



# 2009 UPDATE

ALLETE (NYSE: ALE) is well-positioned as a reliable provider of competitively-priced energy in the upper Midwest, and has a strategic investment in the American Transmission Company. ALLETE's Minnesota Power electric utility serves 142,000 residents, 16 municipalities and some of the nation's largest industrial customers. Other businesses include BNI Coal in North Dakota and ALLETE Properties, which owns 10,000 acres of real estate in northeast Florida.

## REGULATED UTILITY

Minnesota Power, an operating division of ALLETE serving customers since 1906, generates, transmits and distributes electricity in a 26,000-square-mile region of northern Minnesota rich with mineral deposits and timber.

### → POWER SUPPLY

Our energy supply in Minnesota is a mix of company generation and purchased power. Our generation sources are primarily coal-fired, but also include 112 megawatts of hydroelectric power generated from nine hydro stations in Minnesota and 25 MWs of wind generation. We purchase power from Square Butte Electric Cooperative in North Dakota, from two wind facilities totaling 98 megawatts in Oliver County, N.D. operated by FPL Energy LLC, and from other energy suppliers.

### → LARGE INDUSTRIAL CUSTOMERS

Minnesota Power sells a high percentage of its electric power to large industrial facilities. Eleven of our customers require 10 megawatts or more of generating capacity. Among these are four taconite producers, four paper mills and two petroleum pipeline companies. Taconite is an iron-bearing rock important as a source of raw material for steel.

### → NEW INDUSTRIAL PROJECTS WILL NEED ELECTRICITY

Several natural resource-based companies are developing new projects in northeastern Minnesota. These potential customers of Minnesota Power could require up to 400 megawatts of new electric service if the projects are completed. These include the Mesabi Nugget plant now under construction and the Polymet Mining and Minnesota Steel Industry projects.

### → MAJOR EMISSION-REDUCTION EFFORT UNDERWAY

Minnesota Power is engaged in a major air emission control upgrade involving three of its coal-fired generating stations: Laskin, Taconite Harbor and Boswell. When the work is completed, environmental retrofits will have dramatically cut emissions of mercury, particulates, sulfur dioxide and nitrogen oxide. Current cost recovery from retail customers by way of billing adjustments is being used to pay for, and earn a return on, construction costs for these retrofits. The environmental improvements for all three plants will cost approximately \$260 million.

### → MORE RENEWABLE ENERGY

A 50-megawatt wind energy facility, built in 2006 by FPL Energy near Center, N.D., was augmented by an adjacent 48-megawatt wind farm constructed in 2007 to provide Minnesota Power a long-term source of renewable purchased power.

Another wind generation facility of 25 megawatts was built in 2008 by Minnesota Power in Mountain Iron, Minn. on property owned by U.S. Steel, a major customer.

### → NEW STRATEGIC WIND INITIATIVE

An agreement was signed in September, 2008 to purchase a 250-kilovolt direct current (D.C.) transmission line between Center, N.D. and Hermantown, Minn. and phase out a long-term contract to buy coal-generated electricity now transmitted over the line. As part of a deal expected to be closed in 2009, Minnesota Power will gradually replace the coal-based electricity now transported by the 465-mile line with renewable energy to be generated by wind turbines that will be constructed by Minnesota Power near Center.

### → AMERICAN TRANSMISSION COMPANY

ALLETE has an ownership interest of about eight percent in ATC, a public utility based in Wisconsin that owns and maintains electric transmission assets in four states. ALLETE's investment in ATC was about \$76 million at the beginning of 2009.

## OTHER ALLETE INVESTMENTS

**ALLETE Properties** owns real estate in several desirable Florida locations. Most of the land now held by ALLETE Properties is located in three mixed-use projects being developed in Flagler and Volusia Counties in northeast Florida: Town Center, Palm Coast Park and Ormond Crossings.

**BNI Coal** operates a lignite mine in Center, N.D., producing about four million tons annually. Two electric generating cooperatives, Minnkota Power and Square Butte, consume virtually all of BNI Coal's lignite production under agreements extending through 2026. The mining process disturbs and reclaims approximately 200 acres per year. ■





Minnesota Power's new Taconite Ridge Wind Energy Center is located on property leased from the utility's largest power customer, U.S. Steel.

## RECENT EVENTS

### ELECTRIC RATE INCREASE OF \$21 MILLION ANTICIPATED AFTER MPUC VOTE

Minnesota Power estimates that the Minnesota Public Utilities Commission (MPUC) will order an overall retail electric rate increase of approximately \$21 million when it issues a formal written order on or before May 4, 2009.

Minnesota Power, a division of ALLETE, announced its rate increase estimate April 7, four days after a deliberation and vote by the MPUC, which considered and decided upon more than 60 different issues contained in the company's rate increase request. The MPUC approved a 10.74 percent return on common equity and a 54.79 percent equity ratio.

Minnesota Power will continue to collect interim rates from its customers until the new rates go into effect, which will occur after the expiration of a reconsideration period and after all compliance filings are completed and accepted. The company expects to

inform its customers of the new final rates, which will differ by customer class, later this summer.

Minnesota Power's \$40 million rate increase request cited rising operational and maintenance costs and government-mandated renewable energy facilities and environmental retrofits. The company has been collecting interim rates equivalent to a \$35 million annualized increase since August 1, 2008.

ALLETE will record in its first quarter financial results the difference between the interim rates now being collected and the estimated final rates through March 31.

Six public hearings in four northern Minnesota cities were conducted in September and October, 2008 to take customer views on Minnesota Power's request to increase its retail rates. Evidentiary hearings followed in November, 2008.

### ELECTRIC SUBSTATION COMPLETED FOR NEW MESABI NUGGET PLANT UNDER CONSTRUCTION

With construction of a new electric substation and transmission line early in 2009, Minnesota Power has set the stage for electrifying the Mesabi Nugget plant now under construction in Hoyt Lakes, Minn.

Steel Dynamics and Kobe Steel Ltd. have partnered to develop the world's first full-scale demonstration plant using a new iron nugget process developed by Kobe Steel. The plant will produce a product that is up to 97 percent pure iron, more pure than taconite pellets and easier to transform into steel.

Construction of the Mesabi Nugget facility began in 2007 and is proceeding on schedule. The plant is expected to be commissioned in the third quarter of 2009, initially using iron concentrate obtained from other suppliers. Annual production capacity is expected to reach 500,000 metric tons.

In January, Minnesota Power completed work on a new substation at Hoyt Lakes and 2.2 miles of new transmission line that

will bring electric power to the new facility. The utility has a 10-year contract to supply approximately 15 megawatts of power to Mesabi Nugget, which represents one of Minnesota Power's largest industrial customer load additions in decades.

### ALLETE BOARD OF DIRECTORS INCREASES DIVIDEND TO 44 CENTS PER SHARE OF COMMON STOCK

ALLETE's Board of Directors in January increased the quarterly dividend on the company's common stock by 2.3 percent, to 44 cents per share.

"This increase reflects our commitment to providing value for shareholders and the confidence we have in our long-term earnings potential," said Don Shippar, ALLETE Chairman, President and CEO.

On an annual basis, the increased dividend is equivalent to \$1.76 per share. The regular quarterly dividend was payable March 1 to common stock shareholders of record at the close of business Feb. 16, 2009. ■

## ALLETE at a Glance

Web Site: [www.allete.com](http://www.allete.com) / Toll-Free Phone: 1-800-535-3056

### Listed:

New York Stock Exchange,  
ticker symbol ALE

52-week high and low:  
as of 4/08/09

High — \$49.00  
Low — \$23.35

### Common Stock Dividend Payment Dates:

March 1, June 1,  
September 1, December 1

### Direct Stock Purchase and Dividend Reinvestment Plan?

Yes