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THE

ALLETE™

INVESTOR

A NEWSLETTER FOR THE SHAREHOLDERS OF ALLETE, INC.



Millwrights from Lakehead Constructors and Minnesota Power workers inspect a new turbine rotor at the heart of a major rebuild of Boswell's Unit 4 generator.

Boswell 4 maintenance outage completed

The largest, most comprehensive planned outage at Unit 4 of Minnesota Power's Boswell Energy Center since it was commissioned in 1980 was successfully completed in November.

Unit 4 emerged as a more powerful and efficient generator as 93 separate projects overseen by 17 managers were undertaken by about 600 contract employees. Installation of a more efficient steam turbine resulted in more power capacity at Unit 4.

While fine tuning and performance testing are still underway, Unit 4 has already achieved an increase of about 40 megawatts (MW) more than the 520 MW typical at Unit 4 before the outage work began, according to Thermal Business Operations Manager Madelen Schuemann.

In addition to the new steam turbine, other major tasks included boiler tube replacements, emission control upgrades and additions, a generator rotor rewind, an exciter rebuild, the replacement of condenser tubes and cooling tower work.

Planning for the massive project began in 2006 with creation of a Boswell team charged with planning for improvements required to sustain operations over the long term, while anticipating additional environmental regulatory requirements during their formulation.

"As our industry transforms, many legislative and regulatory efforts are in development," said Al Rudeck, vice president of generation. "Amid this uncertainty, Minnesota Power's investment strategy continues to be delivering reliable, cleaner and more efficient operations in a least-cost manner."

One of the bright spots in the start-up of Unit 4 was the use of natural gas for ignition, rather than fuel oil. Natural gas burns cleaner and is currently a better value for customers in terms of cost per energy unit.

Minnesota Power worked within tight timelines to complete required air permit amendments associated with reduced emissions resulting from the improvements at Unit 4. Safety was a watchword of the planned outage, with only one recordable lost-time injury to a contractor during 300,000 man-hours of construction labor.

A new strategic investment in transmission announced

Minnesota Power will have a major financial stake in a new transmission line in central Minnesota. It's the first project approved for the CapX2020 transmission expansion initiative.

The 28-mile 345 kilovolt transmission line between Monticello and St. Cloud was granted a route permit from the Minnesota Public Utilities Commission (MPUC) in July 2010; construction of the project is expected to be complete in late 2011. The 210-mile 345 kilovolt transmission line from St. Cloud to Fargo is expected to be complete by 2015.

"This new project will help strengthen the reliability of the electric grid across our region and is a part of ALLETE's strategy of investing in energy-centric growth," said Alan R. Hodnik, president and CEO of ALLETE. "We plan to participate in additional CapX2020 projects going forward."

CapX2020 is a joint initiative of 11 transmission-owning utilities in Minnesota and the surrounding region formed to upgrade and expand the electric transmission grid. New lines are being proposed to ensure reliability, meet long-term growth and to help meet Minnesota's mandate of 25 percent renewable energy by 2025.

Minnesota Power plans to initially participate in three CapX2020 projects, the Fargo-St. Cloud project, the Monticello-St. Cloud project and the 230 kilovolt line between Bemidji and Minnesota Power's Boswell Energy Center near Grand Rapids. Based on projected costs of the three transmission lines and the percentage agreements among participating utilities, Minnesota Power plans to invest between \$100 million and \$125 million in the CapX2020 initiative through 2015.

CapX2020 project costs are eligible for current cost recovery; the company has petitioned the MPUC to recover project costs under a transmission cost recovery rider.

DEAR SHAREHOLDERS



It's been a satisfying year for us here at ALLETE as our customers began to rebound from a prolonged recession and our employees accomplished landmark tasks on several fronts. Your corporation is evolving in a positive way as resourceful and energetic new employees join our ranks, bringing with them new ways of seeing the future.

This year we reinforced ALLETE's identity as an energy business first and foremost. Yet we're an evolving corporation breaking out of the mold of a utility company strictly limited to electric production and delivery in a narrowly defined area. We're now producing renewable energy in North Dakota and transporting it where it's needed across hundreds of miles of a newly-purchased transmission line. We're investing in key transmission resources, not only outside of Minnesota Power's service territory, but across the whole Upper Midwest Region.

Speaking on behalf of our employees, I wish you the happiest of holidays as 2010 comes to a close. As usual, thanks for your investment.

A handwritten signature in black ink, appearing to read "A. Hodnik".

Sincerely,
Alan R. Hodnik
President and Chief Executive Officer

MPUC orders rate increase of \$54 million; reconsideration next

The Minnesota Public Utilities Commission on Nov. 2 issued a written order granting the company a retail electric rate increase of \$53,530,424 for Minnesota Power, but adjusted the company's proposed rate design by ordering large industrial customers to bear the lion's share of the increase.

Citing economic challenges, the Commission said it could not support a residential increase of the 15 percent magnitude the company was seeking, instead ordering a 3.9 percent overall rate increase for residential customers, while approving a 16 percent overall increase for large industrial customers.

Deliberation and voting on MP's rate case by MPUC members came on Sept. 29.

MP Associate General Counsel Chris Anderson said the company is reviewing whether to seek reconsideration on portions of the order. Minnesota Power's new electric rates won't go into effect until after a reconsideration period and compliance filing period that could last until early next year.

Minnesota Power filed a request to increase rates in November of 2009. The request originally sought an additional \$81 million in rates, an amount the company lowered to \$72 million, primarily due to increased power sales to taconite customers.

Minnesota Power's major capital improvement program that includes investments in infrastructure, environmental improvements and renewable energy transport was a key driver for the rate increase request. Items ranging from costs of the company's aircraft and economic development program to pension expense, lobbying and employee compensation were also thoroughly examined for their appropriateness in rates.



An antelope poses in the midst of the new Bison Wind Energy Center near New Salem, N.D.

Bison turbines generating electricity in North Dakota

Blades are rotating and turbines are producing electricity at Minnesota Power's Bison I Wind Energy Center near New Salem, N.D. and full commissioning of the newly-constructed installation is anticipated by the end of this year.

By mid-November, ten of the wind turbine generators erected by MP and Siemens this fall were operational, and as many as eight have been turning at one time, according to Todd Simmons, Bison operations manager.

The last of the 16 turbines that make up the first phase of the Bison project was assembled Oct. 24, just over a month after the first tower base sections were set into foundations. Phase two of the \$176 million wind farm is scheduled for construction in 2011. Renewable wind energy produced at the Bison project will be transported to a substation near Duluth, Minn. by way of a 465-mile direct current transmission line purchased by ALLETE late in 2009.

Following assembly of the units in early November, about a dozen technicians employed by Siemens – the manufacturer of the 2.3-megawatt turbines – transitioned into a cabling phase and then proceeded to commissioning.

Many other projects were completed at the Bison construction site in October, including final grading of all turbine sites, spreading of topsoil and seeding and mulching disturbed areas. Additions to the 230-kilovolt Square Butte Substation were completed, and the new 230-kilovolt Bison-to-Square Butte transmission line is energized and in service.

Shareholders should consider electronic delivery of 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 the company's proxy materials online, rather than having the information mailed to them in printed form. There is an obvious savings in printing and postage costs when this information is accessed electronically, and the material can be delivered as soon as it's available. Using digital information rather than printed material holds down the amount of paper sent to landfills.

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 "Proxy electronic delivery" link under the shareholder services menu; and 4. Follow the select delivery preference prompt 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.

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.