

DECEMBER 1, 2008

THE ALLETE™ INVESTOR

A NEWSLETTER FOR THE SHAREHOLDERS OF ALLETE, INC.

Agreement signed to purchase DC line for transmission of wind power

Minnesota Power's plan to harness wind energy from the plains of North Dakota and transmit it to customers took an important step forward in September with the signing of an agreement to purchase an interstate transmission line and phase out a long-term contract to buy coal-generated electricity.

"We want to be out in front in wind development," said ALLETE CEO Don Shippar. "We are committed to meeting the state mandate to deliver more renewable energy, while at the same time investing in utility projects that make sense."

Minnesota Power announced its intent to buy the transmission line in May as part of its strategy to develop wind energy in order to meet a state mandate requiring a 25 percent renewable energy supply by 2025.

Under the agreement, the company will purchase for \$80 million a 250-kilovolt direct current (DC) transmission line from Square Butte Electric Cooperative for approximately \$80 million. The 465-mile line now transmits coal-generated energy from the Milton R. Young Generating Station in Center, N.D. to Minnesota Power's Arrowhead Substation in Hermantown, Minn.

See Interstate DC line purchased, on back

Direct deposit dividends for convenience, timeliness and safety

If you're an ALLETE shareholder who receives dividend payments in cash, did you know you can deposit these funds directly into your bank account?

The answer is "yes."

ALLETE's direct deposit service makes it easy to move your dividend check directly into your bank account. For the convenience of shareholders, a special direct deposit form has been included with dividend payment stubs this month.

If you'd like to take advantage of the direct deposit service, simply complete the form and send it to ALLETE Shareholder Services, 30 W. Superior St., Duluth, MN, 55802.

There are many advantages to directly depositing dividend checks into your bank account. Obviously, it saves time because it avoids a trip to the bank.

And since the funds are transmitted electronically, they are ready to use immediately – there is no "hold" period at the bank. Above all, direct deposit is secure. Since funds are deposited directly into your account, checks can't be lost or stolen.

Shareholders can also set up automatic monthly withdrawals from their checking or savings accounts to purchase additional shares of ALLETE. Contact Shareholder Services at the address above, or call 800-535-3056 for more information.



New controls at Taconite Harbor

New computer-based controls were installed as part of an emission control retrofit recently completed at Minnesota Power's Taconite Harbor Energy Center in Schroeder, Minn. Microprocessors contained within the blue discs read information such as reheated steam temperature and send signals that make the turbine work more efficiently.

DEAR SHAREHOLDER

Your company is in good financial shape as we approach the year's end. Despite an unsettled economy and volatile financial markets, we still expect ALLETE to hit the 2008 earnings target we announced back in December of 2007 – \$2.70 to \$2.90 per share.



ALLETE has remained true to its strategy and principles. We have successfully managed capital investments in generation and transmission. At the same time, we've strengthened the reliability of our electric system while meeting requirements to reduce emissions and increase renewable energy.

We at ALLETE are confident in our ability to manage the company as we face the challenges ahead of us. As always, we are committed to earning a financial return that rewards our shareholders, allows for reinvestment in our businesses, and sustains our growth. With the continued support of you, our shareholders, we look forward to the New Year with confidence.

Happy holidays,

Don Shippar
Chief Executive Officer

Long-term agreements reached with Cliffs Natural Resources

Minnesota Power and Cliffs Resources (formerly Cleveland Cliffs) have signed new long-term contract extensions to provide electric service to Hibbing Taconite Co. and United Taconite LLC.

Signed in September and subject to Minnesota Public Utilities Commission (MPUC) approval, the agreements extend existing contracts for the taconite producers to at least Dec. 31, 2015. Dave McMillan, ALLETE's senior vice president for marketing, regulatory and public affairs, signed the agreements on behalf of Minnesota Power. Don Gallagher, president of Cliffs' North American business unit, signed the agreements related to Hibbing Taconite and United Taconite.

Contract features are consistent with contract amendments implemented in 2005 with several other Minnesota Power industrial customers

"This helps us provide load certainty, ensuring that our largest customers continue to take all of their electric service from MP," said Mike Perala, Minnesota Power's manager of strategic accounts.

The contracts were submitted to the MPUC for approval in October. The MPUC is expected to make a ruling on the contracts before the end of the year.

In late August, the MPUC approved a contract for Minnesota Power to furnish the electricity needed to serve a Cliffs taconite pellet furnace at its Northshore Mining facility through June 30, 2011.

Cliffs announced in October that it would temporarily idle two small pellet furnaces at Northshore Mining and one small pellet furnace at United Taconite. Due to the smaller size of these facilities and their contractual obligations to Minnesota Power, the financial impact of these temporary shutdowns will be immaterial to ALLETE's 2008 earnings.

Interstate DC line purchased, continued from front

As part of the deal, Minnesota Power will gradually phase out the power it purchases from the Young station and replace it with wind-generated electricity. The transaction is subject to regulatory approvals and is anticipated to close in 2009.

Minnesota Power's plans include adding several hundred megawatts of new wind generation near Center, N.D., with the first wind turbines scheduled to be installed by 2010. The DC line will be used to deliver this renewable energy to customers. The North Dakota wind project is expected to complete the mandated 2025 renewable energy supply requirements for Minnesota Power's retail load.

One of the biggest constraints on wind energy's growth in the U.S. is the capacity of the transmission grid to deliver power to customers, according to the American Wind Energy Association (AWEA). North Dakota ranks as the top state in the U.S. for potential wind capacity, according to the AWEA.

State officials meet for renewable discussion in Duluth

Minnesota state officials including Governor Tim Pawlenty met with Minnesota Power executives at company headquarters in Duluth Sept. 10 for a conversation about renewable energy. "We want to meet with the people who know what they are talking about," Pawlenty said. "Minnesota Power is a premier company in the state and their staff has so much experience and education to offer." Pawlenty began the discussion by unveiling a new E3 initiative focusing on energy, education and economy. Company representatives involved in the discussion included Dwight Anderson, project development planner; Al Hodnik, chief operating officer; Paul Johnson, renewable energy project manager and Brad Oachs, vice president of power delivery and transmission.

Minnesota Power about halfway through its retail rate case

Six public hearings in four northern Minnesota cities were conducted in September and October to take customer views on Minnesota Power's request to increase the rates it charges retail electric customers.

Minnesota Power filed a retail rate case with the Minnesota Public Utilities Commission (MPUC) on May 2. Formal evidentiary hearings were scheduled to be held in St. Paul, Minn. between Nov. 12 and Nov. 21.

These hearings, before Administrative Law Judge Bruce Johnson, will allow Minnesota Power, state regulators and others to present testimony and to cross-examine each other's witnesses.

The MPUC approved, effective Aug. 1, an interim rate increase of 7.5 percent for retail electric customers of Minnesota Power as part of the MPUC's review process of the utility's requested increase in electric rates.

Minnesota Power is seeking an average rate increase of 8.4 percent, which would generate approximately \$39.8 million in additional revenue on an annualized basis.

The rate filing seeks an overall return on equity of 11.15 percent, and a capital structure consisting of 54.8 percent equity and 45.2 percent debt. The MPUC is expected to issue a final rate order in the second quarter of 2009.

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.