

SEPTEMBER 1, 2009

THE



INVESTOR

A NEWSLETTER FOR THE SHAREHOLDERS OF ALLETE, INC.



Minnesota's newest Senator surveys emission control construction

U.S. Sen. Al Franken, right, and Minnesota Power Thermal Business Operations Manager Josh Skelton look down at the new fly ash silo and other emission control improvements at the Boswell Energy Center in Cobasset, Minn. Sen. Franken was given a guided tour Aug. 14 of the major construction at Boswell's Unit 3.

DEAR SHAREHOLDER



We received positive news from our taconite customers Aug. 1 that they'd need significantly more power in the last four months of 2009 than they required in the May-August period of the year. We're optimistic that this key industry is improving as we head toward 2010.

The Minnesota Public Utilities Commission has ordered higher electric rates for Minnesota Power as a result of the rate case we filed in 2008. We plan on filing a new retail rate request with the MPUC before the end of this year to keep pace with our ongoing capital expenditure plan. Increased rates will allow us to meet state-mandated renewable energy standards, maintain our existing low-cost generation fleet, and improve our region's transmission system.

We're pleased to welcome Kathryn Dindo to the ALLETE Board of Directors. Her diversified business experience and financial expertise will be a tremendous asset to our company in the years ahead.

As always, thank you for your investment in ALLETE.

Don Shippar
Chairman and Chief Executive Officer

Minnesota Power to file new rate case later this year

To meet the future energy needs of its customers and state-mandated environmental and renewable goals, Minnesota Power plans to file, before the end of the year, a request to increase base electric retail rates.

Minnesota Power, a division of ALLETE, filed for a rate increase in May of 2008 with the Minnesota Public Utilities Commission (MPUC), the first increase to its base rates in 14 years. The company requested approximately \$40 million in additional revenue, citing rising operational and maintenance costs and government-mandated renewable energy expenditures.

The MPUC on May 4, 2009 ordered an overall retail electric rate increase for Minnesota Power customers of approximately \$20.4 million, and approved a 10.74 percent return on common equity and a 54.79 percent equity ratio.

Minnesota Power will continue to collect interim rates associated with the 2008 filing until the new rates go into effect 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.

At the time of last year's rate filing, the company indicated it was the first in a series of expected rate increases. Minnesota Power issued a news release Aug. 5 saying it would again ask the MPUC for a rate increase. The amount of the requested increase hasn't been determined.

"We recognize a price increase is not welcome news to our customers, but it is necessary to meet the rising costs of producing and delivering energy," said ALLETE CEO Don Shippar. "We've invested nearly \$1 billion in the electric system over the past three years to ensure we provide the safe and reliable service our customers expect while at the same time delivering additional sources of clean energy policy makers have mandated."

See *New rate case*, on back



Kathryn Dindo elected to ALLETE Board of Directors

Kathryn "Kitty" Dindo, former Vice President and Chief Risk Officer of FirstEnergy Corp., has joined ALLETE's board of directors.

Dindo, 60, a business and civic leader from Akron, Ohio, was elected by ALLETE's Board of Directors at its July 21, 2009 meeting. As a former senior finance executive for two publicly traded companies, Dindo has a varied and extensive background in finance and enterprise risk.

From 2001 to 2008 she served as vice president and chief risk officer for FirstEnergy Corp., a diversified energy company serving more than 4.5 million customers in Ohio, Pennsylvania and New Jersey.

Prior to joining FirstEnergy in 1998, Dindo was vice president and chief accounting officer of Caliber Systems, Inc, which was acquired by FedEx Corp. Before moving to Caliber, she was an audit partner at Ernst & Young in Akron, serving as client service executive.

Dindo is a member of the Board of Directors of The J.M. Smucker Company, and chair of its audit committee. She is also a board member of Bush Brothers and Company, a privately held company, where she serves as audit committee chair. Dindo holds a Bachelor of Science degree in Accounting from the University of Akron.

MPUC unanimously approves first phase of Bison I wind project in North Dakota

Minnesota Power's plans to build the first phase of a major wind energy center in North Dakota won preliminary regulatory approval in two states during the summer.

The Minnesota Public Utilities Commission by a 5-0 vote on July 2 approved Minnesota Power's plan to build the 75.9-megawatt (MW) Bison I Wind Project near Center, N.D.

Bison I is now eligible for current cost recovery, which Minnesota Power will petition for in the near future, according to Vice President - MP Regulatory and Legislative Affairs Margaret Hodnik.

MP filed a petition with the MPUC March 23 requesting approval for investment and expenditures in the project to be recovered through the company's Renewable Resources Rider under Minnesota Statutes.

After receiving comments from the state's Office of Energy Security and the Large Power Intervenor Group, the commission decided the project was prudent, reasonable and cost-effective.

The project will harness thirty-three 2.3-MW Siemens turbines with an annual energy output of approximately 300,000 megawatt-hours. The capacity factor of Bison I is estimated to be about 45 percent, with a project life expected to be 35 years. Commercial operation of the first of two phases of the project is anticipated in December of 2010.

MP's petition also requested approval of investments for upgrading the DC transmission line connecting the Square Butte substation in Center, N.D. to Minnesota Power's Arrowhead Substation in Hermantown, Minn.

On July 30, the Morton County, N.D. Planning and Zoning Commission unanimously recommended approval of a special use permit for MP's Bison I wind installation, which will straddle the Morton-Oliver County line in North Dakota. The Morton County Board of Commissioners followed that recommendation and approved the permit Aug. 11.

The Morton County segment of Bison I will eventually hold 17 of the 33 wind turbines. Bison I is located about 25 miles west of Mandan, near the town of New Salem.

A similar planning commission hearing in Oliver County, just north of Morton County, is scheduled for August 27. Obtaining local government permits are prerequisites to obtaining approval from the North Dakota Public Service Commission. MP has filed its intent to build the project with the North Dakota commission, which has scheduled the first public hearing on the Minnesota Power project for New Salem on August 25.

When Bison I commences commercial operation, expected in 2011, it will be the first wind energy facility in Morton County.

New rate case, continued from front

Ongoing investments to build the company's renewable energy portfolio to satisfy Minnesota's mandate to provide 25 percent of its energy by renewable sources by 2025 include the acquisition of an approximately \$80 million direct current (DC) transmission line. The line linking Center, N.D. with Hermantown, Minn. will deliver energy from wind generation facilities in North Dakota to the company's customers in Minnesota.

Shippar said the DC line project is a strategic fit because purchasing an existing line will cost significantly less than building a new transmission line to deliver renewable energy.

The rate increase request is also the result of significant environmental improvements at the company's largest generating facility, Boswell Energy Center in Cohasset. The company is investing more than \$300 million in a series of retrofit projects at Boswell's four generating units to improve efficiency and meet more stringent state and federal air emission requirements.

Shippar said that while operation and maintenance costs have increased as a result of capital investment projects, the company has taken steps to reduce costs in other areas without impacting customer service. Those steps include staff reductions and pay freezes for executives and management as well as aggressive cuts in discretionary spending.

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.

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