

DECEMBER 1, 2007

THE ALLETE INVESTOR

A NEWSLETTER FOR THE SHAREHOLDERS OF ALLETE, INC.



Blustery weather didn't keep the Taconite Harbor Energy Center from celebrating its 50th birthday Oct. 5. The Minnesota Power Foundation presented a \$20,000 grant to the Birch Grove Community School in Tofte for an Outdoor Learning Center. Students Sidney Topp, Kristen Napper, Danielle Hansen and Robert Bjerkness were guests of honor inside the festival tent.

DEAR SHAREHOLDER

For ALLETE, conservation of resources is uppermost in the minds of our utility resource planners and it's also a factor in the way we choose to illuminate our holidays.

Minnesota Power recently filed a new Integrated Resource Plan outlining our energy needs through 2022. It relies heavily on conservation and renewable energy to forestall the need for another baseload power plant and the carbon-based fuels it would require.

On a smaller and more symbolic level, this year for the first time we've decorated the Community Christmas Tree in Duluth with LED lights. Using light emitting diode fixtures, rather than traditional bulbs, will save an estimated 140,000 kilowatt-hours of electricity, enough to power 12 households for a year.

Speaking of the upcoming holiday season, we're proud that for the first time, the city of Palm Coast, Fla. will host its community Christmas event in the heart of Town Center, one of ALLETE Properties' major developments in northeast Florida.

Happy holidays, wherever you may celebrate them. As always, thanks for your investment.

Sincerely,

Don Shippar
Chief Executive Officer



MPUC approves recovery of costs for Boswell Unit 3 emissions reduction project

The Minnesota Public Utilities Commission (MPUC) has approved Minnesota Power's cost recovery petition for the Boswell 3 Environmental Improvement Plan with some minor modifications and additional reporting requirements.

In an order issued Oct. 26, the commission approved Minnesota Power's request for recovering the approximately \$200 million cost of the Unit 3 improvements through a rate rider that allows the utility to recover costs of qualifying emissions-reduction projects as well as "an appropriate return on investment associated with qualifying emissions-reduction projects."

MP proposed its Boswell 3 Environmental Improvement Plan in October 2006 to address the Mercury Emissions Reduction Act of 2006, as well as new state and fed-

eral emission control regulations. The plan includes environmental retrofits to reduce emission of mercury, oxides of nitrogen, sulfur dioxide and particulate matter at Unit 3. MP estimates it will reduce up to 90 percent of mercury, 81 percent of oxides of nitrogen, 90 percent of sulfur dioxide and 93 percent of the particulate matter emitted from the generator.

Minnesota Power will add a line item titled "Boswell 3 Plan Adjustment" to customers' monthly electric bills to recover the cost of the environmental improvements. This adjustment will result in average rate increases of approximately 2.2 percent to 3.8 percent in January 2008, to 6.7 to 11.3 percent in January 2010. The Company mailed customers details about the rate increases and the Unit 3 environmental improvement project in August.

Residential units now going up at ALLETE Properties' Town Center

Construction is underway on the first residential project at ALLETE Properties' Town Center at Palm Coast development.

Workers have begun building the first 34 units and an "amenity center," including a clubhouse and swimming pool, at the Brookhaven development. It's a community of 130 residential units located within Town Center, a 1,500-acre multi-use development in Palm Coast, Fla.

ALLETE Properties closed the sale of the Brookhaven property to a group from Atlanta, Ga. in June of 2006, according to David Lusby, vice president of ALLETE Properties. He said the initial phase of Brookhaven is expected to be completed in February.

"The best news we can have at Town Center would be his success," Lusby said of the Atlanta developer of Brookhaven. "If he does what he's expecting to do, it will send a message to some of the other developers to get going, get started. And it will send a positive message to other prospective purchasers of our property."

Renewable energy, conservation key to Minnesota Power Integrated Resource Plan

Minnesota Power can meet future electric needs in its service territory through 2022 with a mix of renewable resources, power purchases, conservation and “peaking units,” while reducing greenhouse gas emissions in the same timeframe.

That assessment summarizes the content of Minnesota Power’s Integrated Resource Plan (IRP), a comprehensive estimate of future electric needs filed Oct. 31 with the Minnesota Public Utilities Commission.

The IRP presents a set of resource options Minnesota Power proposes to use to meet the service needs of its customers during the period 2008 through 2022. Minnesota Power last filed a comprehensive resource plan in 2004.

Minnesota Power has a plan to meet state requirements to increase renewable resources such that 25 percent of its total retail energy sales come from eligible renewable resources by 2025. The plan includes maintaining the utility’s existing renewable base of hydropower and biomass-fueled energy, adding additional wind generation facilities and more biomass opportuni-

ties. Minnesota Power expects to be about halfway to the state’s 25 percent renewable mandate by the end of 2008.

Minnesota Power’s pledge to reduce overall carbon emissions is reflected in the IRP, which states that the utility will not consider a new coal resource without a carbon solution. Minnesota Power’s carbon action plan, in addition to the extensive renewable resources, includes expanding conservation, improving the efficiency of existing coal-based generation plants and full participation in carbon research.

Among the “action items” in the short-term plan – 2008 through 2012 – are the expansion of the company’s Conservation Improvement Programs, wholesale power purchases, and the possible addition of a 170-megawatt natural gas fueled combustion turbine to meet peaking capacity needs.

Minnesota Power awaiting word on serving electricity to Mesabi Nugget

Preliminary construction work has begun on the \$235 million Mesabi Nugget facility, and Minnesota Power is awaiting final approval on its application to serve all the electric power needs of the world’s first commercial iron nugget plant near Hoyt Lakes, Minn.

Officials from Steel Dynamics and Kobe Steel announced Sept. 20 that they would move ahead with the plant, which will initially produce about 500,000 metric tons of iron nuggets a year. Minnesota Gov. Tim Pawlenty called the announcement “a transformational moment for the Iron Range, Northeastern Minnesota and the state.”

The Mesabi Nugget project would be the first commercial plant to produce high quality nuggets containing about 96 percent iron. It would utilize a process developed by Kobe Steel in which the iron-rich nuggets would be heated in a rotary hearth furnace fueled by natural gas. The nuggets, which contain a higher percentage of iron than the taconite pellets now produced on Minnesota’s Iron Range, would be fed into Steel Dynamics’ electric arc furnaces in Indiana and elsewhere to produce steel.

Steel Dynamics also announced plans to develop an existing iron mine on the site of the former LTV Steel property near Hoyt Lakes, and to construct a facility for concentrating iron ore. The company intends to purchase or lease land from Cleveland Cliffs Inc. to provide a long-term supply of iron ore. In the future, the company plans to process the ore and use it as raw material feedstock for the nugget plant.

Minnesota Power and Mesabi Nugget executed an electric service agreement on June 1 that will be filed for approval with the Minnesota Public Utilities Commission if the application to serve is approved. The agreement anticipates that Mesabi Nugget would be a 15-megawatt (MW) customer, with the potential that the load could grow to 50 MW.

Shareholders should consider electronic delivery of Annual Report and proxy materials

ALLETE shareholders who want to receive the company’s proxy materials and annual reports online instead of receiving paper copies can sign up to do so through the allete.com Web site.

ALLETE is encouraging investors to read financial information about the company online, rather than having it mailed to them in printed form. There is an obvious savings in printing and postage costs when this information is accessed electronically, and the financial data can be delivered in a timelier manner.

To sign up for electronic receipt of shareholder materials, 1. Log on to the Internet at www.allete.com; 2. Click on “Investors;” 3. Choose the “electronic delivery” link under the shareholder services menu; and 4. Follow the prompts to submit your electronic consent.

With your consent, ALLETE will send e-mail notification that the shareholder materials have been filed with the Securities Exchange Commission and are available for viewing. The notice will include a link to the web pages where you can view the materials and another link where you’ll be able to vote your Common Stock shares online.

Town Center to host first Christmas event

Town Center at Palm Coast will host its first-ever Christmas event Dec. 9 with a visit from Santa Claus, a holiday parade and a kickoff for a town park so new it doesn’t yet have a name.

Palm Coast Holdings, an affiliate company of ALLETE Properties, is co-sponsoring the event with the City of Palm Coast, the local school district and Chamber of Commerce. It will be held near the “urban core” of ALLETE Properties’ 1,500-acre multi-use development on land donated by ALLETE Properties to the City of Palm Coast.

The donated land, including landscaped open space and a pond, will evolve into a city park that has yet to be named. Construction workers this fall completed a paved walkway around the pond, where the first holiday parade will take place. A Christmas tree crafted from white lights will be mounted on a floating base in the center of the pond. School choral groups will perform throughout the event.

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.