

SEPTEMBER 1, 2008

THE ALLETE INVESTOR

A NEWSLETTER FOR THE SHAREHOLDERS OF ALLETE, INC.



Minnesota Power wind turbines producing renewable energy

Ten Taconite Ridge turbines now producing power

For the first time ever, at about 8:30 p.m. July 21, all ten wind turbines at the new Taconite Ridge Energy Center near Virginia, Minn. produced electricity simultaneously.

Five people were at the installation of 265-foot wind towers as all ten rotors gently circulated shortly before sundown – Project Manager Andrew Remus of Minnesota Power, two representatives of turbine manufacturer Clipper Windpower and two men employed by vendor Outland Renewable Energy.

“There were lots of smiles,” Remus said this morning. “It was neat. It was quite exciting.”

Located on the Iron Range property of MP’s largest power customer, U.S. Steel, the 25-megawatt Taconite Ridge facility was dedicated June 11 with speeches from Minnesota Governor Tim Pawlenty, ALLETE CEO Don Shippar and other dignitaries. At that event, only two of the ten turbines were generating energy, but the rest of the huge wind machines were brought up to speed over the following five weeks.

The turbines were commissioned July 1, but various adjustments and repairs were required to bring the fleet of wind turbines into total balance, Remus said.

Minnesota Power celebrated the completion of its first wind energy project in northern Minnesota at the Mineview in the Sky overlook in Virginia, Minn. June 11. Company employees, contractors and dignitaries gathered in a tent overlooking the ten newly-installed wind towers erected a couple miles away in Mountain Iron.

Minnesota Power was praised for its foresight and ingenuity in building the 10 towers 265 feet tall that make up the first commercial wind farm in northern Minnesota.

See Taconite Ridge, on back

MPUC sets interim rate increase for Minnesota Power retail customers

The Minnesota Public Utilities Commission approved, effective Aug. 1, an interim rate increase for retail customers of Minnesota Power.

As part of the MPUC’s review process of Minnesota Power’s requested increase in the electric rates charged to its retail customers, the commission set the interim rate increase at 7.5 percent. The change will be reflected in customer’s utility billing statements beginning in August, with the final rate to be approved by the MPUC by spring of 2009.

The rate increase request is an acknowledgement of higher operating and maintenance costs as well as Minnesota Power’s continuing investments in utility infrastructure and renewable energy and emission reduction projects to meet state mandates.

Minnesota Power continues to rank among the lowest cost electricity providers in the country. According to the Edison Electric Institute, Minnesota Power’s retail rates per kilowatt-hour were the lowest in Minnesota and the tenth lowest of 175 investor-owned utilities in the U.S.

Customers began receiving information regarding interim rates in their August statements.

DEAR SHAREHOLDER

This summer’s activity is a reminder that while ALLETE makes bold moves for the future, it continues to rely on valuable assets developed decades ago.

In mid-August, Minnesota Power employees celebrated the 50th anniversary of electric production from Units 1 and 2 of our Boswell Energy Center in Cohasset. These two generators laid the foundation for the subsequent construction of the third and fourth units at Boswell, our largest generating station.

As you probably know, we’re in the midst of a major environmental retrofit on Boswell’s Unit 3. After that’s completed, we’ll turn our attention to improving the air emission performance on Unit 4.

In June we hosted the formal dedication of our new Taconite Ridge Wind Energy Center, a 25-megawatt installation located in the heart of Minnesota’s Iron Range. We see Taconite Ridge as a forerunner of much more wind development by our company.

As always, thanks for your investment in ALLETE.

Sincerely,

Don Shippar
Chief Executive Officer



Clean Air Interstate Rule struck down

A federal appeals court on July 11 struck down the Environmental Protection Agency's Clean Air Interstate Rule (CAIR), which Minnesota Power and other parties had challenged for a variety of reasons.

A three judge panel of the U. S. Court of Appeals for the District of Columbia Circuit ruled unanimously that the EPA overstepped its authority in setting up a cap and trade system for air pollutants that would have affected 28 eastern and Midwestern states.

Minnesota Power had argued to the court that the inclusion of Minnesota with eastern states was wrong, and that the methods used by the EPA for measuring and modeling air pollution in Minnesota was flawed.

"We're pleased with the court's decision," said Deb Amberg, general counsel for ALLETE. "While we are committed to maintaining air quality, we objected to the manner in which the rule attempted to impose costs on our ratepayers for emissions reductions in other states."

Written in 2005, CAIR established a "cap and trade" system in which utilities in Minnesota and certain eastern states were required to buy emission allowances. CAIR was to go into effect in 2009. Now it appears as if the EPA will have to modify or re-write the rule.

Lyssa Supinski, MP Senior Attorney, said the appeals court's decision affirmed the validity of Minnesota Power arguments that Minnesota emissions do not significantly contribute to air quality problems in other states.

MP Senior Environmental Policy Advisor Mike Cashin has been involved with the CAIR rulemaking from the beginning – first pointing out the errors made by the EPA in its modeling, reasserting these errors at every opportunity, and supporting the appeal efforts. Cashin's persistence was instrumental in Minnesota Power's successful appeal, Amberg said.

Cashin said baseline emissions data for the proposed rule was taken during 2001 to 2004 to model estimated 2010 air quality. Any revision of the rule would likely be based upon more recent MP emission information that takes into account emission controls being installed at Boswell, Laskin and Taconite Harbor Energy Centers.

"Minnesota already enjoys good air quality that is in attainment with all National Ambient Air Quality Standards," Amberg said. "We see the Court's decision as a victory for fairness in regulation. Our customers have already paid for significant reductions in emissions, and we remain committed to continued improvement in air quality."



Chris Fleege

Fleege named new president of Superior Water, Light & Power

Minnesota Power's General Manager of Renewable Operations Chris Fleege in August was named President of Superior Water Light and Power and Vice President of Minnesota Power.

Fleege replaces Roger Engle, who announced in early June his intent to retire after 12 years as president of SWL&P.

Fleege will be directly responsible for the operation of the technical systems and people involved in providing electric, gas and water service to SWL&P customers. He'll also be involved in the broader senior leadership of Minnesota Power.

"Chris has advanced company values in meaningful ways and demonstrated an ability to bring about thoughtful change, execute goals and build relationships," Minnesota Power's Chief Operating Officer Al Hodnik said.

Fleege is a graduate of the University of North Dakota and also earned a Master's of Business Administration from the University of Minnesota-Duluth. He joined Minnesota Power in 1991 as a Civil Engineer and became a Supervising Engineer in 1998. In 1999 he was promoted to Manager of Engineering Services and later took responsibility for the Rapids Energy Center in Grand Rapids. Fleege was promoted to General Manager-Renewable Operations in 2006.



Minnesota Governor Tim Pawlenty at the wind farm dedication on June 11

Taconite Ridge, continued from front

"This is a great day to celebrate the good work here," said Pawlenty, who praised Minnesota Power as "one of the great companies in the state." Pawlenty stressed that although wind energy is the lowest-cost renewable energy solution, he said more renewable strategies will need to be developed due to the mounting pressure on other energy sources.

ALLETE CEO Don Shippa, referring to the Minnesota renewable energy mandate, told the audience that MP "plans to get there before 2025." Shippa thanked the gathered guests and explained that the company is also pursuing hydropower and examining biomass contributions to generation.

"We appreciate Minnesota Power's determination, dedication and ingenuity," said John Goodish, U.S. Steel's chief operating officer. He said his company's participation in the Taconite Ridge project was an example that environmental stewardship is a core value of his company.

State Rep. Tom Rukavina of Virginia thanked Shippa for staying true to the commitment of a new wind farm on the Iron Range.

"Don, you're a man of your word," Rukavina said. "Minnesota Power has always been a great corporate citizen."

Already, some of the turbines have in short bursts exceeded their nameplate rating of 2.5 megawatts, but winter and spring are expected to produce the most wind energy from Taconite Ridge.

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