

APPENDIX D

**PUBLIC DOCUMENT -
TRADE SECRET DATA
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Trade Secret & Confidential – Proprietary Information

THIS TERM SHEET made the day of September, 2013.

BETWEEN:

Minnesota Power, an operating division of ALLETE, Inc.,
(hereinafter referred to as “MP”)

and

The Manitoba Hydro-Electric Board,
(hereinafter referred to as “MH”)

and

6690271 Manitoba Ltd.
(hereinafter referred to as “6690271”)

WHEREAS, MP and MH are the owners and operators of electric generation and transmission facilities in the United States of America and in Canada, respectively, and are engaged in the generation, transmission, distribution and sale of electric energy;

AND WHEREAS, MP is a member of MISO and MH is a coordinating member of MISO;

AND WHEREAS MH and MP entered into agreements on May 19, 2011 for the sale by MH and the purchase by MP of system power (the “**250 MW System Power Sale Agreement**”) and for the sale by MP and the purchase by MH of energy (the “**Energy Exchange Agreement**”) subject to certain conditions and options (such agreements collectively referred to as the “**MH/MP Agreements**”);

AND WHEREAS pursuant to the MH/MP Agreements MH and MP agreed to take all actions and do all things necessary to construct and place in-service on June 1, 2020 a new international transmission interconnection with transfer capability of 250 MW southbound and up to 250 MW northbound (the “**250 MW Transmission Interconnection**”) between MH’s balancing authority area in the province of Manitoba and MP’s local balancing authority area in the states of Minnesota and Wisconsin which 250 MW Transmission Interconnection would be utilized by

MH and MP in the sale and purchase of the system power and the energy pursuant to the MH/MP Agreements;

AND WHEREAS pursuant to the MH/MP Agreements MH and MP also agreed that by mutual agreement they may increase the transfer capability of the 250 MW Transmission Interconnection and enter into additional agreements with such persons as may be required in respect of such changes to the 250 MW Transmission Interconnection;

AND WHEREAS the sale by MH and the purchase by MP of system power and the sale by MP and the purchase by MH of energy pursuant to the MH/MP Agreements was to commence on June 1, 2020, subject to certain conditions and options set out in the said agreements;

AND WHEREAS MH and MP are specifically discussing increasing the transfer capability of the 250 MW Transmission Interconnection through upgrading the design to a 500 kilovolt international transmission interconnection utilizing a route between the Dorsey sub-station in Manitoba and the Blackberry sub-station near Grand Rapids, Minnesota (the “**Proposed 500 kV Transmission Interconnection**”) (the United States portion of the Proposed 500 kV Transmission Interconnection referred to as the “**Proposed 500 kV US Transmission Interconnection Component**” and the Canadian portion of the Proposed 500 kV Transmission Interconnection referred to as the “**Proposed 500 kV Canadian Transmission Interconnection Component**”) which transmission interconnection, if built, would be utilized by MH and MP in the sale and purchase of the system power and the energy pursuant to the MH/MP Agreements, as well as for other sales and purchases of power and energy;

AND WHEREAS, MH and MP entered into a Memorandum of Understanding on January 25, 2013, as amended, (the “**MOU**”) which amongst other matters established the framework for further discussion and analysis of the Proposed 500 kV Transmission Interconnection and, for negotiating the terms and conditions of a term sheet in respect of the development of the Proposed 500 kV Transmission Interconnection;

AND WHEREAS, MH and MP agreed pursuant to the MOU that during the term of the MOU, that the Proposed 500 kV Transmission Interconnection, including the substations referred to above, would be the exclusive international transmission interconnection that MH and MP will evaluate as potentially developing, with such party or parties as they may mutually agree upon, pursuant to the MH/MP Agreements;

AND WHEREAS, the MOU provided that MH and MP agreed to incorporate any agreement or agreements on matters discussed (which would include matters discussed with third parties) concerning the Proposed 500 kV Transmission Interconnection into a term sheet;

AND WHEREAS, MP and MH agreed to share certain development expenses related to the Proposed 500 kV US Transmission Interconnection Component and on March 31, 2013 entered into a Cost Sharing Agreement (the “**Cost Sharing Agreement**”), as amended;

AND WHEREAS, MP, MH and other utilities (the “**Other Utilities**”) have filed transmission service requests, and it is expected MP will be filing an additional transmission service request

(such filed transmission service requests and to be filed transmission service request collectively the “TSRs”) for transmission service in accordance with the TARIFF;

AND WHEREAS, MP and MH and the Other Utilities are, based on the TSRs and the studies conducted by MISO, potentially parties to a MISO Multi-Party Facilities Construction Agreement (“FCA”) for the certification and construction of the Proposed 500 kV US Transmission Interconnection Component;

AND WHEREAS, MH and MP entered into a Letter of Intent (“LOI”) dated August 16, 2013 which established that in addition to the other matters referenced in the MOU, that the term sheet shall include the additional provisions as set forth in the LOI;

AND WHEREAS, such additional provisions set forth in the LOI, which were to be included in the term sheet, included how development of the Proposed 500 kV Transmission Interconnection may move forward if the Other Utilities do not become parties to the FCA and/or do not agree to contribute to the cost of the development of the Proposed 500 kV US Transmission Interconnection Component;

AND WHEREAS, it has been agreed by the Parties that 6690271 will be the party that will potentially develop with MP the Proposed 500 kV US Transmission Interconnection Component and 6690271 will also be one of the parties to the FCA and to the other agreements related to the development of the Proposed 500 kV US Transmission Interconnection Component;

AND WHEREAS, MH will be the developer of Proposed 500 kV Canadian Transmission Interconnection Component;

AND WHEREAS, this Term Sheet shall constitute the term sheet contemplated by the MOU and the LOI with 6690271 entering into this Term Sheet with MP in respect of the development of the Proposed 500 kV US Transmission Interconnection Component and MH entering into this Term Sheet with MP in respect of the energy sale and energy exchange agreements that are to be entered into conjunction with such development and which will utilize the Proposed 500 kV Transmission Interconnection;

AND WHEREAS, the Parties will negotiate in good faith with a view to concluding the agreements consistent with this Term Sheet;

AND WHEREAS, this Term Sheet summarizes the principal terms of the Proposed Agreements.

NOW THEREFORE for good and valuable consideration the receipt and sufficiency of which is hereby acknowledged the Parties agree as follows:

ARTICLE 1 INTENT AND INTERPRETATION

1.1 Intent

It is the intent of this Term Sheet that it set out with sufficient particularity the details of the proposed transactions so that the Parties may know the general terms of the following formal comprehensive agreements (the “**Proposed Agreements**”) that are referred to in this Term Sheet:

- (i) Project Development Agreement;
- (ii) O&M Agreement;
- (iii) Transmission Capacity Exchange Agreement;
- (iv) FCA;
- (v) such other agreements that MP and 6690271 mutually determine are required for the development of the Proposed 500 kV US Transmission Interconnection Component;
- (vi) 2013 Energy Sale Agreement; and
- (vii) 2013 Energy Exchange Agreement.

The Proposed Agreements would establish the rights and obligations of the Parties and which they intend to negotiate between them. Other than the Binding Obligations, the Parties expressly acknowledge and agree that nothing contained in this Term Sheet shall constitute a definitive agreement between any of the Parties.

1.2 Defined Terms

Unless otherwise specified in this Term Sheet, all capitalized terms shall have the meanings set forth in Appendix A.

1.3 Interpretation

Unless the context otherwise requires, this Term Sheet shall be interpreted in accordance with the following:

- (1) words singular and plural in number shall be deemed to include the other and pronouns having masculine or feminine gender shall be deemed to include the other;
- (2) any reference in this Term Sheet to any Person includes its successors and assigns, and, in the case of any governmental authority, any Person succeeding to its functions and capacities;
- (3) a reference to a document or agreement, including this Term Sheet, includes a reference to that document or agreement as amended from time to time and includes any exhibits or attachments thereto;

- (4) headings are inserted for convenience only and shall not affect the interpretation of this Term Sheet or any section thereto; and
- (5) the preamble hereto shall form an integral part of this Term Sheet.

**ARTICLE II
TRANSMISSION DEVELOPMENT**

2.1 Transmission Ownership

- (1) If the Other Utilities do not become parties to the FCA and/or do not agree to contribute to the cost of the development of the Proposed 500 kV US Transmission Interconnection Component, 6690271 and MP shall be the transmission line payer parties to the FCA, on the condition that if construction of the Proposed 500 kV US Transmission Interconnection Component proceeds, MP will fund as the majority owner fifty-one (51%) per-cent of the certification and construction costs of the Proposed 500 kV US Transmission Interconnection Component and 6690271 will fund as the minority owner forty-nine (49%) per-cent of the certification and construction costs of the Proposed 500 kV US Transmission Interconnection Component.
- (2) The Parties have discussed that MP and 6690271 shall own the Proposed 500 kV US Transmission Interconnection Component as “tenants in common” but no agreement has been reached that “tenants in common” shall be utilized as the ownership structure for the purposes of negotiating the Proposed Agreements. The Parties agree that discussions shall continue as to the appropriate ownership structure that is to be utilized for the purposes of negotiating the Proposed Agreements.
- (3) Notwithstanding the foregoing, MP seeks to own one-hundred (100%) per-cent of the substation assets associated with the Proposed 500 kV US Transmission Interconnection Component but no agreement has been reached that this ownership provision shall serve as the basis for negotiating the Proposed Agreements. The Parties agree that discussions shall continue on the ownership of the substation but that associated improvements to MP’s 230 kV transmission system required to interconnect to MP’s bulk transmission system shall be solely owned by MP.
- (4) MP and 6690271 may sell to each other or such other Persons as they may mutually agree upon their respective ownership interest in the Proposed 500 kV US Transmission Interconnection Component by mutual agreement.
- (5) **[TRADE SECRET DATA EXCISED]**
- (6) **[TRADE SECRET DATA EXCISED]**

- (7) The Parties acknowledge that MISO will be the Transmission Provider for the Proposed 500 kV US Transmission Interconnection Component.

2.2 MISO Multi-Party Facilities Construction Agreement

- (1) The FCA shall have distinct certification and construction phases and conditions precedent to proceeding to the certification phase and to the construction phase of the FCA. The Parties shall cooperate with MISO in facilitating the FCA as soon as reasonably practicable to support the Proposed 500 kV US Transmission Interconnection Component.
- (2) The Parties anticipate that in the FCA, 6690271 shall fund the development expenses that MH was to otherwise fund as set forth in the Cost Sharing Agreement through the certification phase of the Proposed 500 kV Transmission Interconnection. If construction proceeds under the FCA, MP and 6690271 will account for and fund the certification and construction phases in accordance with their ownership percentage interest, as set out in Section 2.1(1).

2.3 Other Transmission Agreements

If agreement is reached on “tenants in common” being the appropriate ownership structure MP and 6690271 shall negotiate:

- (i) a Project Development Agreement (the “**Project Development Agreement**”) that will address certain matters related to the development, construction management, governance, and ownership of the Proposed 500 kV US Transmission Interconnection Component. Entering into such agreement by each of MP and 6690271 shall be one of the conditions precedent to the construction phase for the benefit of each such Party;
- (ii) an Operating and Maintenance Agreement (the “**O&M Agreement**”) that will address certain matters related to the operating and maintenance of the Proposed 500 kV US Transmission Interconnection Component. Entering into such agreement by each of MP and 6690271 shall be one of the conditions precedent to the construction phase for the benefit of each such Party;
- (iii) a Transmission Capacity Exchange Agreement (the “**Transmission Capacity Exchange Agreement**”) that will address allocation of transmission rights (or transfer capability) over the projects facilities and precludes each of MP and 6690271 from charging additional fees to each other for such Parties (or MH’s) use of the Proposed 500 kV US Transmission Interconnection Component facilities. Entering into such agreement by each of MP and 6690271 shall be one of the conditions precedent to the construction phase for the benefit of each such Party; and

- (iv) such other agreements as MP and 6690271 mutually determine are required for the development of the Proposed 500 kV US Transmission Interconnection Component.

ARTICLE III RENEWABLE OPTIMIZATION AGREEMENTS

3.1 Intent

It is the intent of MH and MP to set out with sufficient particularity the details of the proposed energy sale and energy exchange transactions that are to be entered into in conjunction with the development of the Proposed 500 kV US Transmission Interconnection Component so that MP and MH may know the general terms of the formal, comprehensive 2013 Energy Sale Agreement (the “**2013 Energy Sale Agreement**”) and 2013 Energy Exchange Agreement (the “**2013 Energy Exchange Agreement**”) (collectively such agreements are referred to as the “**Renewable Optimization Agreements**”) which would establish the rights and obligations of MH and MP with respect to the Renewable Optimization Agreements.

3.2 Delivery Point and Risk of Loss

The delivery point for the Renewable Optimization Agreements shall mean the point or points where MH’s major transmission facilities cross the international boundary between the Province of Manitoba and the United States of America (the “**Delivery Point**”) and is the location where the title to and risk of loss of energy transfers from the selling party to the buying party unless otherwise agreed to by MH and MP.

3.3 Contract Term

The contract term (the “**Contract Term**”) for the Renewable Optimization Agreements shall be twenty-years (20) years from June 1, 2020 through to May 31, 2040, subject to revision of the start and end date if in accordance with certain provisions to be negotiated between MH and MP, the in-service date of the Proposed 500 kV Transmission Interconnection is delayed beyond June 1, 2020.

3.4 2013 Energy Sale Agreement

The 2013 Energy Sale Agreement shall contain the following provisions:

- (i) MH shall be entitled to offer, sell and make available to MP up to 133 MWh of energy per hour during the Contract Term;
- (ii) during each 12 month fiscal year of MH that falls within the Contract Term where MH has experienced Median Water during such fiscal year, MH shall be obligated to offer and make available a minimum [TRADE SECRET DATA

EXCISED] of energy (MH shall provide a report to MP within 180 days of the end of each such fiscal year of the hydraulic generation from the Integrated Power System);

- (iii) the energy that is offered and made available by MH pursuant to the 2013 Energy Sale Agreement shall be scheduled by MH and MP in the Day-Ahead Energy and Operating Reserve Market utilizing the 133 MW of Firm Transmission Service associated with the Proposed 500 kV Transmission Interconnection;
- (iv) MP shall accept delivery and pay for that amount of energy or portion thereof that is offered by MH provided the energy offered or portion thereof clears the Day-Ahead Energy and Operating Reserve Market (the “**Energy**”);
- (v) the price for the Energy for any hour of any given day shall be [**TRADE SECRET DATA EXCISED**]
- (vi) during the Contract Term, MH shall pay to MP a monthly scheduling fee in return for MP, authorizing and granting to MH the right to offer, sell and make available to MP up to 133 MWh of energy per hour using the 133 MW of southbound Firm Transmission Service held by MP. [**TRADE SECRET DATA EXCISED**]
- (vii) MH and MP agree to enter into negotiations prior to the end of the Contract Term for additional purchases and sales of energy and/or power on mutually agreeable terms utilizing the available capacity of the Proposed 500 kV Transmission Interconnection, provided, however that failure to reach any agreement shall not affect any existing agreements between MH and MP; and
- (viii) [**TRADE SECRET DATA EXCISED**]

3.5 2013 Energy Exchange Agreement

MH and MP agree that the 2013 Energy Exchange Agreement will contain similar terms and provisions to the Energy Exchange Agreement. The following terms and provisions shall be included:

Northbound Energy

- (i) During the Contract Term MP shall sell to MH and MH shall purchase from MP that quantity of energy that MH, subject to Sections 3.5 (ii), (iii), and (iv), in its sole discretion requests on a Day-Ahead basis (“**Northbound Energy**”), provided that the energy quantity requested in any hour shall not exceed 133 MWh per hour.
- (ii) MP shall during each day, during each month of the Contract Term, subject to the provisions of this Agreement offer energy into the Day-Ahead Energy and

Operating Reserve Market, in accordance with the applicable MISO requirements, Northbound Energy and MH at its sole discretion may submit a Bid into the Day-Ahead Energy Market for Northbound Energy, in accordance with the applicable MISO requirements.

- (iii) The price at which MP offers Northbound Energy pursuant to this Agreement, into the Day-Ahead Energy and Operating Reserve Market shall be at the sole discretion of MP. The price of MH's Bid for Northbound Energy pursuant to this Agreement into the Day-Ahead Energy and Operating Reserve Market shall be at the sole discretion of MH.
- (iv) In the event during any applicable hour during the Contract Term:
 - (a) MH's Bid in respect of any amount of Northbound Energy does not clear the Day-Ahead Energy and Operating Reserve Market; and/or
 - (b) any portion of Northbound Energy was curtailed, restricted or reduced pursuant to the provisions of this Term Sheet;

MP shall have no obligation to sell and deliver and MH shall have no obligation to purchase and receive that quantity of Northbound Energy.

- (v) MP may offer Northbound Energy in a manner that would enable MP to supply Northbound Energy from MP's resource(s) including MP's electrical generation facility(s), third party purchases and/or Markets available to MP, and has the right to utilize any Market mechanisms that are available to MP throughout the Contract Term.
- (vi) MH shall be responsible for and pay the costs and expenses associated with the purchase and sale of Northbound Energy under the applicable OATT and/or TARIFF, including without limitation any Market Settlement Amounts, with the exception of all amounts arising due to MP's curtailment of Northbound Energy and any costs associated with or related to the generation of Northbound Energy.
- (vii) MP shall utilize the Market mechanisms authorized by the TARIFF with MP's offer in the Day-Ahead Energy and Operating Reserve Market in order to supply MH with Northbound Energy under this Agreement. MH shall submit a Dispatchable Interchange Schedule with a Bid, if applicable, in accordance with the timing requirements of the Market Business Practices Manuals.
- (viii) MH and MP acknowledge and agree that: (a) MP has retained all Environmental Attributes for Northbound Energy; and (b) for environmental reporting purposes, the Environmental Attributes of Northbound Energy, is electrical energy that is not sourced from any specific generation type or resource and has Environmental Attributes equivalent to energy that is associated with the applicable market in which the majority of MP's Load Zone is physically situated and shall be reported

by each of MP and MH in that manner, in any reports that are filed by each of MP and MH in respect of the purchase and sale of Northbound Energy.

- (ix) The price for Northbound Energy [**TRADE SECRET DATA EXCISED**]

MP's Pumped Energy

- (x) During the portion of the Contract Term when the Proposed 500 kV Transmission Interconnection is in-service, MP shall be entitled to offer to MH on a Day-Ahead basis when MP, in its sole discretion, determines excess renewable energy is available: (a) during the twelve (12) month period of each calendar year that is entirely within the Contract Term, up to a total of 750,000 MWh of energy; and (b) during such period of time within a portion of a calendar year that is within the Contract Term (and that calendar year is not entirely within the Contract Term), up to a total amount determined using a pro-rated portion of 750,000 MWh of energy for an entire calendar year, calculated using the total number of days in that calendar year that were within the Contract Term (all energy offered by MP shall pursuant to this Section 3.5(x) collectively be referred to as "**MP's Pumped Energy**"). MP's Pumped Energy shall not exceed in any hour 383 MWh under the Energy Exchange Agreement and the 2013 Energy Exchange Agreement subject to further agreement by MP and MH. MH agrees to pay MP for the applicable quantity of MP's Pumped Energy at MP's Pumped Energy Price and MP and MH agree that the financial schedule provisions of Section 3.5 (xiv) shall apply.

- (xi) The price for MP's Pumped Energy for any hour of any given day shall be [**TRADE SECRET DATA EXCISED**]

MH's Stored Energy

- (xii) During that portion of the Contract Term when the Proposed 500 kV Transmission Interconnection is in-service, MP shall be entitled to require MH to offer to MP the amount of energy that MP has requested on a Day-Ahead basis that MH offered to MP during the Contract Term, provided that: (a) the total amount of energy offered by MH shall not exceed for the corresponding time period referred to in Section 3.5(x) above, the total amount of MP's Pumped Energy that was offered by MP during that same time period; and (b) the energy offered by MH shall not exceed in any hour 383 MWh under the Energy Exchange Agreement and the 2013 Energy Exchange Agreement subject to further agreement by MH and MP (all energy offered by MH pursuant to the request of MP pursuant to this Section 3.5(xii) shall collectively be referred to as "**MH's Stored Energy**"). MP agrees to pay MH for the applicable quantity of MH's Stored Energy at MH's Stored Energy Price and MP and MH agree that the financial schedule provisions of Section 3.5 (xiv) shall apply.
- (xiii) The price for MH's Stored Energy for any hour of any given day shall be [**TRADE SECRET DATA EXCISED**]

- (xiv) In accordance with Section 3.5(x), MP shall submit a Financial Schedule in the Day-Ahead Energy and Operating Reserve Market for the applicable quantity of MP's Pumped Energy specifying MP as the seller and MH as the buyer. In accordance with Section 3.5(xii), MH shall submit a Financial Schedule in the Day-Ahead Energy and Operating Reserve Market for the applicable quantity of MH's Stored Energy specifying MH as the seller and MP as the buyer. The source, sink and delivery points specified for the Financial Schedules will be as mutually agreed upon by MH and MP. **[TRADE SECRET DATA EXCISED]**
- (xv) Capitalized terms used in this Section 3.5 and not otherwise defined in this Term Sheet shall have the meanings prescribed in the TARIFF or in the MISO Market Initiative Business Practices Manual for Definitions.

3.6 MP & MH Curtailments

All provisions related to the curtailment provisions will be set out in the applicable agreements but will generally be based upon the concepts outlined below.

2013 Energy Sale Agreement

- (1) MH shall have the right to curtail, restrict, or reduce the sale and supply of any of the Energy, in accordance with any of the following provisions:
 - (a) during any period(s) of time during the Contract Term, if there is either an: (A) Unavailability of MH's Purchased Power; or (B) all or a portion of MH's Electrical Generation Facilities' capacity is unavailable due to: (i) forced outages of one or more generating unit(s); or (ii) derates of one or more generating unit(s) caused by low water flow or other reason; or (iii) the unavailability of generation outlet capacity caused by a forced outage or derate of MH's HVDC System; or (iv) scheduled outages of generating unit(s) or MH's HVDC System, to the extent that such scheduled outages are reasonably necessary to avoid equipment damage to facilities or to avoid the deferral of normal or scheduled maintenance beyond that consistent with Good Utility Practice, and to the extent that such Unavailability of MH's Purchased Power or outages or derates as referenced in any of clauses (i), (ii), (iii) or (iv) cause MH to have insufficient energy to serve MH's Energy Commitments, the Energy may be curtailed, restricted or reduced by MH by the amount determined after application of the priority criteria; or
 - (b) during any period(s) of time during the Contract Term to the extent an event of Force Majeure otherwise precludes MH's ability to make available, or to continue to make available any of the Energy in accordance with the 2013 Energy Sale Agreement, the Energy may be curtailed, restricted or reduced by MH by the amount determined after application of the priority criteria.

2013 Energy Exchange Agreement

- (2) MP and MH shall have the right to curtail, restrict, or reduce the sale and supply of any of Northbound Energy in accordance with an event of Force Majeure.

3.7 Transmission Provider Curtailments for the 2013 Energy Sale Agreement and the 2013 Energy Exchange Agreement

- (1) In the event that the actions of any Transmission Provider(s) result in the reduction or curtailments of the Firm Transmission Service designated, allocated or required for the delivery of the Energy or Northbound Energy, the energy that is to be supplied by the selling party and received by the buying party shall be curtailed, restricted or reduced in accordance with the provisions of the applicable Transmission Provider's OATT.
- (2) MH and MP also agree that where MH has been unable to obtain sufficient quantities of Net Scheduled Interchange (as that term is defined in the Tariff) including "ramp capability" to have its offer for the Energy clear the Day-Ahead Energy and Operating Reserve Market or the Real-Time Energy and Operating Reserve Market, as applicable, that the quantity of energy that did not clear the said market shall be deemed to have been curtailed pursuant to this Section 3.7.
- (3) In the event MH or MP or their respective Transmission Provider ceases to have an OATT, curtailment or reduction of energy schedules hereunder in order to maintain the reliable operation of the interconnected AC transmission system, shall be implemented exclusively in accordance with this Section. Curtailment of energy deliveries under this Section 3.7 to accommodate such events shall be implemented until the required amount of loading relief has been obtained once the following actions have been undertaken, in the order specified: (a) all transmission service or transactions, that are lower than the Firm Transmission Service, which contribute to the condition requiring curtailment, shall be curtailed first; (b) the curtailing party shall redispatch its generation system to continue the schedules hereunder consistent with producing the desired loading mitigation upon the congested facility(s); and (c) to the extent all transactions identified in clause (a) of this Section 3.7(3) are curtailed and system redispatch is not sufficient to produce the necessary mitigation that would avoid curtailment of the schedules under the 2013 Energy Sale Agreement, the transaction curtailment priority used by the applicable Transmission Provider relative to all uses of such AC transmission system at the time shall be implemented in a comparable and non-discriminatory manner.

ARTICLE IV**ENVIRONMENTAL ATTRIBUTES FOR THE 2013 ENERGY SALE AGREEMENT****4.1 Environmental Attributes of Energy**

- (1) MH shall allocate and transfer to MP the [TRADE SECRET DATA EXCISED] Environmental Attributes.
- (2) MH shall retain all Environmental Attributes for energy allocated or determined

by MH to be [TRADE SECRET DATA EXCISED]

- (3) MH shall not be obligated to manage the supply of Energy in any particular manner, nor restrict or limit MH to any specific type(s) of generating resources to be used to supply Energy (including energy obtained from third party purchases and/or the Markets available to MH, regardless of the generation type used by the third party or which generating resources may have been attributable to the energy accessed through the Markets), nor shall any provision constitute a representation or warranty by MH that Energy is supplied from a particular generating resource, including renewable resources.

4.2 Calculation of Environmental Attributes for Supplied Energy

MH shall, calculate the Environmental Attributes of the Supplied Energy purchased by MP, for the purposes of this Article IV, in the following manner:

- (i) [TRADE SECRET DATA EXCISED]

4.3 Reporting of Environmental Attributes

MH shall provide MP with a report, in accordance with the procedures established by MH for such reporting, that identifies the MWh of Supplied Energy that was allocated to have been supplied from MH's Energy Resources and this report shall be used by MH and MP when reporting the Environmental Attributes of the Supplied Energy.

4.4 Transfer of Environmental Attributes

- (1) For MH's Energy Resources that are [TRADE SECRET DATA EXCISED] and are registered by MH on a Transfer System, MP shall receive the transfer of the applicable amount of [TRADE SECRET DATA EXCISED] Environmental Attributes through the Transfer System. MH's transfer through the Transfer System will be on the condition that MP complies, at its own expense, with the Transfer System requirements concerning the acceptance of the transferred [TRADE SECRET DATA EXCISED] Environmental Attributes.

- (2) [TRADE SECRET DATA EXCISED]

4.5 Rights Conferred by Law

[TRADE SECRET DATA EXCISED]

4.6 [TRADE SECRET DATA EXCISED]

4.7 General

- (1) MP may use any of the [TRADE SECRET DATA EXCISED] Environmental Attributes at its sole discretion and for MP's sole benefit, including without

limitation the re-sale of the [TRADE SECRET DATA EXCISED] Environmental Attributes.

- (2) MH shall assist and cooperate with MP, if requested, in the qualification and recognition of the [TRADE SECRET DATA EXCISED] Environmental Attributes [TRADE SECRET DATA EXCISED] Neither MH nor MP makes any representation or warranty with respect to any future action or failure to act, or approval or failure to approve, by any governmental authority or any other third Person in respect of the allocation and transfer of the [TRADE SECRET DATA EXCISED] Environmental Attributes.
- (3) For environmental reporting purposes the Environmental Attributes of that component of Energy, that is not Supplied Energy, [TRADE SECRET DATA EXCISED] and shall be reported by each of MH and MP, in that manner, in any reports that are filed by each of MH and MP in respect of the purchase and sale of Energy pursuant to the 2013 Energy Sale Agreement.

4.8 Disclaimer

MH shall expressly disclaim any representations and warranties with respect to the [TRADE SECRET DATA EXCISED] Environmental Attributes except as will be expressly provided for in the 2013 Energy Sale Agreement.

ARTICLE V PRICING AND BILLING

5.1 Environmental Attributes Pricing

MH and MP acknowledge and agree that the consideration for the [TRADE SECRET DATA EXCISED] Environmental Attributes is included in the price for the Energy.

5.2 Billing

All dollar amounts set forth in this Term Sheet, monetary transactions, and cost calculations between the Parties shall be determined and stated in lawful money of the United States of America. The selling party shall invoice the buying party for amounts owed pursuant to the 2013 Energy Sale Agreement and the 2013 Energy Exchange Agreement upon terms to be agreed and all such invoices shall be made in lawful money of the United States of America. The Parties acknowledge that the billing provisions for Northbound Energy shall be adjusted for any amount that MH has paid to MISO with respect to Northbound Energy that was Scheduled.

ARTICLE VI PROPOSED AGREEMENT TERMS

6.1 Proposed Agreement

The transactions contemplated by this Term Sheet shall be subject to, among other things, the negotiation, execution and delivery of the Proposed Agreements. The Proposed Agreements shall contain such covenants, representations and warranties, terms and conditions, customary for the transactions contemplated herein.

6.2 Conditions Precedent

(1) Conditions Precedent in Favour of MH

The conditions precedent to the Proposed Agreements in favour of MH (to be satisfied or waived by dates to be agreed upon) includes, among other things, the following:

- (a) MH receiving requisite approvals including, without limitation, the approval of MH's Board of Directors;
- (b) MH receiving requisite permits and orders including, without limitation, the approval of the National Energy Board of Canada;
- (c) MH obtaining Orders in Council from the Lieutenant Governor (Manitoba);
- (d) MH obtaining the final non-appealable license from the Province of Manitoba, on conditions acceptable to MH, in MH's sole and absolute discretion, authorizing MH to commence construction of the Proposed 500 kV Canadian Transmission Interconnection Component;
- (e) MH arranging the Firm Transmission Service required to supply Energy to the Delivery Point and to receive Northbound Energy from the Delivery Point for the Contract Term for the 2013 Energy Sale Agreement and the 2013 Energy Exchange Agreement;
- (f) MH receiving all necessary FERC jurisdictional determinations; and
- (g) all conditions precedent in favour of 6690271 to be satisfied or waived in accordance with Section 6.2(2).

(2) Conditions Precedent in Favour of 6690271

The conditions precedent to the Proposed Agreements in favour of 6690271 (to be satisfied or waived by dates to be agreed upon) includes, among other things, the following:

- (a) 6690271 receiving requisite approvals including, without limitation, the approval of 6690271's Board of Directors;
- (b) 6690271 obtaining Orders in Council from the Lieutenant Governor (Manitoba);
- (c) all conditions precedent to the 250 MW System Power Sale Agreement between MH and MP being satisfied or waived;
- (d) conditional approval by the Transmission Provider of the MH transmission service requests for northbound service on conditions acceptable to MH;
- (e) conditional approval by the Transmission Provider of the MH transmission service requests for southbound service (with such Megawatt quantity that MH will seek to utilize pursuant to its transmission service request to be finalized in conjunction with approvals of its application for Network Resource Interconnection Service) on conditions acceptable to MH;
- (f) approval by the Transmission Provider of MH's application to receive Network Resource Interconnection Service utilizing the south flow transmission capacity provided by the Proposed 500 kV US Transmission Interconnection Component;
- (g) 6690271 receiving requisite permits and orders;
- (h) 6690271 receiving all necessary FERC jurisdictional determinations; and
- (i) all conditions precedent in favour of MH to be satisfied or waived in accordance with Section 6.2(1).

(3) **Conditions Precedent in Favour of MP**

The conditions precedent to the Proposed Agreements in favour of MP (to be satisfied or waived by dates to be agreed upon) includes, among other things, the following:

- (a) MP receiving requisite certificates, permits and approvals including, without limitation:
 - (i) ALLETE's Board of Directors,
 - (ii) U.S. Department of Energy, and
 - (iii) Minnesota Public Utilities Commission; and

- (b) MP arranging the Firm Transmission Service required to receive the Energy from the Delivery Point.

ARTICLE VII TERMINATION

7.1 Termination for Convenience

This Term Sheet may be terminated and the discussions contemplated hereby may be abandoned or terminated at any time by the mutual agreement of the Parties.

7.2 Other Termination

This Term Sheet shall be deemed to be terminated:

- (a) immediately upon execution of all the referenced agreements in this Term Sheet, or
- (b) on December 31, 2014 in the event that all the referenced agreements in this Term Sheet are not executed by December 31, 2014 unless such date is extended by mutual agreement.

ARTICLE VIII GENERAL

8.1 Confidentiality

All provisions of this Term Sheet and all correspondence and discussions between MP and MH and 6690271 related thereto are intended to be “Proprietary Information” as defined by and subject to the terms of the Mutual Non-disclosure Agreement between MP and MH dated November 10, 2011. In addition the Parties agree that if any Party intends to file a copy of this Term Sheet in conjunction with any regulatory proceeding or other proceeding in circumstances where such Party does not wish to seek a protective order as referred to in paragraph 3 of the Mutual Non-disclosure Agreement it will provide an unredacted copy of this Term Sheet only to such Persons that have agreed to be bound the terms of a confidentiality agreement in a form and substance satisfactory to the disclosing Party, acting reasonably. The Parties agree that they will cooperate reasonably to prepare a public version of this Term Sheet, if required, for inclusion in the public record of any such proceeding. The Parties agree that the public version of this Term Sheet will redact only such information that properly constitutes “Proprietary Information”.

8.2 Effect of Term Sheet

This Term Sheet contains an outline of principal terms of the Proposed Agreements only and, except for Sections 7.1, 7.2 and 8.1 and 8.7 inclusive (collectively, the “**Binding Obligations**”) shall not be legally binding upon any of the Parties hereto. It is expressly

agreed and acknowledged that, with the exception of the Binding Obligations, no agreement has been reached by the Parties. Accordingly, except for the Binding Obligations, if for any reason whatsoever the proposed transactions are not consummated, none of the Parties shall be entitled to any form of relief whatsoever, including, without limitation, injunctive relief or damages. The Binding Obligations shall be legally binding upon and enforceable against the Parties and their successors and permitted assigns and shall survive the termination of this Term Sheet.

8.3 Authority

Each of the Parties represents and warrants that it is duly authorized and has all necessary power and authority to execute and deliver this Term Sheet and to perform its obligations hereunder.

8.4 Assignment

No Party may transfer or assign its rights or obligations hereunder without the prior written consent of the other Parties.

8.5 Relationship

This Term Sheet does not create any agency, partnership or joint venture relationship among the Parties.

8.6 Governing Law

This Term Sheet shall be governed by and construed in accordance with the laws of the province of Manitoba and Canada.

8.7 Counterparts

This Term Sheet may be signed in two or more counterparts, any one of which need not contain the signature of more than one party, but all such counterparts taken together will constitute one and the same agreement.

AND WITNESS WHEREOF the Parties have caused this Term Sheet to be signed as of the Effective Date.

The Manitoba Hydro-Electric Board

**MINNESOTA POWER, an operating
division of ALLETE, Inc.**

By: _____
A.D. Cormie
Division Manager
Power Sales & Operations

By: _____
David J. McMillan
Executive Vice President

I have Authority to Bind
The Manitoba-Hydro Electric Board

I have Authority to Bind
ALLETE, Inc.

6690271 Manitoba Ltd.

By: _____

Ken R. F. Adams

President

I have Authority to Bind

6690271 Manitoba Ltd.

APPENDIX A

DEFINED TERMS

“**2013 Energy Exchange Agreement**” shall have the meaning set forth in Section 3.1.

“**2013 Energy Sale Agreement**” shall have the meaning set forth in Section 3.1.

“**250 MW System Power Sale Agreement**” shall have the meaning set forth in the preamble.

“**250 MW Transmission Interconnection**” shall have the meaning set forth in the preamble.

[TRADE SECRET DATA EXCISED]

“**Ancillary Services**” shall mean those ancillary services as currently defined under the TARIFF as well as those other reasonably similar services and products that may be included under the TARIFF or an applicable OATT from time to time, which are associated, directly or indirectly, with the Energy and/or the transmission of the Energy.

“**Binding Obligations**” shall have the meaning set forth in Section 8.2.

“**Contract Term**” shall have the meaning set forth in Section 3.3.

“**Contract Year**” shall mean a twelve (12) month period beginning June 1 and continuing to May 31 of the following calendar year within the Contract Term.

“**Cost Sharing Agreement**” shall have the meaning set forth in the preamble.

“**Day-Ahead Energy and Operating Reserve Market**” shall have the meaning set forth in the TARIFF.

[TRADE SECRET DATA EXCISED]

“**Delivery Point**” shall have the meaning set forth in Section 3.2.

“**Effective Date**” shall mean the date this Term Sheet is executed by the Parties.

“**Energy**” shall have the meaning set forth in Section 3.4(iv).

“**Energy Exchange Agreement**” shall have the meaning set forth in the preamble.

“**Environmental Attributes**” shall mean the rights to any existing or future environmental benefits or attributes, credits, renewable characteristics, avoided emissions, avoided greenhouse gas emissions, emission reductions, emissions or greenhouse gas emissions associated with, related to or derived or resulting from the generation of electricity.

“**FCA**” shall have the meaning set forth in the preamble.

“**FERC**” shall mean the Federal Energy Regulatory Commission or its successor.

“**Firm Point-to-Point Transmission Service**” shall have the meaning set forth in the applicable OATT.

“**Firm Transmission Service**” shall mean transmission service provided pursuant to the OATT of either Party’s Transmission Provider being either Firm Point-to-Point Transmission Service or Network Integration Transmission Service or the highest priority transmission service available pursuant to either Party’s OATT, or in the event that either MH or MP do not have an OATT, the highest priority transmission service available to that Party for delivery of energy and the supply of capacity.

“**Force Majeure**” shall mean an event or circumstances that prevents one Party from performing its obligations under the applicable Proposed Agreement that is not within the reasonable control of, or the result of the negligence of, the claiming Party, and that, by the exercise of good utility practice, the claiming Party is unable to overcome or avoid or cause to be avoided, including but not restricted to, acts of God, [TRADE SECRET DATA EXCISED] strikes, lockouts and other industrial disturbances, epidemics, war (whether or not declared), blockades, acts of public enemies, acts of sabotage or terrorism, civil insurrection, riots and civil disobedience, explosions, acts or omissions of any governmental authority taken after the Effective Date (including the adoption or change in any law or regulation or environmental constraints lawfully imposed by such governmental authority) but only if such action or inaction by such governmental authority prevents or delays performance and renders the Party unable, despite due diligence, to obtain any licenses, permits, or approval required by any governmental authority, and the issuance of any order, injunction, or other legal or equitable decree interfering with the performance of a Party’s obligations hereunder. Force Majeure shall not be based on: (a) the loss of MP’s markets; (b) MP’s inability to economically use or resell the capacity and energy supplied to it under the applicable Proposed Agreement; or (c) MH’s ability to sell the energy supplied by it under the applicable Proposed Agreement at a price greater than the prices provided for in the applicable Proposed Agreement.

“**Good Utility Practice**” shall mean, at any particular time, any of the practices, methods, and acts engaged in or approved by a significant portion of the hydro-electric utilities located in North America during the relevant time period, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time a decision is made, could be expected to produce the desired result at a reasonable cost consistent with reliability, safety, and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but includes a range of acceptable practices, methods, or acts.

“**Integrated Power System**” shall mean a system of electric generation and power transmission facilities in the province of Manitoba, owned and operated or operated by MH, which system is interconnected with other power facilities.

“**LOI**” shall have the meaning set forth in the preamble.

[**TRADE SECRET DATA EXCISED**]

“**MH/MP Agreements**” shall have the meaning set forth in the preamble.

“**Market**” or “**Markets**” shall mean:

- (a) a centrally operated structure or structures bringing together buyers and sellers to facilitate the exchange of wholesale electricity products and/or related services; and/or
- (b) the wholesale purchase and sale of electricity products and/or related services on a bilateral basis.

“**MH’s Electrical Generation Facilities**” shall mean MH’s electrical generation facilities that are either owned and operated or operated by MH.

“**MH’s End-Use Load**” shall mean: (a) the total load of Persons that purchase electric service from MH for their own consumption in the province of Manitoba and not for resale including any portion of that Person’s load that may from time to time not be supplied by MH but may be produced by that Person; and (b) certain sales to Persons located in provinces and states adjacent to the province of Manitoba in circumstances whereby electric service to those locations is not otherwise readily available from other power suppliers or becomes separated due to forced outages, planned outages, or scheduled outages by the applicable Transmission Provider, from the said province or state adjacent to the province of Manitoba and requires electric service to be provided by MH until electric service is restored.

“**MH’s Energy Commitments**” shall mean the energy required by MH to serve the total of any of the following obligations of MH: (a) MH’s End-Use Load; or (b) MH’s End-Use Load and all energy sales by MH that are associated with planning capacity; or (c) MH’s End-Use Load, all energy sales by MH that are associated with planning capacity, and all energy sales that are not associated with planning capacity including all of those sales described as “Firm LD Energy Sales” and “Firm Energy Sales”.

“**MH’s Energy Resources**” shall mean [**TRADE SECRET DATA EXCISED**]

“**MH’s HVDC System**” shall mean MH’s high voltage direct current transmission system.

“**MH’s Stored Energy**” shall have the meaning set forth in Section 3.5(xii).

“**MH’s Stored Energy Price**” shall have the meaning set forth in Section 3.5(xiii).

“**MISO**” shall mean the Midcontinent Independent System Operator, Inc. or its successor.

“**MOU**” shall have the meaning set forth in the preamble.

“**MP’s Load Zone**” shall mean the geographic area that encompasses the major portion of MP’s electric load in the States of Minnesota and Wisconsin.

“**MP’s Pumped Energy**” shall have the meaning set forth in Section 3.5(x).

“**MP’s Pumped Energy Price**” shall have the meaning set forth in Section 3.5(xi).

“**Median Water**” shall mean [TRADE SECRET DATA EXCISED]

“**Network Integration Transmission Service**” shall have the meaning set forth in the applicable OATT.

“**Network Resource Interconnection Service**” shall have the meaning set forth in the applicable OATT.

“**Northbound Energy**” shall have the meaning set forth in Section 3.5(i).

“**Northbound Energy Price**” shall have the meaning set forth in Section 3.5(ix).

“**OATT**” shall mean a transmission tariff as it may be in effect from time to time that: (a) in the case of MP’s Transmission Provider, has been filed with and accepted by FERC as complying with FERC’s then current open access transmission, comparability, and non-discrimination requirements; and (b) in the case of MH, provides reciprocal open access transmission service on sufficiently comparable and non-discriminatory terms so as to entitle MH to use the transmission tariff of Transmission Providers in the United States; and (c) in the case of a third party, has been filed with and accepted by FERC as complying with FERC’s then current open access transmission, comparability, and non-discrimination requirements, or provides reciprocal open access transmission service so as to entitle such entity to transmit electricity with entities whose transmission tariff has been filed with and accepted by FERC as a transmission tariff.

“**O&M Agreement**” shall have the meaning set forth in Section 2.3(ii).

“**On-Peak Hours**” shall mean HE 7:00 to HE 22:00 CPT Monday to Friday.

“**Other Utilities**” shall have the meaning set forth in the preamble.

“**Party**” shall mean any of MP, MH or 6690271 and “**Parties**” shall mean all of MP, MH and 6690271.

“**Person**” shall mean an individual, partnership, corporation, trust, unincorporated association, syndicate, joint venture, or other entity or governmental authority.

“**Project Development Agreement**” shall have the meaning set forth in Section 2.3(i).

“**Proposed 500 kV Transmission Interconnection**” shall have the meaning set forth in the preamble.

“**Proposed 500 kV Canadian Transmission Interconnection Component**” shall have the meaning set forth in the preamble.

“**Proposed 500 kV US Transmission Interconnection Component**” shall have the meaning set forth in the preamble.

“**Proposed Agreements**” shall have the meaning set forth in Section 1.1.

“**Real-Time Energy and Operating Reserve Market**” shall mean the Market for purchases and sales of Energy and Operating Reserve conducted by MISO during the operating day, each as defined in and in accordance with the TARIFF.

“**Renewable Optimization Agreements**” shall have the meaning set forth in Section 3.1.

“**Schedule**” or “**Scheduling**” shall mean the actions of seller, buyer, and their designated representatives, of notifying, requesting, and confirming to each other the quantity of the Energy and/or Ancillary Services respectively that MP and MH attempt to deliver on any given day or days during the Contract Term.

“**Scheduled**” or “**Schedules**” shall mean the result of Scheduling.

“**Supplied Energy**” shall mean that portion of the Energy that was, pursuant to the 2013 Energy Sale Agreement, supplied and sold by MH attributable to MH’s Energy Resources and for greater certainty shall not include any amount of the Energy that was curtailed.

“**TARIFF**” shall mean the Open Access Transmission, Energy and Operating Reserve Markets FERC Electric Tariff, including all schedules and attachments thereto, of the Midcontinent Independent System Operator, Inc. issued on July 11, 2012 as amended, supplemented, or replaced from time to time.

“**TSRs**” shall have the meaning set forth in the preamble.

“**Transfer System**” shall mean the system used by MH to track and transfer Environmental Attributes.

“**Transmission Capacity Exchange Agreement**” shall have the meaning set forth in Section 2.3(iii).

“**Transmission Provider(s)**” shall mean, collectively, the Person or Persons as applicable who direct the operation of the Transmission Provider(s) system.

“**Unavailability of MH’s Purchased Power**” shall mean: (a) when all or a portion of the energy purchased from MP (including any assignee of MP) is not received by MH, under the provisions of one or more of the applicable energy or power purchase agreements between MP and MH (including without limiting the generality of the foregoing due to curtailment or force majeure thereunder) unless the said energy is not received by MH due to MH being in default under the provisions of the applicable agreement; or (b) the occurrence of an uncured Event of Default (as such term is defined in the Energy Exchange Agreement) by MP under the Energy Exchange Agreement; or (c) the occurrence of an uncured Event of Default (as such term is defined in the 2013 Energy Exchange Agreement) by MP under the 2013 Energy Exchange Agreement.