

JUNE 1, 2008

# THE ALLETE INVESTOR

A NEWSLETTER FOR THE SHAREHOLDERS OF ALLETE, INC.

## Minnesota Power announces long-term project to accelerate wind energy and cut back carbon

In a major move to accelerate its strategy of reducing carbon emissions and expanding renewable wind energy development, Minnesota Power proposes to purchase a major transmission line from North Dakota, phase out a long-term contract to buy coal-based electricity, and add several hundred megawatts of wind generation.

The key element of this strategic project is Minnesota Power's purchase of a direct current (DC) transmission line that extends from the wind-rich plains of central North Dakota to the Arrowhead Substation in Hermantown, Minn.

The proposal calls for the DC line, now owned by Square Butte Electric Cooperative, to be sold to Minnesota Power for approximately \$80 million in early 2009. It is now used to transmit electricity generated at the Milton R. Young Generating Station in Center, N.D. 465 miles eastward for purchase by Minnesota Power.

Direct current is a more economical way to transmit power over long distances than the standard AC, or alternating current, transmission line. The DC line being purchased by Minnesota Power is a strategic and valuable transmission link between the potentially vast wind resource in North Dakota and electric consumers eager to increase their reliance on renewable energy.



"Three decades ago, the DC line was built to move low-cost coal-based electricity from North Dakota to power the growing taconite industry in northeast Minnesota's Iron Range," said Don Shippard, ALLETE CEO. "Back then, it was described as a way to transport coal by wire. Now we will use the line to transmit 'wind by wire'."

Electricity generated at the Young Station is presently shared by Minnesota Power and Minnkota Power Cooperative, an affiliate of the Square Butte Cooperative. Over the next several years, Minnesota Power will phase out its generation rights at Young Unit 2. Minnkota will pursue new options for delivering power from the Young Station to its primary customers in the Red River Valley.

*See DC Line, on back*

### DEAR SHAREHOLDER

The timing of our announcement to buy a transmission line that will help us reduce the percentage of fossil fuels we use while expanding renewable energy development was no accident.

We announced this major strategic effort at our annual meeting of shareholders May 13. A news release detailing the exciting long-term project is contained in this newsletter.

It's a complex project that involves purchasing a direct current line from the Square Butte Cooperative, phasing out a long-term purchased power contract and gradually shifting the generation source on that line from fossil fuel to emission-free wind.

Changing the mix of our generation sources toward more renewable energy is an environmentally responsible move. Amid all the discussions about carbon taxes and stronger controls on greenhouse gas emissions, the project also makes good sense from a business standpoint.

As this project unfolds, it will bring significant growth to ALLETE. We appreciate your investment in our company, and hope you'll remain with us to see our vision take shape.

Sincerely,

A handwritten signature in black ink that reads "Don Shippard".

Don Shippard  
Chief Executive Officer



## Minnesota Power asks for retail rate increase; higher wholesale rates approved by FERC

Minnesota Power on May 2 filed a rate adjustment request with the Minnesota Public Utilities Commission (MPUC), seeking an increase of \$45 million in the electric rates charged to its retail customers.

With MPUC approval, interim rates would take effect July 1, 2008. The company expects the MPUC would approve final rates by mid-2009. Minnesota Power has not asked for a retail rate adjustment since 1994.

"This adjustment in our rates would acknowledge how the cost of providing service to our retail electric customers has increased in the last 14 years," said Don Shippard, ALLETE Chairman, President and CEO. "In addition to higher expenses for general operation and maintenance, the costs of complying with regulatory changes and legislative mandates have also risen."

The electric rates paid by Minnesota Power retail customers have historically been the lowest in the region and among the lowest in the United States. In the most recent published rankings of the Edison Electric Institute, Minnesota Power's retail rates per kilowatt-hour were the lowest in Minnesota, the lowest in the six-state West North Central region and the tenth-lowest of 175 utilities surveyed in the U.S.

### Higher wholesale rates took effect in March

In February, the Federal Energy Regulatory Commission approved an increase to the electric rates of Minnesota Power's wholesale customers effective March 1. The rate increase applies only to Minnesota Power's 16 municipal

*See Rates, on back*

## Minnesota Power joins Climate Registry effort to measure and report greenhouse gas emissions

Minnesota Power has become a “founding reporter” of The Climate Registry, an organization established to measure and publicly report greenhouse gas emissions consistently, accurately and across borders and industry sectors.

The non-profit Climate Registry founders include 39 U.S. states, six Canadian provinces, three Native American tribes, two Mexican states and the District of Columbia.

“Companies like ours with a duty to provide energy have a responsibility to take action on climate change,” said Don Shippar, ALLETE’s president, chairman and CEO. “Reporting our greenhouse gas emissions through The Climate Registry is another important step in Minnesota Power’s legacy of environmental stewardship.”

In becoming one of the founding reporters of the Registry, Minnesota Power voluntarily commits to measure, independently verify and publicly report its greenhouse gas (GHG) emissions annually, using The Climate Registry General Reporting Protocol.

“Minnesota Power has demonstrated exemplary environmental leadership by stepping forward to support The Climate Registry in its preliminary stages,” said Gina McCarthy, chairwoman of the Climate Registry. “We are deeply grateful for their integral support in helping to address the challenge of climate change.”

More than 100 leading corporations, non-profit organizations, cities and counties are currently reporting their GHG emissions to the Climate Registry and are considered environmental leaders for their early voluntary action on climate change. The Registry represents a linking of several state-sponsored GHG emissions reporting efforts. It is anticipated that any mandatory state-level GHG reporting will be linked with the Registry.

### Rates, continued from front

customers and two private utilities in Wisconsin, including Superior Water, Light & Power Company. It will result in an annual revenue increase to Minnesota Power of approximately \$7.5 million.

The increase will offset rising costs of providing service to wholesale customers, including operating and maintenance expenses. In addition, Minnesota Power indicated that the increase is needed for environmental projects, wind generation and transmission asset additions.

### DC Line, continued from front

Minnesota Power plans to add several hundred megawatts of new wind generation near Center, N.D., where the wind resources are considered among the best in the nation. This wind-generated power will be transmitted over the DC line. The additional wind generation will partially make up for the lost Young 2 power. It will also help Minnesota Power achieve its carbon reduction goals and help meet the state of Minnesota 25 percent renewable mandate.

The project benefits Minnkota Power because the

cooperative will be able to use the electricity now purchased by Minnesota Power and delay the need for Minnkota to construct additional generation facilities.

“Our power requirements projections indicate a need for additional baseload generation, and the Young 2 addition would satisfy a large part of that need,” said David Loer, Minnkota President & CEO.

“This multi-year project responds to the increas-

ing value of renewable energy and the growing concern about carbon emissions,” Shippar added. “Our geographical position allows us to use this DC transmission line for a new purpose—moving renewable energy to serve our customers.” The project does not materially change the five-year capital expenditure forecast disclosed previously by Minnesota Power.

The project is subject to the execution of definitive agreements and applicable regulatory approvals.



Emission control work proceeds at Boswell Unit 3

The \$200 million Boswell Unit 3 emission reduction project continued through the winter and into the spring in Cohasset, Minn. In mid-May, a giant crane was preparing to hoist a selective catalytic reduction unit, which will help control nitrogen oxides at Minnesota Power’s largest generating station.

## Shareholders gather in Duluth to elect directors at ALLETE’s Annual Meeting

More than 500 shareholders gathered at the Duluth Education Convention Center May 13 to hear an upbeat growth message at ALLETE’s Annual Meeting.

Voting by proxy, shareholders overwhelmingly elected ten directors and ratified the appointment of PricewaterhouseCoopers LLP as ALLETE’s independent accounting firm.

Douglas C. Neve stood for election before shareholders for the first time at this year’s meeting. Roger Peirce retired from the board earlier in the year and did not seek re-election.

*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.*