extent Series 2004 Bonds are required to be redeemed in accordance with Section 301(c) of the Indenture.

The prepayment of the loan required by the preceding paragraph, which shall be deposited on or prior to the redemption date, shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem all of the Series 2004 Bonds to be redeemed at a price equal to 100% of the principal amount thereof plus accrued

interest to the date of redemption, and, if no Bonds shall thereafter remain outstanding, to pay all reasonable and necessary fees and expenses of the Trustee and any Paying Agent, and all other liabilities of the Company, accrued and to accrue under this Agreement through the redemption date.

Section 5.04. Option to Refinance Bonds without Prepayment of Loan. The Bonds of one or more series may be refinanced through the issuance of Additional Bonds. The proceeds of such Additional Bonds shall be used, together with other funds on deposit with the Trustee available for such purpose, to redeem the Bonds to be refinanced. On or before such redemption date, the Company shall deliver to the Trustee amended First Mortgage Bonds meeting the requirements of Section 3.02(a) with respect to the Additional Bonds, such amended First Mortgage Bonds to be substituted for the First Mortgage Bonds then held by the Trustee. Upon the receipt by the Trustee of the amended First Mortgage Bonds and funds sufficient to redeem the outstanding Bonds, the Issuer agrees that the Trustee shall surrender to the First Mortgage Trustee the First Mortgage Bonds corresponding to the Bonds to be redeemed. In the event of such refinancing and substitution of amended First Mortgage Bonds in exchange for First Mortgage Bonds of an equal principal amount, the loan shall not be deemed to have been paid or prepaid and no new loan shall be deemed to have been made by the Issuer to the Company. The interest rate and other terms of the Additional Bonds and the amended First Mortgage Bonds need not be the same as those of the Bonds and the First Mortgage Bonds to be amended. This Agreement shall be amended to reflect the issuance of, and to amend the terms of the loan to conform to the terms of, any such Additional Bonds.

ARTICLE VI

SPECIAL COVENANTS OF THE COMPANY

Section 6.01. Maintenance of Corporate Existence. Except as otherwise permitted in the First Mortgage, the Company covenants that it will maintain its corporate existence and qualification to do business in the State, will not dissolve or otherwise dispose of all or substantially all its assets and will not consolidate with or merge into or with another corporation or permit one or more other corporations to consolidate with or merge into it; provided that, for the avoidance of doubt, the Spin-off shall not constitute an act by the Company to dissolve or otherwise dispose of all or substantially all of its assets. In the event of any such acquisition of its assets, or merger or consolidation, as permitted by the First Mortgage, the acquirer of its assets or the corporation with which it shall consolidate or into which it shall merge shall assume in writing all of the obligations of the Company under this Agreement.

Section 6.02. Annual Statement. The Company will have an annual audit made by its regular independent certified public accountants and will furnish the Issuer and the Trustee (within 120 days after the close of the Company's fiscal year) with the Company's annual report to shareholders for the year then ended and the Trustee with a written statement at the same time as its annual report signed by a Company Representative and stating that the Company is not in default under the terms of this Agreement, or, if in default, specifying the nature thereof.

Section 6.03. Indemnification. The Company releases the Issuer, and the Trustee from, agrees that the Issuer, and the Trustee shall not be liable for, and agrees to indemnify and hold

the Issuer, and the Trustee harmless from, any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Plant or the Facilities.

The Company will indemnify and hold the Issuer and the Trustee free and harmless from any loss, claim, damage, tax, penalty, liability, disbursement, litigation expenses, attorneys' fees and expenses or court costs arising out of, or in any way relating to, the execution or performance of this Agreement, the issuance or sale of the Bonds, actions taken under the Indenture or any other cause whatsoever pertaining to the Plant or the Facilities, except as my arise though the willful misconduct or negligence of the Issuer or the Trustee, as the case may be.

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

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

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

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

(1) to the Trustee, when due, all reasonable fees and expenses of the Trustee for services rendered under the Indenture and all reasonable fees and expenses of the Paying Agents, counsel, accountants, engineers and others incurred in the performance on request of the Trustee of services under the Indenture (including, without limitation, Section 6.08 thereof) for which the Trustee and such other Persons are entitled to payment or reimbursement, but the Company may, without creating a default hereunder, contest in good faith the reasonableness of any such services, fees or expenses other than the Trustee's and any Paying Agent's fees for ordinary services as set forth in the Indenture; and

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

In the event the Company should fail to make any of the payments required by this Section 6.04, the item in default shall continue as an obligation of the Company until the amount

in default shall have been fully paid, and the Company will pay the same with interest thereon at a rate per annum equal to one percent above the prime or reference rate from time to time publicly announced by and in effect for the largest commercial bank, as measured by assets, in the Ninth Federal Reserve District (with each change in such prime or reference rate resulting in a corresponding change in the rate to be paid hereunder), or, if such rate or rates shall exceed the maximum rate then permitted by law, at the maximum rate permitted by law; provided that, with the exception of the Trustee's and any Paying Agent's fees, interest shall not accrue on such obligation until written notice has been given to the Company that such payment is past due.

Section 6.05. Assurance of Tax Exemption. (a) It is the intention of the Company and the Issuer that the interest on the Bonds be excludable from the gross income of the holders thereof for federal income tax purposes pursuant to Section 103 of the Code (including, where applicable, Section 103 of the 1954 Code), except for any Bond held by a Person referred to in Section 103(b)(13) of the 1954 Code. To that end, the Company represents, covenants and agrees with the Issuer, the Trustee and all Owners of the Bonds that (a) it will not permit the use of any proceeds of the Bonds or fail to use or cause to be used such proceeds or take any other action or omit to take any action, which use, failure, act or omission will cause the loss of such exclusion, and (b) it will file with the Internal Revenue Service, or any other authorized governmental agency, any and all statements or other instruments, if any, required under the Code with respect to obligations the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code (including, where applicable, Section 103 of the 1954 Code). Furthermore, the Company represents, covenants and agrees as follows:

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

(2) The Company will not take any action, or permit any action (which is within its control) to be taken, which would otherwise cause the interest on the Bonds to become includable in gross income for purposes of federal income taxation in the hands of the owners thereof (other than by operation of Section 103(b)(13) of the 1954 Code).

(3) The Company will not lease, sell, assign, grant or convey all or any portion of the Facilities or any interest therein to the United States of America or any agency or instrumentality thereof within the meaning of Section 149(b) of the Code or Section 103(h) of the 1954 Code, unless first obtaining an opinion of Bond Counsel that any such lease, sale, assignment, grant or conveyance will not adversely affect the excludability from gross income of interest on the Series 2004 Bonds for purposes of federal income taxation.

(4) The Company will comply with any restrictions on the investment of moneys set forth in the Tax Compliance Certificate in respect of the Series 2004 Bonds.

(5) The Company will take such action, or refrain from taking such action, as shall be necessary to assure that all proceeds of the Prior Pollution Control Bonds, the Refunded Bonds and the Series 2004 Bonds and the facilities directly or indirectly

financed or refinanced with such proceeds have been and will be used in such manner that the Prior Pollution Control Bonds, the Refunded Bonds and the Series 2004 Bonds are obligations described in Section 103(b)(4)(F) of the 1954 Code and, in the case of the Refunded Bonds and the Series 2004 Bonds, Section 1313 of the Tax Reform Act of 1986.

(6) no action, nor permit any action to be taken, which would render inaccurate or incorrect any of the representations or warranties made in this Section 6.05(a) or Section 2.02 hereof or any of the representations or certifications otherwise given by or on behalf of the Company in connection with the issuance of the Prior Pollution Control Bonds, the Refunded Bonds or the Series 2004 Bonds.

(7) The Company will comply with and fulfill all other requirements and conditions of the Code and the 1954 Code relating to the Refinanced Pollution Control Facilities and the operation thereof to the end that the interest on the Series 2004 Bonds shall at all times be excludable from gross income for purposes of federal income taxation in the hands of the owners thereof (other than by operation of Section 103(b)(13) of the 1954 Code).

(8) No changes shall be made in the Facilities which shall in any way impair the exemption of interest on any of the Series 2004 Bonds from federal income taxation. The Company has no current intention to use any part of the Facilities after the Series 2004 Bonds are discharged for a use that is not permitted under Section 103(b) of the 1954 Code for facilities financed by municipal obligations, the interest on which is exempt from federal income taxation.

(9) None of the proceeds of the Series 2004 Bonds will be used to pay "issuance costs" of the Bonds within the meaning of Section 147(g) of the Code.

(b) The Issuer and the Company covenant and certify to each other and to and for the benefit of the Owners of the Bonds that no use will be made of the proceeds of the Bonds or any other moneys, and no disposition will be made of the Facilities, which would cause any Bonds to be arbitrage bonds within the meaning of Section 148 of the Code. Pursuant to such covenant, the Issuer and the Company jointly and severally obligate themselves to comply throughout the term of the issue of the Bonds with the requirements of Section 148 of the Code.

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

(1) If all "gross proceeds" (as defined in Section 148(f)(6)(B) of the Code) of the Series 2004 Bonds are not expended for the payment of principal of and interest on Refunded Bonds by the date which is 90 days after the date of issue of the Bonds of such series, or if, notwithstanding that all gross proceeds are so expended by such date, gross proceeds arise at some later date, then the Company shall make the determinations and take the actions hereinafter required by this Section 6.05(b), on behalf of, and as agent

for, the Issuer, and shall rebate to the United States, not later than 60 days after each installment computation date, an amount which ensures that at least 90% of the Rebate Amount at the time of such payment will have been paid to the United States, and within 60 days after the final computation date, an amount sufficient to pay the remaining balance of the Rebate Amount, all in the manner and as required by Section 148(f) of the Code. As used herein, "Rebate Amount" means the amount described in Section 148(f)(2) of the Code, computed in accordance with the provisions of said Section 148(f)(2) and the regulations now or hereafter promulgated thereunder, including Treasury Regulations, Sections 1.148-0 through 1.148-11 and 1.150-1.

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

(3) At no time during any Bond Year will "gross proceeds" (other than proceeds of the Bonds invested for an initial "temporary period" therefor and proceeds invested during temporary investment periods related to debt service) in an amount in excess of 150% of the debt service on the Series 2004 Bonds for such Bond Year be invested in "nonpurpose obligations" with a "yield" higher than the "yield" on such Bonds, and any "gross proceeds" invested in "nonpurpose obligations" within such 150% shall be promptly and appropriately reduced as the principal balance of the Bonds is reduced (all within the meaning of Section 148(d)(3) of the Code).

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

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

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

(f) The covenants, agreements and the representation contained herein and in the Tax Compliance Certificate and the Tax Certificate are intended to ensure compliance with the provisions of the Code and to establish that the expectations and facts pertaining to such provisions of the Code are consistent with such provisions. In the event that the Code is amended or regulations thereunder are hereafter proposed or promulgated and the effect of such change is to modify or delete any element of the covenants or agreements contained herein, the Company shall be relieved of its obligation to comply with such covenants or agreements to the extent of such modification or deletion, provided that the Company receives an opinion of Bond Counsel that such action will not adversely affect the exclusion of the interest on the Bonds from the gross income of the holders thereof for federal income tax purposes. In the event such regulations impose additional requirements which are applicable to the Bonds, the Company hereby agrees to comply with the provisions of the regulations.

(g) The Company shall not be deemed in breach of any representation, covenant or agreement in this Section 6.05 and in Section 2.02 hereof, in the Tax Compliance Certificate or the Tax Certificate to the extent it takes remedial action to prevent a Determination of Taxability that would otherwise be caused by such breach.

Section 6.06. Redemption of Refunded Bonds; Payment of Costs of Issuance. The Company covenants and agrees with the Issuer that it will cause the Refunded Bonds to be paid and discharged on or prior to the 90th day after the date of issuance of the Series 2004 Bonds. The Company also covenants and agrees to provide any moneys required for the payment and discharge of the Refunded Bonds on or prior to the date on which they are called for redemption. The Company further agrees that it will pay all reasonable Costs of Issuance promptly when due.

ASSIGNMENT, LEASING AND SELLING

Section 7.01. Conditions. The Company's interest in this Agreement may be assigned in whole or in part, and the Company's interest in any element or unit of the Facilities may be leased or sold as a whole or in part, subject, however, to the provisions of Section 6.05 hereof and to the following conditions:

(a) no assignment, lease or sale shall cause the Company to breach any of the covenants contained in Sections 4.06 and 6.05 hereof or any of the representations or warranties contained in Section 2.02 hereof, or otherwise cause the interest payable on any Bonds to become includable in gross income for purposes of federal income taxation (other than by operation of Section 103(b)(13) of the 1954 Code), nor relieve the Company from primary liability on the First Mortgage Bonds, for its obligation to make the loan payments required by Section 3.02 hereof or for any other of its obligations hereunder other than those assumed pursuant to subsection (b) of this Section 7.01; and

(b) the assignee, lessee or purchaser from the Company shall assume, in writing, all the obligations of the Company hereunder relating to the operation, maintenance and insurance of the Facilities to the extent of the interest assigned, leased or sold.

For purposes of this Article 7 and Section 2.02(v), it is not intended that an assignment, lease or sale that complies with this Article 7 would result in a misrepresentation under Section 2.02(v).

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

Section 7.03. Limitation. So long as any Bonds are Outstanding, this Agreement shall not be assigned nor shall the Facilities be leased or sold, in whole or in part, except as provided in this Article VII or in Section 6.01 hereof.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

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

(1) a "Default" as such term is defined in Section 65 of the First Mortgage;

(2) failure by the Company to pay when due any amount required to be paid under the First Mortgage Bonds or Section 3.02 hereof, which failure shall have resulted in an "Event of Default" under subsection (a) or (b) of Section 701 of the Indenture; or

(3) if the Company shall fail to observe and perform, for reasons other than Force Majeure (as set forth in Section 8.02 hereof), any other covenant, condition or agreement on its part under this Agreement other than payments of principal or a premium, if any, or interest on the First Mortgage Bonds or amounts payable pursuant to Section 3.02 hereof which failure continues for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration, or for such longer period as may be reasonably necessary to remedy such failure, provided that the Company is proceeding with reasonable diligence to remedy the same.

Section 8.02. Force Majeure. The provisions of Section 8.01(3) hereof are subject to the following limitations: If by reason of acts of God, strikes, lockouts or other industrial disturbances, acts of public enemies, orders of any kind of the Government of the United States or of the State, or any department, agency, political subdivision, court or official of either of them, or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, tornados, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accident to machinery, partial or entire failure of utilities, or any cause or event not reasonably within the control of the Company, the Company is unable in whole or in part to carry out any one or more of its agreements or obligations contained in this Agreement, other than its obligations contained in Sections 3.02, 4.05, 6.01, 6.03 and 6.05 hereof, the Company shall not be deemed in default by reason of not carrying out said agreement or agreements or performing said obligation or obligations during the continuance of such inability. The Company agrees, however, to use its

best efforts to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements; provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Company, unfavorable to the Company.

Section 8.03. Remedies. Upon the occurrence of an Event of Default described in subsection (1) of Section 8.01 hereof, the Trustee, as the holder of the First Mortgage Bonds, shall, subject to the provisions of the Indenture, have the rights provided in the First Mortgage. Any waiver of any "Default" under the First Mortgage and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event or Events of Default under this Agreement and a rescission and annulment of the consequences thereof. Whenever any Event of Default shall have occurred and be subsisting, the Issuer may, with the prior written consent of the Trustee and with notice in writing to the Company, declare the remaining principal balance of the loan payable under Section 3.02 and any other amounts due hereunder (being an amount equal to that necessary to pay in full all Outstanding Bonds, assuming acceleration of the Bonds under the Indenture and to pay all other indebtedness thereunder) to be immediately due and payable, whereupon the same shall become immediately due and payable by the Company; and, in the event the Company does not, within three business days thereafter, deposit with the Trustee an amount sufficient to satisfy its obligations under the preceding clause, then the Issuer, or the Trustee on behalf of the Issuer, may take whatever action at law or in equity may appear necessary or appropriate to collect the balance then due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement.

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

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

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

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

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

ARTICLE IX

MISCELLANEOUS

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

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

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

Section 9.04. Spin-off Shall Not Violate Terms of This Agreement. Notwithstanding anything to the contrary contained herein, the Spin-off shall not violate the terms of this Agreement.

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

CITY OF COHASSET, MINNESOTA

By: Marian Barcus
Mayor

(SEAL)

Attest: Debra Sakuson
City Clerk-Treasurer

ALLETE, INC.

By_____
Its_____

(SEAL)

Attest:_____
Its_____

[Signature Page to Loan Agreement]

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

CITY OF COHASSET, MINNESOTA

By:_____
Mayor

(SEAL)

Attest:_____
City Clerk-Treasurer

ALLETE, INC.

By_____
Its Senior Vice President and
Chief Financial Officer

(SEAL)

Attest:_____
Its Vice President, General Counsel and
Secretary

EXHIBIT A
to the
Loan Agreement

DESCRIPTION OF THE REFINANCED POLLUTION CONTROL FACILITIES

The following Facilities have been, are being or are to be acquired and constructed at Units 1 and 2 of the Clay Boswell steam electric generating station.

Bag House Facilities

The two custom made bag houses are furnished by Western Precipitation, Division of Joy Manufacturing, to remove the particulate matter from the flue gases discharged from each boiler. Each bag house consists of eight compartments, with each compartment containing two hundred forty 12" diamater fiberglass bags. Bag arrangement is 12 bags wide by 20 bags deep with two internal walkways. Each bag house is approximately 62' x 72' x 85'.

Each bag house is rated at 371,000 ACFM @ 390° F and 28.08 inc. Hg abs. with an inlet dust loading of 3.5 GR/ACF. The system starts near the existing air heater outlet duct includes inlet duct work and support steel to the bag house inlet. Flue gas enters each compartment from the bottom bag house hopper area through two inlet dampers, pass up and through the bags, exits through two outlet damper valves and to the bag house outlet plenum. Bag cleaning is accomplished by isolating a compartment and drawing cleaned flue gas through reverse air duct work, fan and damper causing reverse air flow through the bags. Ash is collected in the compartment hopper. Flyash is pneumatically conveyed from the 16 hoppers to a common storage silo.

Additional equipment in the bag house facility includes a hopper heating and level system, main control panel, instrumentation and control, pneumatic piping and valve operators, motors, motor control center, cable, conduit, tray, access platforms, walkways, support steel, insulation, lagging and foundations.

The following Facilities have been, are being or are to be acquired and constructed at Unit 4 of the Clay Boswell steam electric generating station.

Circulating Water System

This equipment consists of a complete mechanical draft cooling tower, three circulating water pumps, pump house, circulating, riser, and bypass water piping (but not makeup or blowdown piping), one acid feed system, one chlorination and dechlorination system, and associated piping, and additional equipment interconnecting with plant equipment including two heat exchangers, three cooling water pumps, a chemical feed tank, a cooling water head tank and the associated piping and valves.

Waste Treatment System

One water softener/clarifier to chemically soften and clarify water to be discharged to the Mississippi River. One hundred foot diameter by thirteen feet high steel unit designed for 2500 GPM. Including center drive and rake mechanism, polymer feed system, soda ash feed system and 1000 ton steel soda ash storage silo. The storage silo is enclosed in a facility shared by the lime silo. The soda ash silo has a feed system including mixers and tanks. One PH adjustment structure designed for 3800 GPM with acid and caustic feed system for maintaining the PH of the plant discharge between 6.5 and 8.5 as required by the MPCA.

Two 30 foot diameter sand and anthracite filters each designed for 1900 GPM to remove excessive suspend solids and turbidity from wastewater in order to comply with the NPDES requirements, each unit has three filtering compartments and self-contained backwash storage; including flow splitter boxes and blower.

Two oil-solids separator each designed for 500 GPM to treat miscellaneous plant water flows which contain oil. Includes 2000 gallon waste oil storage tank and a polymer feed systems.

Approximately 19 concrete sumps using 43 pumps for transporting wastewater through the plant for treatment. This will require over 10,000 feet of pipe of various sizes to be installed underground. There will be 14 pumps and 8 mixers needed for chemical feed systems.

The major pieces of equipment are housed in an 240' by 61' building.

There will be four clay lined holding basins each of 1,000,000 gallon capacity to store water for settling prior to treatment. A grit

chamber will also be used to collect area runoff from other portions of the plant to eliminate suspended solids from entering the lake. The existing coal pile sump will be upgraded to accept the coal pile rain water runoff. Also required are system control panels and instrumentation to monitor equipment performance and effluent wastewater quality which will be located at the local equipment and in the AQCS control room.

A portion of the waste treatment system will occupy land acquired after February 22, 1977.

Dust Control Facilities

The purpose of this equipment is to collect the particulate matter from the coal handling equipment and dry chemical handling system. The equipment consists of a fabric type dust collectors, duct work and housings for the coal handling system.

Electrical equipment

The purpose of this equipment is to provide the electrical needs for all pollution control systems. This system consists of switchgear, motor control centers, power transformers, underground conduit power cable and trays, control cables and trays and above ground conduit and motors.

Scrubber Sludge Pond

The purpose of this pond is to collect the precipitates from the air quality control systems. The pond consists of clay lined earthen ponds and pump houses. A portion of the pond occupies land purchased after February 22, 1977.

Air Quality Control Facilities

The purpose of this equipment is to remove particulate and SO_2 from the combustion flue gas.

This Air Quality Control System (AQCS) consists of four parallel modules for particulate and sulfur dioxide removal. (Exiting flue gas from the AQCS is reheated by mixing hot flue gas from two electrostatic precipitators operating in parallel with the AQCS).

The AQCS, rated at 2,207,549 ACFM @ 300°F and - 14.5 inches W.C. with maximum design inlet conditions for 11 GR/SCF particulate and 2900 PPM SO_2. The AQCS is housed in a 162' x 236' x 150' structural steel enclosed building. The Air Quality Control System is supplied by Peabody Process Systems. The system starts at the two boiler air heater outlets, to a common inlet plenum, to each of the four venturi/absorber trains, to the discharge ducts where reheat occurs, to a common discharge plenum, to the four I. D. Fan inlet ducts and ending at the I. D. Fan inlet control dampers. All duct work from scrubber to the stack is lined or alloy material.

Each of the four parallel AQCS trains consists of an inlet isolation damper, expansion joint, radial flow venturi for particulate removal, two venturi recycle pumps, spray tower absorber for SO_2 removal, three absorber recycle pumps, reheater stack diffuser, absorber outlet isolation damper, expansion joint, I. D. Fan inlet isolation damper and a 164,000 gallon recycle tank. Internals of the venturi/absorber include, adjustable radial throat mechanism, 208 hollow cone refrax spray nozzles, a 316 L stainless steel sieve type wash tray, and followed by a 12" layer of chevron mist eliminators. The carbon steel venturi/absorber vessels are lined with chemical resistant polyester and erosion resistant rubber linings.

Also including all structural and support steel, insulation, lagging, instrumentation and controls, rubber lined carbon steel and fiberglass interconnectings piping, valves, agitators and drives, pump motors, foundations and miscellaneous accessory equipment.

The AQCS is designed to operate using both flyash and lime as the alkali for the removal of SO_2. Chemical preparation equipment includes one 1000 ton lime storage silo, pneumatic transport system to the four slaker silos, four lime gravimetric control weight feeders, lime silo bin vents, four 8000 LB/HR lime slakers, grit removal conveyor system, 355,000 gallons lime alkali slurry tank, and two 750 GPM lime slurry feed pumps, and lime slurry tank agitators.

Flyash alkali equipment includes one 120 ton flyash storage silo, pneumatic transfer system, flyash alkali tank with agitators and two slurry feed pumps. The flyash and lime alkali preparation building is 147' x 70' and includes a motorized bridge crane for service of equipment. Additional equipment which is common to the AQCS includes two fiberglass emergency deluge head tanks with piping, valves and controls, effluent waste slurry sump, three waste slurry pumps and three waste slurrybooster pumps, each of which are rubber lined and rated at 1350 GPM, flakeglass lined wash water tank, two 1500 GPM wash water pumps constructed of alloy 20, approximately 14,000 linear feet of schedule 80 slurry piping to pond, three 1350 GPM supernate return pump constructed of hastalloy C, slurry pond intake structure and pump house, approximately 14,000 linear feet of schedule 40 supernate return piping and supports from pond to AQCS building, four monorails and hand chain hoists to service the 16 slurry agitators, 20 slurry recycle pumps, 6 waste slurry pumps, waste slurry agitator and wash water pumps.

Reheat for the Unit No. 4 cleaned gas will be provided by mixing the gas leaving the absorber with a portion of the 800°F flue gas taken before the air heaters. Prior to the mixing step the hot gas will be cleaned of particulate by two electrostatic precipitators. The two model RUCC precipitators are furnished by Western Precipitation Division, Joy Manufacturing Company. Each precipitator is rated at 200,000 ACFM @ 815°FWG with 390 feet 2/100 ACFM specific collection area with 10 percent of bus sections out of service. Precipitator configuration is one chamber, four fields deep, 26 passages and 9' x 24' fields.

Included is the inlet and outlet ducts, four guillotine isolation dampers, expansion joints, flyash hoppers with fibrators, aerators, heaters and level detectors, electromagnetic impact rappers, transformers, thyristor rectifier control units, high and low voltage wiring, insulation, lagging pneumatic flyash transport system, instrument and control, support steel, platforms, stairs and walkways, enclosure and foundations. The AQCS control room will include the instrumentation and controls necessary to operate and control the operation of the following systems: Electrostatic Precipitators, Air Quality Control System, Chlorination Control, Flyash Handling, Scrubber Waste Disposal, and Waste Water Treatment Facility. Also included is a water lab and a building to house the electrical switchgear and motor control centers.

The AQCS plant includes a pilot plant.

The lime unloading equipment includes a truck unloading facility approximately 40' wide by 70' long. The system includes pneumatic piping to the lime and soda ash silos and three pneumatic blowers.

Exhibit 4(d)

CERTIFICATE OF ADJUSTMENT
to the Rights Agreement
dated as of July 24, 1996 ("Rights Agreement")
between ALLETE, Inc.
(formerly Minnesota Power, Inc. and Minnesota Power & Light Company)
and the
Corporate Secretary of ALLETE, Inc., Rights Agent

The undersigned, Deborah A. Amberg, Vice President, General Counsel and Secretary of ALLETE, Inc., a Minnesota corporation (the "Company"), does hereby certify, pursuant to Section 12(a) of the Rights Agreement, that:

(1) At 12:00 p.m. Eastern Time on September 20, 2004 (the "Effective Date"), for shareholders of record on September 13, 2004, the Company engaged in a one-for-three reverse stock split of the Company's common stock, no par value.

(2) Pursuant to Section 11(n) of the Rights Agreement, as of the Effective Date, each preferred share purchase right (a "Right") entitles the registered holder, until the earlier of the close of business on July 23, 2006 or the redemption or exchange of the Rights, to purchase from the Company one-and-a-half of one one-hundredth (three two-hundredth) of a share of Serial Preferred Stock A, without par value, of the Company ("Preferred Stock"). The Purchase Price (as defined in the Rights Agreement) remains $90.00.

IN WITNESS WHEREOF, the undersigned has hereunto signed her name this 21 day of September, 2004.

ALLETE, INC.

By: /s/ Deborah A. Amberg

Exhibit 10(a)

ALLETE, Inc.
Director Compensation Trust Agreement

Effective October 11, 2004

TABLE OF CONTENTS

TRUST UNDER THE ALLETE DIRECTOR COMPENSATION DEFERRAL PLAN

This Agreement effective as of this 11th day of October, 2004, by and between ALLETE, Inc. ("Company") and Marshall & Ilsley Trust Company N.A. ("Trustee");

WHEREAS, Company has adopted a non-qualified deferred compensation plan for its non-employee directors known as the ALLETE Director Compensation Deferral Plan ("Plan");

WHEREAS, Company has incurred or expects to incur liability under the terms of such Plan with respect to the individuals participating in such Plan;

WHEREAS, Company wishes to establish a trust (hereinafter called "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of Company's creditors in the event of Company's Insolvency, as herein defined, until paid to Plan participants and their beneficiaries in such manner and at such time as specified in the Plan;

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan maintained for the purpose of providing deferred compensation for a select group non-employee directors of ALLETE, Inc.;

WHEREAS, it is the intention of the Company to make contributions to the Trust to provide itself with a source of funds to assist it in the meeting of its liabilities under the Plan;

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. *Establishment of Trust.*

(a) Company hereby deposits with Trustee in trust Ten Dollars ($10.00), which shall become the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Trust Agreement.

(b) Except as provided elsewhere herein, the Trust hereby established shall be irrevocable.

(c) The Trust is intended to be a grantor trust, of which Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon shall be held separate and apart from other funds of the Company and shall be used exclusively for the uses and purposes of Plan participants and general creditors as herein set forth. Plan participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and this Trust Agreement shall be mere unsecured contractual rights of Plan participants and their beneficiaries against the Company. Any assets held by the Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Trust Agreement. Neither Trustee nor any Plan participant or beneficiary shall have any right to compel such additional deposits.

(f) After a Change in Control described in Section 1(f)(1) the following shall occur with respect to the Trust. The assets shall be held for participants who had benefit rights under the Plan for which the Trust was created before the Change in Control occurred (the "previous participants"). If the Company makes further contributions for benefits owed to participants under the Plan who first become participants after the change in control, other than contributions for previous participants, such contributions and any insurance contracts or other assets purchased with such contributions shall be held in a new subtrust separate from any existing subtrust for previous participants. The subtrust for previous participants shall be a separate subtrust, and shall cover all the benefits provided by the Plan for a previous participant, including benefits accrued after the Change in Control, and additional contributions made after the Change in Control.

(1) A "Change in Control" shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

a. The commencement of proceedings for dissolution or liquidation of the Company;
b. A reorganization, merger or consolidation of the Company with one or more unrelated corporations, as a result of which the Company is not the surviving corporation;
c. The sale, exchange, transfer or other disposition of shares of the common stock of the Company (or shares of the stock of any person that is a shareholder of the Company) in one or more transactions, related or unrelated, to one or more Persons unrelated to the Company if, as a result of such transactions, any Person (or any Person and its affiliates) owns more than twenty percent (20%) of the voting power of the outstanding common stock of the Company ;
d. A reorganization, merger or consolidation of the Company with one or more unrelated corporations, if immediately after the consummation of such transactions less than a majority of the board of directors of the surviving corporation is comprised of Continuing Directors. The Continuing Directors shall mean (i) each member of the Board of Directors of the Company, while such person is a member of the Board, who is not the other party to the transaction, as Affiliate or Associate (as these terms are defined in the Exchange Act) of such other party to the transactions, or a representative of such other party or of any such Affiliate or Associate, and was a member of the Board immediately prior to the initial public announcement of a proposal relating to a reorganization, merger or consolidation involving such other party, or an Affiliate or Associate of such other party of (ii) any person who subsequently becomes a member of the Board, while such person is a member of the Board,

who is not the other party to the transaction, or an Affiliate or Associate thereof, or a representative of such other party to the transaction or of any such Affiliate or Associate if such person's nomination for election to the Board is recommended or approved by two-thirds of the Continuing Directors then in office:

e. The sale of all or substantially all the assets of the Company. The distribution by the Company to its shareholders of all of its shares of common stock of ADESA, Inc., representing its residual interest in ADESA, Inc., following ADESA, Inc.'s Initial Public Offering, however, shall not be a Change in Control of the Company.

Notwithstanding the above, a Change in Control of the Company shall not occur as a result of the distribution by the Company to its shareholders of all of its shares of common stock of ADESA, Inc., representing a residual interest in ADESA, Inc., following ADESA, Inc.'s initial public offering.

As used herein, the term Person shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act, as used in Sections 13(d) and 14(d) thereof including usage in the definition of a "group" in Section 13(d) thereof.

(2) The Company shall give written notice to the Trustee of any impending or actual Change of Control of the Company. Only if and when Trustee shall receive such notice the Trustee shall hold, administer, distribute and enforce the terms of this Trust pursuant to the terms of this Section. Alternatively, three members of the Board of Directors may advise the Trustee of a change in control.

Section 2. *Payments to Plan Participants and Their Beneficiaries.*

(a) In the event the Trust makes payments to Plan participants or their beneficiaries, the Company shall deliver to Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Plan participant (and his or her beneficiaries), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plan), and the time of commencement for payment of such amounts. Except as otherwise provided herein, Trustee shall make payments to the Plan participants and their beneficiaries in accordance with such Payment Schedule. The Trustee shall make provision for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by Company.

(b) The entitlement of a Plan participant or his or her beneficiaries to benefits under the Plan shall be determined by Company or such party as it shall designate under the Plan, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan.

(c) Company may make payment of benefits directly to Plan participants or their beneficiaries as they become due under the terms of the Plan. Company shall notify Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to participant or their beneficiaries. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plan, Company shall make the balance of each such payment as it falls due. Trustee shall notify Company where principal and earnings are not sufficient.

Section 3. *Trustee Responsibility Regarding Payments to Trust Beneficiary When Company is Insolvent.*

(a) Trustee shall cease payment of benefits to Plan participants and their beneficiaries if the Company is Insolvent. Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) Company is unable to pay its debts as they become due, (ii) Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code, or (iii) Company is determined to be insolvent by any state or federal regulatory authority.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of the Company under federal and state law as set forth below.

(1) The Board of Directors and the Chief Executive Officer of the Company shall have the duty to inform Trustee in writing of Company's Insolvency. If a person claiming to be a creditor of Company alleges in writing to Trustee that Company has become Insolvent, Trustee shall determine whether Company is Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.

(2) Unless Trustee has actual knowledge of Company's Insolvency, or has received notice from Company or a person claiming to be a creditor alleging that Company is Insolvent, Trustee shall have no duty to inquire whether Company is Insolvent. Trustee may in all events rely on such evidence concerning Company's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning Company's solvency.

(3) If at any time Trustee has determined that Company is Insolvent, Trustee shall discontinue payments to Plan participants or their beneficiaries and shall hold the assets of the Trust for the benefit of Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Plan participants or their beneficiaries to pursue their rights as general creditors of Company with respect to benefits due under the Plan or otherwise.

(4) Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 of this Trust Agreement only after

Trustee has determined that Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by Company in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 4. *Payments to the Company.*

(a) Except as provided in Section 3 and Section 4(b) and (c) hereof, Company shall have no right or power to direct Trustee to return to the Company or to divert to others any of the Trust assets before all payment of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plan.

(b) The Company shall have the right at anytime, and from time to time in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust. This right is exercisable by Company in a nonfiduciary capacity without the approval or consent of any person in a fiduciary capacity.

(c) In the event the Trust shall have Excess Assets credited to its account hereunder, the Board of Directors, at its option, may direct the Trustee to return to the Company that part of the assets equal to such Excess Assets. As used herein, the term "Excess Assets" are assets credited to the account exceeding one-hundred percent of the present value of the benefits due participants in the Plan. The determination of the existence of Excess Assets shall be solely the responsibility of the Company and Trustee shall be fully protected and indemnified for any return of assets pursuant to this Section 4(c).

Section 5. *Investment Authority.*

(a) Trustee may invest in securities (including stock or rights to acquire stock) or obligations issued by Company. All rights associated with assets of the Trust shall be exercised by Trustee at the direction of the Company or the person designated thereby as Administrator ("designee"), and shall in no event be exercisable by or rest with Plan participant.

(b) In addition to the general investment powers set forth above in this Section 5, the following provisions shall apply:

(i.) Investment Guidelines and Directives. The Trustee shall manage, acquire, or dispose of the assets of the Trust in accordance with this Agreement and the directions of the Company or its designee. To the extent permitted by law, the Trustee shall not be liable for any investment made pursuant to the Company's or its designee's direction.

(ii.) Trustee Powers. The Trustee shall have the following powers, rights and duties subject to the Section 8 and the other provisions of this Trust Agreement:

(A) To receive and hold all contributions paid to it by the Company; provided, however, that the Trustee shall have no duty to require any contributions to be made to it;

(B) To effectuate the written investment instructions given by the Company or its designee without regard to any law now or hereafter in force limiting investments of fiduciaries;

(C) To retain in the Trust for investment, any property deposited by the Trustee hereunder;

(D) To have the authority to invest and reinvest assets of the Trust in shares of common or preferred stock, bonds, notes, debentures, short-term securities, partnerships, mutual funds (including any such fund from which the Trustee or any affiliate thereof receives an investment management fee or any other fee), common Trust funds, and other property, real or personal, of any kind; to purchase and sell "put" or "call" options on publicly traded securities; and to acquire, hold, manage, operate, sell, contract to sell, grant options with respect to, convey, exchange, transfer, abandon, lease, manage, and otherwise deal with respect to assets of the Trust;

(E) To acquire, hold or dispose of insurance or annuity contracts as directed by the Company or its designee;

(F) To borrow from anyone such amount or amounts of money necessary to carry out the purpose of this Trust and for that purpose to mortgage or pledge all or any part of the Trust;

(G) To retain in the Trust for investment or pending distributions, any portion of the Trust in cash deemed appropriate by the Trustee, notwithstanding that Trustee or any affiliate thereof may accrue interest on such amounts;

(H) To establish accounts in any affiliate of the Trustee and in such other banks and financial institutions as the Trustee deems appropriate to carry out the purposes of the Trust;

(I) To deposit securities with a clearing corporation as defined in Article Eight of the Uniform Commercial Code; to hold the certificates representing securities, including those in bearer form, in bulk form with, and to merge such certificates into, certificates of the same class of the same issuer which constitutes assets of other accounts or owners, without certification as to the ownership attached; and to utilize a book-entry system for the transfer or pledge of securities held by the Trustee or by a clearing corporation,

provided that the records of the Trustee shall indicate the actual ownership of the securities and other property of the Trust Fund.

(J) To participate in and use the Federal book-entry Account system, a service provided by the Federal Reserve Bank for its member banks for deposit of Treasury securities.

(K) To hold securities or property in the name of the Trustee or its nominee or nominees or in such other form as it determines best with or without disclosing the Trust relationship, providing the records of the Trust shall indicate the actual ownership of such securities or other property.

Section 6. *Disposition of Income.*

(a) During the Term of this Trust, all income received by the Trust, net expenses and taxes, shall be accumulated and reinvested.

Section 7. *Accounting by Trustee.*

(a) Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between Company and Trustee. Within 60 days following the close of each calendar year and within 60 days after the removal or resignation of Trustee, Trustee shall deliver to Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

Section 8. *Responsibility of Trustee.*

(a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by Company which is contemplated by, and in conformity with, the terms of the Plan or this Trust and is given in writing (or any other mutually acceptable form) by Company. In the event of a dispute between Company and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) If Trustee undertakes or defends any litigation arising in connection with this Trust, Company agrees to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If Company does not pay such costs, expenses and liabilities in a reasonable timely manner, Trustee may obtain payment from the Trust.

(c) Trustee may consult with legal counsel (who may also be counsel for Company generally) with respect to any of its duties or obligations hereunder.

(d) Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(e) Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein, provided however, that if an insurance policy is held as an asset of the Trust, Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) However, notwithstanding the provisions of Section 8(e) above, Trustee may loan to Company the proceeds of any borrowing against an insurance policy held as an asset of the Trust.

(g) Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedures and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

Section 9. *Compensation and Expenses of Trustee*.

(a) Company shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust.

Section 10. *Resignation and Removal of Trustee.*

(a) Trustee may resign at any time by written notice to Company, which shall be effective 60 days after receipt of such notice unless Company and Trustee agree otherwise.

(b) Trustee may be removed by Company on 60 days notice or upon shorter notice accepted by Trustee.

(c) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within 60 days after receipt of notice of resignation, removal or transfer, unless Company extends the time limit.

(d) If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date or resignation or removal under paragraphs (a) or (b) of this section. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 11. *Appointment of Successor*

(a) If Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, Company may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by Company or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 7 and 8 hereof. The successor Trustee shall not be responsible for and Company shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

Section 12. *Amendment or Termination.*

(a) This Trust Agreement may be amended by a written instrument executed by Trustee and Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plan or shall make the Trust revocable after it has become irrevocable in accordance with Section 1(b) hereof.

(b) The Trust shall not terminate until the date on which Plan participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plan. Upon termination of the Trust, any assets remaining in the Trust shall be returned to Company.

(c) Upon written approval of participants or beneficiaries entitled to payment of benefits pursuant to the terms of the Plan, Company may terminate this Trust prior to the time all benefits payments under the Plan have been made. All assets in the Trust at termination shall be returned to Company.

Section 13. *Miscellaneous.*

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to Plan participants and their beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

Section 14. *Effective Date.*

The effective date of this Trust Agreement shall be October 11, 2004.

IN WITNESS WHEREOF, the Company and Trustee have caused this Agreement to be duly executed on the date indicated below first above written.

ALLETE, INC.

By: /s/ Randal Carter

Title: Manager, Executive Compensation and Employee Benefits

Attest: /s/ Cindy Lundgren

Title: Executive Secretary

MARSHALL & ILSLEY TRUST COMPANY N.A.

By: /s/ Michael C. Wieber

Title: V.P.

Attest: /s/ Scott D. Siebert

Title: A.V.P.

Exhibit 31(a)

RULE 13a-14(a)/15d-14(a) CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Donald J. Shippar, President and Chief Executive Officer of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2004 of ALLETE;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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. 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

   c. 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 function):

   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: November 4, 2004

/s/ Donald J. Shippar

Donald J. Shippar
President and Chief Executive Officer

Exhibit 31(b)

RULE 13a-14(a)/15d-14(a) CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James K. Vizanko, Senior Vice President and Chief Financial Officer of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2004 of ALLETE;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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. 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

   c. 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 function):

   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: November 4, 2004

/s/ James K. Vizanko

James K. Vizanko
Senior Vice President and Chief Financial Officer

Exhibit 32

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

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

1. The Quarterly Report on Form 10-Q of ALLETE for the quarterly period ended September 30, 2004 (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: November 4, 2004

/s/ Donald J. Shippar

Donald J. Shippar
President and Chief Executive Officer

Date: November 4, 2004

/s/ James K. Vizanko

James K. Vizanko
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.