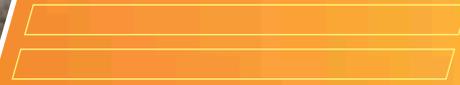




ALLETE 07 Profile
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ALLETE, with an energy business in the upper Midwest and substantial real estate holdings in Florida, is a diversified company that has provided fundamental services since 1906. Our **Minnesota Power** electric utility delivers power to several large natural resource-based industrial companies, 16 municipalities and some 140,000 residential customers. ALLETE owns North Dakota lignite producer BNI Coal, a Wisconsin utility called Superior Water, Light and Power, and approximately eight percent of the American Transmission Company.

energy

Minnesota Power, an operating division of ALLETE, generates, transmits and distributes electricity in a 26,000-square-mile region of northern Minnesota rich with timber and iron ore deposits.

Power supply

Our energy supply in Minnesota is generated from four steam-electric generating stations and from ten hydroelectric stations within our service territory. We also purchase power from Square Butte Electric Cooperative in North Dakota, FPL Energy LLC, which operates a 50-megawatt wind facility in North Dakota, and from other energy suppliers. We ended 2006 with a total regulated power supply of 1,761 megawatts, of which 74 percent was generated from our steam-electric stations, 20 percent was purchased, and six percent was derived from renewable hydropower. We own and maintain nearly 2,000 miles of transmission lines with capacities from 115 kilovolts to 500 kilovolts, 6900 miles of transmission lines less than 115 kilovolts, and operate 169 electric substations.

Large industrial customers

Relative to other utilities, Minnesota Power sells a high percentage of its electric power to large industrial facilities. We have large power customer contracts to serve 12 companies, 11 of which require 10 megawatts or more of generating capacity. Among these large industrial customers are five taconite producers, four paper mills, two petroleum pipeline companies and one manufacturer. Taconite is an iron-bearing rock



important as a source of raw material for steel. About half of our regulated utility electric sales go to these large power customers.

Lower emissions, more renewable energy

Minnesota Power in 2006 began construction on a major air emissions control upgrade that will eventually involve three of its steam-electric generating stations: Laskin, Taconite Harbor and Boswell. When the work is completed, environmental retrofits will dramatically cut emissions of mercury, particulates, sulfur dioxide and nitrogen oxide to meet new requirements. ALLETE anticipates that current cost recovery from retail customers will be used to earn a return on much of the construction expense for these retrofits, estimated at approximately \$260 million for the three plants. A 50-megawatt wind energy facility, built in 2006 by FPL Energy near Center, N.D., was connected to the grid to provide Minnesota Power a long-term source of renewable energy. We contracted with FPL Energy to purchase all the output of a second wind energy facility of 48 megawatts, to be built in 2007.





ALLETE Properties has approximately 15,000 acres of land in Florida, most of it in the rapidly growing Palm Coast-Ormond Beach area in the northeast part of the state. Our three major real estate developments there are entitled and moving forward at various stages of maturity.

real estate

ALLETE Properties is our real estate business, which has operated in Florida since 1991. Its strategy is to acquire real estate portfolios and large tracts of land at bulk prices, add value through entitlements and infrastructure improvements, and resell the property over time to developers, end-users and investors.

Locations

Headquartered in Fort Myers, Fla, ALLETE Properties has a regional office in Palm Coast, Fla. which oversees northeast Florida operations. The majority of land now held by ALLETE Properties is located in Flagler and Volusia Counties in northeast Florida. We are continuing to explore the potential acquisition of additional property in the southeast United States.

Southwest Florida operations involve land sales and a third-party brokerage business, with limited land development activities and an inventory that includes commercial and residential land in Lehigh Acres and Cape Coral. We also generate rental income from a 186,000 square-foot retail shopping center in Winter Haven, Fla.

Major Developments

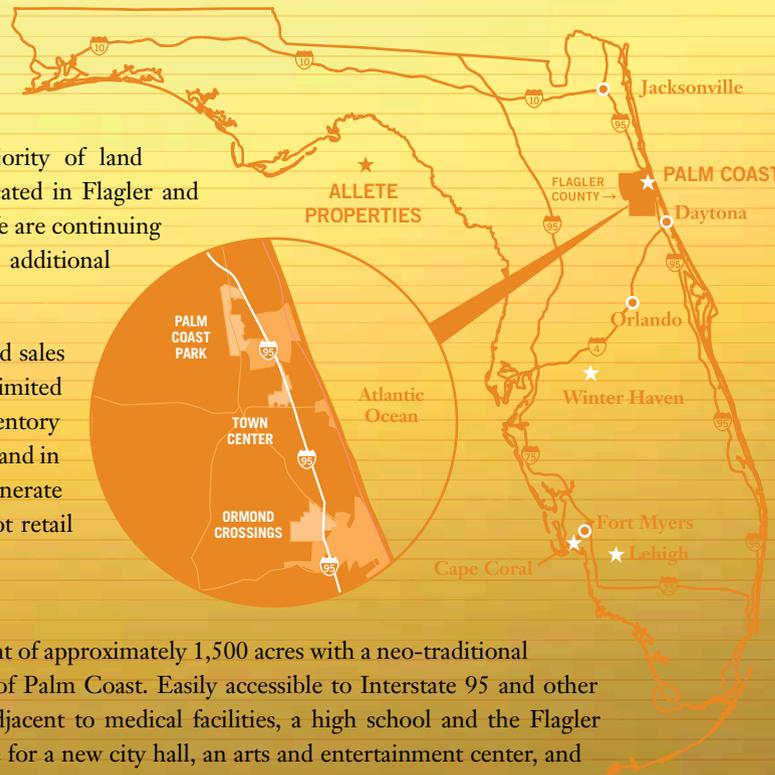
Town Center is a mixed-use development of approximately 1,500 acres with a neo-traditional downtown core area located in the city of Palm Coast. Easily accessible to Interstate 95 and other major thoroughfares, Town Center is adjacent to medical facilities, a high school and the Flagler County Airport. Sites have been set aside for a new city hall, an arts and entertainment center, and

other public uses. Construction of major infrastructure improvements is substantially complete.

Palm Coast Park, also located in the city of Palm Coast, is a 4,700-acre mixed-use development bisected by U.S. Highway 1 and bounded on the west by the Florida East Coast Railroad line. The northern boundary of Palm Coast Park is about one mile south of the interchange of U.S. Highway 1 and Interstate 95.

Ormond Crossings is a 6,000-acre mixed-use development located in the city of Ormond Beach in Volusia County and in unincorporated Flagler County. The site has three miles of frontage on the east and west sides of Interstate 95, is bisected by a railroad line and is adjacent to the Ormond Beach airport.

A Development of Regional Impact (DRI) order for Ormond Crossings was approved by the City of Ormond Beach in December 2006 and provides for up to five million square feet of various business uses and up to 3,700 residential units.



New Wave of Renewables

North Dakota facilities add wind energy for Minnesota Power

Oliver Wind I near Center, N.D.



WINDS OF CHANGE swept across ALLETE's energy business as 2007 began. A brand new North Dakota wind facility had just begun generating electricity for Minnesota Power and plans were being finalized for a second wind facility to further expand the utility's renewable energy supply. In late December 2006, commercial operation began at the Oliver Wind I Energy Center, a 22-turbine wind farm near Center, N.D. constructed by an affiliate of FPL Energy. Minnesota Power, a division of ALLETE, will purchase all the energy output from Oliver Wind I under a long-term contract.

The new facility can produce 50 megawatts of electricity, enough to power 16,000 homes. Oliver Wind I consists of 22 towers, each 262 feet tall to the center of the blade hub. Siemens Power Generation manufactured the 2.3-megawatt turbines, also called nacelles, and the 135-foot-long blades. It's the largest wind generation facility in North Dakota using the highest output land-based wind turbines in America.

The blades, cast in one-piece epoxy resin at the Siemens plant in Aalborg, Denmark, sweep an area 1½ acres in size. The towers, combined with the upper reach of the blades, are 398 feet high. The blades will spin between 11 and 17 rotations-per-minute, reaching a maximum tip speed of 164 miles per hour.

Moving the huge components of the wind farm from manufacturing plants in Denmark to a construction site in central North Dakota was no small undertaking. All 66 blades, 22 nacelles and turbine hubs, and the top two portions of the steel towers were shipped from Europe on a single vessel, the BBC India.

After departing Denmark and navigating the St. Lawrence Seaway, the cargo ship ended its voyage at the harbor in Duluth, Minn. on Sept. 18, 2006. When the BBC India steamed under Duluth's Aerial Lift Bridge within sight of ALLETE headquarters, Minnesota Power employees were at the canal pier to witness the event.

Clockwise from left: With wind turbine blades carefully stacked on her deck, the BBC India enters the ship canal in Duluth, Minn. bearing nearly all the components of the Oliver Wind I Energy Center after a voyage from Denmark through the St. Lawrence Seaway. The equipment was trucked to the wind farm site in central North Dakota, unloaded and then assembled. It took about three months from the time the components entered the Duluth Seaway Port until Oliver I was contributing electricity to the Minnesota Power system.



One of the many advantages of wind power is the short amount of time it takes to bring a generation project from drawing board to energy production. About three months after the shipload of wind turbine components arrived in Duluth, the 22 giant windmills were generating renewable energy for the regional electric grid.

On Jan. 19, 2007, Minnesota Power announced plans to purchase all of the energy and capacity from a second wind facility of 48 megawatts to be constructed, owned and operated by an affiliate of FPL Energy. The Oliver Wind II Energy Center will be located adjacent to Oliver Wind I, and is expected to be operational by the end of 2007 pending regulatory and other approvals.

Oliver Wind II is expected to be comprised of 32 wind turbines built by General Electric of 1.5 megawatts each. The facility would bring Minnesota Power another step closer to reaching the state of Minnesota's renewable energy mandates.

North Dakota is ranked number one among U.S. states in wind energy potential by the American Wind Energy Association. FPL Energy is the nation's leader in wind energy, with 44 wind facilities in operation in five states. It is a subsidiary of FPL Group (NYSE: FPL). ■

First step for 'wind prospectors' is proximity to transmission line

Meteorology plays an important role in finding the right location for a wind generation facility.

But a "wind prospector" who helped FPL Energy site the wind facility now generating electricity for Minnesota Power says its proximity to a major transmission line was the first step in finding the best location.

FPL Energy developed and built Oliver Wind I, a 50 megawatt wind farm in south-central North Dakota's Oliver County. Minnesota Power will buy all the energy generated at the facility under a long-term contract, as well as the electrical power created by a similar-sized wind farm to be built by FPL Energy on adjacent property in 2007.

North Dakota has the best wind energy potential of any state, according to the American Wind Energy Association.

From the outset, it was clear that the new wind facility would be linked to the direct current transmission line running from the Square Butte Electric Cooperative near Center, N.D. to Minnesota Power's Arrowhead Substation near Duluth, Minn. Tom Factor, a consultant to FPL Energy who has "prospected" for wind farms across the Midwest, said planners of the Oliver County project first began looking for the best wind resources in the vicinity of the interconnection point.

"That area of North Dakota has most of its wind from the northwest or the south," Factor said. "You look for high ground exposed to those wind directions." Wind farm planners must also work with landowners to gain their acceptance. Plenty of open ranchland was available in the targeted area.

Once a wide area was selected, five wind monitoring stations were set up to gather 10-minute averages of speed and wind direction to determine "capturable wind power." A wide enough area was found to build a large wind project, and eventually Oliver Wind I grew into Oliver Wind II. The facility is within six miles of the Square Butte direct current transmission line.

"When you first prospect for wind, you're looking at a general area, and you do a preliminary layout," Factor said. "Then you measure the wind. Once you have that and a contract to build a power plant, a lot of engineering work goes into the specific location."

For one thing, the giant towers have to be far enough apart that they don't "shadow" each other, or rob wind from other turbines in the array.

FPL Energy is the largest generator of wind energy in the U.S., producing more than 3,600 net megawatts. ■

Emission Reductions

\$260 million pricetag for projects underway at three Minnesota Power generating stations

Laskin Energy Center, Hoyt Lakes, Minn.

WORK ON MULTIFACETED environmental control projects designed to reduce air emissions at three Minnesota Power generating facilities is well underway. The projects, expected to cost approximately \$260 million when completed in 2009, will curtail emissions of mercury, sulfur dioxide, nitrogen oxides and particulates.

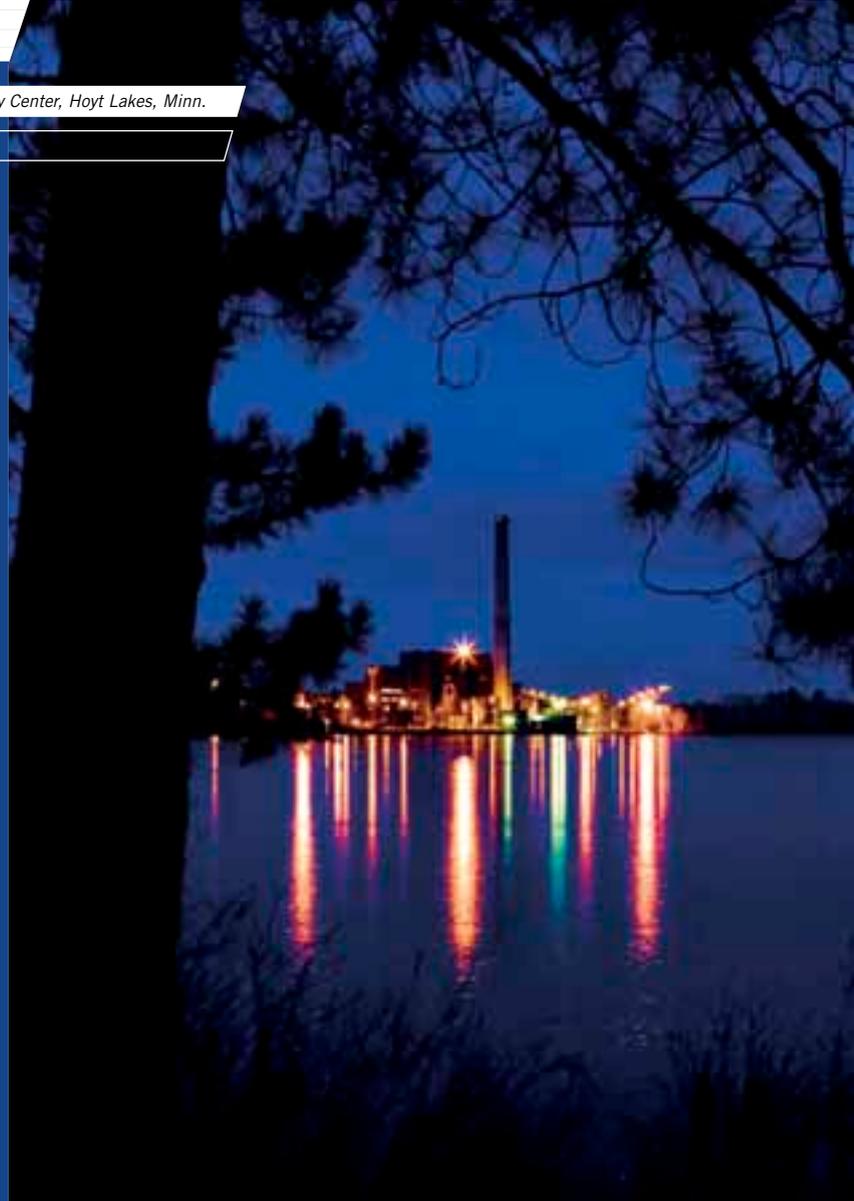
An environmental retrofit project known as AREA (Arrowhead Regional Emission Abatement) is under construction at two northern Minnesota energy centers, Laskin in Hoyt Lakes and Taconite Harbor in Schroeder. Initial construction began late in 2006 on the \$60 million voluntary emission reduction initiative.

Air emissions at the two coal-fired plants were well within limits prescribed by state and federal regulators before Minnesota Power proposed a plan to further reduce them on a proactive basis. In May of 2006, the Minnesota Public Utilities Commission (MPUC) approved a cost recovery mechanism that allows Minnesota Power to recover Minnesota jurisdictional costs from customers for emission reductions without filing a general rate case. Costs to be recovered include a return on investment, depreciation and incremental operations and maintenance expenses.

The existing statutory option for recovering costs on environmental retrofit projects outside a general rate case was extended to 2013 in emission reduction legislation passed by the Minnesota Legislature in 2006. This legislation, commonly known as the Mercury Bill, passed unanimously.

When AREA is completed, Minnesota Power estimates that oxides of nitrogen (NO_x) emissions will be reduced by more than 60 percent at both facilities and that sulfur dioxide (SO₂) emissions will be cut by 65 percent at Taconite Harbor. Laskin already has relatively low SO₂, due to existing emission reduction technology. With the emerging technology being applied at Taconite Harbor, there is the potential for a 90 percent reduction in mercury emissions.

Another, larger air emissions control project at Minnesota Power's Boswell Energy Center in Cohasset also began in 2006. Minnesota Power plans to reduce mercury emissions by up to 90 percent and cut nitrogen oxide and sulfur dioxide emissions by more than 80 percent at Boswell Unit 3, the utility's second-largest generating unit at 350 megawatts.



Pictured at top – Large silos at Taconite Harbor Energy Center will contain limestone and MinPlus sorbent materials that will be injected into the combustion chamber to control emissions. Middle – The Sorbent Injections Building, an 80-foot-tall structure added to the Taconite Harbor plant, will hold silos containing the sorbents and associated blowers and pumps. Bottom – A contract worker assists in the steel assembly during construction in December of 2006.

The Boswell project, expected to cost \$200 million, addresses new requirements developed under Environmental Protection Agency rules and Minnesota Mercury Bill requirements. On January 26, 2007, Minnesota Power filed with the Minnesota Public Utilities Commission (MPUC) a request to recover the Boswell Unit 3 emission reduction control costs from customers on a current basis.

MPUC approval would allow cost recovery from customers on these investments without a rate proceeding. Filing approval would authorize a cash return on construction work in progress during the construction phase and allow recovery for a return on investment, depreciation, and incremental operations and maintenance expenses once placed into service in late 2009. ■



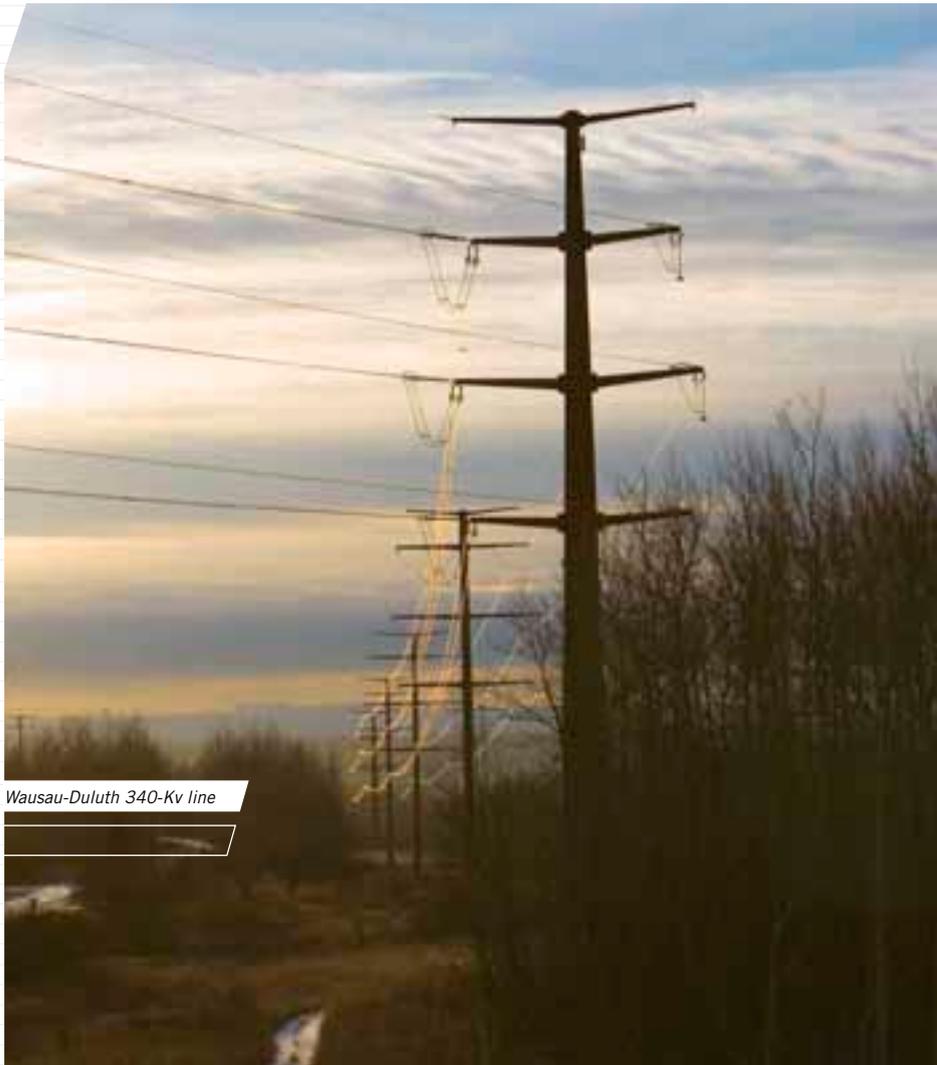
Laskin Energy Center, a two-unit coal-fired plant rated at 110 megawatts, is undergoing extensive retrofitting that will modify the way fuel and air react in the combustion process. Construction work on Unit 2 was essentially completed in the fall of 2006; work on Unit 1 is scheduled to be completed in 2007. The installations include low-nitrogen oxide burners, over-fire air systems, and software and control systems that, together, are expected to significantly reduce nitrogen oxide emissions. Combustion turbines in each unit will be rebuilt, and major instruments and controls added.

Taconite Harbor, a three-unit coal-fired generating station rated at 220 megawatts, was purchased from LTV Steel Mining Co. in 2001. Taconite Harbor is installing emission control equipment developed by MoboTec USA. The MoboTec technology is based on the work of a Swedish researcher who determined that modifying the combustion process is the most effective and lowest-cost method of emissions control. MoboTec relies on complex computer models to determine when sorbents or reagents such as ammonia, limestone and kaolinite should be injected into the combustion chamber to control emissions. The company will use a new absorbent product at Minnesota Power facilities called MinPlus, derived from a clay and limestone byproduct of the papermaking process. These sorbents, once they're bound with pollutants, will be removed from emissions with electrostatic precipitators and stored in ash ponds.

Boswell Unit 3 is a 350-megawatt coal-fired generating unit, one of four generating units at the Boswell Energy Center in Cohasset. The emission reduction plan will meet what regulators term "Best Available Control Technology" performance standards to significantly reduce NO_x, SO₂ and particulates. The most mature commercially-available technology will be used to reduce mercury. Particulates will be decreased by a fabric filter and baghouse. Mercury emissions will be cut through the installation of powder activated carbon technology in combination with the fabric filter. Other installations will include a wet flue gas desulphurization scrubber and low-NO_x burners, over-fire air injection and selective catalytic reduction. Construction is projected to begin this year pending regulatory approval. ■

Earnings from ATC investment will grow significantly in 2007

Pictured below is part of the Minnesota portion of a new transmission line that will connect Duluth, Minn., with Wausau, Wis. The 220-mile line, being built by ATC, is needed to accommodate electric load growth in northern Wisconsin and to improve transmission reliability in the region.



Wausau-Duluth 340-Kv line

AS AN INVESTOR in American Transmission Company (ATC), ALLETE has the opportunity to earn a solid rate of return while staying directly connected to key infrastructure developments affecting Minnesota Power in the Upper Midwest.

In late 2005, ALLETE entered into an agreement with Wisconsin Public Service Corporation and WPS Investments, LLC that provides for ALLETE subsidiary Rainy River Energy Corporation - Wisconsin to invest \$60 million in ATC. The Public Service Commission of Wisconsin reviewed and approved the request allowing ALLETE to invest in ATC in May of 2006.

ALLETE made its initial investments in the Wisconsin-based public utility in May 2006, and expects to own approximately eight percent of ATC when its investment reaches \$60 million early in 2007.

ATC owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. It began business Jan. 1, 2001 as the first multi-state, transmission-only utility in the U.S. and now provides service across 8,900 miles of high-voltage transmission lines.

ATC earns a regulated rate of return from which ALLETE will earn a return based on its prorata investment level in ATC. In 2006, this investment contributed net income to ALLETE of \$1.9 million and its earnings contribution will grow significantly in 2007. ATC provides transmission service under rates regulated by the Federal Energy Regulatory Commission.

ATC has identified in a transmission system assessment report an estimated \$3.1 billion in work needed in the next decade to ensure that the transmission grid can reliably meet the electric needs of people in the region. As an investor in ATC, ALLETE can participate financially in this expansion through prorata capital calls. Long-term needs of the transmission system are examined every year, and a planning timeframe of 10-to-20-years is used.

Among ATC's most ambitious projects is the \$420 million Wausau-Duluth 340-kilovolt transmission line now under construction in northwest Wisconsin. Minnesota Power and Wisconsin Public Service Corp. jointly proposed the line in 1999. The Public Service Commission approved construction of the line in 2001. In 2005, Minnesota regulators authorized ATC to become owner of the short portion of the Wausau-Duluth line in Minnesota. Construction of the entire line is nearing completion. ■

Regional Impact

ALLETE's largest real estate project, Ormond Crossings, receives green light

WHEN ALLETE PROPERTIES received development order approval late in 2006 for its Ormond Crossings real estate project, it represented far more than a rezoning approval from a medium-sized Florida city.

The development order approval was granted by the city of Ormond Beach, population 36,000, as part of Florida's Development of Regional Impact (DRI) review process.

This complex process includes an evaluation of a project's impact on the environment, infrastructure, and government services involving numerous state and local agencies.

The Northeast Florida Regional Council (NEFRC) recommended approval of Ormond Crossings, ALLETE Properties' largest real estate project at approximately 6,000 acres. Most of Ormond Crossings is located in the city of Ormond Beach in Volusia County; the remainder of the development is an adjacent piece of unincorporated land in neighboring Flagler County. A development order from Flagler County is under review.

The DRI process, first approved by the state of Florida in 1973, is a "continually refined comprehensive process," says Ed Lehman, director of Planning and Development for the NEFRC. It involves a pre-application conference, public hearing and a thorough review with time frames laid out by Florida statute. The approval process usually takes from 12 to 15 months.

The NEFRC involves agencies from seven Florida counties and 27 municipalities.

Its mission is to provide visionary leadership and coordination between counties and governmental agencies to preserve and enhance the quality of northeast Florida's natural, man-made, economic, and social environment. The NEFRC council is governed by 31 members, two-thirds of whom are elected and one-third of whom are appointed by Florida's governor.

The approval received for Ormond Crossings entitles ALLETE Properties to

Pictured, left to right, are ALLETE Properties' Clinton Smith and David Lusby, consultant David Londeree, and William Livingston of ALLETE Properties.

City Hall, Ormond Beach, Fla.



develop up to 3,700 residential units and five million commercial square feet within the Volusia County portion of the project. A development order from Flagler County now under review would, if approved, entitle Ormond Crossings to develop up to 700 additional residential units. Ormond Crossings is located along Interstate 95 at its interchange with U.S. Highway 1 about five miles northwest of Daytona Beach.

After an agreement has been finalized with the Florida Department of Transportation concerning traffic impact mitigation for Ormond Crossings, ALLETE Properties will determine the best economic build-out of the project. The transportation agreement is expected to be finalized during 2007.

Engineering design and permitting will proceed as the project is developed and sites are sold. ALLETE anticipates Ormond Crossings land sales closings starting in 2009.

The multi-use development is adjacent to the Ormond Beach Airport, bisected by Interstate 95 and the Florida East Coast Railroad, and bordered by U.S. Highway 1.

Because of its proximity to key transportation links, Ormond Crossings is considered an ideal location for many types of commercial and industrial development, supported by a broad mixture of single family and multifamily housing. A number of parks, trails and recreational amenities are planned for the development. ■

Commercial Demand

Demographics drive ALLETE Properties real estate sales in Florida

Town Center at Palm Coast



THROUGH CHANGING economic cycles, real estate sales have steadily contributed to earnings at ALLETE since the corporation first invested in Florida land in 1991.

By taking a long-term view of the real estate market and by concentrating on large parcels of land with potential for multiple uses, ALLETE Properties has been able to thrive as markets have changed.

Demographic trends in the Sunshine State have fueled business growth for decades. Florida is the fourth most populous state in the U.S. with a population of more than 18 million people.

Florida will edge past New York into third place among states in total population by 2011, according to U.S. Census Bureau projections. The Census Bureau projects that between 2000 and 2030, Florida's population will grow by 79 percent and that by 2030 the state's population of people 65 and older will be 27 percent – a higher ratio than in any other state.

Flagler County, where ALLETE owns most of its Florida property, was named the fastest-growing county in America by the U.S. Census Bureau in 2004 and 2005. This rapid residential growth in our markets has created a steady demand for our commercial properties. ALLETE Properties' portfolio of real estate includes a

diverse mix of residential, commercial and industrial property. At the end of 2006, ALLETE Properties had about \$114 million in future land sales under contract.

Town Center, the most mature of ALLETE Properties' three major developments, has a large stock of commercial property available to provide working space and shopping for new residents.

Throughout 2005 and 2006, ALLETE Properties focused on constructing the major infrastructure and platting and selling the first two phases of the 1,480-acre development.

In December of 2006, a retail center anchored by a Publix grocery store opened, and construction began on an 84,000 square foot medical center. Twenty other projects are in the permitting stage, 11 of which are expected to break ground in 2007. Future marketing efforts will focus on attracting apartments, assisted living facilities, business park uses, and restaurants.

As of Dec. 31, 2006, ALLETE Properties had 2.7 million square feet of commercial property entitled at Town Center. ALLETE's other major Florida development projects, Palm Coast Park and Ormond Crossings, have 3.2 million square feet and five million square feet, respectively, of commercial square footage available for development. ■

Project Details

Town Center at Palm Coast

Size: A mixed-use development of approximately 1,480 acres.

Location: In the city of Palm Coast in Flagler County in northeast Florida, adjacent to a major hospital, airport and high school.

Projected uses: A “new downtown” for one of the fastest-growing communities in the U.S. At build-out, Town Center is expected to include 2,900 residential units and 3.7 million square feet of commercial space.

Development status: Infrastructure improvements substantially completed, including 3.6 miles of roads, stormwater management system, underground utilities, street lights, sidewalks, bike paths and landscaping. A new supermarket has been completed and a medical center is under construction.

Value of pending land sales under contract (at end of 2006): \$40.1 million

Expected in 2007: Twenty building projects are in the permitting stage, 11 of which are expected to break ground this year.

Palm Coast Park

Size: A 4,700-acre mixed-use development.

Location: In the city of Palm Coast, bisected by a 6-mile segment of U.S. Highway 1 about one mile from an existing Interstate 95 interchange. The site is bounded on the west by a Florida East Coast Railroad rail line.

Projected uses: At build-out, the project will include approximately 3.2 million square feet of commercial space and about 3,900 residential units ranging from affordable condominium units and apartments to estate golf course homes. The Sawmill Creek project will include up to 1,469 residential housing units, a championship golf course, neighborhood retail office space, a community park and elementary school.

Development status: Major infrastructure construction began in December 2006 and is expected to be completed in 2007.

Linear Park at Palm Coast Park



Value of pending land sales under contract (at end of 2006): \$62.8 million, with the opportunity to receive participation revenue. The largest of these pending contracts anticipates a master-planned golf course community.

Expected in 2007: Commercial and industrial lots will be offered for sale in 2007, with closings anticipated to begin in 2008. Future market conditions will determine how quickly Palm Coast Park is built out.

Ormond Crossings

Size: A 6,000-acre mixed use development.

Location: Primarily in the city of Ormond Beach in Volusia County, Fla., with a portion in unincorporated Flagler County. The site is bisected by Interstate 95 and a Florida East Coast Railroad line and is adjacent to the Ormond Beach airport.

Projected uses: Up to five million square feet of various commercial land uses and 4,400 residential units, to be built in four phases.

Development status: A Development of Regional Impact (DRI) order for Ormond Crossings was approved by the city of Ormond Beach in December 2006. The Flagler County DRI development order is under review by Flagler County and approval could lead to entitlements for up to 700 additional residential units. After an agreement is finalized on traffic mitigation costs, a determination will be made about the best economic build-out of the project. Permits to create a wetland mitigation bank on 1,900 acres in the Flagler County portion of the project were filed in 2006. Wetland mitigation credits will be used in connection with the permitting at Ormond Crossings and will also be sold to other developers.

Expected in 2007: The Flagler County portion of the project is anticipated to be approved, and an agreement with the Florida Department of Transportation concerning traffic mitigation costs is expected to be finalized. ■



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