

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, 2006**

or

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

Commission File Number **1-3548**

ALLETE, Inc.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-0418150
(IRS Employer
Identification No.)

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

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

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

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐

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

Common Stock, no par value,
30,261,553 shares outstanding
as of April 30, 2006

INDEX

	Page
Definitions	2
Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995	3
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheet - March 31, 2006 and December 31, 2005	4
Consolidated Statement of Income - Quarter Ended March 31, 2006 and 2005	5
Consolidated Statement of Cash Flows - Quarter Ended March 31, 2006 and 2005	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures about Market Risk	29
Item 4. Controls and Procedures	30
Part II. Other Information	
Item 1. Legal Proceedings	31
Item 1A. Risk Factors	31
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 3. Defaults Upon Senior Securities	32
Item 4. Submission of Matters to a Vote of Security Holders	32
Item 5. Other Information	32
Item 6. Exhibits	35
Signatures	36

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
2005 Form 10-K	ALLETE’s Annual Report on Form 10-K for the Year Ended December 31, 2005
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, Inc.
ATC	American Transmission Company
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
Company	ALLETE, Inc. and its subsidiaries
Constellation Energy Commodities	Constellation Energy Commodities Group, Inc.
DOC	Minnesota Department of Commerce
Enventis Telecom	Enventis Telecom, Inc.
EITF	Emerging Issues Task Force Issue No.
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Florida Water	Florida Water Services Corporation
FSP	Financial Accounting Standards Board Staff Position
GAAP	Accounting Principles Generally Accepted in the United States of America
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.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
Note ____	Note ____ to the consolidated financial statements in this Form 10-Q
NO _x	Nitrogen Oxide
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.
SO ₂	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
Town Center	Town Center at Palm Coast development project in Florida
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;
- our ability to manage expansion and integrate acquisitions;
- prevailing governmental policies and regulatory actions, including those of the United States Congress, state legislatures, the FERC, the MPUC, the PSCW, and various local and county regulators, and city administrators, about allowed rates of return, financings, industry and rate structure, acquisition and disposal of assets and facilities, real estate development, operation and construction of plant facilities, recovery of purchased power and 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;
- our ability to obtain viable real estate for development purposes;
- 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 replace a mature workforce, and retain qualified, skilled and experienced personnel; and
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this report are discussed under the heading “Risk Factors” in Part I, Item 1A of our 2005 Form 10-K and Part II, Item 1A of this Form 10-Q. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by us in this Form 10-Q and in our other reports filed with the SEC that attempt to advise interested parties of the factors that may affect our business.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions - Unaudited

	March 31, 2006	December 31, 2005
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 75.0	\$ 89.6
Short-Term Investments	161.5	116.9
Accounts Receivable (Less Allowance of \$1.0 for 2006 and 2005)	66.0	79.1
Inventories	31.9	33.1
Prepayments and Other	17.0	23.8
Deferred Income Taxes	32.1	31.0
Discontinued Operations	—	0.4
Total Current Assets	383.5	373.9
Property, Plant and Equipment – Net	862.3	860.4
Investments	112.3	117.7
Other Assets	45.9	44.6
Discontinued Operations	—	2.2
Total Assets	\$ 1,404.0	\$ 1,398.8
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 30.3	\$ 44.7
Accrued Taxes	41.8	19.1
Accrued Interest	4.7	7.4
Long-Term Debt Due Within One Year	61.8	2.7
Deferred Profit on Sales of Real Estate	7.8	8.6
Other	18.6	24.2
Discontinued Operations	—	13.0
Total Current Liabilities	165.0	119.7
Long-Term Debt	327.3	387.8
Deferred Income Taxes	137.7	138.4
Other Liabilities	148.0	144.1
Minority Interest	6.5	6.0
Total Liabilities	784.5	796.0
Commitments and Contingencies		
Shareholders' Equity		
Common Stock Without Par Value, 43.3 Shares Authorized		
30.2 and 30.1 Shares Outstanding	426.6	421.1
Unearned ESOP Shares	(76.5)	(77.6)
Accumulated Other Comprehensive Loss	(12.5)	(12.8)
Retained Earnings	281.9	272.1
Total Shareholders' Equity	619.5	602.8
Total Liabilities and Shareholders' Equity	\$ 1,404.0	\$ 1,398.8

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,	
	2006	2005
Operating Revenue	\$192.5	\$ 193.3
Operating Expenses		
Fuel and Purchased Power	69.4	67.6
Operating and Maintenance	74.5	72.7
Depreciation	12.2	11.9
Total Operating Expenses	156.1	152.2
Operating Income from Continuing Operations	36.4	41.1
Other Income (Expense)		
Interest Expense	(6.4)	(6.8)
Other	1.7	(4.2)
Total Other Expense	(4.7)	(11.0)
Income from Continuing Operations Before Minority Interest and Income Taxes	31.7	30.1
Minority Interest	1.3	1.2
Income from Continuing Operations Before Income Taxes	30.4	28.9
Income Tax Expense	11.6	11.5
Income from Continuing Operations	18.8	17.4
Income from Discontinued Operations – Net of Tax	–	–
Net Income	\$ 18.8	\$ 17.4
Average Shares of Common Stock		
Basic	27.6	27.2
Diluted	27.7	27.4
Basic and Diluted Earnings Per Share of Common Stock		
Continuing Operations	\$0.68	\$0.64
Discontinued Operations	–	–
	\$0.68	\$0.64
Dividends Per Share of Common Stock	\$0.3625	\$0.3000

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	2006	Quarter Ended March 31, 2005
Operating Activities		
Net Income	\$ 18.8	\$ 17.4
Loss on Impairment of Investments	—	5.1
Depreciation	12.2	11.9
Deferred Income Taxes	(1.7)	(3.6)
Minority Interest	1.3	1.2
Stock Compensation Expense	0.4	0.3
Bad Debt Expense	0.2	0.2
Changes in Operating Assets and Liabilities		
Accounts Receivable	12.9	8.7
Inventories	1.2	(0.3)
Prepayments and Other	6.8	(5.6)
Accounts Payable	(11.2)	(5.1)
Other Current Liabilities	14.6	7.0
Other Assets	(1.3)	2.5
Other Liabilities	2.6	(1.3)
Net Operating Activities for Discontinued Operations	(12.6)	(7.3)
Cash from Operating Activities	44.2	31.1
Investing Activities		
Proceeds from Sale of Available-For-Sale Securities	126.3	210.5
Payments for Purchase of Available-For-Sale Securities	(170.9)	(93.3)
Changes to Investments	2.4	(2.4)
Additions to Property, Plant and Equipment	(13.6)	(8.9)
Other	4.4	1.7
Net Investing Activities for Discontinued Operations	2.2	(0.6)
Cash from (for) Investing Activities	(49.2)	107.0
Financing Activities		
Issuance of Common Stock	5.1	6.2
Issuance of Long-Term Debt	50.0	—
Reductions of Long-Term Debt	(51.4)	(0.6)
Dividends on Common Stock and Distributions to Minority Shareholders	(9.9)	(7.4)
Net Decrease in Book Overdrafts	(3.4)	—
Cash for Financing Activities	(9.6)	(1.8)
Change in Cash and Cash Equivalents	(14.6)	136.3
Cash and Cash Equivalents at Beginning of Period (a)	89.6	46.1
Cash and Cash Equivalents at End of Period (a)	\$ 75.0	\$182.4
Supplemental Cash Flow Information		
Cash Paid During the Period for		
Interest – Net of Amounts Capitalized	\$12.1	\$10.6
Income Taxes	\$3.7	\$1.4

(a) Included \$1.2 of cash from Discontinued Operations at March 31, 2005.

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 2005 Form 10-K. In our opinion, all adjustments necessary for a fair statement of the results for the interim periods have been made. The results of operations for an interim period are not necessarily indicative of the results to be expected for the full year.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Certain reclassifications have been made to prior years' amounts to conform to current year classifications. We revised our Consolidated Statement of Cash Flows for the quarter ended March 31, 2005, to reconcile Net Income to Cash from Operating Activities. Previously, we reconciled Income from Continuing Operations to Cash from Operating Activities. In addition, we have reclassified certain amounts in our balance sheet, statement of income, statement of cash flows and segment information to reflect discontinued operations treatment for our telecommunications business which we sold in December 2005. These reclassifications had no effect on previously reported consolidated net income, shareholders' equity, comprehensive income or cash flows.

Revision in the Classification of Certain Securities. In the quarterly period ended June 30, 2005, we concluded that it was appropriate to reclassify our auction rate bonds and variable rate demand notes as short-term investments. Previously, such investments had been classified as cash and cash equivalents. Accordingly, we now report these securities as short-term investments in a separate line item on our Consolidated Balance Sheet as of March 31, 2006 (and for the year ended December 31, 2005). We have also made corresponding adjustments to our Consolidated Statement of Cash Flows for the period ended March 31, 2005, to reflect the gross purchases and sales of these securities as investing activities rather than as a component of cash and cash equivalents. This change in classification does not affect our previously reported Consolidated Statements of Income for any period.

For the quarter ended March 31, 2005, cash used in investing activities related to these short-term investments of \$32.0 million was previously included in cash and cash equivalents in our Consolidated Statement of Cash Flows.

Short-Term Investments. At March 31, 2006 and December 31, 2005, we held \$161.5 million and \$116.9 million, respectively, of short-term investments, consisting of auction rate bonds and variable rate demand notes classified as available-for-sale securities. Our investments in these securities are recorded at cost, which approximates fair market value due to their variable interest rates, which typically reset every 7 to 35 days. Despite the long-term nature of their stated contractual maturities, we have the ability to quickly liquidate these securities. As a result, we had no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from our short-term investments. All income generated from these short-term investments was recorded as interest income.

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

Inventories	March 31, 2006	December 31, 2005
Millions		
Fuel	\$ 9.8	\$11.0
Materials and Supplies	22.1	22.1
Total Inventories	\$31.9	\$33.1

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation Expense. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, "Share-Based Payment," using the modified prospective transition method. Under this method, we recognize compensation expense for all share-based payments granted after January 1, 2006, and those granted prior to but not yet vested as of January 1, 2006. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation expense for those shares expected to vest over the required service period of the award. Prior to our adoption of SFAS 123R, we accounted for share-based payments under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations.

Stock Incentive Plan. Under our Executive Long-Term Incentive Compensation Plan, share-based awards may be issued to employees via a broad range of methods, including non-qualified and incentive stock options, performance shares, performance units, restricted stock, stock appreciation rights and other awards. There are 3.2 million shares of common stock reserved for issuance under the plan, with 1.6 million of these shares available for issuance as of March 31, 2006. We currently have the following types of share-based awards outstanding:

Non-Qualified Stock Options. The options allow for the purchase of shares of common stock at a price equal to the stock's market value at the date of grant. Options become exercisable beginning one year after the grant date, with one-third vesting each year over three years. Options may be exercised up to ten years following the date of grant. In the case of qualified retirement, death or disability, options vest immediately and the period over which the options can be exercised is shortened. Employees have up to three months to exercise vested options upon voluntary termination or involuntary termination without cause. All options are cancelled upon termination for cause. All options vest immediately upon a change of control, as defined in the award agreement. We determine the fair value of options using the Black-Scholes option pricing model. The estimated fair value of options, including the effect of estimated forfeitures, is recognized as expense on the straight-line basis over the options' vesting periods.

The following assumptions were used in determining the fair value of stock options granted during the first quarter of 2006, under the Black-Scholes model:

	2006
Risk-Free Interest Rate	4.5%
Expected Life – Years	5
Expected Volatility	20%
Dividend Growth Rate	5%

The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the grant date. Expected volatility is based on the historic volatility of our stock and the stock of peer companies, and the implied volatility of publicly traded options. We utilize historical option exercise and employee termination data to estimate the option life.

Performance Shares. Under these awards, the level of shares earned is contingent upon attaining specific performance targets over a three-year performance period. In the case of qualified retirement, death or disability during a performance period, a pro-rata portion of the award will be earned at the conclusion of the performance period based on the performance goals achieved. In the case of termination of employment for any reason other than qualified retirement, death or disability, no award will be earned. If there is a change in control, a pro-rata portion of the award will be paid based on the greater of actual performance up to the date of the change in control or target performance. The fair value of these awards is equal to the grant date fair value which is estimated based upon the assumed share-based payment three years from the date of grant. Compensation cost is recognized over the three-year performance period based on our estimate of the number of shares which will be earned by the award recipients.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee Stock Purchase Plan (ESPP). Under our ESPP, eligible employees may purchase ALLETE common stock at a 5 percent discount from the market price. Because the discount is not greater than 5 percent, we are not required by SFAS 123R to apply fair value accounting to these awards.

Retirement Savings and Stock Ownership Plan (RSOP). Shares held in our RSOP are excluded from SFAS 123R and are accounted for in accordance with the American Institute of Certified Public Accountants' Statement of Position No. 93-6, "Employers' Accounting for Employee Stock Ownership Plans."

The following share-based compensation expense amounts were recognized in our consolidated statement of income for the periods presented.

	Quarter Ended March 31, 2006
Share-Based Compensation Expense	
Millions	
Stock Options	\$0.2
Performance Shares	0.2
Total Share-Based Compensation Expense	\$0.4
Income Tax Benefit	\$0.2

There were no significant capitalized stock-based compensation costs at March 31, 2006.

As of March 31, 2006, the total compensation cost for nonvested awards not yet recognized in our statements of income was \$2.6 million. This amount is expected to be recognized over a weighted-average period of 1.33 years.

The following table presents the pro forma effect of stock-based compensation, had we applied the provisions of SFAS 123 for the quarter ended March 31, 2005.

	Quarter Ended March 31, 2005
Effect of SFAS 123 Accounting for Stock-Based Compensation	
Millions Except Per Share Amounts	
Net Income	
As Reported	\$17.4
Plus: Employee Stock Compensation Expense Included in Net Income – Net of Tax	0.3
Less: Employee Stock Compensation Expense Determined Under SFAS 123 – Net of Tax	0.4
Pro Forma Net Income	\$17.3
Basic Earnings Per Share	
As Reported	\$0.64
Pro Forma	\$0.64
Diluted Earnings Per Share	
As Reported	\$0.64
Pro Forma	\$0.63

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
Risk-Free Interest Rate	3.7%
Expected Life – Years	5
Expected Volatility	20%
Dividend Growth Rate	5%

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table presents information regarding our outstanding stock options for the quarter ended March 31, 2006.

	Number of Shares	Weighted Average Exercise/ Conversion Value	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term
			Millions	
Outstanding at December 31, 2005	357,827	\$34.29	\$3.5	7.4 years
Granted	115,653	\$44.15		
Exercised	(12,783)	\$25.92		
Forfeited or Expired	(6,233)	\$38.25		
Outstanding at March 31, 2006	454,464	\$36.98	\$4.4	7.9 years
Exercisable at March 31, 2006	233,801	\$31.93	\$3.4	6.6 years

The weighted-average grant-date fair value of options was \$6.49 for the quarter ended March 31, 2006. The intrinsic value of a stock award is the amount by which the fair value of the underlying stock exceeds the exercise price of the award. The total intrinsic value of options exercised was \$0.3 million during the quarter ended March 31, 2006.

The following table presents information regarding our unvested performance shares for the quarter ended March 31, 2006.

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2005	97,884	\$38.63
Granted	24,958	\$44.07
Awarded	(49,076)	\$37.76
Forfeited	(1,751)	\$39.55
Nonvested at March 31, 2006	72,015	\$41.09

NOTE 2. BUSINESS SEGMENTS

Financial results by segment for the periods presented were impacted by the integration of our Taconite Harbor facility into the Regulated Utility segment effective January 1, 2006. The redirection of Taconite Harbor from our Nonregulated Energy Operations segment to our Regulated Utility segment was in accordance with the Company's Integrated Resource Plan (Resource Plan), as approved by the MPUC. Under the terms of our Resource Plan, we have operated the Taconite Harbor facility as a rate-based asset within the Minnesota retail jurisdiction effective January 1, 2006. Prior to January 1, 2006, we operated our Taconite Harbor facility as nonregulated generation (non-rate base generation sold at market-based rates to the wholesale market). Historical financial results of Taconite Harbor for periods prior to the redirection are included in our Nonregulated Energy Operations segment.

	Consolidated	Regulated Utility	Nonregulated Energy Operations	Real Estate	Other
Millions					
For the Quarter Ended March 31, 2006					
Operating Revenue	\$192.5	\$162.4	\$16.3	\$13.7	\$ 0.1
Fuel and Purchased Power	69.4	69.4	—	—	—
Operating and Maintenance	74.5	55.8	14.1	3.4	1.2
Depreciation Expense	12.2	11.1	1.1	—	—
Operating Income (Loss) from Continuing Operations	36.4	26.1	1.1	10.3	(1.1)
Interest Expense	(6.4)	(5.1)	(0.5)	—	(0.8)
Other Income	1.7	—	0.3	—	1.4
Income (Loss) from Continuing Operations Before Minority Interest and Income Taxes	31.7	21.0	0.9	10.3	(0.5)
Minority Interest	1.3	—	—	1.3	—
Income (Loss) from Continuing Operations Before Income Taxes	30.4	21.0	0.9	9.0	(0.5)
Income Tax Expense (Benefit)	11.6	8.0	—	4.0	(0.4)
Income (Loss) from Continuing Operations	18.8	\$ 13.0	\$ 0.9	\$ 5.0	\$(0.1)
Income from Discontinued Operations – Net of Tax	—	—	—	—	—
Net Income	\$ 18.8	—	—	—	—
Total Assets	\$1,404.0	\$974.3	\$105.2	\$70.4	\$254.1
Property, Plant and Equipment – Net	\$862.3	\$803.2	\$54.3	—	\$4.8
Accumulated Depreciation	\$797.5	\$760.8	\$35.1	—	\$1.6
Capital Expenditures	\$13.6	\$13.3	\$0.3	—	—
For the Quarter Ended March 31, 2005					
Operating Revenue	\$193.3	\$147.6	\$27.9	\$17.7	\$ 0.1
Fuel and Purchased Power	67.6	60.0	7.6	—	—
Operating and Maintenance	72.7	52.6	15.1	4.5	0.5
Depreciation Expense	11.9	9.8	2.0	—	0.1
Operating Income (Loss) from Continuing Operations	41.1	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	30.1	20.9	2.1	13.2	(6.1)
Minority Interest	1.2	—	—	1.2	—
Income (Loss) from Continuing Operations Before Income Taxes	28.9	20.9	2.1	12.0	(6.1)
Income Tax Expense (Benefit)	11.5	8.0	0.5	5.1	(2.1)
Income (Loss) from Continuing Operations	17.4	\$ 12.9	\$ 1.6	\$ 6.9	\$(4.0)
Income from Discontinued Operations – Net of Tax	—	—	—	—	—
Net Income	\$ 17.4	—	—	—	—
Total Assets	\$1,408.1 (a)	\$915.4	\$150.9	\$72.1	\$219.7
Property, Plant and Equipment – Net	\$847.3	\$726.2	\$116.1	—	\$5.0
Accumulated Depreciation	\$767.9	\$725.0	\$41.5	—	\$1.4
Capital Expenditures	\$9.5 (a)	\$8.2	\$0.7	—	—

(a) Discontinued Operations represented \$50.0 million of total assets and \$0.6 million of capital expenditures in 2005.

NOTE 3. INVESTMENTS

At March 31, 2006, 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, 2006	December 31, 2005
Millions		
Real Estate Assets	\$ 70.4	\$ 73.7
Debt and Equity Securities	33.2	34.8
Emerging Technology Investments	8.7	9.2
Total Investments	\$112.3	\$ 117.7

Real Estate Assets	Quarter Ended March 31, 2006	Year Ended December 31, 2005
Millions		
Land Held for Sale Beginning Balance	\$48.0	\$47.2
Additions during period: Capitalized Improvements	2.2	9.4
Deductions during period: Cost of Real Estate Sold	(1.9)	(8.6)
Land Held for Sale Ending Balance	48.3	48.0
Long-Term Finance Receivables	6.6	7.4
Other (a)	15.5	18.3
Total Real Estate Assets	\$70.4	\$73.7

(a) 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 \$0.5 million at March 31, 2006 (\$0.6 million at December 31, 2005).

NOTE 4. SHORT-TERM AND LONG-TERM DEBT

In January 2006, we renewed, increased and extended a committed, syndicated, unsecured revolving credit facility (Line) with LaSalle Bank National Association for \$150 million (\$100 million at December 31, 2005). The Line matures on January 11, 2011, and requires an annual commitment fee of 0.125%. At our request and subject to certain conditions, the Line may be increased to \$200 million and extended for two additional 12-month periods. The Line may be used for general corporate purposes, working capital and to provide liquidity in support of our commercial paper program. We may prepay amounts outstanding under the Line in whole or in part at our discretion. Additionally, we may irrevocably terminate or reduce the size of the Line prior to maturity.

In March 2006, we issued \$50 million in principal amount of First Mortgage Bonds, 5.69% Series due March 1, 2036. Proceeds were used to redeem \$50 million in principal amount of First Mortgage Bonds, 7% Series due March 1, 2008.

NOTE 5. OTHER INCOME (EXPENSE)

	Quarter Ended March 31,	
	2006	2005
Millions		
Loss on Emerging Technology Investments	\$(1.2)	\$(5.9)
Investment and Other Income	2.9	1.7
Total Other Income (Expense)	\$ 1.7	\$(4.2)

NOTE 6. INCOME TAX EXPENSE

	Quarter Ended March 31,	
	2006	2005
Millions		
Current Tax Expense		
Federal	\$10.8	\$12.1
State	2.5	3.1
	13.3	15.2
Deferred Tax Expense (Benefit)		
Federal	(1.6)	(3.1)
State	0.2	(0.3)
	(1.4)	(3.4)
Deferred Tax Credits	(0.3)	(0.3)
Income Tax Expense for Continuing Operations	11.6	11.5
Income Tax Expense for Discontinued Operations	—	0.1
Total Income Tax Expense	\$11.6	\$11.6

For the quarter ended March 31, 2006, the effective rate for income taxes was 36.6 percent (38.2 percent for the quarter ended March 31, 2005). The decrease in the effective rate was primarily due to state tax planning initiatives. The effective tax rate of 36.6 percent for the quarter ended March 31, 2006, deviated from the statutory rate, primarily due to state tax planning initiatives, investment tax credits, and deductions for Medicare health subsidies and depletion.

NOTE 7. DISCONTINUED OPERATIONS

Enventis Telecom. On December 30, 2005, we sold all the stock of our telecommunications subsidiary, Enventis Telecom, to Hickory Tech Corporation of Mankato, Minnesota. In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we have reported our telecommunications business in discontinued operations for the quarter ended March 31, 2005.

Water Services. In early 2005, we completed the exit from our Water Services businesses with the sale of our wastewater assets in Georgia for an immaterial gain. In 2005, the Florida Public Service Commission approved the transfer of 63 water and wastewater systems from Florida Water to Aqua Utilities Florida, Inc. (Aqua Utilities) and ordered a \$1.7 million reduction to plant investment. The Company reserved for the reduction in 2005. On March 15, 2006, the Company paid Aqua Utilities the adjustment refund amount of \$1.7 million.

For the quarter ended March 31, 2006, there were no financial results to report as discontinued operations.

Quarter Ended Discontinued Operations Summary Income Statement	March 31, 2005
Millions	
Operating Revenue – Enventis Telecom	\$13.7
Enventis Telecom	
Pre-Tax Income from Operations	\$1.1
Income Tax Expense	0.5
Total Income from Operations – Enventis Telecom	0.6
Water Services	
Loss on Disposal	(1.0)
Income Tax Benefit	(0.4)
Net Loss on Disposal – Water Services	(0.6)
Income from Discontinued Operations	\$0.0
Discontinued Operations Summary Balance Sheet Information	December 31, 2005
Millions	
Assets of Discontinued Operations	
Other Current Assets	\$0.4
Property, Plant and Equipment	\$2.2
Liabilities of Discontinued Operations	
Current Liabilities	\$13.0

NOTE 8. COMPREHENSIVE INCOME

For the quarter ended March 31, 2006, total comprehensive income, net of tax, was \$19.1 million (\$17.5 million for the quarter ended March 31, 2005). Total comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale, and additional pension liability.

Accumulated Other Comprehensive Income (Loss) – Net of Tax	March 31,	
	2006	2005
Millions		
Unrealized Gain on Securities	\$ 2.4	\$ 1.6
Additional Pension Liability	(14.9)	(12.9)
	\$(12.5)	\$(11.3)

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. In accordance with SFAS 128, "Earnings Per Share," for the three months ended March 31, 2006, no options to purchase shares of common stock were excluded in the computation of diluted earnings per share because the average market prices were greater than the option exercise prices (119,077 shares were excluded for the three months ended March 31, 2005).

Reconciliation of Basic and Diluted Earnings Per Share	2006			2005		
	Basic	Dilutive Securities	Diluted	Basic	Dilutive Securities	Diluted
Millions Except Per Share Amounts						
For the Quarter Ended March 31,						
Income from Continuing Operations	\$18.8	–	\$18.8	\$17.4	–	\$17.4
Common Shares	27.6	0.1	27.7	27.2	0.2	27.4
Per Share from Continuing Operations	\$0.68	–	\$0.68	\$0.64	–	\$0.64

NOTE 10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Components of Net Periodic Benefit Expense	Pension		Postretirement Health and Life	
	2006	2005	2006	2005
Millions				
For the Quarter Ended March 31,				
Service Cost	\$2.3	\$2.2	\$1.1	\$1.0
Interest Cost	5.5	5.3	1.9	1.7
Expected Return on Plan Assets	(7.1)	(7.1)	(1.4)	(1.2)
Amortization of Prior Service Costs	0.2	0.2	–	–
Amortization of Net Loss	1.2	0.8	0.4	0.2
Amortization of Transition Obligation	–	0.1	0.6	0.6
Net Periodic Benefit Expense	\$2.1	\$1.5	\$2.6	\$2.3

In 2005, we determined that our postretirement health care plans meet the requirements of the Centers for Medicare and Medicaid Services' (CMS) regulations, and enrolled with the CMS to begin recovering the subsidy. We expect to receive the first subsidy check in early 2007 for 2006 credits.

NOTE 11. COMMITMENTS, GUARANTEES AND CONTINGENCIES

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

Minnesota Power was entitled to approximately 71 percent of the Unit's output under the Agreement. Beginning in 2006, Minnkota Power exercised its option to reduce Minnesota Power's entitlement by approximately 5 percent annually, to 66 percent. We received notices from Minnkota Power that they would further reduce our output entitlement by approximately 5 percent on January 1, 2007 and 2008, to 60 percent and 55 percent, respectively. Minnkota Power has the option to reduce Minnesota Power's entitlement to 50 percent. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Minnesota Power's payment obligation will be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At March 31, 2006, Square Butte had total debt outstanding of \$304.9 million. Total annual debt service for Square Butte is expected to be approximately \$26 million in each of the years 2006 through 2010. 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. BNI Coal is obligated to make lease payments for a dragline totaling \$2.8 million annually for the lease term which expires in 2027. BNI Coal has the option at the end of the lease term to renew the lease at a fair market rental, to purchase the dragline at fair market value, or to surrender the dragline and pay a \$3.0 million termination fee. We lease other properties and equipment under operating lease agreements with terms expiring through 2013. The aggregate amount of minimum lease payments for all operating leases is \$6.4 million in 2006, \$5.9 million in 2007, \$5.2 million in 2008, \$4.7 million in 2009, \$4.2 million in 2010 and \$46.9 million thereafter.

Coal, Rail 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 2006 to December 2011. Our minimum annual payment obligations under these coal, rail and shipping agreements are currently \$45.2 million in 2006, \$9.5 million in 2007, \$9.7 million in 2008, \$5.8 million in 2009 and no specific commitments beyond 2009. Our minimum annual payment obligations will increase when annual nominations are made for coal deliveries in future years.

Fuel Clause Recovery of MISO Day 2 Costs. Minnesota Power filed a petition with the MPUC in February 2005 to amend its fuel clause to accommodate costs and revenue related to the MISO Day 2 energy market, the market through which Minnesota Power engages in wholesale energy transactions in MISO's day-ahead and real-time markets (MISO Day 2). On April 7, 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, subject to refund with interest. This interim treatment has continued while the MPUC has addressed the cost recovery petitions from Xcel Energy Inc., Otter Tail Power Company, Alliant Energy Corporation and Minnesota Power.

On December 21, 2005, the MPUC issued an order which denied recovery through the fuel clause of uplift charges, congestion revenue and expenses, and administrative costs related to Minnesota Power's MISO Day 2 market activities. Minnesota Power requested rehearing of the order in a filing made with the MPUC on January 10, 2006. The other three utilities affected by the order also filed for rehearing, as did the DOC and MISO. In a hearing on February 9, 2006, the MPUC granted rehearing of the MISO Day 2 docket and suspended the refund obligation for charges recovered through the fuel clause and denied in the December 21, 2005 order. The MPUC will review the MISO Day 2 costs to determine which costs should be recovered on a current basis through the fuel clause and which costs are more appropriately

NOTE 11. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

deferred for potential recovery through base rates. The MPUC's order documenting the February 9, 2006, hearing was issued February 24, 2006. The parties had 60 days to issue their recommendations to the MPUC. The Company is working with the other utilities, the DOC and other stakeholders to prepare the report. On April 11, 2006, the parties requested an extension to file their recommendations with the MPUC. On April 24, 2006, the MPUC approved an extension to June 22, 2006. The Company is unable to predict the outcome of this matter.

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, 2006, and December 31, 2005. We have committed to make additional investments in certain emerging technology venture capital funds. The total future commitment was \$3.0 million at March 31, 2006 (\$3.1 million at December 31, 2005), and may be invested at various times through 2007. We do not have plans to make any additional investments beyond this commitment.

Investment in ATC. In December 2005, we entered into an agreement with Wisconsin Public Service Corporation and WPS Investments, LLC that provides for our Wisconsin subsidiary, Rainy River Energy Corporation - Wisconsin, to invest \$60 million in ATC. Our investment is expected to represent an estimated 9 percent ownership interest in ATC. On May 4, 2006, the PSCW reviewed and approved the request that allows us to invest in ATC. We anticipate investing \$60 million in ATC by the end of 2006. Our first investment is expected to occur in May 2006.

Environmental Matters. Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Due to future stricter environmental requirements through legislation and/or rulemaking, we anticipate that potential expenditures for environmental matters will be material and will 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.

SWL&P Manufactured Gas Plant. In May 2001, SWL&P received notice from the WDNR that the City of Superior had found soil contamination on property adjoining a former Manufactured Gas Plant (MGP) site owned and operated by SWL&P from 1889 to 1904. The WDNR requested SWL&P to initiate an environmental investigation. The WDNR also issued SWL&P a Responsible Party letter in February 2002. 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 was to determine any impact to soil or ground water between the former MGP site and Superior Bay. 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 was performed during September and October 2005. The investigation will continue during the summer of 2006. It is anticipated that the final report for this portion of the investigation will be completed by the end of 2006. Although it is not possible to quantify the potential clean-up cost until the investigation is completed, a \$0.5 million liability was recorded in December 2003 to address the known areas of contamination. The Company has recorded a corresponding dollar amount as a regulatory asset to offset this liability. The PSCW has approved SWL&P's deferral of these MGP environmental investigation and potential clean-up costs for future recovery in rates, subject to a regulatory prudence review. In May 2005, the PSCW approved the collection through rates of \$150,000 of site investigation costs that had been incurred at the time SWL&P filed their most recent rate request. ALLETE maintains pollution liability insurance coverage that includes coverage for SWL&P. A claim has been filed with respect to this matter. The insurance carrier has issued a reservation of rights letter and the Company continues to work with the insurer to determine the availability of insurance coverage.

NOTE 11. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Square Butte Generating Facility. On April 24, 2006, Minnkota Power announced it has reached a settlement agreement with the EPA and the State of North Dakota regarding emissions at the M.R. Young Station, which includes the Square Butte generating unit. 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. The EPA claimed 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 and possible significant capital expenditures to comply. As a result of the settlement agreement, the current Square Butte flue gas desulfurization system (FGD) will be upgraded in 2010 to increase its removal efficiency from 70 percent to 90 percent. Capital expenditures for the emission control additions and modifications on Square Butte are estimated at \$35 million. These estimated capital expenditures may be significantly offset by the sale of surplus SO₂ allowance credits created with the early upgrade of the FGD system, which is being upgraded two years earlier than required by Federal rules. 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. On April 24, 2006, a Complaint and a Consent Decree with respect to this settlement agreement were filed in U.S. District Court for the District of North Dakota (Court). The Consent Decree is open to public comment for 30 days after which, if entered as an order by the Court, will constitute a final settlement of this issue. If finalized, the Consent Decree settlement would also require Square Butte to pay approximately \$0.6 million in administrative costs and penalties in 2006, and \$3.3 million toward additional environmental projects including wind power installations or power purchase agreements.

EPA Clean Air Interstate Rule and Clean Air Mercury Rule. In March 2005, the EPA announced the final Clean Air Interstate Rule (CAIR) that reduces and permanently caps emissions of SO₂ and NO_x in many states in the eastern United States. The CAIR includes Minnesota as one of the 28 states it considers an "eastern" state. The EPA also announced the final Clean Air Mercury Rule (CAMR) that reduces and permanently caps electric utility mercury emissions in the continental United States. The CAIR and the CAMR regulations have been challenged in the court system, which may delay implementation or modify provisions. Minnesota Power is participating in a legal challenge to the CAIR, but is not participating in the challenge of the CAMR. However, if the CAMR and the CAIR do go into effect, Minnesota Power expects to be required to (1) make emissions reductions, (2) purchase mercury, SO₂ and NO_x allowances through the EPA's cap-and-trade system, or (3) use a combination of both.

We believe that the CAIR contains flaws in its methodology and application, which will cause Minnesota Power to incur higher compliance costs. Consequently, on July 11, 2005, Minnesota Power filed a Petition for Review with the U.S. Court of Appeals for the District of Columbia Circuit (Court of Appeals). On November 22, 2005, the EPA agreed to reconsider certain aspects of the CAIR, including the Minnesota Power petition addressing modeling used to determine Minnesota's inclusion in the CAIR region and claims about inequities in the SO₂ allowance methodology. On March 16, 2006, the EPA denied all petitions for reconsideration with respect to the CAIR. However, if Minnesota Power's Petition for Review with the Court of Appeals is successful, we expect to incur lower compliance costs, consistent with the rules applicable to those states considered as "western" states under the CAIR. Resolution of the CAIR Petition for Review with the Court of Appeals is anticipated by mid-2007.

Community Development District Obligations. In March 2005, the Town Center at Palm Coast Community Development District (Town Center District) issued \$26.4 million of tax-exempt, 6% Capital Improvement Revenue Bonds, Series 2005, due May 1, 2036. The bonds were issued to fund a portion of the Town Center development project. 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 imposed, levied and collected by the Town Center District. The assessments represent an allocation of the costs of the improvements, including bond financing costs, to the lands within the Town Center District benefiting from the improvements. The assessments will be included in the annual property tax bills of landowners beginning in November 2006. To the extent that we still own land at the time of the assessment, in accordance with EITF 91-10, we will recognize an expense for our pro rata portion of assessments, based upon our ownership of benefited property. At March 31, 2006, we owned approximately 91 percent of the assessable land in the Town Center District.

NOTE 11. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

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

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

The following discussion should be read in conjunction with our consolidated financial statements 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. Readers are cautioned that forward-looking statements should be read in conjunction with our disclosures in this Form 10-Q under the headings: "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" located on page 3 and "Risk Factors" located in Part I, Item 1A of our 2005 Form 10-K and Part II, Item 1A of this Form 10-Q. The risks and uncertainties described in this Form 10-Q and our 2005 Form 10-K are not the only ones facing our Company. Additional risks and uncertainties that we are not presently aware of, or that we currently consider immaterial, may also affect our business operations. Our business, financial condition or results of operations could suffer if the concerns set forth are realized.

EXECUTIVE SUMMARY

ALLETE's operations focus on two core businesses—**Energy** and **Real Estate**. In addition, we have other operations that provide earnings to the Company.

Energy is comprised of Regulated Utility, Nonregulated Energy Operations and, beginning in the second quarter of 2006, Investment in ATC 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 our coal mining activities in North Dakota, under 50 MW of nonregulated generation and Minnesota land sales.

In 2005, Nonregulated Energy Operations also included nonregulated generation (non-rate base generation sold at market-based rates to the wholesale market) from our Taconite Harbor facility in northern Minnesota, and generation secured through the Kendall County power purchase agreement. Effective January 1, 2006, Taconite Harbor was integrated into our Regulated Utility business to help meet forecasted base load energy requirements. In April 2005, the Kendall County power purchase agreement was assigned to Constellation Energy Commodities.

- **Investment in ATC** will include our ownership interest in ATC. In December 2005, we entered into an agreement that provides for us to invest \$60 million in ATC by the end of 2006. Our first investment is expected to occur in May 2006.

Real Estate includes our Florida real estate operations.

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

Financial results by segment for the periods presented and discussed in this Form 10-Q were impacted by the integration of our Taconite Harbor facility into the Regulated Utility segment effective January 1, 2006. The redirection of Taconite Harbor from our Nonregulated Energy Operations segment to our Regulated Utility segment was in accordance with the Company's Integrated Resource Plan (Resource Plan), as approved by the MPUC. Under the terms of our Resource Plan, we have operated the Taconite

EXECUTIVE SUMMARY (Continued)

Harbor facility as a rate-based asset within the Minnesota retail jurisdiction effective January 1, 2006. Prior to January 1, 2006, we operated our Taconite Harbor facility as nonregulated generation. Historical financial results of Taconite Harbor for periods prior to the redirection are included in our Nonregulated Energy Operations segment.

Reported net income for the quarter ended March 31, 2006, was \$18.8 million, or \$0.68 per diluted share (\$17.4 million, or \$0.64 per diluted share, for the quarter ended March 31, 2005). In 2006, net income was higher due to the absence of Kendall County operating losses (\$1.9 million in 2005) and emerging technology impairments (\$3.3 million in 2005). These factors were mostly offset by higher operating expense and a \$1.9 million decrease in income from Real Estate, primarily due to the timing and mix of real estate sold. Although warm temperatures in early 2006 reduced energy sales to our residential, commercial and municipal customers, sales to our large power customers remained strong. Minnesota Power's taconite mining customers continue to operate at historically high output levels. In total, kilowatthour sales in 2006 were similar to 2005 sales.

	Quarter Ended March 31,	
	2006	2005
Millions Except Per Share Amounts		
Operating Revenue		
Regulated Utility	\$162.4	\$147.6
Nonregulated Energy Operations	16.3	27.9
Real Estate	13.7	17.7
Other	0.1	0.1
	\$192.5	\$193.3
Operating Expenses		
Regulated Utility	\$136.3	\$122.4
Nonregulated Energy Operations	15.2	24.7
Real Estate	3.4	4.5
Other	1.2	0.6
	\$156.1	\$152.2
Interest Expense		
Regulated Utility	\$5.1	\$4.3
Nonregulated Energy Operations	0.5	1.3
Other	0.8	1.2
	\$6.4	\$6.8
Other Income (Expense)		
Nonregulated Energy Operations	\$0.3	\$ 0.2
Other	1.4	(4.4)
	\$1.7	\$(4.2)
Income (Loss)		
Regulated Utility	\$13.0	\$12.9
Nonregulated Energy Operations	0.9	1.6
Real Estate	5.0	6.9
Other	(0.1)	(4.0)
Income from Continuing Operations	18.8	17.4
Income from Discontinued Operations	—	—
Net Income	\$18.8	\$17.4
Diluted Average Shares of Common Stock	27.7	27.4
Diluted Earnings Per Share of Common Stock		
Continuing Operations	\$0.68	\$0.64
Discontinued Operations	—	—
	\$0.68	\$0.64

EXECUTIVE SUMMARY (Continued)

Kilowatthours Sold	Quarter Ended March 31,	
	2006	2005
Millions		
Regulated Utility		
Retail and Municipals		
Residential	308.0	319.8
Commercial	328.7	339.8
Industrial	1,822.3	1,777.1
Municipals	219.3	222.0
Other	20.0	20.4
	2,698.3	2,679.1
Other Power Suppliers	505.1	236.7
	3,203.4	2,915.8
Nonregulated Energy Operations	65.6	353.9
	3,269.0	3,269.7

Real Estate Revenue and Sales Activity	Quarter Ended March 31,		Quarter Ended March 31,	
	2006 Quantity	Amount	2005 Quantity	Amount
Dollars in Millions				
Town Center Sales				
Commercial Sq. Ft.	80,000	\$ 1.5	—	—
Other Land Sales				
Acres	456	10.3	483	\$17.6
Lots	—	—	7	0.4
Contract Sales Price (a)		11.8		18.0
Revenue Recognized from Previously Deferred Sales		1.5		—
Deferred Revenue		(0.7)		(1.0)
Adjustments (b)		(0.1)		—
Revenue from Land Sales		12.5		17.0
Other Revenue		1.2		0.7
		\$13.7		\$17.7

(a) Reflected total contract sales price on closed land transactions.

(b) Contributed development dollars, which are credited to cost of real estate sold.

NET INCOME

The following income discussion summarizes a comparison of the three months ended March 31, 2006, to the three months ended March 31, 2005, by segment.

Regulated Utility contributed income of \$13.0 million in 2006 (\$12.9 million in 2005). Income was higher in 2006 due to the inclusion of kilowatthour sales from our Taconite Harbor generating assets, effective January 1, 2006. While kilowatthour sales to other power suppliers increased 113 percent, the increase was attributable to the inclusion of Taconite Harbor. Absent Taconite Harbor, income from sales to other power suppliers reflected decreased sales and lower prices in 2006. A 3 percent increase in kilowatthour sales to industrial customers due to continued healthy economic conditions in Minnesota Power's service territory and customers operating at historically high production levels was offset by a 3 percent decrease in residential, commercial and municipal sales due to warm weather in 2006. Higher operating expenses in 2006, mostly due to the inclusion of expenses related to Taconite Harbor, reduced income.

NET INCOME (Continued)

Nonregulated Energy Operations reported income of \$0.9 million in 2006 (\$1.6 million in 2005), reflecting the absence of income from Taconite Harbor (\$2.3 million in 2005) which is now reported as part of Regulated Utility and operating losses from Kendall County (\$1.9 million in 2005). The Kendall County power purchase agreement was assigned to Constellation Energy Commodities in April 2005.

Real Estate contributed income of \$5.0 million in 2006 (\$6.9 million in 2005). Income was lower in 2006 due to the timing and mix of land sale transaction closings. The timing of the closing of real estate sales varies from period to period and impacts comparisons between years.

In 2005, we began selling property from our Town Center development project in northeast Florida. Since land is being sold before completion of the project infrastructure, revenue and cost of real estate sold are recorded using the percentage-of-completion method. As of March 31, 2006, we had \$7.8 million of deferred profit on sales of real estate, before taxes and minority interest, on our balance sheet, the majority of which relates to Town Center. We expect most of this deferred profit will be reflected in income by the end of 2006.

At March 31, 2006, total pending land sales under contract were \$85.3 million and are anticipated to close at various times through 2012. Pricing on these contracts range from \$20 to \$50 per commercial square foot, \$15,000 to \$40,000 per residential unit and \$8,700 to \$524,000 per acre for all other properties. The majority of the other properties under contract are zoned commercial or mixed use. Prices per acre are stated on a gross acreage basis and are dependent on the type and location of the properties sold. In addition to minimum base price contracts, certain contracts allow us to receive participation revenue to the extent that an agreed upon percentage of gross revenue from land sales by our purchaser exceeds the minimum base price.

Real Estate Pending Contracts At March 31, 2006	Quantity	Contract Sales Price
Dollars in Millions		
Town Center		
Commercial Sq. Ft.	1,149,200	\$35.2
Residential Units	1,292	26.8
Palm Coast Park		
Residential Units	500	7.5
Other Land		
Acres	604	15.8
		\$85.3

Other reflected a loss of \$0.1 million in 2006 (a \$4.0 million loss in 2005). In 2006, a \$0.6 million increase in earnings on excess cash offset equity losses related to emerging technology investments (\$0.5 million in 2006; \$0.1 million in 2005). In 2005, the Company recorded \$3.3 million of impairments related to two privately-held emerging technology investments.

Discontinued Operations included our Water Services businesses that we sold over the three-year period 2003 to 2005, and our telecommunications business that we sold in December 2005. In 2005, \$0.6 million of income from Enventis Telecom operations was offset by \$0.6 million of administrative and other expenses incurred to support Florida Water transfer proceedings. (See Note 7.)

COMPARISON OF THE QUARTERS ENDED MARCH 31, 2006 AND 2005

Regulated Utility

Operating revenue was up \$14.8 million, or 10 percent, from 2005. Revenue and kilowatthour sales from other power suppliers were up \$11.4 million and 113 percent, respectively, from 2005, primarily due to the addition of Taconite Harbor sales to the Regulated Utility segment effective January 1, 2006. Absent Taconite Harbor, revenue from sales to other power suppliers reflected decreased sales and lower prices in 2006. Revenue from sales to retail and municipal customers was up \$3.5 million, primarily due to higher fuel clause recoveries in 2006. (See operating expenses below.) Kilowatthour sales to industrial customers were up 3 percent due to continued strong economic conditions, offset by a 3 percent decrease in residential, commercial and municipal sales due to warm weather in January and a mild March in 2006. Gas revenue was up \$0.4 million from 2005 reflecting new gas rates effective in May 2005, offset by decreased usage due to warmer weather in 2006.

Revenue from electric sales to taconite customers accounted for 24 percent of consolidated operating revenue in 2006 (23 percent in 2005). Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in 2006 (8 percent in 2005).

Operating expenses were up \$13.9 million, or 11 percent, from 2005.

Fuel and Purchased Power Expense. Fuel and purchased power expense was up \$9.4 million from 2005, reflecting the inclusion of Taconite Harbor operations beginning in 2006 (\$5.3 million) and increased expenses related to other Company generating facilities (\$2.8 million). In addition, expenses related to outages at Boswell Unit 4 and Square Butte in late 2005 were recognized in the first quarter of 2006 due to the timing of recovery through the fuel clause. Additional purchased power expense incurred while Boswell Unit 3 was down for maintenance following a cooling tower failure in February and March 2005 was not recognized until second quarter 2005.

Other Operating Expenses. In total, other operating expenses were up \$4.5 million from 2005. Employee compensation was up \$1.9 million primarily due to the inclusion of Taconite Harbor, annual wage increases and the inclusion of union employees in our results sharing compensation awards program. Depreciation expense increased \$1.3 million primarily due to capitalized projects completed in 2005. Vegetation management was up \$0.9 million reflecting more performed in 2006. Pension expense increased \$0.6 million due to a reduction in the discount rate. Purchased gas costs were up \$0.3 million due to higher prices in 2006. In total, plant maintenance expense decreased \$0.4 million from 2005. The decrease reflected a \$2.8 million reduction in expenses at Boswell Unit 3 partially offset by the inclusion of Taconite Harbor maintenance in 2006 (\$1.5 million) and increased maintenance expense at other Company generating facilities. In 2005, planned maintenance was performed at Boswell Unit 3 while the unit was down due to a cooling tower failure.

Interest expense was up \$0.8 million, or 19 percent, from 2005, due to the inclusion of Taconite Harbor in 2006.

Nonregulated Energy Operations

Operating revenue was down \$11.6 million, or 42 percent, from 2005 due to the absence of revenue from Taconite Harbor (\$11.4 million in 2005) and Kendall County (\$3.1 million in 2005). Effective January 1, 2006, Taconite Harbor is reported as part of Regulated Utility. Kendall County operations ceased April 1, 2005, when the Company assigned the power purchase agreement to Constellation Energy Commodities. Revenue from other nonregulated generation was up \$0.8 million from 2005 primarily due to recovery of higher purchased gas costs. Coal revenue, realized under a cost-plus contract, was up \$0.5 million from 2005 reflecting a 10 percent increase in the delivery price per ton due to higher coal production expenses. (See operating expenses below.)

Operating expenses were down \$9.5 million, or 38 percent, from 2005. The decrease was due to the absence of expenses related to Taconite Harbor (\$5.8 million in 2005) and Kendall County (\$6.3 million in 2005). Expenses for other nonregulated generation were up \$0.6 million due to higher prices for purchased gas in 2006. Expenses related to coal operations were up \$0.3 million, mainly due to increased lease expenses in 2006.

Interest expense was down \$0.8 million, or 62 percent, from 2005 due to the absence of Taconite Harbor in 2006.

COMPARISON OF THE QUARTERS ENDED MARCH 31, 2006 AND 2005 (Continued)

Real Estate

Operating revenue was down \$4.0 million, or 23 percent, from 2005, due to the timing and mix of land sale transaction closings. Revenue from land sales was \$12.5 million in 2006 which included \$1.5 million of previously deferred revenue. In 2005, revenue from land sales was \$17.0 million. In 2006, 456 acres of other land were sold (483 acres and 7 lots in 2005). Sales at Town Center represented the rights to build up to 80,000 square feet of commercial space in 2006. The first land sales for Town Center were recorded in June 2005. At March 31, 2006, revenue of \$10.7 million was deferred, of which \$8.1 million relates to Town Center, and will be recognized on a percentage-of-completion basis as development obligations are completed.

Operating expenses were down \$1.1 million, or 24 percent, from 2005 reflecting a \$0.7 million decrease in the cost of real estate sold (\$1.9 million in 2006; \$2.6 million in 2005), and a \$0.4 million decrease in selling expenses due to the mix of land sold. At March 31, 2006, cost of real estate sold totaling \$2.6 million and selling expenses of \$0.3 million were deferred and will be recognized on a percentage-of-completion basis as development obligations are completed. The majority of the deferred expenses relate to Town Center.

Other

Operating expenses were up \$0.6 million, or 100 percent, from 2005, reflecting higher general and administrative expenses in 2006.

Interest expense was down \$0.4 million, or 33 percent, from 2005, reflecting the positive impact of first mortgage bonds refinanced at lower interest rates in August 2005 (\$35 million) and March 2006 (\$50 million).

Other income (expense) reflected \$5.8 million more income in 2006 due to a \$1.1 million increase in earnings on excess cash and the absence of emerging technology impairments. In 2005, the Company recorded \$5.1 million of impairments related to two privately-held emerging technology investments. Other income (expense) also reflected equity losses related to emerging technology investments of \$0.8 million in 2006 (\$0.2 million in 2005).

Income Taxes

For the quarter ended March 31, 2006, the effective rate for income taxes was 36.6 percent (38.2 percent for the quarter ended March 31, 2005). The decrease in the effective rate was primarily due to state tax planning initiatives. The effective tax rate of 36.6 percent for the quarter ended March 31, 2006, deviated from the statutory rate, primarily due to state tax planning initiatives, investment tax credits, and deductions for Medicare health subsidies and depletion.

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 2005 Form 10-K.

OUTLOOK

Earnings Guidance. We continue to expect ALLETE's earnings per share from continuing operations to grow by 15 percent to 20 percent in 2006. The growth is expected to come from continued strong electric sales, increased real estate sales, the elimination of projected operating losses from Kendall County, the elimination of impairments related to our emerging technology investments, and our investment in ATC.

Energy. Over the next several years, we believe electric utilities will be facing the unfolding impacts of three major developments that occurred in 2005—changes in regional transmission operation, the development of rulemaking on the enactment of stricter environmental regulations and federal legislation impacting the structure and organization of the electric utility industry. We believe our energy businesses are well positioned to successfully deal with these issues and to compete successfully. Our access to and ownership of low-cost power are our greatest strengths. We anticipate that we will have ready access to sufficient capital for general business purposes.

Resource Plan. In 2006, the MPUC approved our Integrated Resource Plan (Resource Plan). The Resource Plan detailed our retail energy demand projections and our energy sourcing options to meet projected demand. One of the key components of the Resource Plan was the redirection of our Taconite Harbor generating facility from nonregulated energy operations to regulated utility operations effective January 1, 2006. The Taconite Harbor generation will be supplemented with a 50-MW long-term power purchase agreement with Manitoba Hydro. Expansion of our renewable generating assets to meet Minnesota's Renewable Energy Objective that seeks a 10 percent supply of qualified renewable energy resources in the state by 2015 for each Minnesota utility was also approved. In April 2006, construction began on a 50-MW wind facility in North Dakota and is expected to be completed in the fall of 2006. We will purchase the output from this wind facility under a 25-year power purchase agreement with an affiliate of FPL Energy, LLC. We predict that retail demand by customers in our service territory will increase at an average annual rate of 1.5 percent to 2019. We project a load growth of approximately 150 MW by 2010 with another 200 MW of growth anticipated by 2015.

Large Power Contracts. In March and April 2006, the MPUC approved new all-requirements agreements with Stora Enso Oyj's Duluth mills through August 31, 2013, and UPM-Kymmene Corporation's Blandin Paper mill in Grand Rapids through April 30, 2010. Three other long-term agreements were approved by the MPUC in 2005, extending contracts for an additional four to eight years. The extension of our electric supply contracts is an important achievement for both our large power customers and Minnesota Power. Electric power is a key component in the production of taconite and paper, and these industries represent more than half of Minnesota Power's regulated utility electric sales. These agreements help to provide planning certainty for both our customers and us.

MISO and Fuel Clause. On February 24, 2006, the MPUC issued an order that granted rehearing of the MISO Day 2 docket and suspended the refund obligation. The Company is working with other Minnesota utilities, the DOC and other stakeholders to prepare a joint recommendation, required by the MPUC in its February 24, 2006 order, of which costs should be recovered on a current basis through the fuel clause and which costs are more appropriately deferred for potential recovery through base rates. The parties have until June 22, 2006, to report to the MPUC. (See Note 11.)

Investment in ATC. On May 4, 2006, the PSCW reviewed and approved the request that allows us to invest \$60 million in ATC. We anticipate having \$60 million invested in ATC by the end of 2006, with our first investment expected to occur in May.

Rate Case. On May 1, 2006, SWL&P filed an application with the PSCW for authority to increase retail utility rates an average of 5.2 percent and is requesting an 11.7 percent return on common equity. The Company expects that hearings will be conducted in late 2006 and new rates will become effective in January 2007.

Real Estate. Progress continues on our three major planned development projects in Florida—Town Center, which will be a new downtown for Palm Coast; Palm Coast Park, which is located in northwest Palm Coast; and Ormond Crossings, which is located in Ormond Beach along Interstate 95.

OUTLOOK (Continued)

Town Center. We began selling property from our Town Center development project in northeast Florida in 2005. Developers who have purchased land from us have started construction of buildings. Since land is being sold before completion of the project infrastructure, revenue and cost of real estate sold are recorded using a percentage-of-completion method. Pending land sales under contract for properties at Town Center totaled \$62.0 million at March 31, 2006.

Palm Coast Park. At March 31, 2006, pending land sales under contract for properties at Palm Coast Park totaled \$7.5 million. On May 4, 2006, we entered into a contract for a \$52.5 million sale of land. Under this contract, land will be purchased in four phases, with closings to occur in 2007 through 2009. We will have the opportunity to receive participation revenue as part of these sales contracts. Sales negotiations continue on one other residential development tract.

As of March 31, 2006, we had \$7.8 million of deferred profit on sales of real estate, before taxes and minority interest, on our balance sheet. We expect most of this deferred profit will be reflected in income by the end of 2006.

ALLETE Properties occasionally provides seller financing, and outstanding finance receivables were \$6.6 million at March 31, 2006, with maturities ranging up to seven years. Outstanding finance receivables accrue interest at market-based rates. These finance receivables are collateralized by the financed properties.

Summary of Development Projects Inventory For the Quarter Ended March 31, 2006	Ownership	Residential Units (a)	Commercial Sq. Ft. (a,b)
Town Center at Palm Coast	80%		
At December 31, 2005		2,833	2,927,700
Property Sold		—	(80,000)
Change in Estimate		80	—
		2,913	2,847,700
Palm Coast Park	100%	3,600	3,200,000
Ormond Crossings	100%	(c)	(c)
		6,513	6,047,700

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

(b) Includes industrial, office and retail square footage.

(c) The Development of Regional Impact Application for Development Approval submitted in August 2005 proposed 4,400 residential units and 5 million square feet of commercial space, and is subject to approval by regulating governmental entities.

Summary of Other Land Inventories For the Quarter Ended March 31, 2006

	Ownership	Total	Mixed Use	Residential	Commercial	Agricultural
Acres (a)						
Palm Coast Holdings	80%					
At December 31, 2005		2,566	1,692	346	281	247
Property Sold		(66)	(47)	—	(18)	(1)
		2,500	1,645	346	263	246
Lehigh	80%					
At December 31, 2005		613	390	140	74	9
Property Sold		(390)	(390)	—	—	—
		223	—	140	74	9
Cape Coral	100%	41	—	1	40	—
Other	100%	944	—	—	—	944
		3,708	1,645	487	377	1,199

(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 these 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 and short-term investments of \$236.5 million, and a debt to total capital ratio of 39 percent at March 31, 2006.

Operating Activities. Cash flow from operating activities was \$44.2 million for the quarter ended March 31, 2006 (\$31.1 million for the quarter ended March 31, 2005). Cash from operating activities was higher in 2006, primarily due to a \$13.1 million change in deferred fuel costs (included in Prepayments and Other) caused by the timing of outages at our generating facilities. Deferred fuel costs related to outages in late 2005 were collected in our fuel adjustment clause during 2006, while deferred fuel costs related to outages in the first quarter of 2005 were not collected until the second quarter of 2005. In 2005, cash for operating activities reflected payment of a \$9.1 million arbitration award related to our discontinued operations. Cash from operating activities was lower in 2006, due to a \$6.1 million change in accounts payable which was also caused primarily by the timing of outages at our generating facilities. Purchased power accruals related to outages in late 2005 were paid in the first quarter of 2006 while purchased power accruals related to outages in the first quarter of 2005 were not paid until the second quarter of 2005.

Investing Activities. Cash flow for investing activities was \$49.2 million for the quarter ended March 31, 2006 (cash flow from investing activities of \$107.0 million for the quarter ended March 31, 2005). Cash for investing activities was higher in 2006 than 2005, primarily due to activities within our short-term investments. In 2006, net purchases of \$44.6 million were used for short-term investments, while 2005 included \$117.2 million of net proceeds that were received from the sale of short-term investments. Gross proceeds from the sale of available-for-sale securities were \$126.3 million in 2006 (\$210.5 million in 2005) and purchases were \$170.9 million (\$93.3 million in 2005). Cash for investing activities in 2006 was also \$4.7 million higher due to additions to property, plant and equipment which vary from year to year.

Financing Activities. Cash flow for financing activities was \$9.6 million for the quarter ended March 31, 2006 (\$1.8 million for the quarter ended March 31, 2005). The increase in cash for financing activities was primarily attributed to a \$3.4 million decrease in book overdrafts. Cash for financing activities also increased in 2006 due to an additional \$2.5 million of dividends paid because of more shares outstanding and an increase in the dividend rate. In 2006, we refinanced \$50 million of first mortgage bonds at a lower rate. The new bonds will mature in 2036.

Working Capital. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. We have 0.7 million original issue shares of our common stock available for issuance through *Invest Direct*, our direct stock purchase and dividend reinvestment plan. We have bank lines of credit aggregating \$170.0 million, the majority of which expire in January 2011. In January 2006, we renewed, increased and extended a committed, syndicated, unsecured revolving credit facility with LaSalle Bank National Association, as Agent, for \$150 million (Line). The Line matures on January 11, 2011. At our request and subject to certain conditions, the Line may be increased to \$200 million and extended for two additional 12-month periods. We may prepay amounts outstanding under the Line in whole or in part at our discretion. Additionally, we may irrevocably terminate or reduce the size of the Line prior to maturity. The Line may be used for general corporate purposes, working capital and to provide liquidity in support of our commercial paper program. The amount and timing of future sales of our securities will depend upon market conditions and our specific needs. We may sell securities to meet capital requirements, to provide for the retirement or early redemption of issues of long-term debt, to reduce short-term debt and for other corporate purposes.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

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 2006, we issued \$50 million in principal amount of First Mortgage Bonds, 5.69% Series due March 1, 2036. Proceeds were used to redeem \$50 million in principal amount of First Mortgage Bonds, 7% Series due March 1, 2008.

Long-term debt due within one year includes \$60 million of first mortgage bonds due February 2007 that cannot be redeemed prior to maturity. We intend to refinance this debt on a long-term basis.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements are summarized in our 2005 Form 10-K, with additional disclosure discussed in Note 11 of this Form 10-Q.

Capital Requirements

For the quarter ended March 31, 2006, capital expenditures for continuing operations totaled \$13.6 million (\$8.9 million in 2005). Expenditures for the quarter ended March 31, 2006, included \$13.3 million for Regulated Utility and \$0.3 million for Nonregulated Energy Operations. Internally-generated funds were the source of funding for these expenditures.

Real estate development expenditures are and will be funded with a revolving development loan and tax-exempt bonds issued by community development districts. The Town Center at Palm Coast Community Development District issued \$26.4 million of tax-exempt bonds in 2005. 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. We anticipate that the Palm Coast Park Community Development District will issue tax-exempt bonds to fund construction of infrastructure improvements for our Palm Coast Park project in mid-2006. Company expenditures related to our real estate developments in Florida increase the value of our land assets, which are classified as Investments on our consolidated balance sheet.

ENVIRONMENTAL MATTERS AND OTHER

As previously discussed in our Critical Accounting Policies section, our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Due to future stricter environmental requirements through legislation and/or rulemaking, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. We are unable to predict the outcome of the issues discussed in Note 11.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SECURITIES INVESTMENTS

Available-For-Sale Securities. Our available-for-sale securities portfolio consists of securities in a grantor trust established to fund certain employee benefits included in Investments, and various auction rate bonds and variable rate demand notes included as Short-Term Investments. Available-for-sale securities are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income (loss), net of tax. Unrealized losses that are other than temporary are recognized in earnings. Our short-term investments classified as available-for-sale securities, however, are recorded at cost, which approximates fair market value due to their variable interest rates that typically reset every 7 to 35 days. Despite the long-term nature of their stated contractual maturities, we have the ability to quickly liquidate these securities. As a result, we had no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from our short-term investments. All income generated from these short-term investments was recorded as interest income. Our available-for-sale securities portfolio had a fair value of \$184.5 million at March 31, 2006 (\$139.5 million at December 31, 2005) and a total unrealized after-tax gain of \$2.4 million at March 31, 2006 (\$2.1 million at December 31, 2005).

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 share price trends and the impact of overall market conditions. As a result of our periodic assessments, we did not record any impairment of available-for-sale securities for the quarter ended March 31, 2006.

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 because of our ownership percentage. The total carrying value of our emerging technology portfolio was \$8.7 million at March 31, 2006 (\$9.2 million at December 31, 2005). Our policy is to review these investments quarterly for impairment by assessing such factors as continued commercial viability of products, cash flow and earnings. Any impairment would reduce the carrying value of the investment. Our basis in direct investments in privately-held companies included in the emerging technology portfolio was zero at March 31, 2006, and December 31, 2005.

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.

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

POWER MARKETING

Our power marketing activities consist of (1) purchasing energy in the wholesale market for resale in our regulated service territories when retail energy requirements exceed generation output, and (2) selling excess available generation and purchased power.

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

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

ITEM 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

Material legal and regulatory proceedings are included in the discussion of Other Information in Part II, Item 5 and/or Note 11, and are incorporated by reference herein.

ITEM 1A. RISK FACTORS

Other than the risk factors below, there have been no material changes from the risk factors disclosed under the heading "Risk Factors" in Part I, Item 1A of our 2005 Form 10-K.

We are dependent on good labor relations.

We believe our relations to be good with our approximately 1,500 employees. Approximately 700 of these employees are members of either the International Brotherhood of Electrical Workers (IBEW) Local 31 or Local 1593. Failure to successfully renegotiate labor agreements could adversely affect the services we provide and our results of operations. On February 28, 2006, members of the IBEW Local No. 31 ratified a new three-year labor agreement with SWL&P and Minnesota Power that is retroactive to February 1, 2006. Wage increases are 3.1 percent for 2006 and 2007, and 3.0 percent for 2008. The agreement also includes union employees in the results sharing compensation awards program starting in 2006. The labor agreement with Local 1593 at BNI Coal expires on March 31, 2008.

Risks associated with acquisitions may hinder our ability to increase revenue and earnings.

In pursuing a strategy of acquiring other businesses, we face risks commonly encountered with growth through acquisitions. These risks include, but are not limited to:

- incurring significantly higher capital expenditures and operating expenses;
- regulatory review or approval;
- failing to assimilate the operations and personnel of the acquired businesses;
- entering new, unfamiliar markets;
- potential undiscovered liabilities at acquired businesses;
- disrupting our ongoing business;
- diverting our limited management resources;
- failing to maintain uniform standards, controls and policies;
- impairing relationships with employees and customers as a result of changes in management; and
- increasing expenses for support services and computer systems, as well as integration difficulties.

We may not adequately anticipate all of the demands that our growth will impose on our systems, procedures and structures, including our financial and reporting control systems, data processing systems and management structure. If we cannot adequately anticipate and respond to these demands, our business could be materially harmed.

Although we conduct what we believe to be a prudent level of investigation regarding the operating condition of the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses. Until we actually assume operating control of such business assets, we may not be able to ascertain the actual value of the acquired entity.

ITEM 1A. RISK FACTORS (Continued)

We are exposed to risks associated with real estate development.

Our real estate development activities entail risks that include construction delays or cost overruns, which may increase project development costs. In addition, the effects of the rebuilding efforts due to destructive weather, including hurricanes, could cause increased prices for construction materials and create labor shortages which could increase our development costs.

Our real estate development activities require significant capital expenditures. We obtain funds for our capital expenditures through cash flow from operations and financings, including the financings of the community development districts in which our development projects are located. We cannot be certain that the funds available from these sources will be sufficient to fund our required or desired capital expenditures for development. If we are unable to obtain sufficient funds, we may have to defer or otherwise limit our development activities. If we are unsuccessful in our selling efforts, we may not be able to recover these capital expenditures.

Competition for land could adversely affect our real estate business.

Over the past few years, we have experienced an increase in competition for suitable land in the Florida real estate market. The availability of undeveloped land for purchase that meets our internal criteria depends on a number of factors outside our control, including land availability in general, competition with other developers and land buyers for desirable property, inflation in land prices, zoning, allowable development density and other regulatory requirements. Our long-term ability to acquire land suitable for development at reasonable prices in locations where we feel there is a viable market is crucial in maintaining our business success.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

Reference is made to our 2005 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to our 2005 Form 10-K.

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

Minimum Revenue and Demand Under Contract As of April 1, 2006	Minimum Annual Revenue (a,b)	Monthly Megawatts
2006	\$95.4 million	616
2007	\$38.0 million	206
2008	\$27.7 million	158
2009	\$25.9 million	151
2010	\$17.8 million	98

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

(b) Although several contracts have a feature that allows demand to go to zero after a two-year advance notice of a permanent closure, this minimum revenue summary does not reflect this occurrence happening in the forecasted period because we believe it is unlikely.

ITEM 5. OTHER INFORMATION (Continued)

Ref. Page 10 – Eighth Full Paragraph

On February 24, 2006, the MPUC issued an order documenting the February 9, 2006, hearing that granted rehearing of the MISO Day 2 docket and suspended the refund obligation. The Company is working with the other Minnesota utilities, the DOC and other stakeholders to prepare a joint recommendation, required by the MPUC in its February 24, 2006 order, of which costs should be recovered on a current basis through the fuel clause and which costs are more appropriately deferred for potential recovery through base rates. The parties had 60 days to report their recommendations to the MPUC. On April 24, 2006, the MPUC approved an extension for the parties to file their recommendations by June 22, 2006. The Company is unable to predict the outcome of this matter.

Ref. Page 11 – First Paragraph

Large Power Contracts. On March 7, 2006, the MPUC approved Minnesota Power's new electric service agreement with Stora Enso Oyj's Duluth mills through August 31, 2013. On April 7, 2006, the MPUC approved Minnesota Power's new electric service agreement with UPM-Kymmene Corporation's Blandin Paper mill in Grand Rapids through April 30, 2010.

Ref. Page 11 – Second Paragraph

Resource Plan. In 2006, the MPUC approved our Integrated Resource Plan (Resource Plan). The Resource Plan detailed our retail energy demand projections and our energy sourcing options to meet projected demand. Key components of the Resource Plan included redirection of our Taconite Harbor generating facility from nonregulated energy operations to regulated utility operations effective January 1, 2006. The Taconite Harbor generation will be supplemented with a 50-MW long-term power purchase agreement with Manitoba Hydro. Expansion of our renewable generating assets to meet Minnesota's Renewable Energy Objective that seeks a 10 percent supply of qualified renewable energy resources in the state by 2015 for each Minnesota utility was also approved.

Ref. Page 11 – Sixth Paragraph and Page 20 – Second Full Paragraph

Square Butte Generating Facility. On April 24, 2006, Minnkota Power announced it has reached a settlement agreement with the EPA and the State of North Dakota regarding emissions at the M.R. Young Station, which includes the Square Butte generating unit. 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. The EPA claimed 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. The current Square Butte flue gas desulfurization (FGD) system will be upgraded in 2010 to increase its removal efficiency from 70 percent to 90 percent. Capital expenditures for the emission control additions and modifications on Square Butte are estimated at \$35 million. These estimated capital expenditures may be significantly offset by the sale of surplus SO₂ allowance credits created with the early upgrade of the FGD system, which is being upgraded two years earlier than required by Federal rules. 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. On April 24, 2006, a Complaint and a Consent Decree with respect to this settlement agreement were filed in U.S. District Court for the District of North Dakota (Court). The Consent Decree is open to public comment for 30 days after which, if entered as an order by the Court, will constitute a final settlement of this issue. If finalized, the Consent Decree settlement would also require Square Butte to pay approximately \$0.6 million in administrative costs and penalties in 2006, and \$3.3 million toward additional environmental projects including wind power installations or power purchase agreements.

ITEM 5. OTHER INFORMATION (Continued)

Ref. Page 12 – Fifth Full Paragraph

On May 1, 2006, SWL&P filed an application with the PSCW for authority to increase retail utility rates an average of 5.2 percent. This average increase is comprised of a 4.6 percent increase in electric rates, a 2.4 percent increase in gas rates and a 19.8 percent increase in water rates. The proposed increases are due to increased operating costs and the need to construct additional water storage. SWL&P is requesting an 11.7 percent return on common equity. The Company expects that hearings will be conducted in late 2006 and new rates will become effective in January 2007.

Ref. Page 14 – Fourth Paragraph

In December 2005, we entered into an agreement with Wisconsin Public Service Corporation and WPS Investments, LLC that provides for our Wisconsin subsidiary, Rainy River Energy Corporation - Wisconsin, to invest \$60 million in ATC. Our investment is expected to represent an estimated 9 percent ownership interest in ATC. On May 4, 2006, the PSCW reviewed and approved the request that allows us to invest in ATC. We anticipate having \$60 million invested in ATC by the end of 2006. Our first investment is expected to occur in May 2006.

Ref. Page 16 – Third Full Paragraph

On May 4, 2006, ALLETE Properties entered into a \$52.5 million contract for the sale of residential and commercial land at its Palm Coast Park development project. Under this contract, land will be purchased in four phases, with closings to occur in 2007 through 2009, and includes the opportunity to receive participation revenue. The development will include 1,459 residential housing units, a championship golf course, and neighborhood retail and office space, along with a community park and school site.

Ref. Page 20 – Insert before First Full Paragraph

Ref. Page 49 – Fifth Paragraph

On April 27, 2006, an agreement was announced by Minnesota Governor Tim Pawlenty on language for a proposed utility mercury emission reduction bill in Minnesota. Minnesota Power, along with Xcel Energy Inc., the MPCA, the Minnesota Chamber of Commerce, the DOC and an umbrella organization of environmental groups called Mercury Free Minnesota, had been meeting for several months in negotiation on bill language at the request of the Governor. The bill was presented to and approved by the Minnesota House of Representatives on May 1, 2006. The Minnesota Senate passed the bill on May 4, 2006. The bill is now ready for the Governor's signature and he is expected to sign it in the near future. This legislation would require Minnesota Power to file mercury emission reduction plans for its Boswell Units 3 and 4, with one plan due December 31, 2007, and the other plan due July 1, 2011, with installation of mercury emission reduction technology and equipment by December 31, 2010, and December 31, 2014, respectively. The plans must include one in which the mercury reduction goal is 90 percent. Alternate plans, with the percentage of reduction elected by the utility, are also required to be filed. Minnesota Power may apply mercury emissions achieved under its Arrowhead Regional Emission Abatement plan at Taconite Harbor toward the reduction goal required under approved plans for Boswell Units 3 and 4. Filed plans must be reviewed and approved by the MPCA and the MPUC under criteria that include, among other things, technical feasibility, environmental benefit, cost effectiveness and rate impact. The legislation encourages multi-emission reduction plans and also extends a statutory provision for current cost recovery outside of a rate case for approved emission reduction expenditures, including mercury and other types of emissions, from 2006 through 2013. The draft legislation generally comports with Minnesota Power's plans for its Boswell Units 3 and 4 mercury and other emission retrofits. Mercury emission reduction expenditures planned for Boswell Unit 3 are estimated at \$200 million and are included in the \$280 million we expect to spend for environmental upgrades from 2007 through 2010. Minnesota Power anticipates that costs for these expenditures will be recovered from customers on a current basis, subject to approval by the MPUC. The Company plans to make a filing with the MPUC for current cost recovery on these Boswell Unit 3 costs later this year.

ITEM 5. OTHER INFORMATION (Continued)

Ref. Page 21 – Sixth Paragraph

On February 28, 2006, members of the International Brotherhood of Electrical Workers (IBEW) Local No. 31 ratified a new three-year labor agreement with SWL&P and Minnesota Power that is retroactive to February 1, 2006. Wage increases are 3.1 percent for 2006 and 2007, and 3.0 percent for 2008. The agreement also includes union employees in the results sharing compensation awards program starting in 2006.

ITEM 6. EXHIBITS

Exhibit Number

- 4 Twenty-fifth Supplemental Indenture, dated as of December 1, 2005, between ALLETE and The Bank of New York and Douglas J. MacInnes, as Trustees.
- 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.

SIGNATURES

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

ALLETE, Inc.

May 8, 2006

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

May 8, 2006

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

EXHIBIT INDEX

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

TO

THE BANK OF NEW YORK

(formerly Irving Trust Company)

AND

DOUGLAS J. MACINNES

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

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

Twenty-fifth Supplemental Indenture
Providing among other things for
First Mortgage Bonds, 5.69% Series due March 1, 2036
(Thirty-first Series)

Dated as of December 1, 2005

TWENTY-FIFTH SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of December 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-fifth 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
Twenty-fourth Supplemental Indenture	March 1, 2005

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	None
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
5.28% Series due August 1, 2020	35,000,000	35,000,000

which bonds are also hereinafter sometimes called bonds of the First through Thirtieth 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-fifth Supplemental Indenture, and the terms of the bonds of the Thirty-first Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

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

trust, and to said Trustees and their successors and assigns forever, all property, real, personal and mixed, of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind or nature acquired by the Company after the date of the execution and delivery of the Mortgage, as heretofore supplemented (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or, subject to the provisions of subsection (I) of Section 87 of the Mortgage, hereafter acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Twenty-fifth 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-fifth 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-fifth 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-fifth 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

Thirty-first Series of Bonds

SECTION 1. There shall be a series of bonds designated "5.69% Series due March 1, 2036" (herein sometimes referred to as the "Thirty-first 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 Thirty-first Series shall be dated as in Section 10 of the Mortgage provided, mature on March 1, 2036, 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 March 1, 2006 at the rate of 5.69% per annum, payable semi-annually on March 1 and September 1 of each year, commencing September 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first Series, the principal amount of the Bonds of the Thirty-first Series to be prepaid shall be allocated by the Company among all of the Bonds of the Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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) At the option of the registered owner, any bonds of the Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first 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 Thirty-first Series.

After the delivery of this Twenty-fifth 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 Thirty-first Series for the aggregate principal amount of \$50,000,000.

ARTICLE II

Miscellaneous Provisions

SECTION 2. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words “and March 1, 2036,” after the words “and August 1, 2020.”

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

SECTION 4. The holders of bonds of the Thirty-first 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 Thirty-first 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-fifth 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-fifth 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-fifth Supplemental Indenture.

SECTION 6. Whenever in this Twenty-fifth 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-fifth 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-fifth 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-fifth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Twenty-fifth 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.

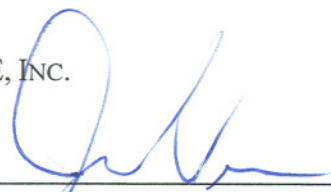
SECTION 8. This Twenty-fifth Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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

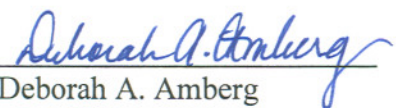
IN WITNESS WHEREOF, ALLETE, Inc. has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, all in the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

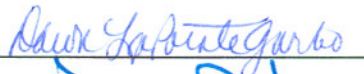

By


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 

Printed Name: Ming Ryan
Title: Vice President

Attest:



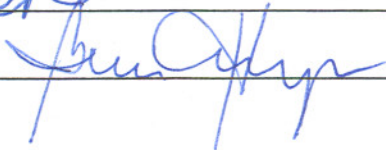
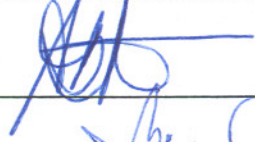
Printed Name: Geovanni Barris
Title: Vice President



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)

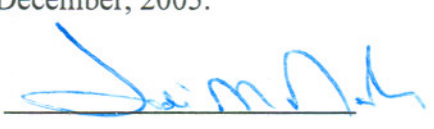
On this 15 day of December, 2005, before me, a Notary Public within and for said County, personally appeared JAMES K. VIZANKO and DEBORAH A. AMBERG, to me personally known, who, being each by me duly sworn, did say that they are respectively the Senior Vice President and Chief Financial Officer and the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




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

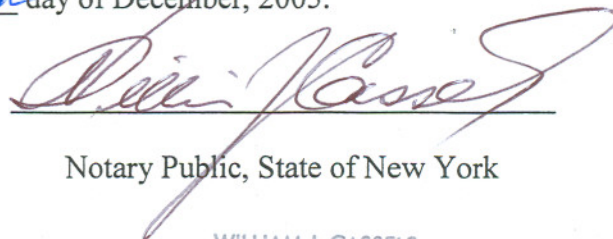
STATE OF NEW YORK)
) ss:
 COUNTY OF NEW YORK)

On this 29th day of December, 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 a Vice President of THE BANK OF NEW YORK of the State of New York, the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said MING RYAN and GEOVANNI BARRIS acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 29th day of December, 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 29th day of December, 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 29th day of December, 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 28th day of December, 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 28th day of December, 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 28th day of December, 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 28th day of December, 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

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

I, Donald J. Shippar, Chairman, President and Chief Executive Officer of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2006, of ALLETE;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2006

/s/ Donald J. Shippar

Donald J. Shippar
Chairman, President and Chief Executive Officer

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

I, 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, 2006, of ALLETE;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2006

/s/ James K. Vizanko

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, 2006, (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
1. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ALLETE.

Date: May 4, 2006

/s/ Donald J. Shippar

Donald J. Shippar
President and Chief Executive Officer

Date: May 4, 2006

/s/ James K. Vizanko

James K. Vizanko
Senior Vice President and Chief Financial Officer

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

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