ALLETE INC
Form 10-Q
November 01, 2018

00.040.670.04false--12-31Q320180000066756Yesfalsefalse410418150210000026000000The following acquisition is consistent with ALLETE?s stated strategy of investing in energy infrastructure and related services businesses to complement its regulated businesses, balance exposure to business cycles and changing demand, and provide potential long-term earnings growth.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______________ to ______________
Commission File Number **1-3548**

ALLETE INC

(Exact name of registrant as specified in its charter)

Minnesota	**41-0418150**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x Yes ¨ No

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

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

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

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

Common Stock, without par value,
51,424,535 shares outstanding

as of September 30, 2018

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Definitions

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

Abbreviation or Acronym	Term
AFUDC	Allowance for Funds Used During Construction – the cost of both debt and equity funds used to finance regulated utility plant additions during construction periods
ALLETE	ALLETE, Inc.
ALLETE Clean Energy	ALLETE Clean Energy, Inc. and its subsidiaries
ALLETE Properties	ALLETE Properties, LLC and its subsidiaries
ALLETE Transmission Holdings	ALLETE Transmission Holdings, Inc.
ATC	American Transmission Company LLC
Bison	Bison Wind Energy Center
Blanchard	Blanchard Solar Energy Facility
BNI Energy	BNI Energy, Inc. and its subsidiary
Boswell	Boswell Energy Center
Camp Ripley	Camp Ripley Solar Array
CO_2	Carbon Dioxide
Company	ALLETE, Inc. and its subsidiaries
CIP	Conservation Improvement Program
Cliffs	Cleveland-Cliffs Inc.
CSAPR	Cross-State Air Pollution Rule
DC	Direct Current
EIS	Environmental Impact Statement
EITE	Energy-Intensive Trade-Exposed
EPA	United States Environmental Protection Agency
ERP Iron Ore	ERP Iron Ore, LLC
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Form 10-K	ALLETE Annual Report on Form 10-K
Form 10-Q	ALLETE Quarterly Report on Form 10-Q
GAAP	Generally Accepted Accounting Principles in the United States of America
GHG	Greenhouse Gases
GNTL	Great Northern Transmission Line
Hibbard	Hibbard Renewable Energy Center
Husky Energy	Husky Energy Inc.
Invest Direct	ALLETE’s Direct Stock Purchase and Dividend Reinvestment Plan
IRP	Integrated Resource Plan
Item ___	Item ___ of this Form 10-Q
kV	Kilovolt(s)
kW / kWh	Kilowatt(s) / Kilowatt-hour(s)
Laskin	Laskin Energy Center
Magnetation	Magnetation, LLC
Manitoba Hydro	Manitoba Hydro-Electric Board

MATS	Mercury and Air Toxics Standards
Mesabi Metallics	Mesabi Metallics Company, LLC (formerly Essar Steel Minnesota, LLC)

Abbreviation or Acronym	**Term**
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midcontinent Independent System Operator, Inc.
MMTP	Manitoba-Minnesota Transmission Project
Montana-Dakota Utilities	Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
NAAQS	National Ambient Air Quality Standards
NDPSC	North Dakota Public Service Commission
NOL	Net Operating Loss
NO_2	Nitrogen Dioxide
NO_X	Nitrogen Oxides
Northern States Power	Northern States Power Company, a subsidiary of Xcel Energy Inc.
Northshore Mining	Northshore Mining Company, a wholly-owned subsidiary of Cleveland-Cliffs Inc.
Note ___	Note ___ to the Consolidated Financial Statements in this Form 10-Q
NPDES	National Pollutant Discharge Elimination System
NTEC	Nemadji Trail Energy Center
Oliver Wind I	Oliver Wind I Energy Center
Oliver Wind II	Oliver Wind II Energy Center
Palm Coast Park District	Palm Coast Park Community Development District in Florida
PolyMet	PolyMet Mining Corp.
PPA / PSA	Power Purchase Agreement / Power Sales Agreement
PPACA	Patient Protection and Affordable Care Act of 2010
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
Silver Bay Power	Silver Bay Power Company, a wholly-owned subsidiary of Cleveland-Cliffs Inc.
SO_2	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative, a North Dakota cooperative corporation
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
TCJA	Tax Cuts and Job Act of 2017 (Public Law 115-97)
Tenaska	Tenaska Energy, Inc. and Tenaska Energy Holdings, LLC
Tonka Water	Tonka Equipment Company
Town Center District	Town Center at Palm Coast Community Development District in Florida
UPM Blandin	UPM, Blandin Paper Mill owned by UPM-Kymmene Corporation
U.S.	United States of America
U.S. Water Services	U.S. Water Services Holding Company and its subsidiaries
USS Corporation	United States Steel Corporation
WTG	Wind Turbine Generator

Forward-Looking Statements

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

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

- our ability to successfully implement our strategic objectives;
- global and domestic economic conditions affecting us or our customers;
- changes in and compliance with laws and regulations;
- changes in tax rates or policies or in rates of inflation;
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements;
- weather conditions, natural disasters and pandemic diseases;
- our ability to access capital markets and bank financing;
- changes in interest rates and the performance of the financial markets;
- project delays or changes in project costs;
- changes in operating expenses and capital expenditures and our ability to raise revenues from our customers in regulated rates or sales price increases at our Energy Infrastructure and Related Services businesses;
- the impacts of commodity prices on ALLETE and our customers;
- our ability to attract and retain qualified, skilled and experienced personnel;
- effects of emerging technology;
- war, acts of terrorism and cybersecurity attacks;
- our ability to manage expansion and integrate acquisitions;
- population growth rates and demographic patterns;
- wholesale power market conditions;
- federal and state regulatory and legislative actions that impact regulated utility economics, including our allowed rates of return, capital structure, ability to secure financing, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities and utility infrastructure, recovery of purchased power, capital investments and other expenses, including present or prospective environmental matters;
- effects of competition, including competition for retail and wholesale customers;
- effects of restructuring initiatives in the electric industry;
- the impacts on our Regulated Operations segment of climate change and future regulation to restrict the emissions of GHG;
- effects of increased deployment of distributed low-carbon electricity generation resources;

- the impacts of laws and regulations related to renewable and distributed generation;
- pricing, availability and transportation of fuel and other commodities and the ability to recover the costs of such commodities;
- our current and potential industrial and municipal customers’ ability to execute announced expansion plans;
- real estate market conditions where our legacy Florida real estate investment is located may not improve;
- the success of efforts to realize value from, invest in, and develop new opportunities in, our Energy Infrastructure and Related Services businesses; and
- factors affecting our Energy Infrastructure and Related Services businesses, including fluctuations in the volume of customer orders, unanticipated cost increases, changes in legislation and regulations impacting the industries in which the customers served operate, the effects of weather, creditworthiness of customers, ability to obtain materials required to perform services, and changing market conditions.

Forward-Looking Statements (Continued)

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

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Unaudited

	September 30, 2018	December 31, 2017
Millions		
Assets		
Current Assets		
Cash and Cash Equivalents	$128.0	$98.9
Accounts Receivable (Less Allowance of $2.6 and $2.1)	129.4	135.1
Inventories – Net	154.8	95.9
Prepayments and Other	27.2	37.6
Total Current Assets	439.4	367.5
Property, Plant and Equipment – Net	3,846.5	3,822.4
Regulatory Assets	370.6	384.7
Investment in ATC	126.0	118.7
Other Investments	51.7	53.1
Goodwill and Intangible Assets – Net	224.7	225.9
Other Non-Current Assets	104.4	107.7
Total Assets	$5,163.3	$5,080.0
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$131.8	$136.3
Accrued Taxes	53.9	50.0
Accrued Interest	15.5	17.6
Long-Term Debt Due Within One Year	56.6	64.1
Other	144.9	83.2
Total Current Liabilities	402.7	351.2
Long-Term Debt	1,461.7	1,439.2
Deferred Income Taxes	231.3	230.5
Regulatory Liabilities	512.3	532.0
Defined Benefit Pension and Other Postretirement Benefit Plans	173.6	191.8
Other Non-Current Liabilities	265.6	267.1
Total Liabilities	3,047.2	3,011.8
Commitments, Guarantees and Contingencies (Note 13)		
Shareholders' Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 51.4 and 51.1 Shares Issued and Outstanding	1,421.1	1,401.4
Accumulated Other Comprehensive Loss	(27.3)	(22.6)
Retained Earnings	722.3	689.4
Total Shareholders' Equity	2,116.1	2,068.2
Total Liabilities and Shareholders' Equity	$5,163.3	$5,080.0

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF INCOME
Unaudited

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Millions Except Per Share Amounts				
Operating Revenue				
Contracts with Customers – Utility	$261.3	$277.6	$789.3	$824.1
Contracts with Customers – Non-utility	80.7	79.0	243.1	239.6
Other – Non-utility	6.0	5.9	17.9	17.7
Total Operating Revenue	348.0	362.5	1,050.3	1,081.4
Operating Expenses				
Fuel, Purchased Power and Gas – Utility	103.2	93.5	300.6	283.2
Transmission Services – Utility	17.9	18.9	53.1	53.1
Cost of Sales – Non-utility	38.7	36.0	108.6	105.9
Operating and Maintenance	80.3	81.1	253.6	251.4
Depreciation and Amortization	51.5	50.9	153.4	151.5
Taxes Other than Income Taxes	13.1	14.1	43.8	42.7
Total Operating Expenses	304.7	294.5	913.1	887.8
Operating Income	43.3	68.0	137.2	193.6
Other Income (Expense)				
Interest Expense	(17.6)	(16.6)	(51.6)	(50.5)
Equity Earnings in ATC	4.0	5.9	13.0	17.3
Other	1.4	1.8	5.7	5.0
Total Other Expense	(12.2)	(8.9)	(32.9)	(28.2)
Income Before Income Taxes	31.1	59.1	104.3	165.4
Income Tax Expense (Benefit)	0.4	14.2	(8.7)	34.6
Net Income	$30.7	$44.9	$113.0	$130.8
Average Shares of Common Stock				
Basic	51.4	51.0	51.3	50.7
Diluted	51.6	51.2	51.5	50.9
Basic Earnings Per Share of Common Stock	$0.59	$0.88	$2.20	$2.58
Diluted Earnings Per Share of Common Stock	$0.59	$0.88	$2.19	$2.57
Dividends Per Share of Common Stock	$0.56	$0.535	$1.68	$1.605

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Millions				
Net Income	$30.7	$44.9	$113.0	$130.8
Other Comprehensive Income (Loss)				
Currency Translation Adjustments	—	0.1	—	(0.1)
Unrealized Gain (Loss) on Securities				
Net of Income Tax Expense of $–, $0.1, $– and $0.6	—	0.1	(0.1)	0.8
Defined Benefit Pension and Other Postretirement Benefit Plans				
Net of Income Tax Expense of $0.1, $0.1, $0.3 and $0.4	0.3	0.2	1.0	0.6
Total Other Comprehensive Income	0.3	0.4	0.9	1.3
Total Comprehensive Income	$31.0	$45.3	$113.9	$132.1

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

	Nine Months Ended September 30,	
	2018	**2017**
Millions		
Operating Activities		
Net Income	$113.0	$130.8
AFUDC – Equity	(0.9)	(0.7)
Income from Equity Investments – Net of Dividends	(1.3)	(3.8)
Depreciation Expense	149.3	147.4
Amortization of PSAs	(17.9)	(17.7)
Amortization of Other Intangible Assets and Other Assets	7.8	7.6
Deferred Income Tax Expense	(9.1)	34.3
Share-Based and ESOP Compensation Expense	5.1	5.0
Defined Benefit Pension and Postretirement Benefit Expense	6.4	7.6
Provision for Interim Rate Refund	13.0	—
Provision for Tax Reform Refund	9.2	—
Bad Debt Expense	1.5	0.5
Changes in Operating Assets and Liabilities		
Accounts Receivable	3.9	(9.6)
Inventories	(12.6)	5.3
Prepayments and Other	5.7	2.1
Accounts Payable	9.9	(2.6)
Other Current Liabilities	21.2	2.7
Cash Contributions to Defined Benefit Pension Plans	(15.0)	(1.7)
Changes in Regulatory and Other Non-Current Assets	7.2	23.9
Changes in Regulatory and Other Non-Current Liabilities	1.7	(23.9)
Cash from Operating Activities	298.1	307.2
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	9.3	5.2
Payments for Purchase of Available-for-sale Securities	(12.5)	(5.9)
Acquisitions of Subsidiaries – Net of Cash and Restricted Cash Acquired	—	(17.4)
Investment in ATC	(5.0)	(6.6)
Additions to Property, Plant and Equipment	(201.0)	(130.3)
Other Investing Activities	1.4	3.3
Cash for Investing Activities	(207.8)	(151.7)
Financing Activities		
Proceeds from Issuance of Common Stock	14.6	80.5
Proceeds from Issuance of Long-Term Debt	72.7	131.5
Repayments of Long-Term Debt	(59.5)	(183.6)
Acquisition-Related Contingent Consideration Payments	—	(19.7)
Dividends on Common Stock	(86.2)	(81.4)
Other Financing Activities	(0.5)	(1.6)
Cash for Financing Activities	(58.9)	(74.3)

Change in Cash, Cash Equivalents and Restricted Cash	31.4	81.2
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	110.1	38.3
Cash, Cash Equivalents and Restricted Cash at End of Period	$141.5	$119.5

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Unaudited

Millions	Total Shareholders' Equity	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock
Balance as of December 31, 2017	$2,068.2	$689.4	$(22.6)	$1,401.4
Adjustments to Opening Balance – Net of Income Taxes *(a)*	0.5	6.1	(5.6)	—
Balance as of January 1, 2018	2,068.7	695.5	(28.2)	1,401.4
Comprehensive Income				
Net Income	113.0	113.0	—	—
Other Comprehensive Income – Net of Income Taxes				
Unrealized Loss on Debt Securities	(0.1)	—	(0.1)	—
Defined Benefit Pension and Other Postretirement Plans	1.0	—	1.0	—
Total Comprehensive Income	113.9			
Common Stock Issued	19.7	—	—	19.7
Dividends Declared	(86.2)	(86.2)	—	—
Balance as of September 30, 2018	$2,116.1	$722.3	$(27.3)	$1,421.1

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

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

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

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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

Cash, Cash Equivalents and Restricted Cash	**September 30, 2018**	**December 31, 2017**	**September 30, 2017**	**December 31, 2016**
Millions				
Cash and Cash Equivalents	$128.0	$98.9	$104.4	$27.5
Restricted Cash included in Prepayments and Other	4.8	2.6	6.5	2.2
Restricted Cash included in Other Non-Current Assets	8.7	8.6	8.6	8.6
Cash, Cash Equivalents and Restricted Cash on the Consolidated Statement of Cash Flows	$141.5	$110.1	$119.5	$38.3

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

Inventories – Net	**September 30, 2018**	**December 31, 2017**
Millions		
Fuel *(a)*	$27.3	$34.8
Materials and Supplies	44.0	46.5
Construction of Wind Energy Facility *(b)*	66.7	—
Raw Materials	3.1	2.8
Work in Progress	5.5	4.2

Finished Goods	9.0	8.3
Reserve for Obsolescence	(0.8)	(0.7)
Total Inventories – Net	$154.8	$95.9

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

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

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Non-Current Assets	**September 30, 2018**	**December 31, 2017**
Millions		
Contract Assets *(a)*	$31.1	$31.6
Finance Receivable	10.4	11.0
Other	62.9	65.1
Total Other Non-Current Assets	$104.4	$107.7

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

Other Current Liabilities	**September 30, 2018**	**December 31, 2017**
Millions		
Provision for Interim Rate Refund *(a)*	$36.7	—
Contract Liabilities *(b)*	22.7	$8.7
PSAs	15.4	24.5
Provision for Tax Reform Refund *(c)*	9.2	—
Contingent Consideration *(d)*	5.7	—
Other	55.2	50.0
Total Other Current Liabilities	$144.9	$83.2

(a) Provision for Interim Rate Refund is expected to be refunded to Minnesota Power's regulated retail customers in the first quarter of 2019 and includes $20.8 million of discounts provided to EITE customers that will be offset against interim rate refunds as of September 30, 2018 ($8.6 million as of December 31, 2017). (See Note 6. Regulatory Matters.)

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

(c) Provision for Tax Reform Refund is expected to be refunded to Minnesota Power customers in the first quarter of 2019 and SWL&P customers in 2019 pending the outcome of SWL&P's rate filing with the PSCW. (See Note 6. Regulatory Matters.)

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

Other Non-Current Liabilities	**September 30, 2018**	**December 31, 2017**
Millions		
Asset Retirement Obligation	$138.3	$122.7
PSAs	80.0	89.5
Contingent Consideration *(a)*	—	5.4
Other	47.3	49.5
Total Other Non-Current Liabilities	$265.6	$267.1

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

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Supplemental Statement of Cash Flows Information.

Nine Months Ended September 30,	**2018**	**2017**
Millions		
Cash Paid for Interest – Net of Amounts Capitalized	$52.9	$51.4
Noncash Investing and Financing Activities		
Increase (Decrease) in Accounts Payable for Capital Additions to Property, Plant and Equipment	$(14.4)	$1.2
Reclassification of Property, Plant and Equipment to Inventory *(a)*	$46.3	—
Capitalized Asset Retirement Costs	$15.4	$19.7
AFUDC–Equity	$0.9	$0.7
ALLETE Common Stock Contributed to the Pension Plans	—	$13.5

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

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

Revenue.

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

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

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

Revenue Recognition

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

Nature of Revenue Streams

Utility

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

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

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

Industrial includes sales recognized from contracts with customers in the taconite mining, iron concentrate, paper, pulp and secondary wood products, pipeline and other industries. Industrial sales accounted for approximately 50 percent of total regulated utility kWh sales for the nine months ended September 30, 2018. Within industrial revenue, Minnesota Power has 9 Large Power Customer contracts, each serving requirements of 10 MW or more of customer load. These contracts automatically renew past the contract term unless a four-year advanced written notice is given. Large Power Customer contracts have earliest termination dates ranging from 2022 through 2026. We satisfy our performance obligations for these customers at the time energy is delivered to an agreed upon customer substation. Revenue is accrued for energy provided but not yet billed at period end. Based on current contracts with industrial customers, we expect to recognize minimum revenue for the fixed contract components of approximately $70 million per annum through 2019, $50 million in 2020 and 2021, $30 million in 2022 and $40 million for aggregate years thereafter, which reflects the termination notice period in these contracts. When determining minimum revenue, we assume that customer contracts will continue under the contract renewal provision; however, if long-term contracts are renegotiated and subsequently approved by the MPUC or there are changes within our industrial customer class, these amounts may be impacted. Contracts with customers that contain variable pricing or quantity components are excluded from the expected minimum revenue amounts.

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

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

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

Non-utility

ALLETE Clean Energy

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

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

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

U.S. Water Services

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

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

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

Corporate and Other

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

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

Payment Terms

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

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

We recognize as an asset the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We expense incremental costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. As of September 30, 2018, we have $31.1 million of assets recognized for costs incurred to obtain contracts with our customers ($31.6 million as of December 31, 2017). Management determined the amount of costs to be recognized as assets based on actual costs incurred and paid to obtain and fulfill these contracts to provide goods and services to our customers. Assets recognized to obtain contracts are amortized on a straight-line basis over the contract term as a non-cash reduction to revenue. For the nine months ended September 30, 2018, and 2017, we recognized $1.9 million of non-cash amortization.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements.

Recently Adopted Pronouncements

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

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. In March 2017, the FASB issued an accounting standard update to improve the presentation of net periodic pension and postretirement benefit costs. Under the guidance, an entity is required to present the service cost component of the net periodic benefit cost in the same income statement line as other employee compensation costs arising from services rendered during the period. The guidance also allows only the service cost component of the periodic cost to be eligible for capitalization on a prospective basis. The other components of net periodic expense must be presented separately from the line item that includes the service cost and must be excluded from the operating income subtotal. The Company adopted the guidance in the first quarter of 2018 and retrospectively adjusted the presentation of the service cost component and the other components of net periodic costs in the Consolidated Statement of Income. The retrospective adjustments for the quarter and nine months ended September 30, 2017, were as follows: Operating and Maintenance increased $1.1 million and $3.2 million, respectively, Cost of Sales – Non-utility decreased $0.1 million and $0.2 million, respectively, resulting in an increase of $1.0 million and $3.0 million, respectively to Other Income (Expense) – Other. There was no impact to net income as a result of adoption.

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

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

Statement of Cash Flows: Restricted Cash. In 2016, the FASB issued an accounting standard update related to the presentation of restricted cash in the Company's Consolidated Statement of Cash Flows. The update requires that the Consolidated Statement of Cash Flows explain the change during the period in cash, cash equivalents and restricted cash. Restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statement of Cash Flows. This guidance update was adopted by the Company in the first quarter of 2018 and was applied retrospectively to the periods presented in the Consolidated Statement of Cash Flows which resulted in a net increase in cash from financing activities of $4.3 million for the nine months ended September 30, 2017. Additional disclosure, including a reconciliation of the beginning-of-period and end-of-period cash on hand to the statement of cash flows, is included in this note. (See *Cash, Cash Equivalents and Restricted Cash.)*

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)
New Accounting Pronouncements (Continued)

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

Practical Expedients

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

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

Recently Issued Pronouncements

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

Leases. In 2016, the FASB issued an accounting standard update which revises the existing guidance for leases. Under the revised guidance, lessees will be required to recognize a “right-of-use” asset and a lease liability for all leases with a term greater than 12 months. The new standard also requires additional quantitative and qualitative disclosures by lessees and lessors to enable users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The accounting for leases by lessors and the recognition, measurement, and presentation of expenses and cash flows from leases are not expected to significantly change as a result of the new guidance. As of September 30, 2018, the Company has reviewed substantially all of its leases for its regulated businesses, completing the preliminary evaluations of the impact of this guidance. Our review and analysis of the Company’s energy infrastructure and related services and corporate and other businesses is nearly complete as well. Based on our preliminary assessment, we expect to recognize right-of-use assets and lease liabilities of approximately $65 million at adoption, which represents the discounted future minimum operating lease payments. The Company plans to adopt and implement the new guidance, utilizing the additional optional transition method and package of practical expedients, by recognizing a cumulative effect adjustment to retained earnings on the Consolidated Balance Sheet, if necessary, in the period of adoption. Management continues to evaluate the need for additional qualitative and quantitative disclosures to meet the requirements of the new standard following adoption. The revised guidance is effective for the Company beginning in the first quarter of 2019.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes. Under SEC Staff Accounting Bulletin 118 (SAB 118), which was issued in December 2017, companies are allowed up to one year to complete the required analyses and accounting for the TCJA. SAB 118 requires companies to disclose which tax positions are considered complete, which tax positions are considered provisional and which tax provisions reflect prior law. At December 31, 2017, we were reasonably able to estimate the effects of the TCJA, and therefore recorded provisional amounts associated with the changes under the TCJA. The provisional amounts incorporated assumptions made based upon the Company's interpretation of the TCJA. On August 21, 2018, the Internal Revenue Service provided initial guidance for handling changes surrounding the executive compensation deduction, which resulted in recording additional income tax expense of $0.9 million in the third quarter of 2018. The full-year additional income tax expense related to this guidance is expected to be $1.1 million. As the Company receives additional clarification and implementation guidance, any additional adjustments would be included in income from operations as an adjustment to income tax expense. The accounting for the TCJA is still considered provisional while we complete our analysis.

Consolidated Statement of Income. In the third quarter of 2018, we recognized a $4.4 million reduction in revenue for MISO rates that were billed in 2017 and are expected to be credited to customers in 2019. We have evaluated the effect of this out-of-period adjustment on the quarter and nine months ended September 30, 2018, as well as on the previous interim and annual periods in which they should have been recognized, and concluded that this adjustment is not material to any of the periods affected.

NOTE 2. INVESTMENTS

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

Other Investments	**September 30, 2018**	**December 31, 2017**
Millions		
ALLETE Properties	$25.4	$26.4
Available-for-sale Securities *(a)*	21.0	19.1
Cash Equivalents	1.5	3.8
Other	3.8	3.8
Total Other Investments	$51.7	$53.1

(a) *As of September 30, 2018, the aggregate amount of available-for-sale corporate and governmental debt securities maturing in one year or less was $1.8 million, in one year to less than three years was $3.5 million, in three years to less than five years was $1.9 million and in five or more years was $1.1 million.*

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

NOTE 3. ACQUISITIONS

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

2017 Activity.

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

NOTE 3. ACQUISITIONS (Continued)

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

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

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

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

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

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

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

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

	December 31, 2017	**Additions**	**Amortization**	**September 30, 2018**
Millions				
Intangible Assets				
Definite-Lived Intangible Assets				
Customer Relationships	$54.7	$0.2	$(3.2)	$51.7
Developed Technology and Other *(a)*	6.3	2.5	(0.9)	7.9
Total Definite-Lived Intangible Assets	61.0	2.7	(4.1)	59.6
Indefinite-Lived Intangible Assets				
Trademarks and Trade Names	16.6	—	n/a	16.6
Total Intangible Assets	$77.6	$2.7	$(4.1)	$76.2

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

Customer relationships have a remaining useful life of approximately 19 years, and developed technology and other have remaining useful lives ranging from less than 1 year to approximately 10 years (weighted average of approximately 6 years). The weighted average remaining useful life of all definite-lived intangible assets as of September 30, 2018, is approximately 18 years.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS (Continued)

Amortization expense for intangible assets was $1.4 million and $4.1 million for the quarter and nine months ended September 30, 2018, respectively ($1.3 million and $4.1 million for the quarter and nine months ended September 30, 2017, respectively). Accumulated amortization was $18.9 million as of September 30, 2018 ($14.8 million as of December 31, 2017). The estimated amortization expense for definite-lived intangible assets for the remainder of 2018 is $1.5 million. Estimated annual amortization expense for definite lived intangible assets is $5.3 million in 2019, $4.9 million in 2020, $4.9 million in 2021, $4.6 million in 2022 and $38.4 million thereafter.

NOTE 5. FAIR VALUE

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

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

	Fair Value as of September 30, 2018			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Millions				
Assets				
Investments *(a)*				
Available-for-sale – Equity Securities	$12.7	—	—	$12.7
Available-for-sale – Corporate and Governmental Debt Securities	—	$8.3	—	8.3
Cash Equivalents	1.5	—	—	1.5
Total Fair Value of Assets	$14.2	$8.3	—	$22.5
Liabilities				
Deferred Compensation *(b)*	—	$20.5	—	$20.5
U.S. Water Services Contingent Consideration *(c)*	—	—	$5.7	5.7
Total Fair Value of Liabilities	—	$20.5	$5.7	$26.2

Total Net Fair Value of Assets (Liabilities)	$14.2	$(12.2)	$(5.7)	$(3.7)

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

NOTE 5. FAIR VALUE (Continued)

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

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

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

Recurring Fair Value Measures Activity in Level 3	
Millions	
Balance as of December 31, 2017	$5.4
Accretion	0.3
Balance as of September 30, 2018	$5.7

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

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

Financial Instruments	Carrying Amount	Fair Value
Millions		
Long-Term Debt, Including Long-Term Debt Due Within One Year		
September 30, 2018	$1,527.9	$1,557.6
December 31, 2017	$1,513.3	$1,627.6

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

NOTE 6. REGULATORY MATTERS

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

Electric Rates. Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, PSCW or FERC. As authorized by the MPUC, Minnesota Power also recognizes revenue under cost recovery riders for transmission, renewable, and environmental investments and expenditures. (See *Transmission Cost Recovery Rider, Renewable Cost Recovery Rider* and *Environmental Improvement Rider*.) Revenue from cost recovery riders was $29.1 million and $81.2 million for the quarter and nine months ended September 30, 2018, respectively ($23.1 million and $71.7 million for the quarter and nine months ended September 30, 2017, respectively).

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

In February 2017, Minnesota Power filed an additional request to further reduce its requested interim rate increase. In an April 2017 order, the MPUC approved Minnesota Power's updated retail rate request resulting in a reduction in the annual interim rate increase to $32.2 million beginning in May 2017. As a result of working with intervenors and further developments as the rate review progressed, Minnesota Power's final rate request was adjusted to approximately $49 million on an annualized basis. In an order dated March 12, 2018, the MPUC affirmed determinations made at a hearing on January 18, 2018, regarding Minnesota Power's general rate case including allowing a return on common equity of 9.25 percent and a 53.81 percent equity ratio. Upon commencement of final rates, we expect additional revenue of approximately $13 million on an annualized basis. Final rates are expected to commence in the fourth quarter of 2018; interim rates will be collected through this period which are fully offset by the recognition of a corresponding reserve. Minnesota Power has recorded a reserve for an interim rate refund of $57.5 million as of September 30, 2018 ($32.3 million as of December 31, 2017). The MPUC also disallowed Minnesota Power's regulatory asset for deferred fuel adjustment clause costs due to the anticipated adoption of a forward-looking fuel adjustment clause methodology resulting in a $19.5 million pre-tax charge to Fuel, Purchased Power and Gas – Utility in the fourth quarter of 2017.

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

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

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

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

In September 2017, Minnesota Power informed its EITE customers that it had suspended the EITE discount due to a concern that it was not revenue and cash flow neutral to Minnesota Power based on an MPUC decision at a hearing in September 2017, as well as the interim rate reduction and decisions in its 2016 general rate case. Based on the MPUC's decisions at a hearing on January 18, 2018, as part of Minnesota Power's 2016 general rate case, Minnesota Power reinstated the EITE discount effective January 1, 2018. Minnesota Power expects the discount to EITE customers to be approximately $15 million annually based on EITE customer current operating levels. While interim rates are in effect for Minnesota Power's 2016 general rate case, discounts provided to EITE customers will offset interim rate refund reserves for non-EITE customers. Minnesota Power provided $4.1 million and $12.2 million of discounts to EITE customers during the quarter and nine months ended September 30, 2018, respectively ($2.7 million and $8.6 million for the quarter and nine months ended September 30, 2017, respectively).

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

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

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

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

Renewable Cost Recovery Rider. Minnesota Power has an approved cost recovery rider for investments and expenditures related to Bison. The cost recovery rider allows Minnesota Power to charge retail customers on a current basis for the costs of certain renewable investments plus a return on the capital invested. Updated customer billing rates for the renewable cost recovery rider were provisionally approved by the MPUC in an order dated July 30, 2018, subject to further review by the MPUC.

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

In a December 2017 order, the MPUC modified a November 2016 order to allow Minnesota Power to account for North Dakota investment tax credits based on the long-standing regulatory precedents of stand-alone allocation methodology of accounting for income taxes. As a result of the favorable regulatory outcome, Minnesota Power recorded a reduction in its regulatory liability and an increase in Operating Revenue of $14.3 million in the third quarter of 2017. The North Dakota investment tax credits previously recorded were reestablished as income tax credits in Corporate and Other, resulting in a $7.9 million increase to net income in the third quarter of 2017.

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

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

Fuel Adjustment Clause Reform. In a December 2017 order, the MPUC adopted a program to implement certain procedural reforms to the Minnesota utilities' automatic fuel adjustment clause (FAC) for fuel and purchased power. The order will change the method of accounting for all Minnesota electric utilities to a monthly budgeted, forward-looking FAC with an annual prudence review and true-up to actual allowed costs. The MPUC is seeking input from Minnesota electric utilities and other stakeholders on the implementation and transition accounting needed to adopt the change. At a hearing on September 20, 2018, the MPUC deferred the implementation date to January 1, 2020.

Tax Cuts and Jobs Act of 2017. In December 2017, the MPUC opened a docket to review the effects of the TCJA on electric and natural gas rates and services in Minnesota, including the legislation's impact on tax rates and utilities' deferred income tax assets and liabilities. On March 2, 2018, Minnesota Power submitted an initial filing to the MPUC regarding the impacts of the TCJA on Minnesota Power. As part of Minnesota Power's rate case, in an order dated May 29, 2018, the MPUC directed Minnesota Power to utilize the benefits of the lower federal income tax rate enacted as part of the TCJA to offset an increase in depreciation expense, effective January 1, 2018, resulting from the reduction in the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035 that would have otherwise resulted in an increase in customer rates. The impact of the TCJA on Minnesota Power's deferred income tax assets and liabilities was not addressed in the rate case order.

At a hearing on August 9, 2018, the MPUC determined the regulatory treatment for the impact of the TCJA on Minnesota Power's deferred income tax assets and liabilities. The MPUC authorized Minnesota Power to amortize the income tax benefits from the remeasurement of deferred income tax assets and liabilities resulting from the TCJA primarily over the life of the related property, plant and equipment with the remainder amortized over a 10 year period. The MPUC directed Minnesota Power to begin refunding these income tax benefits as a monthly bill credit at the same time it implements final rates in its 2016 general rate case. Additionally, Minnesota Power customers will receive a one-time bill credit in 2019 for the income tax benefits amortized from January 1, 2018, through the date when final rates become effective.

On January 10, 2018, the PSCW opened a docket to review the effects of the TCJA and directed Wisconsin utilities to defer its impacts until further direction was provided by the PSCW. On February 9, 2018, SWL&P filed comments with the PSCW regarding the impacts of the TCJA on SWL&P. In this filing, SWL&P proposed deferring the benefits of the TCJA and incorporating any deferred refunds or credits into its next general rate case.

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

2018 Wisconsin General Rate Case. On May 25, 2018, SWL&P filed a rate increase request with the PSCW requesting an average increase of 2.7 percent for retail customers (2.0 percent increase in electric rates; 2.3 percent increase in natural gas rates; and 8.3 percent increase in water rates). The filing seeks an overall return on equity of 10.5 percent and a 55.41 percent equity ratio. On an annualized basis, the filing requested additional revenue of approximately $2.4 million. SWL&P anticipates new rates will go into effect in the first quarter of 2019. We cannot predict the level of rates that may be approved by the PSCW.

NOTE 6. REGULATORY MATTERS (Continued)

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

In July 2017, Minnesota Power submitted a resource package to the MPUC requesting approval of PPAs for the output of a 250 MW wind energy facility and a 10 MW solar energy facility as well as approval of a 250 MW natural gas energy PPA. These agreements are subject to MPUC approval of the construction of NTEC, a 525 MW to 550 MW combined-cycle natural gas fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE. Minnesota Power would purchase approximately 50 percent of the facility's output starting in 2025. In a September 2017 order, the MPUC approved Minnesota Power's request that approval for the natural gas energy PPA be decided through a contested case process. On July 2, 2018, an administrative law judge issued a recommendation that the MPUC deny approval of the NTEC agreements; the recommendation is not binding on the MPUC. On July 23, 2018, Minnesota Power filed exceptions to the administrative law judge's recommendation. At a hearing on October 29, 2018, the MPUC approved Minnesota Power's request for approval of the NTEC agreements. Separately, the MPUC required a baseload retirement evaluation in Minnesota Power's next IRP filing analyzing its existing fleet including potential early retirement scenarios of Boswell Units 3 and 4, including a securitization plan. The MPUC also approved Minnesota Power's request to extend the next IRP filing deadline until October 1, 2020.

On June 18, 2018, Minnesota Power filed a separate petition for approval of the PPA for the output of the 10 MW solar energy facility to be located in central Minnesota, which was approved by the MPUC in an order dated October 2, 2018. On August 22, 2018, Minnesota Power filed a separate petition for approval of an amended PPA for the output of the 250 MW wind energy facility to be located in southwestern Minnesota.

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

$560 million and $710 million, of which Minnesota Power’s portion is expected to be between $300 million and $350 million; the difference will be recovered from a subsidiary of Manitoba Hydro as non-shareholder contributions to capital. Total project costs of $314.9 million have been incurred through September 30, 2018, of which $163.3 million has been recovered from a subsidiary of Manitoba Hydro.

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

NOTE 6. REGULATORY MATTERS (Continued)
Great Northern Transmission Line (Continued)

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

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

Conservation Improvement Program. Minnesota requires electric utilities to spend a minimum of 1.5 percent of gross operating revenues, excluding revenue received from exempt customers, from service provided in the state on energy CIPs each year. On April 2, 2018, Minnesota Power submitted its 2017 CIP consolidated filing, which detailed Minnesota Power's CIP program results and requested a CIP financial incentive of $3.0 million based upon MPUC procedures. In an order dated September 4, 2018, the MPUC approved Minnesota Power's CIP consolidated filing, including the requested CIP financial incentive which was recorded as revenue and as a regulatory asset in the third quarter of 2018. In 2017, the CIP financial incentive of $5.5 million was recognized in the second quarter upon approval by the MPUC of Minnesota Power's 2016 CIP consolidated filing in a June 2017 order. CIP financial incentives are recognized in the period in which the MPUC approves the filing.

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

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

Minnesota Solar Energy Standard. Minnesota law requires at least 1.5 percent of total retail electric sales, excluding sales to certain customers, to be generated by solar energy by the end of 2020. At least 10 percent of the 1.5 percent mandate must be met by solar energy generated by or procured from solar photovoltaic devices with a nameplate capacity of 40 kW or less and community solar garden subscriptions. In a 2016 order, the MPUC approved Camp Ripley, a 10 MW utility scale solar project at the Camp Ripley Minnesota Army National Guard base and training facility near Little Falls, Minnesota, as eligible to meet the solar energy standard and for current cost recovery. Camp Ripley was completed in the fourth quarter of 2016. In a 2016 order, the MPUC approved a community solar garden project in northeastern Minnesota, which is comprised of a 1 MW solar array owned and operated by a third party with the output purchased by Minnesota Power and a 40 kW solar array that is owned and operated by Minnesota Power. In an order dated October 2, 2018, the MPUC approved a PPA for the output of the 10 MW Blanchard solar energy facility to be located in central Minnesota. Minnesota Power believes Camp Ripley, the community solar garden arrays, and the PPA for the output of the 10 MW Blanchard solar energy facility will meet approximately two thirds of the overall mandate. Additionally, in a February 2017 order, the MPUC approved Minnesota Power's proposal to increase the amount of solar rebates available for customer-sited solar installations and recover costs of the program through Minnesota Power's renewable cost recovery rider. The proposal to incentivize customer sited solar installations and community solar garden subscriptions is expected to meet a portion of the required small scale solar mandate.

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

NOTE 6. REGULATORY MATTERS (Continued)

Regulatory Assets and Liabilities	**September 30, 2018**	**December 31, 2017**
Millions		
Non-Current Regulatory Assets		
Defined Benefit Pension and Other Postretirement Benefit Plans	$214.0	$220.3
Income Taxes	107.9	112.8
Asset Retirement Obligations	31.9	29.6
Manufactured Gas Plant	8.0	8.1
PPACA Income Tax Deferral	5.0	5.0
Conservation Improvement Program	—	3.3
Other	3.8	5.6
Total Non-Current Regulatory Assets	$370.6	$384.7
Current Regulatory Liabilities *(a)*		
Provision for Interim Rate Refund *(b)*	$36.7	—
Provision for Tax Reform Refund *(c)*	9.2	—
Transmission Formula Rates	4.4	—
Total Current Regulatory Liabilities	50.3	—
Non-Current Regulatory Liabilities		
Income Taxes	398.1	$411.2
Wholesale and Retail Contra AFUDC	62.0	57.9
Plant Removal Obligations	24.1	20.3
North Dakota Investment Tax Credits	14.6	14.1
Cost Recovery Riders	11.0	2.2
Conservation Improvement Program	1.1	—
Provision for Interim Rate Refund *(b)*	—	23.7
Other	1.4	2.6
Total Non-Current Regulatory Liabilities	512.3	532.0
Total Regulatory Liabilities	$562.6	$532.0

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

(b) *This amount is expected to be refunded to Minnesota Power's regulated retail customers in the first quarter of 2019 and includes $20.8 million of discounts provided to EITE customers as of September 30, 2018, that will be offset against interim rate refunds ($8.6 million as of December 31, 2017). (See 2016 Minnesota General Rate Case and Energy-Intensive Trade Exposed Customer Rates.)*

(c) *Provision for Tax Reform Refund is expected to be refunded to Minnesota Power customers in the first quarter of 2019 and SWL&P customers in 2019 pending the outcome of SWL&P's rate filing with the PSCW. (See Tax Cuts and Jobs Act of 2017.)*

NOTE 7. INVESTMENT IN ATC

Our wholly-owned subsidiary, ALLETE Transmission Holdings, owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in portions of Wisconsin, Michigan, Minnesota and Illinois. We account for our investment in ATC under the equity method of accounting. As of September 30, 2018, our equity investment in ATC was $126.0 million ($118.7 million at December 31, 2017). In the first nine months of 2018, we invested $5.0 million in ATC, and on October 31, 2018, we invested an additional $1.2 million. We expect to make no additional investments in 2018.

ALLETE's Investment in ATC

Millions	
Equity Investment Balance as of December 31, 2017	$118.7
Cash Investments	5.0
Equity in ATC Earnings	13.0
Distributed ATC Earnings	(11.7)
Amortization of the Remeasurement of Deferred Income Taxes *(a)*	1.0
Equity Investment Balance as of September 30, 2018	$126.0

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

NOTE 7. INVESTMENT IN ATC (Continued)

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

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

NOTE 8. SHORT-TERM AND LONG-TERM DEBT

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

September 30, 2018 **Millions**	**Principal**	**Unamortized Debt Issuance Costs**	**Total**
Short-Term Debt	$57.0	$(0.4)	$56.6
Long-Term Debt	1,470.9	(9.2)	1,461.7
Total Debt	$1,527.9	$(9.6)	$1,518.3

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

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

On October 3, 2018, and October 17, 2018, ALLETE repaid $20.0 million and $10.0 million, respectively, under an unsecured term loan due in 2020.

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

NOTE 9. INCOME TAX EXPENSE

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Millions				
Current Income Tax Expense *(a)*				
Federal	—	—	—	—
State	—	$0.1	$0.4	$0.3
Total Current Income Tax Expense	—	$0.1	$0.4	$0.3
Deferred Income Tax Expense (Benefit)				
Federal *(b)*	$(2.2)	$9.2	$(16.4)	$20.3
State	2.8	5.0	7.8	14.5
Investment Tax Credit Amortization	(0.2)	(0.1)	(0.5)	(0.5)
Total Deferred Income Tax Expense (Benefit)	$0.4	$14.1	$(9.1)	$34.3
Total Income Tax Expense (Benefit)	$0.4	$14.2	$(8.7)	$34.6

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

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

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

Reconciliation of Taxes from Federal Statutory Rate to Total Income Tax Expense	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Millions				
Income Before Non-Controlling Interest and Income Taxes	$31.1	$59.1	$104.3	$165.4
Statutory Federal Income Tax Rate	21 %	35 %	21 %	35 %
Income Taxes Computed at Statutory Federal Rate	$6.5	$20.7	$21.9	$57.9
Increase (Decrease) in Income Tax Due to:				
State Income Taxes – Net of Federal Income Tax Benefit	2.2	3.3	6.4	9.6
Production Tax Credits	(9.4)	(10.4)	(35.0)	(33.4)
Regulatory Differences – Excess Deferred Tax	(1.1)	0.3	(5.5)	1.0
Other	2.2	0.3	3.5	(0.5)
Total Income Tax Expense (Benefit)	$0.4	$14.2	$(8.7)	$34.6

For the nine months ended September 30, 2018, the effective tax rate was a benefit of 8.3 percent (expense of 20.9 percent for the nine months ended September 30, 2017). The decrease from 2017 was primarily due to the reduction of the federal income tax rate from 35 percent to 21 percent enacted as part of the TCJA and lower pre-tax income.

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

ALLETE and its subsidiaries file a consolidated federal income tax return as well as combined and separate state income tax returns in various jurisdictions. ALLETE has no open federal or state audits, and is no longer subject to federal examination for years before 2015, or state examination for years before 2013.

NOTE 10. RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE LOSS

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

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

NOTE 11. EARNINGS PER SHARE AND COMMON STOCK

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

Reconciliation of Basic and Diluted Earnings Per Share	2018			2017		
	Basic	Dilutive Securities	Diluted	Basic	Dilutive Securities	Diluted
Millions Except Per Share Amounts						
Quarter ended September 30,						
Net Income	$30.7		$30.7	$44.9		$44.9
Average Common Shares	51.4	0.2	51.6	51.0	0.2	51.2
Earnings Per Share	$0.59		$0.59	$0.88		$0.88
Nine Months Ended September 30,						
Net Income	$113.0		$113.0	$130.8		$130.8
Average Common Shares	51.3	0.2	51.5	50.7	0.2	50.9
Earnings Per Share	$2.20		$2.19	$2.58		$2.57

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Components of Net Periodic Benefit Cost	Pension		Other Postretirement	
	2018	2017	2018	2017
Millions				
Quarter Ended September 30,				
Service Cost	$2.7	$2.6	$1.2	$1.1
Non-Service Cost Components *(a)*				
Interest Cost	7.4	8.1	1.8	2.0
Expected Return on Plan Assets	(11.1)	(10.6)	(2.7)	(2.6)
Amortization of Prior Service Credits	—	—	(0.4)	(0.5)
Amortization of Net Loss	3.0	2.5	0.2	—

Net Periodic Benefit Cost	$2.0	$2.6	$0.1	—
Nine Months Ended September 30,				
Service Cost	$8.2	$7.7	$3.7	$3.3
Non-Service Cost Components *(a)*				
Interest Cost	22.2	24.4	5.4	5.8
Expected Return on Plan Assets	(33.2)	(31.8)	(8.2)	(7.9)
Amortization of Prior Service Credits	—	—	(1.3)	(1.5)
Amortization of Net Loss	9.0	7.4	0.6	0.2
Net Periodic Benefit Cost (Income)	$6.2	$7.7	$0.2	$(0.1)

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

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

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

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES

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

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

Square Butte PPA. Minnesota Power has a PPA with Square Butte that extends through 2026 (Agreement). Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on its entitlement to the output of Square Butte's 455 MW coal fired generating unit. Minnesota Power's output entitlement under the Agreement is 50 percent for the remainder of the Agreement, subject to the provisions of the Minnkota Power PSA. (See *Minnkota Power PSA*.) Square Butte's costs consist primarily of debt service, operating and maintenance, depreciation and fuel expenses. As of September 30, 2018, Square Butte had total debt outstanding of $308.4 million. Fuel expenses are recoverable through Minnesota Power's fuel adjustment clause and include the cost of coal purchased from BNI Energy under a long-term contract.

Minnesota Power's cost of power purchased from Square Butte during the nine months ended September 30, 2018, was $57.9 million ($60.6 million for the nine months ended September 30, 2017). This reflects Minnesota Power's pro rata share of total Square Butte costs based on the 50 percent output entitlement. Included in this amount was Minnesota Power's pro rata share of interest expense of $6.9 million ($7.1 million for the same period in 2017). Minnesota Power's payments to Square Butte are approved as a purchased power expense for ratemaking purposes by both the MPUC and the FERC.

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

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

Calpine PPA. In the second quarter of 2018, Minnesota Power entered into a PPA with an affiliate of Calpine Corporation. The contract begins in June 2019 and is effective through May 2026. Under the PPA, Minnesota Power will purchase 25 MW of capacity at fixed prices.

Oliver Wind I and II PPAs. In the third quarter of 2018, Minnesota Power amended its PPAs with an affiliate of NextEra Energy, Inc. for the output of Oliver Wind I and Oliver Wind II, subject to MPUC approval. The amended PPAs provide for updating the term and pricing if the wind energy facilities are repowered. The amended PPAs will continue to provide for the purchase of all output of the wind energy facilities at fixed prices.

Basin Electric Cooperative PSA. In the third quarter of 2018, Minnesota Power entered into a PSA with Basin Electric Power Cooperative. The PSA begins in June 2025 and is effective through May 2028. Under the PSA, Minnesota Power expects to provide 100 MW of capacity at fixed prices.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Power Purchase Agreements (Continued)

Cypress Creek Renewables PPA. In an order dated October 2, 2018, the MPUC approved a PPA between Minnesota Power and Cypress Creek Renewables for the output of the 10 MW Blanchard solar energy facility to be located in central Minnesota. Construction of the solar energy facility is expected to be completed in 2020 and the contract is effective for 25 years after the facility becomes commercially operational.

Coal, Rail and Shipping Contracts. Minnesota Power has coal supply agreements providing for the purchase of a significant portion of its coal requirements through December 2018 and a portion of its coal requirements through December 2021. Minnesota Power also has coal transportation agreements in place for the delivery of a significant portion of its coal requirements through December 2018. The estimated minimum payments under these supply and transportation agreements is \$8.7 million for the remainder of 2018, \$1.8 million in 2019, and none thereafter. The costs of fuel and related transportation costs for Minnesota Power's generation are recoverable from Minnesota Power's utility customers through the fuel adjustment clause.

Leasing Agreements. BNI Energy is obligated to make lease payments for a dragline totaling \$2.8 million annually during the lease term, which expires in 2027. BNI Energy has the option at the end of the lease term to renew the lease at fair market value, to purchase the dragline at fair market value, or to surrender the dragline and pay a \$3.0 million termination fee. We also lease other properties and equipment under operating lease agreements with a majority of terms expiring by 2024. The aggregate amount of minimum lease payments for all operating leases is \$3.6 million for the remainder of 2018, \$12.8 million in 2019, \$9.5 million in 2020, \$7.3 million in 2021, \$6.1 million in 2022 and \$30.0 million thereafter.

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

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

In 2015, a certificate of need was approved by the MPUC. Based on this approval, Minnesota Power's portion of the investments and expenditures for the project are eligible for cost recovery under its existing transmission cost recovery rider and are anticipated to be included in future transmission cost recovery filings. (See Note 6. Regulatory Matters.) Also in 2015, the FERC approved our request to recover on construction work in progress related to the GNTL from Minnesota Power's wholesale customers. In a 2016 order, the MPUC approved the route permit for the GNTL which largely follows Minnesota Power's preferred route, including the international border crossing, and in 2016, the U.S. Department of Energy issued a presidential permit to cross the U.S. Canadian border, which was the final major regulatory approval needed before construction in the U.S. could begin. Site clearing and pre construction activities commenced in the first quarter of 2017 with construction expected to be completed in 2020. To date, most of the right-of-way has been cleared while foundation installation and transmission tower construction have commenced. The total project cost in the U.S., including substation work, is estimated to be between \$560 million and \$710 million, of which Minnesota Power's portion is expected to be between \$300 million and \$350 million; the difference will be recovered from a subsidiary of Manitoba Hydro as non-shareholder contributions to capital. Total project costs of $314.9 million have been incurred through September 30, 2018, of which $163.3 million has been recovered from a subsidiary of Manitoba Hydro.

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

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Transmission (Continued)

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

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

Environmental Matters.

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

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

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

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

New Source Review (NSR). In 2014, Minnesota Power reached a settlement with the EPA and entered into a Consent Decree regarding certain Notices of Violation received in 2008 and 2011 that asserted violations of the NSR requirements of the Clean Air Act, which was approved by the U.S. District Court for the District of Minnesota. The Consent Decree provided for, among other requirements, more stringent emissions limits at all affected units, the option of refueling, retrofitting or retiring certain small coal units, and the addition of 200 MW of wind energy. Provisions of the Consent Decree require that, by no later than December 31, 2018, Boswell Units 1 and 2 must be retired, refueled, repowered, or emissions rerouted through existing emission control technology at Boswell. In 2016, Minnesota Power announced that Boswell Units 1 and 2 will be retired in 2018 as part of its *EnergyForward* strategic plan. Minnesota Power is allowed to recover the remaining net book value for Boswell Units 1 and 2 through 2022. We believe that costs to retire Boswell Units 1 and 2 will be eligible for recovery in rates over time, subject to regulatory approval in a rate proceeding.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

Cross-State Air Pollution Rule (CSAPR). The CSAPR requires certain states in the eastern half of the U.S., including Minnesota, to reduce power plant emissions that contribute to ozone or fine particulate pollution in other states. The CSAPR does not require installation of controls but does require facilities have sufficient allowances to cover their emissions on an annual basis. These allowances are allocated to facilities from each state's annual budget, and can be bought and sold. Based on our review of the NO_x and SO_2 allowances issued and pending issuance, we currently expect generation levels and emission rates will result in continued compliance with the CSAPR.

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

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

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

- *Ozone NAAQS.* All areas of Minnesota currently meet the 2015 standard based on the most recent available ambient monitoring data; however, some areas in the metropolitan Twin Cities and southwest portion of the state are close to exceeding the standard. As a result, voluntary efforts to reduce ground-level ozone continue in the state. On August 2, 2018, the EPA announced its intent to retain the 2015 ozone NAAQS standard without revision. No additional costs for compliance are anticipated at this time.

- *Particulate Matter NAAQS.* The EPA has designated the entire state of Minnesota as unclassifiable/attainment; however, Minnesota sources may ultimately be required to reduce their emissions to assist with attainment in neighboring states. In 2016, environmental groups filed a lawsuit against the EPA in the U.S. District Court for the Northern District of California alleging the EPA had failed to fully implement the $PM_{2.5}$ standards in certain states, including Minnesota, by not enforcing states' submittals of required infrastructure implementation plans for the 2012 $PM_{2.5}$ NAAQS. The outcome of this litigation is uncertain, and as such, any costs for complying with the final Particulate Matter NAAQS cannot be estimated at this time.

- *NO_2 NAAQS.* Ambient monitoring data indicates that Minnesota is likely in compliance with the one-hour NAAQS standard for NO_2. In July 2017, the EPA proposed retaining the current one-hour and annual NO_2 NAAQS. No additional costs for compliance are anticipated at this time.

- *SO_2 NAAQS.* In 2015, the EPA finalized the SO_2 data requirements rule (DRR) for the 2010 one-hour NAAQS to assist states in implementing the standard. The MPCA initially informed Minnesota Power that compliant SO_2 modeling completed at Minnesota Power's Boswell and Taconite Harbor facilities would satisfy the DRR obligations and no further modeling would be required; however, the DRR also required facilities have federally-enforceable permit limits at which the one-hour SO_2 NAAQS compliance was modeled by January 2017. Taconite Harbor was issued an amended air permit in 2016, containing the new modeling limits at that facility. The MPCA did not meet the January 2017, deadline to amend the Boswell permit. On September 20, 2018, the