

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 **MARCH 31, 2005**

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

(State or other jurisdiction of
incorporation or organization)

41-0418150

(IRS Employer
Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months 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,
29,820,595 shares outstanding
as of March 31, 2005

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DEFINITIONS

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

Abbreviation or Acronym	Term
2004 Form 10-K	ALLETE’s Annual Report on Form 10-K for the Year Ended December 31, 2004
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.
Boswell	Boswell Energy Center
Company	ALLETE, Inc. and its subsidiaries
Constellation Energy Commodities	Constellation Energy Commodities Group, Inc.
Enventis Telecom	Enventis Telecom, Inc.
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Florida Landmark	Florida Landmark Communities, Inc.
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
Hibbard	Hibbard Energy Center
Laskin	Laskin Energy Center
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midwest Independent Transmission System Operator, Inc.
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
Note ____	Note ____ to the consolidated financial statements in this Form 10-Q
PSCW	Public Service Commission of Wisconsin
Rainy River Energy	Rainy River Energy Corporation
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,” “could,” “may,” “potential,” “target,” “outlook” or similar expressions) are not statements of historical facts and may be forward-looking.

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

- our ability to successfully implement our strategic objectives;
- 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 local and county regulators, and city administrators, about allowed rates of return, financings, industry and rate structure, acquisition and disposal of assets and facilities, real estate development, operation and construction of plant facilities, recovery of purchased power and capital investments, present or prospective wholesale and retail competition (including but not limited to transmission costs), and zoning and permitting of land held for resale;
- effects of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- natural disasters;
- war and acts of terrorism;
- 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;
- global and domestic economic conditions;
- our ability to access capital markets;
- changes in interest rates and the performance of the financial markets;
- competition for economic expansion or development opportunities;
- our ability to 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 36 of our 2004 Form 10-K. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by us in our 2004 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

	March 31, 2005	December 31, 2004
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 213.2	\$ 194.1
Restricted Cash	—	30.3
Accounts Receivable (Less Allowance of \$2.1 and \$2.0)	79.7	86.1
Inventories	33.5	34.0
Prepayments and Other	27.2	21.6
Discontinued Operations	2.0	2.0
Total Current Assets	355.6	368.1
Property, Plant and Equipment – Net	880.8	883.1
Investments	118.9	124.5
Other Assets	50.3	52.8
Discontinued Operations	2.5	2.9
Total Assets	\$ 1,408.1	\$ 1,431.4
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 34.8	\$ 40.0
Accrued Taxes	38.0	23.3
Accrued Interest	4.8	6.9
Long-Term Debt Due Within One Year	1.9	1.8
Deferred Profit on Sales of Real Estate	2.0	1.1
Other	16.7	24.7
Discontinued Operations	5.4	12.0
Total Current Liabilities	103.6	109.8
Long-Term Debt	389.6	390.2
Accumulated Deferred Income Taxes	140.7	143.9
Other Liabilities	150.3	151.4
Minority Interest	6.4	5.6
Commitments and Contingencies		
Total Liabilities	790.6	800.9
Shareholders' Equity		
Common Stock Without Par Value, 43.3 Shares Authorized		
29.8 and 29.7 Shares Outstanding	406.3	400.1
Unearned ESOP Shares	(80.7)	(51.4)
Accumulated Other Comprehensive Loss	(11.3)	(11.4)
Retained Earnings	303.2	293.2
Total Shareholders' Equity	617.5	630.5
Total Liabilities and Shareholders' Equity	\$ 1,408.1	\$ 1,431.4

The accompanying notes are an integral part of these statements.

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

	Quarter Ended March 31,	
	2005	2004
Operating Revenue	\$ 206.9	\$ 209.0
Operating Expenses		
Fuel and Purchased Power	69.1	68.9
Operating and Maintenance	83.1	83.6
Depreciation	12.6	12.4
Total Operating Expenses	164.8	164.9
Operating Income from Continuing Operations	42.1	44.1
Other Income (Expense)		
Interest Expense	(6.8)	(9.1)
Other	(4.2)	0.4
Total Other Expense	(11.0)	(8.7)
Income from Continuing Operations Before Minority Interest and Income Taxes	31.1	35.4
Minority Interest	1.2	1.4
Income from Continuing Operations Before Income Taxes	29.9	34.0
Income Tax Expense	11.9	12.6
Income from Continuing Operations Before Change in Accounting Principle	18.0	21.4
Income (Loss) from Discontinued Operations – Net of Tax	(0.6)	31.3
Change in Accounting Principle – Net of Tax	–	(7.8)
Net Income	\$ 17.4	\$ 44.9
Average Shares of Common Stock		
Basic	27.2	28.1
Diluted	27.4	28.3
Basic Earnings (Loss) Per Share of Common Stock		
Continuing Operations	\$0.66	\$0.77
Discontinued Operations	(0.02)	1.11
Change in Accounting Principle	–	(0.28)
	\$0.64	\$1.60
Diluted Earnings (Loss) Per Share of Common Stock		
Continuing Operations	\$0.66	\$0.76
Discontinued Operations	(0.02)	1.10
Change in Accounting Principle	–	(0.27)
	\$0.64	\$1.59
Dividends Per Share of Common Stock	\$0.3000	\$0.8475

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	2005	Quarter Ended March 31, 2004
Operating Activities		
Income from Continuing Operations	\$ 18.0	\$ 13.6
Change in Accounting Principle	—	7.8
Loss on Impairment of Investments	5.1	—
Depreciation	12.6	12.4
Deferred Income Taxes	(3.6)	0.8
Minority Interest	0.8	(0.2)
Changes in Operating Assets and Liabilities		
Accounts Receivable	6.4	(4.3)
Inventories	0.5	2.3
Prepayments and Other	(5.6)	(10.0)
Accounts Payable	(5.2)	(2.1)
Other Current Liabilities	6.5	(11.8)
Other Assets	2.5	2.4
Other Liabilities	(0.7)	3.9
Net Operating Activities from (for) Discontinued Operations	(6.2)	62.2
Cash from Operating Activities	31.1	77.0
Investing Activities		
Proceeds from Sale of Available-For-Sale Securities	—	1.4
Changes to Investments	(2.4)	11.2
Additions to Property, Plant and Equipment	(9.5)	(13.8)
Other	1.7	2.4
Net Investing Activities for Discontinued Operations	—	(0.9)
Cash from (for) Investing Activities	(10.2)	0.3
Financing Activities		
Issuance of Common Stock	6.2	23.2
Issuance of Long-Term Debt	—	2.8
Reductions of Long-Term Debt	(0.6)	(4.1)
Dividends on Common Stock	(7.4)	(22.8)
Net Financing Activities from Discontinued Operations	—	0.7
Cash for Financing Activities	(1.8)	(0.2)
Effect of Exchange Rate Changes on Cash – Discontinued Operations	—	(2.5)
Change in Cash and Cash Equivalents	19.1	74.6
Cash and Cash Equivalents at Beginning of Period (a)	195.3	229.5
Cash and Cash Equivalents at End of Period (a)	\$214.4	\$304.1
Supplemental Cash Flow Information		
Cash Paid During the Period for		
Interest – Net of Capitalized	\$10.6	\$18.4
Income Taxes	\$1.4	\$29.6

(a) Included \$1.2 million of cash from Discontinued Operations at March 31, 2005 (\$210.0 million at March 31, 2004) and \$1.2 million at December 31, 2004 (\$116.1 million at December 31, 2003).

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 2004 Form 10-K. In our opinion, all adjustments necessary for a fair statement 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. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Real Estate Revenue and Expense Recognition. Full profit recognition is recorded on sales upon closing, provided cash collections are at least 20 percent of the contract price and the other requirements of SFAS 66, "Accounting for Sales of Real Estate," are met. In certain cases, where there are obligations to perform significant development activities after the date of sale, we recognize profit on these sales on a percentage of completion basis in accordance with SFAS 66. Pursuant to this method of accounting, gross profit is recognized based upon the relationship of development costs incurred as of that date to the total estimated costs to develop the parcels, including all related amenities or common costs of the entire project. Revenue and cost of real estate sold in excess of the amount recognized based on the percentage of completion method is deferred and recognized as revenue and cost of real estate sold during the period in which the related development costs are incurred. Revenue and cost of real estate sold deferred are recorded net as Deferred Profit on Sales of Real Estate on our consolidated balance sheet.

Land held for sale is recorded at the lower of cost or fair value determined by the evaluation of individual land parcels. Real estate costs include the cost of land acquired, subsequent development costs and costs of improvements, capitalized development period interest, real estate taxes, and payroll costs of certain employees devoted directly to the development effort. These real estate costs incurred are capitalized to the cost of real estate parcels based upon the relative sales value of parcels within each development project in accordance with SFAS 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects." When real estate is sold, the cost of sale includes the actual costs incurred and the estimate of future completion costs allocated to the real estate sold based upon the relative sales value method.

Whenever events or circumstances indicate that the carrying value of the real estate may not be recoverable, impairment losses would be recorded and the related assets would be adjusted to their estimated fair value, less costs to sell.

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

Inventories	March 31, 2005	December 31, 2004
Millions		
Fuel	\$13.1	\$11.4
Materials and Supplies	19.0	20.4
Other	1.4	2.2
	\$33.5	\$34.0

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 \$0.3 million for the quarter ended March 31, 2005 (\$0.4 million for the quarter ended March 31, 2004). 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 March 31,	
	2005	2004
Millions Except Per Share Amounts		
Net Income		
As Reported	\$17.4	\$44.9
Plus: Employee Stock Compensation Expense Included in Net Income – Net of Tax	0.3	0.4
Less: Employee Stock Compensation Expense Determined Under SFAS 123 – Net of Tax	0.4	0.5
Pro Forma	\$17.3	\$44.8
Basic Earnings Per Share		
As Reported	\$0.64	\$1.60
Pro Forma	\$0.64	\$1.60
Diluted Earnings Per Share		
As Reported	\$0.64	\$1.59
Pro Forma	\$0.63	\$1.59

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

	2005	2004
Risk-Free Interest Rate	3.7%	3.3%
Expected Life – Years	5	5
Expected Volatility	20.0%	28.1%
Dividend Growth Rate	5%	2%

New Accounting Standards. In December 2004, the FASB issued SFAS 123(R), “Share-Based Payment,” which will be effective for public entities as of the first interim or annual reporting period that begins after June 15, 2005. While the SEC has permitted delayed application of SFAS 123(R) until fiscal years beginning after June 15, 2005, we intend to adopt SFAS 123(R) in the third quarter of 2005. SFAS 123(R) replaces SFAS 123, “Accounting for Stock-Based Compensation,” and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” The new standard requires that the compensation cost relating to share-based payment be recognized in financial statements at fair value. As such, reporting employee stock options under the intrinsic value-based method prescribed by APB 25 will no longer be allowed. Historically, we have elected to use the intrinsic value method and have not recognized expense for employee stock options granted. We estimate that the impact of adoption of SFAS 123(R) in 2005 will be an additional expense of approximately \$0.2 million after tax.

In March 2005, the FASB issued Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations.” Interpretation No. 47 clarifies that the term “conditional asset retirement obligation” as used in SFAS 143, “Accounting for Asset Retirement Obligations,” refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. However, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Interpretation 47 requires that the uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation be factored into the measurement of the liability when sufficient information exists. Interpretation 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

Interpretation No. 47 is effective for fiscal years ending after December 15, 2005 (December 31, 2005 for calendar-year enterprises). Retroactive application of interim financial information is permitted, but not required. We are evaluating the impact of this Interpretation, but do not expect it to have a material impact on the Company.

NOTE 2. BUSINESS SEGMENTS

In 2005, we began allocating corporate charges and interest expenses to our business segments. For comparative purposes, segment information for 2004 has been restated to reflect the new allocation method used in 2005 for corporate charges and interest expense.

	Consolidated	Regulated Utility	Nonregulated Energy Operations	Real Estate	Other
Millions					
For the Quarter Ended March 31, 2005					
Operating Revenue	\$206.9	\$147.6	\$27.9	\$17.7	\$13.7
Fuel and Purchased Power	69.1	61.5	7.6	—	—
Operating and Maintenance	83.1	51.1	15.1	4.5	12.4
Depreciation Expense	12.6	9.8	2.0	—	0.8
Operating Income from Continuing Operations	42.1	25.2	3.2	13.2	0.5
Interest Expense	(6.8)	(4.3)	(1.3)	—	(1.2)
Other Income (Expense)	(4.2)	—	0.2	—	(4.4)
Income (Loss) from Continuing Operations					
Before Minority Interest and Income Taxes	31.1	20.9	2.1	13.2	(5.1)
Minority Interest	1.2	—	—	1.2	—
Income (Loss) from Continuing Operations					
Before Income Taxes	29.9	20.9	2.1	12.0	(5.1)
Income Tax Expense (Benefit)	11.9	8.0	0.5	5.1	(1.7)
Income (Loss) from Continuing Operations	18.0	\$ 12.9	\$ 1.6	\$ 6.9	\$ (3.4)
Loss from Discontinued Operations – Net of Tax	(0.6)				
Net Income	\$ 17.4				
Total Assets	\$1,408.1(a)	\$915.4	\$150.9	\$72.1	\$265.2
Property, Plant and Equipment – Net	\$880.8	\$726.2	\$116.1	—	\$38.5
Accumulated Depreciation	\$776.7	\$725.0	\$41.5	—	\$10.2
Capital Expenditures	\$9.5(a)	\$8.2	\$0.7	—	\$0.6
For the Quarter Ended March 31, 2004					
Operating Revenue	\$209.0	\$141.4	\$29.0	\$27.6	\$11.0
Fuel and Purchased Power	68.9	57.1	11.8	—	—
Operating and Maintenance	83.6	49.7	14.5	7.7	11.7
Depreciation Expense	12.4	9.9	1.8	—	0.7
Operating Income (Loss) from Continuing Operations	44.1	24.7	0.9	19.9	(1.4)
Interest Expense	(9.1)	(4.7)	(1.2)	(0.1)	(3.1)
Other Income (Expense)	0.4	—	(0.5)	—	0.9
Income (Loss) from Continuing Operations					
Before Minority Interest and Income Taxes	35.4	20.0	(0.8)	19.8	(3.6)
Minority Interest	1.4	—	—	1.4	—
Income (Loss) from Continuing Operations					
Before Income Taxes	34.0	20.0	(0.8)	18.4	(3.6)
Income Tax Expense (Benefit)	12.6	7.5	(0.6)	7.5	(1.8)
Income (Loss) from Continuing Operations	21.4	\$ 12.5	\$ (0.2)	\$10.9	\$ (1.8)
Income from Discontinued Operations – Net of Tax	31.3				
Change in Accounting Principle	(7.8)				
Net Income	\$ 44.9				
Total Assets	\$3,353.4(a)	\$909.1	\$185.5	\$75.5	\$179.3
Property, Plant and Equipment – Net	\$921.3	\$728.3	\$153.2	—	\$39.8
Accumulated Depreciation	\$745.9	\$700.8	\$37.5	—	\$7.6
Capital Expenditures	\$16.6(a)	\$8.9	\$3.3	—	\$1.6

(a) Discontinued Operations represented \$4.5 million of total assets in 2005 (\$2,004.0 million in 2004) and \$0 of capital expenditures in 2005 (\$2.8 million in 2004).

NOTE 3. INVESTMENTS

At March 31, 2005, Investments included the real estate assets of ALLETE Properties, debt and equity securities consisting primarily of securities held to fund employee benefits, and our emerging technology investments.

Investments	March 31, 2005	December 31, 2004
Millions		
Real Estate Assets	\$ 72.1	\$ 75.1
Debt and Equity Securities	38.3	35.8
Emerging Technology Investments	8.5	13.6
	<u>\$118.9</u>	<u>\$124.5</u>

Real Estate. At March 31, 2005, real estate assets included land of \$45.9 million (\$47.2 million at December 31, 2004), long-term finance receivables of \$8.3 million (\$9.7 million at December 31, 2004) and \$17.9 million (\$18.2 million at December 31, 2004) of other assets, which consisted primarily of a shopping center. Finance receivables have maturities ranging up to ten years, accrue interest at market-based rates and are net of an allowance for doubtful accounts of \$0.6 million at March 31, 2005 (\$0.7 million at December 31, 2004).

Emerging Technology Investments. In March 2005, we recorded \$5.1 million (\$3.3 million after tax) of impairment losses related to 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. The total carrying value of our direct investments in privately-held, start-up companies at March 31, 2005, was zero. Our remaining emerging technology investments consist of our interests in certain venture capital funds. We account for these investments under the equity method.

NOTE 4. SHORT-TERM AND LONG-TERM DEBT

On March 16, 2005, Florida Landmark, an 80 percent owned subsidiary of ALLETE, entered into an \$8.5 million revolving development loan with CypressCoquina Bank. The revolving development loan has an interest rate equal to the prime rate, with an initial term of 36 months. The term of the loan may be extended 24 months, if certain conditions are met. The loan is guaranteed by Lehigh Acquisition Corporation, an 80 percent owned subsidiary of ALLETE.

On March 31, 2005, ALLETE executed a bond purchase agreement with certain institutional buyers in the private placement market to sell \$35 million of ALLETE's first mortgage bonds. When issued, on or about August 1, 2005, the bonds will carry an interest rate of 5.28% and will have a term of 15 years. ALLETE intends to use the proceeds from the bonds to redeem a portion of ALLETE's outstanding long-term debt.

NOTE 5. OTHER INCOME (EXPENSE)

	Quarter Ended March 31, 2005	2004
Millions		
Loss on Emerging Technology Investments (See Note 3.)	\$(5.9)	\$(0.5)
Investments and Other Income	1.7	0.9
	<u>\$(4.2)</u>	<u>\$ 0.4</u>

NOTE 6. INCOME TAX EXPENSE

	Quarter Ended March 31,	
	2005	2004
Millions		
Current Tax Expense		
Federal	\$12.4	\$ 8.7
State	3.2	3.1
	15.6	11.8
Deferred Tax Expense (Benefit)		
Federal	(3.1)	1.6
State	(0.3)	(0.2)
	(3.4)	1.4
Deferred Tax Credits	(0.3)	(0.6)
Income Tax Expense on Continuing Operations	11.9	12.6
Income Tax Expense (Benefit) on Discontinued Operations	(0.4)	21.2
Income Tax Benefit on Change in Accounting Principle	—	(5.5)
Total Income Tax Expense	\$11.5	\$28.3

NOTE 7. DISCONTINUED OPERATIONS

Automotive Services. On September 20, 2004, the spin-off of our Automotive Services business 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 the September 13, 2004, record date.

In June 2004, ADESA issued 6.3 million shares of common stock through an initial public offering priced at \$24.00 per share. 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.

Water Services. 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. A decision is expected in late 2005. Gains in 2004 from the sale of our North Carolina assets and the remaining systems in Florida were offset by an adjustment to gains reported in 2003, resulting in an overall net loss of \$0.5 million in 2004 (\$0.4 million loss first quarter; \$5.8 million gain second quarter; \$0.2 million loss third quarter; \$5.7 million loss fourth quarter).

In February 2005, we sold our wastewater assets in Georgia for an immaterial gain. Florida Water continues to incur administrative expenses to support transfer proceedings with the FPSC.

NOTE 7. DISCONTINUED OPERATIONS (Continued)**Summary of Discontinued Operations**

Millions		
Income Statement	Quarter Ended March 31,	
	2005	2004
Operating Revenue		
Automotive Services	–	\$247.7
Water Services	–	7.6
	–	\$255.3
Pre-Tax Income (Loss) from Operations		
Automotive Services	–	\$ 53.5
Water Services	–	(0.4)
	–	53.1
Income Tax Expense (Benefit)		
Automotive Services	–	21.6
Water Services	–	(0.2)
	–	21.4
Total Net Income from Operations	–	31.7
Loss on Disposal – Water Services	\$(1.0)	(0.6)
Income Tax Benefit – Water Services	(0.4)	(0.2)
Net Loss on Disposal	(0.6)	(0.4)
Income (Loss) from Discontinued Operations	\$(0.6)	\$ 31.3
Balance Sheet Information		
	March 31, 2005	December 31, 2004
Assets of Discontinued Operations		
Cash and Cash Equivalents	\$1.2	\$1.2
Other Current Assets	\$0.8	\$0.8
Property, Plant and Equipment	\$2.5	\$2.9
Liabilities of Discontinued Operations		
Current Liabilities	\$5.4	\$12.0

NOTE 8. COMPREHENSIVE INCOME

For the quarter ended March 31, 2005, total comprehensive income was \$17.5 million (\$42.8 million of income for the quarter ended March 31, 2004). 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 Income (Loss) – Net of Tax	March 31,	
	2005	2004
Millions		
Unrealized Gain on Securities	\$ 1.6	\$ 1.2
Additional Pension Liability	(12.9)	(9.8)
Foreign Currency Translation – Discontinued Operations	–	21.0
	\$ (11.3)	\$ 12.4

NOTE 9. 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. For the quarter ended March 31, 2005, options to purchase 119,077 shares of common stock (0 shares for the quarter ended March 31, 2004) were excluded from the computation of diluted earnings per share because they were anti-dilutive due to the option exercise prices being greater than the average market price of the common shares during the period.

Reconciliation of Basic and Diluted Earnings Per Share	Quarter Ended March 31, 2005			Quarter Ended March 31, 2004		
	Basic	Dilutive Securities	Diluted	Basic	Dilutive Securities	Diluted
Millions Except Per Share Amounts						
Income from Continuing Operations						
Before Change in Accounting Principle	\$18.0	–	\$18.0	\$21.4	–	\$21.4
Common Shares	27.2	0.2	27.4	28.1	0.2	28.3
Per Share from Continuing Operations	\$0.66	–	\$0.66	\$0.77	–	\$0.76

NOTE 10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Components of Periodic Benefit Expense	Pension		Postretirement Health and Life	
	2005	2004	2005	2004
Millions				
For the Quarter Ended March 31,				
Service Cost	\$2.2	\$2.1	\$1.0	\$1.1
Interest Cost	5.3	5.2	1.7	1.8
Expected Return on Plan Assets	(7.1)	(6.9)	(1.2)	(1.1)
Amortization of Prior Service Costs	0.2	0.2	–	–
Amortization of Net Loss	0.8	0.4	0.2	0.2
Amortization of Transition Obligation	0.1	0.1	0.6	0.6
Periodic Benefit Expense	\$1.5	\$1.1	\$2.3	\$2.6

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 have concluded that our prescription drug benefits will 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 quarter ended March 31, 2005.

NOTE 11. EMPLOYEE STOCK AND INCENTIVE PLANS

We sponsor a leveraged ESOP as part of our Retirement Savings and Stock Ownership Plan (RSOP). As a result of the September 2004 spin-off of ADESA, the ESOP received 3.3 million shares of ADESA common stock related to unearned ESOP shares that have not been allocated to participants. The ESOP was required to sell the ADESA common stock and use the proceeds to purchase ALLETE common stock on the open market. At December 31, 2004, the ESOP had sold all of these ADESA shares. The 3.3 million ADESA shares sold by the ESOP in 2004 resulted in total proceeds of \$65.9 million and an after-tax gain of \$11.5 million, which we recognized in the fourth quarter of 2004. Under the direction of an independent trustee, the ESOP began using the proceeds to purchase shares of ALLETE common stock in October 2004. As of February 15, 2005, the remaining proceeds (\$30.3 million classified as Restricted Cash at December 31, 2004) had been used to purchase ALLETE common stock, which were recorded using the treasury method as Unearned ESOP Shares within Shareholders' Equity on our consolidated balance sheet.

Summary of ALLETE Common Stock Purchases		Shares	Amount
Millions Except Shares			
2004	October	80,600	\$ 2.7
	November	669,578	23.5
	December	262,600	9.4
2005	January	544,797	21.4
	February	214,928	8.9
		1,772,503	\$ 65.9

Unallocated Shares. As of March 31, 2005, there were 2,727,884 unallocated shares of ALLETE common stock in the ESOP (2,001,505 shares at December 31, 2004), which reflects 759,725 shares purchased and 33,346 shares allocated in 2005. Pursuant to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans," unallocated ALLETE common stock currently held by the ESOP is treated as unearned ESOP shares and not considered outstanding for earnings per share computations. ESOP shares are included in earnings per share computations after they are allocated to participants.

Allocated Shares. As of March 31, 2005, participants in the RSOP had \$49.8 million, or 2.1 million shares, invested in ADESA common stock through an ADESA common stock fund in the RSOP. Beginning in September 2005, the RSOP trustee is expected to start selling the ADESA common stock and purchasing ALLETE common stock according to the requirements of the RSOP. Participants may transfer out of the ADESA common stock fund at any time. That decision results in a sale of ADESA common stock but will not result in a purchase of ALLETE common stock, unless the participant chooses to transfer those funds to the ALLETE common stock fund.

NOTE 12. 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 approximately 5 percent annually, to a minimum of 50 percent. In December 2004 and 2003, we received notices from Minnkota Power that they will reduce

NOTE 12. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

our output entitlement by approximately 5 percent in 2006 and 2007, to 66 percent and 60 percent, respectively. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Minnesota Power's payment obligation will be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At March 31, 2005, Square Butte had total debt outstanding of \$310.9 million. Total annual debt service for Square Butte is expected to be approximately \$25 million in each of the years 2005 through 2009. 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 \$6.3 million in 2005, \$6.0 million in 2006, \$5.6 million in 2007, \$4.9 million in 2008 and \$53.4 million thereafter.

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 obligations under these coal and shipping agreements are \$38.7 million in 2005, \$12.3 million in 2006, \$9.7 million in 2007, \$10.1 million in 2008 and \$6.1 million in 2009.

Emerging Technology Portfolio. We have investments in emerging technologies through minority investments in venture capital funds structured as limited liability companies, and direct investments in privately-held, start-up companies. The carrying value of our direct investments in privately-held, start-up companies was zero at March 31, 2005. We have committed to make additional investments in certain emerging technology venture capital funds. The total future commitment was \$4.0 million at March 31, 2005, (\$4.5 million at December 31, 2004) and is expected to be invested at various times through 2007. We do not have plans to make any additional investments beyond this commitment.

Environmental Matters. Our businesses are subject to regulation by various federal, state and local authorities concerning environmental matters. We anticipate that potential expenditures for environmental matters will be material in the future, due to stricter environmental requirements through legislation and/or rulemakings that are expected to require significant capital investments. We are unable to predict if and when any such stricter environmental requirements will be imposed and the impact they will have on the Company. 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.

NOTE 12. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

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's predecessors 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 under way. 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, and the final report was sent to the WDNR in March 2005. Additional site investigation will be needed during 2005. A work plan for the additional investigation will be filed with the WDNR during the second quarter of 2005. Although it is not possible to quantify the potential cleanup 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 cleanup costs for future recovery in rates, subject to a regulatory prudence 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.

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.

Clean Water Act – Aquatic Organisms. In July 2004, the EPA issued Section 316(b) Phase II Rule of the Clean Water Act to ensure that the location, design, construction and capacity of cooling water intake structures at electric generating facilities reflect the best technology available to reduce fish mortality due to impingement (being pinned against screens or other parts of a cooling water intake structure) or entrainment (being drawn into cooling water systems and subjected to thermal, physical or chemical stresses). The new rule for fish impingement requirements apply to the Boswell, Laskin, Hibbard and Square Butte generating facilities. The impingement and entrainment requirements apply to Taconite Harbor because it is located on Lake Superior. The rule requires biological studies and engineering analyses to be performed within the 2005 to 2008 time frame. The estimated total cost of these studies for our facilities is expected to be in the range of \$0.5 million to \$1.0 million. We cannot yet estimate the capital expenditures that may be required as a result of the study.

EPA Clean Air Interstate Rule and Clean Air Mercury Rule. On March 10, 2005, the EPA announced the final Clean Air Interstate Rule (CAIR) that reduces and permanently caps emissions of sulfur dioxide (SO₂), nitrogen oxides (NO_x) and particulates in the eastern United States. Minnesota is included in the 28 states named in CAIR. On March 15, 2005, the EPA announced the final Clean Air Mercury Rule (CAMR) that reduces and permanently caps emissions of electric utility mercury emissions in the continental United States. Together, the two rules address at least some of the emission reductions that were targeted by the Clear Skies Act legislation that received a tie vote in the Senate Environment and Public Works Subcommittee. It is likely the CAIR and the CAMR will be subject to judicial challenge, which may delay implementation or modify provisions in the rules. However, if the CAMR and the CAIR do go into effect, Minnesota Power expects to make (1) significant emissions reductions, (2) purchases of mercury, SO₂ and NO_x allowances through the EPA's cap-and-trade system, and/or (3) a combination of both. The Clear Skies legislation is being revisited and, if enacted, will likely displace implementation of the rules. Even if the Clear Skies legislation is revived, it may be difficult to re-characterize Minnesota as a western state now that the EPA has publicly issued a rule in which Minnesota is included as an eastern state. Our estimates for capital expenditures assumed that Minnesota was a western state. We estimate

NOTE 12. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

that our capital expenditures for 2006 to 2009 will increase approximately \$175 million due to these new rules with status as an eastern state. Legal challenges to the rules can be established within 60 days of the rules being published in the Federal Register, which is expected to occur in May 2005. The Company is analyzing the ramifications of these developments.

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.

NOTE 13. SUBSEQUENT EVENT

On April 1, 2005, Rainy River Energy, a wholly owned subsidiary, completed the assignment of its power purchase agreement with LSP-Kendall Energy, LLC, the owner of an energy generation facility located in Kendall County, Illinois, to Constellation Energy Commodities. Rainy River Energy paid Constellation Energy Commodities \$73 million in cash to assume the power purchase agreement, which is in effect through mid-September 2017. The payment will result in a charge to our operating income in the second quarter of 2005. The tax benefits of the payment will be realized through a capital loss carry-back for federal income tax purposes. The tax benefits will be received in the first half of 2006. In addition, consent, advisory and closing costs of approximately \$5 million were incurred to complete the transaction. As a result of this transaction, ALLETE will recognize operating expenses totaling \$78 million (\$50.4 million after tax, or approximately \$1.84 per diluted share) in the second quarter of 2005.

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

The following discussion should be read in conjunction with our consolidated financial statements and notes to those statements and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties.

EXECUTIVE SUMMARY

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) from Taconite Harbor in northern Minnesota and our coal mining activities in North Dakota. Nonregulated Energy Operations also included generation secured through the Kendall County power purchase agreement, which was transferred in April 2005 to Constellation Energy Commodities. (See Note 13.) **Real Estate** includes our Florida real estate operations. **Other** includes our telecommunications activities, investments in emerging technologies and earnings on cash. **Discontinued Operations** includes our Automotive Services business, our Water Services businesses, and spin-off costs incurred by ALLETE.

Income from continuing operations was \$18.0 million, or \$0.66 per diluted share, for the quarter ended March 31, 2005 (\$21.4 million, or \$0.76 per diluted share, for the quarter ended March 31, 2004). Lower income from continuing operations in 2005 was due to \$3.3 million, or \$0.12 per diluted share, of impairment losses related to our privately-held emerging technology investments, and the timing of closing real estate transactions.

In total, net income and diluted earnings per share for the quarter ended March 31, 2005, decreased 61 percent and 60 percent, respectively, from the same period in 2004. In addition to reasons stated above for lower earnings from continuing operations, the decrease reflected reduced earnings from discontinued operations following the spin-off of Automotive Services and the exit from the Water Services businesses. Earnings per share for 2005 were favorably impacted by ALLETE common stock purchased pursuant to the Company's Retirement Savings and Stock Ownership Plan. (See Note 11.)

	Quarter Ended March 31,	
	2005	2004
Millions		
Operating Revenue		
Regulated Utility	\$147.6	\$141.4
Nonregulated Energy Operations	27.9	29.0
Real Estate	17.7	27.6
Other	13.7	11.0
	\$206.9	\$209.0
Operating Expenses		
Regulated Utility	\$122.4	\$116.7
Nonregulated Energy Operations	24.7	28.1
Real Estate	4.5	7.7
Other	13.2	12.4
	\$164.8	\$164.9
Interest Expense		
Regulated Utility	\$4.3	\$4.7
Nonregulated Energy Operations	1.3	1.2
Real Estate	—	0.1
Other	1.2	3.1
	\$6.8	\$9.1
Other Income (Expense)		
Nonregulated Energy Operations	\$ 0.2	\$(0.5)
Other	(4.4)	0.9
	\$(4.2)	\$ 0.4

	Quarter Ended March 31,	
	2005	2004
Millions Except Per Share Amounts		
Net Income (Loss)		
Regulated Utility	\$12.9	\$12.5
Nonregulated Energy Operations	1.6	(0.2)
Real Estate	6.9	10.9
Other	(3.4)	(1.8)
Income from Continuing Operations	18.0	21.4
Income (Loss) from Discontinued Operations	(0.6)	31.3
Change in Accounting Principle	—	(7.8)
Net Income	\$17.4	\$44.9
Diluted Average Shares of Common Stock	27.4	28.3
Diluted Earnings (Loss) Per Share of Common Stock		
Continuing Operations	\$0.66	\$0.76
Discontinued Operations	(0.02)	1.10
Change in Accounting Principle	—	(0.27)
	\$0.64	\$1.59

In 2005, we began allocating corporate charges and interest expenses to our business segments. For comparative purposes, segment information for 2004 has been restated to reflect the new allocation method used in 2005 for corporate charges and interest expense.

	Quarter Ended March 31,	
	2005	2004
Kilowatthours Sold		
Millions		
Regulated Utility		
Retail and Municipals		
Residential	319.8	310.3
Commercial	339.8	331.9
Industrial	1,777.1	1,766.8
Municipals	222.0	213.8
Other	20.4	20.2
	2,679.1	2,643.0
Other Power Suppliers	236.7	217.2
	2,915.8	2,860.2
Nonregulated Energy Operations	353.9	434.0
	3,269.7	3,294.2
Real Estate		
Acres Sold	483	1,268
Lots Sold	7	199

NET INCOME

The following net income discussion summarizes a comparison of the quarter ended March 31, 2005, to the quarter ended March 31, 2004.

Regulated Utility contributed net income of \$12.9 million in 2005 (\$12.5 million in 2004). In 2005, a 9 percent increase in kilowatthour sales to other power suppliers, higher off-peak prices and strong retail electric sales mostly offset \$1.2 million of additional outage expense primarily due to planned maintenance at one of the Company's generating stations.

Nonregulated Energy Operations contributed net income of \$1.6 million in 2005 (\$0.2 million net loss in 2004). Net income from Taconite Harbor was higher than last year primarily due to a power sales contract that began in May 2004. Positive earnings contributions of \$3.4 million from Taconite Harbor and BNI Coal were partially offset by a \$1.9 million net loss at the Kendall County facility.

Real Estate contributed net income of \$6.9 million in 2005 (\$10.9 million in 2004). While real estate sales were strong at ALLETE Properties' southwest Florida operations in 2005, the decrease in sales volume compared to 2004 was primarily attributed to the timing of the closing of real estate transactions, which varies from period to period and impacts comparisons between years.

Other reflected a net loss of \$3.4 million in 2005 (\$1.8 million net loss in 2004). In 2005, \$3.3 million of impairment losses related to our emerging technology investments partially offset the positive impact of lower interest expense due to lower debt balances and expense reductions following the spin-off of Automotive Services and exit from the Water Services businesses in 2004.

Discontinued Operations reflected a net loss of \$0.6 million in 2005 (\$31.3 million of net income in 2004). The \$31.9 million decrease reflected the absence of operations following the spin-off of Automotive Services in September 2004. A \$0.6 million loss was incurred at Water Services related to Florida Water, which continues to incur administrative expenses to support transfer proceedings with the FPSC.

COMPARISON OF THE QUARTERS ENDED MARCH 31, 2005 AND 2004

Regulated Utility

Operating revenue was up \$6.2 million, or 4 percent, from 2004. Revenue from other power suppliers (power marketing) was up \$2.0 million from 2004, due to a 9 percent increase in kilowatthour sales and higher off-peak market prices. Transmission revenue was up \$1.5 million from 2004, reflecting increased MISO-related revenue (see operating expenses below). Revenue from sales to retail and municipal customers was up \$2.0 million, mostly due to a 3 percent increase in kilowatthour sales to residential, commercial and municipal customers as a result of cooler weather in 2005. Overall, regulated utility kilowatthour sales were up 2 percent from 2004.

Revenue from electric sales to taconite customers accounted for 21 percent of consolidated operating revenue in both 2005 and 2004. Electric sales to paper and pulp mills accounted for 8 percent of consolidated operating revenue in both 2005 and 2004. Like 2004, our industrial customers are operating at high production levels, with taconite and paper production at or near capacity.

Operating expenses were up \$5.7 million, or 5 percent, from 2004. Fuel and purchased power expense was up \$4.4 million from 2004, reflecting increased fuel expense, due to a 15 percent increase in Company generation, and a \$1.5 million increase in MISO fees (see operating revenue above). These increases were partially offset by lower purchased power expense in 2005. In 2004, an outage at Boswell Unit 4 required additional power to be purchased. Outage expenses were up \$2.0 million from 2004, primarily due to planned maintenance that was performed at Boswell Unit 3 while the unit was down during a cooling tower failure. Costs related to the temporary cooling tower were paid by our insurance carrier. In 2004, operating expenses included \$1.7 million of expenses related to Split Rock Energy, a joint venture, which we exited in March 2004.

Interest expense was down \$0.4 million from 2004, due to lower effective interest rates.

Nonregulated Energy Operations

Operating revenue was down \$1.1 million, or 4 percent, from 2004. Revenue from nonregulated generation was down \$2.5 million from 2004, primarily due to an 18 percent decline in kilowatthour sales. A decline in kilowatthour sales at Taconite Harbor was partially offset by the impact of a 76-megawatt capacity contract that began in May 2004 and higher prices on off-peak sales. Kilowatthour sales at Kendall County were also down from 2004, reflecting negative spark spreads (the differential between electric and natural gas prices) in the wholesale power market. Coal revenue was up \$1.8 million from 2004 because of higher coal production expenses (see operating expenses below). Coal revenue is derived from a cost-plus contract.

Operating expenses were down \$3.4 million, or 12 percent, from 2004. Nonregulated generation fuel and purchased power expense was down \$4.2 million from 2004, reflecting a decline in kilowatthour sales at Taconite Harbor and decreased operations at Kendall County. Negative spark spreads continued in 2005 and limited the need for generation produced at Kendall County. Other operating expenses at Taconite Harbor were higher in 2005—sulfur dioxide emission allowance expenses were up \$0.4 million and depreciation expense was up \$0.2 million as a result of capitalized projects being completed. Expenses related to our coal operations were up \$1.5 million because fewer equipment repairs were required in 2004.

Other income (expense) reflected \$0.7 million more income in 2005, primarily due to the timing of contract services related to the Duluth-to-Wausau transmission line.

Real Estate

Operating revenue was down \$9.9 million, or 36 percent, from 2004, primarily due to lower sales volume. In 2005, 483 acres and 7 lots were sold for \$17.0 million, excluding deferred revenue of \$1.0 million (1,268 acres and 199 lots for \$26.1 million in 2004, excluding deferred revenue of \$0). Land sales were lower in 2005, primarily due to timing of transactions closing. Lot sales were also lower in 2005 because in January 2004 we sold the remaining 184 lots at Sugarmill Woods for \$3.9 million, essentially exiting the lot business.

At March 31, 2005, total land sales under contract were \$83.6 million, of which \$56.1 million were for properties in the Town Center development project at Palm Coast. Pricing on these contracts ranges from \$85,000 to \$685,000 per acre for the Town Center development project at Palm Coast, \$2,000 to \$154,000 per acre for all other properties. Prices per acre are stated on a gross acreage basis and it should be noted that the majority of these properties under contract are zoned commercial and mixed use.

Operating expenses were down \$3.2 million, or 42 percent, from 2004, due to lower sales volume in 2005. Cost of sales were down \$2.2 million from 2004 (\$2.6 million in 2005; \$4.8 million in 2004), while selling expenses were down \$0.7 million.

Other

Operating revenue was up \$2.7 million, or 25 percent, from 2004, due to increased revenue from our telecommunications business because of more equipment sales.

Operating expenses were up \$0.8 million, or 6 percent, from 2004, reflecting a \$1.4 million increase in expenses at our telecommunication business, primarily due to higher cost of goods sold associated with increased sales, partially offset by expense reductions following the spin-off of Automotive Services and exit from the Water Services businesses in 2004.

Interest expense was down \$1.9 million from 2004, primarily due to lower debt balances. The Company repaid a \$53 million balance on a credit agreement in April 2004 and \$125 million of 7.80% Senior Notes in July 2004. A combination of internally-generated funds, proceeds from the sale of our Water Services assets and proceeds received from ADESA were used to repay debt.

Other income (expense) reflected \$5.3 million less income in 2005, primarily due to \$5.1 million of impairment losses related to our privately-held emerging technology investments. Other income

reflected a \$1.1 million increase in earnings on excess cash in 2005. In 2004, \$1.2 million of income from a rabbi trust, established to secure certain deferred executive compensation, was recorded.

Income Taxes

The effective rate on income taxes increased primarily as a result of the emerging technology investment impairment write-offs recorded in March 2005. The current benefit for these impairment write-offs is limited to a federal benefit for income tax purposes. The state benefit from these impairment write-offs is not expected to be realized currently or in future periods. Current taxes also increased due to the expiration of the accelerated depreciation deduction allowed by the Jobs and Growth Tax Relief Act of 2003, which expired December 31, 2004.

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 2004 Form 10-K.

OUTLOOK

As a result of the April 2005 assignment of the Kendall County power purchase agreement to Constellation Commodities Group, in the second quarter of 2005, we will record expenses totaling \$50.4 million after tax, or approximately \$1.84 per diluted share. The exit from the Kendall County power purchase agreement has eliminated ongoing annual losses of approximately \$8 million after tax.

In 2005, we have fewer shares outstanding for earnings per share calculation purposes. The ESOP used proceeds from the sale of ADESA stock to purchase ALLETE common stock on the open market. Pursuant to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans," unallocated ALLETE common stock currently held by the ESOP is treated as unearned ESOP shares and not considered outstanding for earnings per share computations. ESOP shares are included in earnings per share computations after they are allocated to participants. As of February 15, 2005, all of the proceeds had been used to purchase ALLETE common stock. (See Note 11.)

We reaffirm our 2005 earnings guidance stated in our 2004 Form 10-K.

Regulated Utility and Nonregulated Energy Operations

As a result of MISO Day 2 implementation on April 1, 2005, energy transactions to serve retail customers are sourced by wholesale transactions with MISO as the counterparty. Minnesota Power filed a petition with the MPUC in February 2005 to amend the fuel clause to accommodate costs and revenue related to MISO Day 2 market implementation. On March 24, 2005, the MPUC approved interim accounting treatment of MISO Day 2 costs to be accounted for on a net basis and recovered through the fuel clause. This interim treatment will continue until the MPUC addresses the cost recovery petitions from Xcel Energy Inc., Otter Tail Power Company, Alliant Energy Corporation and Minnesota Power. The MPUC action regarding MISO Day 2 will include an analysis of how the fuel clause is affected, and whether it should be modified as a result of Day 2.

On April 14, 2005, the PSCW approved an 11.7 percent return on common equity and a 3.9 percent average increase in retail utility rates for SWL&P customers. New rates are expected to be implemented in early May 2005, following the receipt of a final order from the PSCW.

Real Estate

On March 2, 2005, Florida Landmark signed an agreement with Developers Realty Corporation (DRC) to develop the first phase of the urban core area of Town Center at Palm Coast. The agreement also includes the development of a 51-acre commercial retail site. The agreement provides that DRC has an inspection period through July 31, 2005, which allows DRC to terminate the agreement with no penalty. Revenue associated with this agreement is anticipated to be \$21.8 million over the life of the contract, which extends to September 2012. DRC is a regional commercial developer with strong ties to national retailers and has experience developing "lifestyle center" projects.

ALLETE Properties occasionally provides seller financing, and outstanding finance receivables were \$8.3 million at March 31, 2005, with maturities ranging up to ten years. Outstanding finance receivables accrue interest at market-based rates.

Summary of Development Projects At March 31, 2005	Ownership	Total Acres (a)	Residential Units (b)	Commercial Sq. Ft. (b)	Office Sq. Ft. (b)	Industrial Sq. Ft. (b)
Town Center at Palm Coast	80%	1,550	2,950	2,175,000	1,350,000	—
Palm Coast Park	100%	4,705	3,600	1,600,000	800,000	800,000
Ormond Crossings (c)	100%	5,820	—	—	—	—
		12,075	6,550	3,775,000	2,150,000	800,000

(a) Acreage amounts are approximate and shown on a gross basis, including wetlands and minority interest. Acreage amounts may vary due to platting or surveying activity. Wetland amounts vary by property and are often not formally determined prior to sale.

(b) Estimated and includes minority interest. The actual property breakdown at full build-out may be different than the estimates.

(c) Units and square footage have not been determined.

Summary of Other Land Inventories At March 31, 2005	Ownership	Total	Mixed Use	Residential	Commercial	Agricultural
Acres (a)						
Palm Coast Holdings	80%	2,897	1,848	513	281	255
Lehigh	80%	827	600	134	84	9
Cape Coral	100%	89	—	1	88	—
Other	100%	908	—	—	—	908
		4,721	2,448	648	453	1,172

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

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Activities

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

We believe our financial condition is strong, as evidenced by cash and cash equivalents of \$213.2 million and a debt to total capital ratio of 39 percent at March 31, 2005. We continued to generate strong cash flow from operating activities, which amounted to \$37.3 million for the first quarter of 2005, excluding discontinued operations (\$14.8 million for the first quarter of 2004). Cash from operating activities was higher in 2005, primarily reflecting the collection of an outstanding receivable at December 31, 2004, from American Transmission Company LLC for work on the Duluth-to-Wausau transmission line, and timing of tax payments.

Cash for investing activities, excluding discontinued operations, was lower in 2005, primarily due to \$12 million received from Split Rock Energy in 2004 upon termination of the joint venture. This decrease was offset by lower additions to property, plant and equipment in 2005, which vary from period to period depending on projects.

Cash for financing activities, excluding discontinued operations, remained relatively unchanged.

ALLETE Properties' Town Center at Palm Coast development project in Florida (Town Center) will be financed with a revolving development loan and tax-exempt bonds. In March 2005, Florida Landmark entered into an \$8.5 million revolving development loan with CypressCoquina Bank to fund approximately \$26 million of Town Center development costs. The loan has an interest rate equal to the prime rate with an initial term of 36 months. The term of the loan may be extended 24 months, if certain conditions are met. Also in March 2005, the Town Center at Palm Coast Community Development District (Town Center CDD) issued \$26.4 million of tax-exempt, 6% Capital Improvement Revenue Bonds, Series 2005, due May 1, 2036 (Bonds). Approximately \$21 million of the Bond proceeds will be used for construction of infrastructure improvements at Town Center, with the remaining funds to be used for capitalized interest, a debt service reserve fund and costs of issuance. The Bonds are payable from and secured by the revenue derived from assessments to be imposed, levied and collected by the Town Center CDD. The assessments represent an allocation of the costs of the improvements, including bond financing costs, to the lands within the Town Center CDD benefiting from the improvements. The assessments will be included in the annual property tax bills of land owners in the development project beginning in November 2006. Town Center CDD is an independent unit of local government, created and established in accordance with Florida's Uniform Community Development District Act of 1980 (Act). The Act provides legal authority for a community development district to finance the construction of major infrastructure for community development with general obligation, revenue and special assessment revenue debt obligations.

Working Capital. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. Approximately 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 April 20, 2005, our Board of Directors declared a dividend of 31.5 cents per share on ALLETE common stock payable June 1, 2005, to shareholders of record at the close of business May 16, 2005.

Securities

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

In March 2005, ALLETE executed a bond purchase agreement with certain institutional buyers in the private placement market to sell \$35 million of ALLETE's first mortgage bonds. When issued, on or about August 1, 2005, the bonds will carry an interest rate of 5.28% and will have a term of 15 years. ALLETE intends to use the proceeds from the bonds to redeem a portion of ALLETE's outstanding long-term debt.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements are summarized in our 2004 Form 10-K, with additional disclosure discussed in Note 12.

Capital Requirements

For three months ended March 31, 2005, capital expenditures for continuing operations totaled \$9.5 million (\$13.8 million in 2004). Expenditures for three months ended March 31, 2005, included \$8.2 million for Regulated Utility, \$0.7 million for Nonregulated Energy Operations and \$0.6 million for Other, which related to our telecommunications business. Internally-generated funds were the source of funding for these expenditures. Capital expenditures are expected to be \$61 million in total for 2005 (\$48 million for system component replacement and upgrades within Regulated Utility; \$11 million for system component replacement and upgrades, and coal handling equipment within Nonregulated Energy

Operations; \$2 million for telecommunication fiber within Other). We expect to use internally-generated funds to fund all capital expenditures.

Due to the passage of two new EPA rules that reduce and permanently cap emissions of mercury, sulfur dioxide, nitrogen oxides and particulates from the electric utility industry, capital expenditures are now expected to total about \$675 million for 2006 through 2009, an increase of \$175 million from the previously anticipated \$500 million. This estimated increase reflects additional technological investment in our existing facilities. We are considering, however, a combination of solutions that include both technology and emission allowance purchases. (See Note 12.)

ENVIRONMENTAL MATTERS AND OTHER

As previously mentioned in our Critical Accounting Policies section, our businesses are subject to regulation by various federal, state and local authorities concerning environmental matters. We anticipate that potential expenditures for environmental matters will be material in the future, due to stricter environmental requirements through legislation and/or rulemakings that are expected to require significant capital investments. We are unable to predict the outcome of the issues discussed in Note 12.

NEW ACCOUNTING STANDARDS

New accounting standards are discussed in Note 1.

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

Available-For-Sale Securities. Our securities 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 March 31, 2005, our available-for-sale securities portfolio consisted of securities in a grantor trust established to fund certain employee benefits. Our available-for-sale securities portfolio had a fair value of \$30.8 million at March 31, 2005 (\$30.2 million at December 31, 2004) and a total unrealized after-tax gain of \$1.6 million at March 31, 2005 (\$1.5 million at December 31, 2004). We use the specific identification method as the basis for determining the cost of securities sold. Our policy is to review on a quarterly basis available-for-sale securities for other than temporary impairment by assessing such factors as the continued viability of products offered, cash flow, share price trends and the impact of overall market conditions. As a result of our periodic assessments, we did not record any impairment write-down on available-for-sale securities for the quarter ended March 31, 2005.

Emerging Technology Portfolio. As part of our emerging technology portfolio, we have several minority investments in venture capital funds and direct investments in privately-held, start-up companies. We account for our investment in venture capital funds under the equity method and account for our direct investment in privately-held companies under the cost method. The total carrying value of our emerging technology portfolio was \$8.5 million at March 31, 2005, down \$5.1 million from December 31, 2004. In March 2005, we recorded \$5.1 million (\$3.3 million after tax) of impairment losses, which included a reserve for future commitments, that 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. Our basis in cost method investments included in the emerging technology portfolio was zero at March 31, 2005 (\$4.5 million in 2004). 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.

COMMODITY PRICE RISK

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

POWER MARKETING

Our power marketing activities consist of (1) purchasing energy in the wholesale market for resale in our regulated service territories when retail energy requirements exceed generation output, and (2) selling excess available 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 200 MW of nonregulated generation available for sale to the wholesale markets at our Taconite Harbor facility in northern Minnesota, which has been sold through various short-term and long-term capacity and energy contracts. Approximately 116 MW of existing capacity and energy sales contracts 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.

In addition to generation, Taconite Harbor will meet its sales contract obligations with two contracts that begin in May 2005. We have a 50 MW capacity and energy purchase contract that extends through April 2006, with fixed capacity payments and the right to purchase energy at market price. We also have a 25 MW fixed-priced energy purchase contract that extends through January 2006.

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. While we continue to enhance our internal control over financial reporting, there has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

Material legal and regulatory proceedings are included in the discussion of Other Information in Part II, Item 5 and/or Note 12, 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 March 31, 2005	Total Number of Shares Purchased (a)	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				
January	546,385	\$39.38	—	—
February	218,594	\$41.44	—	—
March	—	—	—	—
	764,979	\$39.97	—	—

(a) *Reflected shares of ALLETE common stock repurchased pursuant to (1) stock-for-stock exercises of employee options granted under the ALLETE Executive Long-Term Incentive Compensation Plan during the third quarter of 2004 and (2) the Minnesota Power and Affiliated Companies Retirement Savings and Stock Ownership Plan in connection with the spin-off of ADESA (see Note 11).*

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On May 10, 2005, shareholders of ALLETE will vote on the election of nine directors, ratification of the appointment of PricewaterhouseCoopers LLP, as the Company's independent registered public accounting firm for 2005, and the continuation of the ALLETE Executive Long-Term Incentive Compensation Plan. Voting results will be provided in our Form 10-Q for the quarter ended June 30, 2005.

ITEM 5. OTHER INFORMATION

(a) **Executive Compensation**

On January 25, 2005, the Executive Compensation Committee of the ALLETE Board of Directors approved the 2005 annual incentive award opportunities, financial and nonfinancial goals for eligible executives pursuant to the ALLETE Executive Annual Incentive Plan. The form of award and 2005 goals are attached to this Form 10-Q as Exhibit 10(a)1 and Exhibit 10(a)2, respectively. The ALLETE Executive Annual Incentive Plan authorizes the Executive Compensation Committee to award cash bonuses based on the Company's performance during the year.

The Executive Compensation Committee also reviewed and approved the award opportunities under the ALLETE Executive Long-Term Incentive Compensation Plan for the three-year performance period beginning in 2005. If the performance-based measures are achieved, the ALLETE Executive Long-Term Incentive Compensation Plan authorizes the Executive Compensation Committee to grant awards in ALLETE common stock and nonqualified stock options. The performance measure used to determine awards for this cycle is the Company's total shareholder return relative to its peer group.

Reference is made to our 2004 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to our 2004 Form 10-K.

Ref. Page 7 – Minimum Revenue and Demand Under Contract Table

Minimum Revenue and Demand Under Contract As of April 1, 2005	Minimum Annual Revenue (a)	Monthly Megawatts
2005	\$98.7	626
2006	\$40.8	219
2007	\$32.5	178
2008	\$25.8	148
2009	\$7.3	46

(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 10 – Second Paragraph

On April 14, 2005, the FERC accepted the triennial market power analysis and concluded that Minnesota Power and Rainy River Energy continue to satisfy the FERC's standards for market-based rate authority. This conclusion was based in part on the commencement of MISO's Day 2 market, as a result of which MISO became a single geographic market and began performing functions such as a central commitment and dispatch with FERC-approved market monitoring and mitigation.

Ref. Page 10 – Sixth Paragraph

As a result of MISO Day 2 implementation on April 1, 2005, energy transactions to serve retail customers are sourced by wholesale transactions with MISO as the counterparty. Minnesota Power filed a petition with the MPUC in February 2005, to amend the fuel clause to accommodate costs and revenue related to MISO Day 2 market implementation. On March 24, 2005, the MPUC approved interim accounting treatment of MISO Day 2 costs to be accounted for on a net basis and recovered through the fuel clause. This interim treatment will continue until the MPUC addresses the cost recovery petitions from Xcel Energy Inc, Otter Tail Power Company, Alliant Energy Corporation and Minnesota Power. The MPUC action regarding MISO Day 2 will include an analysis of how the fuel clause is affected, and whether it should be modified as a result of Day 2.

Ref. Page 11 – Third Paragraph

On April 14, 2005, the PSCW approved an 11.7 percent return on common equity and a 3.9 percent average increase in retail utility rates for SWL&P customers. This average increase is comprised of a 1.6 percent increase in electric rates, a 5.1 percent increase in gas rates and a 9.9 percent increase in water rates. SWL&P originally requested an average increase in retail utility rates of 6.0 percent. New rates are expected to be implemented in early May 2005, following the receipt of a final order from the PSCW.

Mercury Emissions. In December 2000, the EPA announced its decision to regulate mercury emissions from coal and oil-fired power plants under Section 112 of the Clean Air Act. Section 112 would require all such power plants in the United States to adhere to the EPA maximum achievable control technology (MACT) standards for mercury. However, on March 15, 2005, the EPA removed electric utilities from the Section 112(c) list of source categories subject to MACT requirements, instead referencing how the EPA is regulating utility emissions of mercury under Section 111 and is providing for additional sulfur dioxide and oxides of nitrogen emission reductions that will deliver mercury reductions as a co-benefit of controls under the March 10, 2005, final CAIR. The EPA has assigned a mercury emission budget to each state that is based on achieving about a 70 percent overall reduction in baseline utility mercury emissions by the start of the second phase of the CAMR in 2018. The Minnesota Pollution Control Agency (MPCA) is now required to provide an implementation plan for EPA approval in 2006, by which time Minnesota will have determined if it will participate in the EPA's proposed mercury cap-and-trade program. The CAMR is expected to be published in the Federal Register in May 2005, at which time it is anticipated that legal challenges to the rule implementation will be made. The EPA determination not to list electric utilities under Section 112(c) has already been subjected to court challenge. Continuous emission monitoring of mercury stack emissions may be required on larger units while smaller units with low mercury emissions may not require continuous monitoring. Minnesota Power is continuing to review the new mercury rule and looks to the outcome of legal challenges as being critical before specific compliance measures can be established. Minnesota Power's preliminary estimates suggest that all of our affected facilities can be outfitted with continuous mercury emission monitors for under \$2 million. The MPCA will not allocate mercury emission allowances to Minnesota sources until after they have established their state implementation plan for EPA approval. Cost estimates about mercury cap-and-trade program impacts are premature at this time.

On March 2, 2005, Florida Landmark signed an agreement with Developers Realty Corporation (DRC) to develop the first phase of the urban core area of Town Center at Palm Coast. The agreement also includes the development of a 51-acre commercial retail site. This agreement provides that DRC has an inspection period through July 31, 2005, which allows DRC to terminate the agreement with no penalty. Revenue associated with this agreement is anticipated to be \$21.8 million over the life of the contract, which extends to September 2012. DRC is a regional commercial developer with strong ties to national retailers and has experience developing "lifestyle center" projects.

ITEM 6. EXHIBITS

Exhibit Number

- 4 Twenty-fourth Supplemental Indenture, dated as of March 1, 2005, between ALLETE and The Bank of New York and Douglas J. MacInnes, as Trustees.
- +10(a)1 Form of ALLETE Executive Annual Incentive Plan Award.
- +10(a)2 ALLETE Executive Annual Incentive Plan 2005 Goals.
- +10(b) January 2005 Amendment to the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan.
- +10(c) January 2005 Amendment to the ALLETE Director Compensation Deferral Plan.
- 31(a) Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31(b) Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Section 1350 Certification of Periodic Report by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99 ALLETE News Release dated April 29, 2005, announcing 2005 first quarter earnings. **[This exhibit has been furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.]**

+ *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.

April 29, 2005

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

April 29, 2005

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

EXHIBIT INDEX

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- | | |
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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-fourth Supplemental Indenture

Providing among other things for

First Mortgage Bonds, 5.28% Series due August 1, 2020

(Thirtieth Series)

Dated as of March 1, 2005

TWENTY-FOURTH SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of March 1, 2005, 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-fourth 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:

<u>Designation</u>	<u>Dated as of</u>
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
Twenty-third Supplemental Indenture	August 1, 2004

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:

<u>Series</u>	<u>Principal Amount Issued</u>	<u>Principal Amount Outstanding</u>
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	None
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 Series due October 20, 2003	250,000,000	None
Collateral Series A	255,000,000	None
Pollution Control Series F	111,000,000	111,000,000

which bonds are also hereinafter sometimes called bonds of the First through Twenty-ninth 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; and

WHEREAS, the Company now desires to create a 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-fourth Supplemental Indenture, and the terms of the bonds of the Thirtieth 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 enrolling 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-fourth 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-fourth 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-fourth 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-fourth 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

Thirtieth Series of Bonds

SECTION 1. There shall be a series of bonds designated "5.28% Series due August 1, 2020" (herein sometimes referred to as the "Thirtieth Series"), each of which shall also bear the descriptive title "First Mortgage Bond", and the form thereof, which shall be 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 Thirtieth Series shall be dated as in Section 10 of the Mortgage provided, mature on August 1, 2020, be issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, in any multiple or multiples of One Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and bear interest from August 1, 2005 at the rate of 5.28% per annum, payable semi-annually on February 1 and August 1 of each year, commencing February 1, 2006, the principal of 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.

(I) **Optional Prepayment.** The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the bonds of the Thirtieth Series at 100% of the principal amount so prepaid, and the Make-Whole Amount determined for the Settlement Date specified by the Company in such notice with respect to such principal amount. The Company will give each registered owner of Bonds of the Thirtieth Series written notice (by first class mail or such other method as may be agreed upon by the Company and such registered owner) of each optional prepayment under this subsection (I) mailed or otherwise given not less than 30 days and not more than 60 days prior to the date fixed for such prepayment, to each such registered owner at his, her or its last address appearing on the registry books. Each such notice shall specify the Settlement Date (which shall be a Business Day), the aggregate principal amount of the bonds of the Thirtieth Series to be prepaid on such date, the principal amount of each bond held by such registered owner to be prepaid (determined in accordance with subsection (II) of this section), and the interest to be paid on the Settlement Date with respect to such principal amount being prepaid, and shall be accompanied by a certificate signed by a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such Settlement Date, the Company shall send to each registered owner of bonds of the Thirtieth Series (by first class mail or by such other method as may be agreed upon by the Company and such registered owner) a certificate signed by a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified Settlement Date. As promptly as practicable after the giving of the notice and the sending of the certificates provided in this subsection, the Company shall provide a copy of each to the Corporate Trustee. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice or certificate. The bonds of the Thirtieth Series are not otherwise subject to voluntary or optional prepayment.

(II) **Allocation of Partial Prepayments.** In the case of each partial prepayment of the bonds of the Thirtieth Series, the principal amount of the Bonds of the Thirtieth Series to be prepaid

shall be allocated by the Company among all of the Bonds of the Thirtieth Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

(III) **Maturity; Surrender, Etc.** In the case of each notice of prepayment of bonds of the Thirtieth Series pursuant to this section, if cash sufficient to pay the principal amount to be prepaid on the Settlement Date (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any, is not paid as agreed upon by the Company and each registered owner of the affected bonds, or, to the extent that there is no such agreement entered into with one or more such owners, deposited with the Corporate Trustee on or before the Settlement Date, then such notice of prepayment shall be of no effect. If such cash is so paid or deposited, such principal amount of the bonds of the Thirtieth Series shall be deemed paid for all purposes and interest on such principal amount shall cease to accrue. In case the Company pays any registered owner pursuant to an agreement with that registered owner, the Company shall notify the Corporate Trustee as promptly as practicable of such agreement and payment, and shall furnish the Corporate Trustee with a copy of such agreement; in case the Company deposits any cash with the Corporate Trustee, the Company shall provide therewith a list of the registered owners and the amount of such cash each registered owner is to receive. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice, list or agreement, and shall not be chargeable with knowledge of any of the contents of any such agreement. Any bond prepaid in full shall be surrendered to the Company or the Corporate Trustee for cancellation on or before the Settlement Date or, with respect to cash deposited with the Corporate Trustee, before payment of such cash by the Corporate Trustee; any bond prepaid in part shall be surrendered to the Company or the Corporate Trustee on or before the Settlement Date (unless otherwise agreed between the Company and the registered owner) or, with respect to cash deposited with Corporate Trustee before payment of such cash by the Corporate Trustee, for a substitute bond in the principal amount remaining unpaid.

(IV) **Make-Whole Amount.**

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

"Business Day" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"Called Principal" means, with respect to any bond of the Thirtieth Series, the principal of such bond that is to be prepaid pursuant to subsection (I) of this section.

"Discounted Value" means, with respect to the Called Principal of any bond of the Thirtieth Series, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such

Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the bonds of the Thirtieth Series is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any bond of the Thirtieth Series, 0.5% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1 on Bloomberg Financial Markets ("Bloomberg") or, if Page PX1 (or its successor screen on Bloomberg) is unavailable, the Telerate Access Service screen which corresponds most closely to Page PX1 for the most recently issued actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable bond of the Thirtieth Series.

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

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

"Settlement Date" means, with respect to the Called Principal of any Bond of the Thirtieth Series, the date on which such Called Principal is to be prepaid pursuant to subsection (I) of this section.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

(V) **Dividend Covenant.** If any series of bonds under the Mortgage has the benefit of the dividend covenant in Section 39(III) of the Mortgage, then, so long as such series of bonds remains outstanding and such dividend covenant remains in effect, the bonds of the Thirtieth Series shall have the benefit of such dividend covenant; provided however that no consent or vote of the holders of the bonds of the Thirtieth Series shall be required to modify or eliminate such dividend covenant to the extent, if any, that such dividend covenant may be modified or eliminated at the request of the Company with the vote or consent of the holders of the required aggregate principal amount of any series of outstanding bonds whose consent is required by the Mortgage for such modification or elimination and the Company has obtained any such required vote or consent.

(VI) At the option of the registered owner, any bonds of the Thirtieth 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 Thirtieth Series shall be transferable (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 shall not be required to make transfers or exchanges of bonds of the Thirtieth Series for a period of ten (10) days next preceding any designation of bonds of said series to be prepaid, and the Company shall not be required to make transfers or exchanges of any bonds of said series designated in whole or in part for prepayment.

Upon any exchange or transfer of bonds of the Thirtieth Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Mortgage, but the Company hereby waives any right to make a charge in addition thereto for any exchange or transfer of bonds of the Thirtieth Series.

After the delivery of this Twenty-fourth Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage and receipt of consideration therefor by the Company, there shall be an initial issue of bonds of the Thirtieth Series for the aggregate principal amount of \$35,000,000.

ARTICLE II

Miscellaneous Provisions

SECTION 2. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words "and August 1, 2020," after the words "and July 1, 2022."

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

SECTION 4. The holders of bonds of the Thirtieth Series consent that the Company may, but shall not be obligated to, fix a record date for the purpose of determining the holders of bonds of the Thirtieth Series entitled to consent to any amendment, supplement or waiver. If a record date is fixed, those persons who were holders at such record date (or their duly designated proxies), and only those persons, shall be entitled to consent to such amendment, supplement or waiver or to revoke any consent previously given, whether or not such persons continue to be holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

SECTION 5. 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-fourth 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-fourth 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-fourth Supplemental Indenture.

SECTION 6. Whenever in this Twenty-fourth 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-fourth 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 7. Nothing in this Twenty-fourth 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-fourth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Twenty-fourth 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.

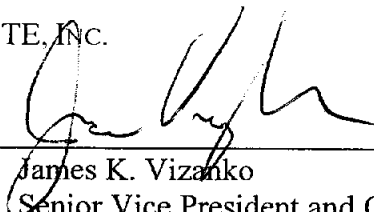
SECTION 8. This Twenty-fourth Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 9. The Company, the mortgagor named herein, by its execution hereof acknowledges receipt of a full, true and complete copy of this Twenty-fourth Supplemental Indenture.

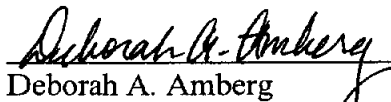
IN WITNESS WHEREOF, ALLETE, Inc. has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, all in the City of Duluth, Minnesota, 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.

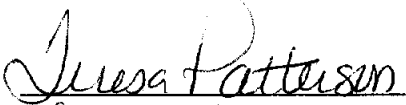

By


James K. Vizanko
Senior Vice President and Chief
Financial Officer

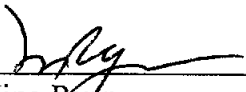
Attest:



Deborah A. Amberg
Vice President, General Counsel
and Secretary

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

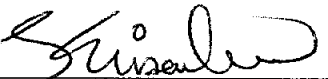
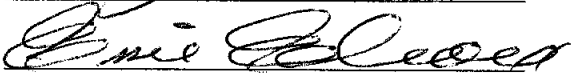
THE BANK OF NEW YORK,
as Trustee

By 
Ming Ryan
Vice President

Attest: 
Giovanni Barris
Vice President

 L.S.
DOUGLAS J. MACINNES

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

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

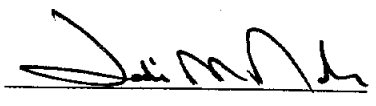
On this 15th day of April, 2005, before me, a Notary Public within and for said County, personally appeared JAMES K. VIZANKO and DEBORAH A. AMBERG, to me personally known, who, being each by me duly sworn, did say that they are respectively the Senior Vice President and Chief Financial Officer and the 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 15th day of April, 2005, 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 15th day of April, 2005, 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 15th day of April, 2005.




 JODI M. NASH
 NOTARY PUBLIC - MINNESOTA
 My Commission Expires 1/31/2010

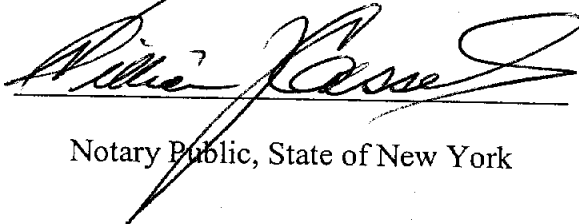
STATE OF NEW YORK)
) SS:
 COUNTY OF NEW YORK)

On this 19th day of April, 2005, before me, a Notary Public within and for said County, personally appeared MING RYAN and GEOVANNI BARRIS, to me personally known, who, being each by me duly sworn, did say that they are respectively a Vice President and an 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 GEOVANNI BARRIS acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 19th day of April, 2005, MING RYAN, to me known to be a Vice President, and GEOVANNI BARRIS, to me known 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 respectively a Vice President and 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 GEOVANNI BARRIS 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 19th day of April, 2005, before me personally came MING RYAN and GEOVANNI BARRIS, to me known, who, being by me duly sworn, did depose and say that they respectively reside at 19 Belaire Court, Roseland, NJ 07068, and 14 Huber Court, Hightstown, NJ 08520; that they are respectively a Vice President and 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 19th day of April, 2005.


 Notary Public, State of New York

WILLIAM J. CASSELS
 Notary Public, State of New York
 No. 01CA5027729
 Qualified in Bronx County
 Commission Expires May 18, 2006

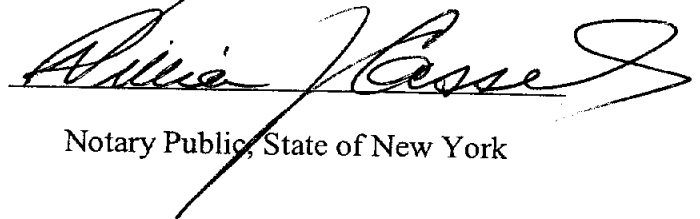
STATE OF NEW YORK)
) SS:
 COUNTY OF NEW YORK)

On this 19th day of April, 2005, 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 19th day of April, 2005, the above named DOUGLAS J. MACINNES, to me known to be the person who executed the foregoing instrument, and acknowledged the same.

On the 19th day of April, 2005, 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 19th day of April, 2005.



Notary Public, State of New York

WILLIAM J. CASSELS
 Notary Public, State of New York
 No. 01CA5027729
 Qualified in Bronx County
 Commission Expires May 18, 2006

**ALLETE Executive Annual Incentive Plan
Form of Award
[eligible executives excluding President of ALLETE Properties, Inc.]**

Target Award Opportunity

Base Salary		\$
	x	
Award Opportunity (percent of base salary)		% _____
	=	
Target Award		\$

Goals

See attached goal sheet(s)

Performance Levels and Award Amounts

Performance Level	Payout as Percent of Target Award	Award Amount /1
Superior	200%	\$
Target	100%	\$
Threshold	50%	\$
Below Threshold	0%	\$

/1 Award amounts will be modified 80% to 120% based on the accomplishment of non-financial goals.

**ALLETE Executive Annual Incentive Plan
Form of Award
President of ALLETE Properties, Inc.**

2005 Financial Goals and Target Award Opportunity

Budgeted Net Sales		\$
	x	
Percent of Net Sales		% _____
	=	
Sales Award (capped)		\$
Plus		
Brokerage Revenue		\$
	x	
Percent of Brokerage Revenue		% _____
	=	
Brokerage Award (uncapped)		\$
Total Target Award (Sales plus Brokerage) /1		\$

/1 Award amount will be modified 80% to 120% based on the accomplishment of non-financial goals including maximizing the value of properties and successful implementation of the business strategy for ALLETE Properties, Inc.

**ALLETE Executive Annual Incentive Plan
2005 Goals**

For all eligible participants except for the President of ALLETE Properties, Inc., 2005 financial performance measures include a 25% weighting on consolidated Net Income from Continuing Operations (NICO) and Operating Free Cash Flow (OFCF) and a 75% weighting on NICO and OFCF excluding real estate operations. Nonfinancial goals include safety, environmental, customer service and reliability, and business support.

AMENDMENT TO SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Effective January 1, 2005

WHEREAS, ALLETE, Inc. (the "Company") maintains the ALLETE Supplemental Executive Retirement Plan (the "SERP" or "Plan"); and

WHEREAS, the American Jobs Creation Act of 2004 added a new section 409A to the Internal Revenue Code establishing new rules regarding the taxation of non-qualified deferred compensation plans, effective for amounts deferred after December 31, 2004 (the "New Law"); and

WHEREAS, under the new law, amounts deferred on and after January 1, 2005 under the SERP would be immediately taxable to participants; and

WHEREAS, the Executive Compensation Committee of the Board of Directors of the Company has instructed management to prepare a new deferred compensation plan (a "New SERP") that will comply with the New Law to be adopted by the Company no later than December 31, 2005; and

WHEREAS, recent guidance issued by the Internal Revenue Service specifies that bonuses earned by the SERP participants in 2004 that become payable in 2005 will, if subject to a deferral election, be treated as amounts deferred after December 31, 2004 for purposes of the New Law; and

WHEREAS, such recent guidance also allows deferred compensation plans to be amended to give participants the opportunity to revoke, in whole or in part, certain outstanding elections to defer compensation; and

WHEREAS, such recent guidance also allows participants to elect to defer certain performance-based compensation based on services performed over a period of at least 12 months no later than 6 months before the end of that period; and

WHEREAS, it is desirable to preserve the deferral of taxes on 2004 bonuses, 2005 bonuses, and 2005 salary subject to deferral elections for SERP participants who do not revoke their elections to defer such compensation; and

WHEREAS, it is therefore desirable to amend the SERP (1) to reflect the cessation of further deferrals thereunder after 2004; (2) to provide SERP participants with the opportunity to revoke their deferral elections for their 2004 bonuses and 2005 salary and make new deferral elections for their 2005 bonuses; and (3) to the extent that any such deferral elections are not so revoked, to redirect the deferral of 2004 deferred bonuses, 2005 deferred salary, and 2005 deferred bonuses to a new SERP.

NOW, THEREFORE, effective as of January 1, 2005, the SERP is hereby amended as follows:

1. Article 4 of the SERP is hereby amended by adding the following new sections 4.16 and 4.17 to the end thereof:

4.16 Cessation of Deferrals.

Notwithstanding any other Plan provision to the contrary, no amount of Annual Makeup Award, Salary Deferral, Bonus Deferral, Severance Deferral, Non-qualified Stock Option Gain Deferral, or Retirement Benefit (collectively "Deferral") earned for services performed in Plan years beginning after December 31, 2004 shall be deferred under this Plan. Accordingly, any election to make any Deferral under this plan shall terminate as to future Deferrals as of December 31, 2004 and shall no longer have any force or effect under this Plan. Subject to Section 4.17 hereof, Bonus Deferrals that were earned in 2004 and Deferrals earned in 2005, in each case, that are subject to Deferral elections made under the terms of this Plan shall not be credited under this Plan, but shall be credited under a new plan to be adopted in 2005 (a "New SERP") in accordance with the terms of the New SERP and shall be subject to the terms and conditions of such New SERP, including, without limitation, its distribution provisions. No new Deferral elections shall be made under this Article 4 with respect to amounts earned after December 31, 2004. Investment earnings (and losses) shall continue to be credited (or debited) to each participant's EDA account as provided in this Article 4.

4.17 Opportunity to Revoke Election.


Notwithstanding anything contained herein to the contrary, (i) any Participant who elected a 2004 Bonus Deferral may revoke his or her election in its entirety; (ii) any Participant who elected a 2005 Salary Deferral may revoke his or her election in part or in its entirety; and (iii) any Participant who elected a 2005 Bonus Deferral may file a new deferral election with respect to such 2005 Bonus Deferral, in each case as provided in this Section 4.17. Such revocation election with respect to 2004 Bonus Deferral and/or 2005 Salary Deferral or new deferral election with respect to 2005 Bonus Deferral must be in writing on a form provided by the administrator and must be filed with the administrator on or before January 28, 2005. Any participant who revokes his or her 2004 Bonus Deferral Election as provided herein shall receive such bonus in cash at or about the same time that such award is paid to other employees of the Company. Any Participant who revokes his or her 2005 Salary Deferral will be paid in accordance with the Company's standard payroll practices.

IN WITNESS WHEREOF, ALLETE, Inc. has caused this instrument to be executed by its duly authorized officers.

ALLETE, Inc.


Donald J. Shippar
President and Chief Executive Officer

ATTEST:


Deborah A. Amberg
Vice President, General Counsel and Secretary

AMENDMENT TO ALLETE DIRECTOR COMPENSATION DEFERRAL PLAN

Effective January 1, 2005

WHEREAS, ALLETE, Inc. (the "Company") maintains the ALLETE Director Compensation Deferral Plan (the "Plan"); and

WHEREAS, the American Jobs Creation Act of 2004 added a new section 409A to the Internal Revenue Code establishing new rules regarding the taxation of non-qualified deferred compensation plans, effective for amounts deferred after December 31, 2004 (the "New Law"); and

WHEREAS, under the new law, amounts deferred on and after January 1, 2005 under the Plan would be immediately taxable to participants; and

WHEREAS, the Executive Compensation Committee of the Board of Directors of the Company has instructed management to prepare a new deferred compensation plan (a "New Plan") that will comply with the New Law to be adopted by the Company no later than December 31, 2005; and

WHEREAS, recent guidance issued by the Internal Revenue Service specifies that amounts earned by Plan participants in 2004 that become payable in 2005 will, if subject to a deferral election, be treated as amounts deferred after December 31, 2004 for purposes of the New Law; and

WHEREAS, such recent guidance also allows deferred compensation plans to be amended to give participants the opportunity to revoke, in whole or in part, certain outstanding elections to defer compensation; and

WHEREAS, such recent guidance also allows participants to elect to defer certain performance-based compensation based on services performed over a period of at least 12 months no later than 6 months before the end of that period; and

WHEREAS, it is desirable to preserve the deferral of taxes on 2004 compensation (which is payable in 2005), and 2005 compensation subject to deferral elections for Plan participants who do not revoke their elections to defer such compensation; and

WHEREAS, it is therefore desirable to amend the Plan (1) to reflect the cessation of further deferrals thereunder after 2004; (2) to provide Plan participants with the opportunity to revoke their deferral elections for their 2004 compensation (which is payable in 2005) and 2005 compensation and make new deferral elections for their 2005 compensation; and (3) to the extent that any such deferral elections are not so revoked, to redirect the deferral of 2004 deferred compensation (which is payable in 2005) and 2005 deferred compensation to a New Plan.

NOW, THEREFORE, effective as of January 1, 2005, the Plan is hereby amended as follows:

1. Section 3 of the Plan is hereby amended by adding the following new sections 3.4 and 3.5 to the end thereof:

3.4 Cessation of Deferrals.

Notwithstanding any other Plan provision to the contrary, no amount of compensation as a Director which is payable by the Company in cash earned for services performed in Plan years beginning after December 31, 2004 shall be deferred under this Plan. Accordingly, any election to make any deferral under this plan shall terminate as to future cash compensation as of December 31, 2004 and shall no longer have any force or effect under this Plan as to future cash compensation. Subject to Section 3.5 hereof, cash compensation that was earned in 2004 but paid in 2005 and cash compensation that was earned in 2005, in each case, that are subject to deferral elections made under the terms of this Plan shall not be credited under this Plan, but shall be credited under a new plan to be adopted in 2005 (a "New Plan") in accordance with the terms of the New Plan and shall be subject to the terms and conditions of such New Plan, including, without limitation, its distribution provisions. No new deferral elections shall be made under this Article 3 with respect to amounts earned after December 31, 2004. Investment earnings (and losses) shall continue to be credited (or debited) to each Director's account as provided in this Article 3.

3.5 Opportunity to Revoke Election.

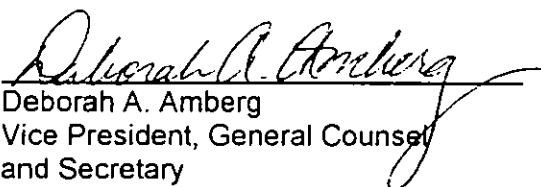
Notwithstanding anything contained herein to the contrary, (i) any Director who elected to defer 2004 cash compensation which is payable in 2005 may revoke his or her election in its entirety; (ii) any Director who elected a 2005 deferral may revoke his or her election in part or in its entirety; and (iii) any Director who elected a 2005 deferral may file a new deferral election with respect to such 2005 deferral, in each case as provided in this Section 3.5. Such revocation election with respect to a 2004 deferral and/or 2005 deferral or new deferral election with respect to 2005 deferral must be in writing on a form provided by the administrator and must be filed with the administrator on or before January 28, 2005. Any Director who revokes his or her 2004 deferral election as provided herein shall receive such compensation in cash at or about the same time that such amount is paid to other Directors of the Company. Any Director who revokes his or her 2005 deferral election will be paid in accordance with the Company's standard Director compensation practices.

IN WITNESS WHEREOF, ALLETE, Inc. has caused this instrument to be executed by its duly authorized officers.

ALLETE, Inc.


Donald J. Shippar
President and Chief Executive Officer

ATTEST:

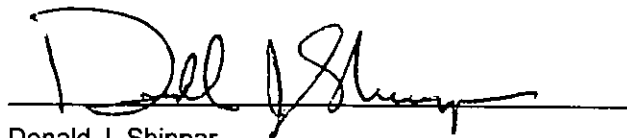

Deborah A. Amberg
Vice President, General Counsel
and Secretary

**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 March 31, 2005 of ALLETE;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2005

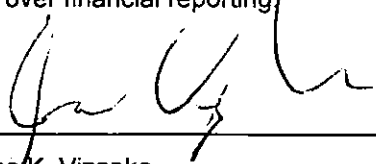

Donald J. Shippar
President and Chief Executive Officer

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

I, 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 March 31, 2005 of ALLETE;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: April 28, 2005



James K. Vizanko
Senior Vice President and Chief Financial Officer

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

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

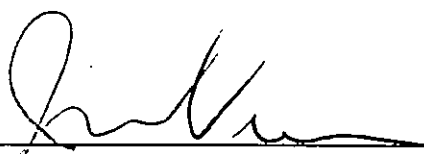
1. The Quarterly Report on Form 10-Q of ALLETE for the quarterly period ended March 31, 2005 (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ALLETE.

Date: April 28, 2005



Donald J. Shippar
President and Chief Executive Officer

Date: April 28, 2005



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.



For Release: April 29, 2005
Contact: Eric Olson
218-723-3947
eolson@allete.com

Investor Tim Thorp
Contact: 218-723-3953
tthorp@allete.com

Exhibit 99

ALLETE reports first quarter earnings; reaffirms 2005 earnings guidance

DULUTH, Minn. — ALLETE, Inc. (NYSE: ALE) today reported first quarter 2005 earnings from continuing operations of 66 cents per share compared with 76 cents per share in the first quarter of 2004. Including discontinued operations, earnings were 64 cents per share on net income of \$17.4 million and operating revenue of \$206.9 million.

During the quarter the company recorded a \$3.3 million, or 12 cents per share, charge related to its emerging technology investment portfolio, which impacted the comparison to the same period a year ago. “We remain on track to meet our expectation for earnings growth despite the charge,” said Don Shippar, ALLETE President and CEO. “We are pleased with our first quarter financial performance.”

Net income at the company’s **Regulated Utility** business was \$12.9 million for the quarter compared with \$12.5 million a year ago. Operating revenue for this business was 4.4 percent higher than in 2004, partially due to increased electric sales to other power suppliers combined with higher prices. Retail electric sales remained strong. First quarter results include \$1.2 million after-tax of outage expense, primarily due to planned maintenance at one of the company’s generating stations.

Nonregulated Energy Operations net income was \$1.6 million for the quarter versus a \$0.2 million net loss in 2004. Net income from the Taconite Harbor facility was higher than the same period a year ago primarily due to a power sales contract that went into effect in May 2004. Positive earnings contributions from the Taconite Harbor facility and BNI Coal were partially offset by a \$1.9 million net loss at the Kendall County facility.

Net income at the **Real Estate** business was \$6.9 million for the quarter compared with \$10.9 million in the first quarter last year. Real estate sales were strong at ALLETE Properties’ southwest Florida operations this quarter. The company expects a growing and consistent annual earnings contribution from this business; however, quarterly results will vary due to the timing of real estate transaction closings.

“Site preparation is underway at ALLETE Properties’ Town Center project in Palm Coast,” said Shippar, “and several pending sales contracts will close this year.” Flagler County, Florida, where Palm Coast is located, was recently named the fastest-growing county in the United States by the U.S. Census Bureau.

ALLETE’s **“Other”** segment posted a \$3.4 million net loss in the first quarter versus a \$1.8 million net loss in the first quarter a year ago. The previously mentioned \$3.3 million charge for two emerging technology investments was partially offset by lower interest and corporate expenses.

“We recently announced the successful exit from the Kendall County power purchase agreement, which will eliminate its ongoing annual losses of approximately \$8 million after-tax,” said Shippar. Excluding a second quarter charge of \$50.4 million associated with the Kendall transaction and earnings ALLETE may realize from investments in growth initiatives, the company continues to expect 45 to 50 percent earnings per share growth from continuing operations in 2005 compared to last year. Shippar cited several additional reasons for the expected earnings growth:

- Continued lower interest charges (\$1.3 million after-tax lower in the first quarter of 2005 versus 2004) due to debt repayment and refinancing in 2004;
- Strong electric sales and a vigorous Florida real estate market; and
- Fewer shares outstanding for earnings-per-share calculation purposes.

ALLETE’s corporate headquarters are located in Duluth, Minnesota. ALLETE provides energy services in the upper Midwest and has significant real estate holdings in Florida. More information about the company is available on ALLETE’s Web site at www.allete.com.

The statements contained in this release and statements that ALLETE may make orally in connection with this release that are not historical facts, are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties, and investors are directed to the risks discussed in documents filed by ALLETE with the Securities and Exchange Commission.

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ALLETE, Inc.
Consolidated Statement of Income
For the Periods Ended March 31, 2005 and 2004
Millions Except Per Share Amounts

	Quarter Ended 2005	2004
Operating Revenue	\$ 206.9	\$ 209.0
Operating Expenses		
Fuel and Purchased Power	69.1	68.9
Operating and Maintenance	83.1	83.6
Depreciation	12.6	12.4
Total Operating Expenses	164.8	164.9
Operating Income from Continuing Operations	42.1	44.1
Other Income (Expense)		
Interest Expense	(6.8)	(9.1)
Other	(4.2)	0.4
Total Other Expense	(11.0)	(8.7)
Income from Continuing Operations Before Minority Interest and Income Taxes	31.1	35.4
Minority Interest	1.2	1.4
Income from Continuing Operations Before Income Taxes	29.9	34.0
Income Tax Expense	11.9	12.6
Income from Continuing Operations Before Change in Accounting Principle	18.0	21.4
Income (Loss) from Discontinued Operations – Net of Tax	(0.6)	31.3
Change in Accounting Principle – Net of Tax	–	(7.8)
Net Income	\$ 17.4	\$ 44.9
Average Shares of Common Stock		
Basic	27.2	28.1
Diluted	27.4	28.3
Basic Earnings (Loss) Per Share of Common Stock		
Continuing Operations	\$0.66	\$0.77
Discontinued Operations	(0.02)	1.11
Change in Accounting Principle	–	(0.28)
	\$0.64	\$1.60
Diluted Earnings (Loss) Per Share of Common Stock		
Continuing Operations	\$0.66	\$0.76
Discontinued Operations	(0.02)	1.10
Change in Accounting Principle	–	(0.27)
	\$0.64	\$1.59
Dividends Per Share of Common Stock	\$0.3000	\$0.8475

Consolidated Balance Sheet

Millions

	Mar. 31, 2005	Dec. 31, 2004		Mar. 31, 2005	Dec. 31, 2004
Assets			Liabilities and Shareholders' Equity		
Cash and Cash Equivalents	\$ 213.2	\$ 194.1	Current Liabilities	\$ 98.2	\$ 97.8
Restricted Cash	–	30.3	Long-Term Debt	389.6	390.2
Other Current Assets	140.4	141.7	Other Liabilities	297.4	300.9
Property, Plant and Equipment	880.8	883.1	Discontinued Operations	5.4	12.0
Investments	118.9	124.5	Shareholders' Equity	617.5	630.5
Discontinued Operations	4.5	4.9			
Other	50.3	52.8			
Total Assets	\$ 1,408.1	\$ 1,431.4	Total Liabilities and Shareholders' Equity	\$ 1,408.1	\$ 1,431.4

ALLETE, Inc.	Quarter Ended March 31,	
	2005	2004
Net Income (Loss)		
Millions		
Regulated Utility	\$12.9	\$12.5
Nonregulated Energy Operations	1.6	(0.2)
Real Estate	6.9	10.9
Other	(3.4)	(1.8)
Income from Continuing Operations	18.0	21.4
Income (Loss) from Discontinued Operations	(0.6)	31.3
Change in Accounting Principle	—	(7.8)
Net Income	\$17.4	\$44.9

Diluted Earnings (Loss) Per Share

Continuing Operations	\$0.66	\$0.76
Discontinued Operations	(0.02)	1.10
Change in Accounting Principle	—	(0.27)
	\$0.64	\$1.59

Note: In 2005, we began allocating corporate charges and interest expenses to our business segments. For comparative purposes, segment information for 2004 has been restated to reflect the new allocation method used in 2005 for corporate charges and interest expense. This restatement had no impact on net income or earnings per share.

Kilowatthours Sold

Millions

Regulated Utility		
Retail and Municipals		
Residential	319.8	310.3
Commercial	339.8	331.9
Industrial	1,777.1	1,766.8
Municipals	222.0	213.8
Other	20.4	20.2
	2,679.1	2,643.0
Other Power Suppliers	236.7	217.2
	2,915.8	2,860.2
Nonregulated Energy Operations	353.9	434.0
	3,269.7	3,294.2

Real Estate

Acres Sold	483	1,268
Lots Sold	7	199