

Attention investors: calculating tax basis will soon become easier

There's good news for investors who may be stumped by calculating cost basis in order to figure out their taxes when shares of stock are sold.

Calculating cost basis will soon become easier due to new cost basis reporting laws that require transfer agents and brokers to provide detailed information about the cost basis of stock to the Internal Revenue Service (IRS) and to taxpayers.

For ALLETE investors, these new procedures apply to stock acquired on or after January 1, 2011, referred to as a covered security. Stock acquired prior to January 1, 2011, is referred to as an uncovered security. However, if any of this stock was received as a gift or an inheritance on or after January 1, 2011, its status will change to a covered security.

Did you sell ALLETE stock in 2011? Early in 2012, you'll receive a 1099-B showing the proceeds from your sale. You will notice that this form may seem different. This will depend on whether

your sale included covered securities or uncovered securities, or a combination.

If you sold covered securities, your 1099-B will include share acquisition dates and prices, the proceeds from your sale, if the shares were held short-term or long-term, and if the sale included a wash sale and the amount. The First In, First Out (FIFO) default method will be applied unless we were informed of another preferred method.

IRS legislation does not require transfer agents or brokers to report the cost basis on uncovered securities. ALLETE investors receive year-end account statements that contain account activity for the year. Since these statements are not accumulative from year to year, it's important to retain all year-end statements in order to accurately calculate cost basis, especially for uncovered securities.

When filing their taxes, taxpayers will continue to complete Schedule D to report cost basis for short-term and long-



term capital gains and losses. You may want to consult a tax advisor for current information about methods of calculating cost basis, if you inherited or were gifted stock, or have other tax questions.

As always, it's imperative that investors retain all year-end account summaries, and other tax documentation for their tax records.



Dear Shareholders...

This edition of the ALLETE Investor offers some prime examples of why our company is excited about the potential for organic growth within our region and the capital investment prospects that come with it.

We've entered into an agreement to provide electric service to Magnetation, an innovative company that produces iron concentrate from previously mined ore. Magnetation is constructing a plant within Minnesota Power's service territory expected to be operational next year.

Magnetation is cementing partnerships with Cargill, AK Steel, Steel Dynamics and Mesabi Nugget that could lead to the construction of other production facilities within our service territory that would further increase Minnesota Power's electric load in the coming years.

In other positive news from our service territory's steel industry, Keewatin Taconite received approval on key water quality permits necessary to reopen a taconite pellet line idled for more than 30 years. This regulatory achievement could eventually lead to 60 megawatts of additional electric load for our company.

ALLETE's five-year capital plan calls for expenditures of more than \$1 billion to help reshape a cleaner generation fleet and invest in much-needed transmission improvements.

Thank you for supporting our company with your investment. All of us at ALLETE wish you a warm and wonderful holiday season.

Alan R. Hodnik
Chairman, President and Chief Executive Officer



Hub assemblies for the Bison 1B wind farm are loaded onto trucks in Duluth, Minn. in early November for transport to North Dakota.

Regulators approve cost-effective wind farm additions as Bis

Regulators in two states have cleared the way for cost recovery and construction of the second and third phases of Minnesota Power's Bison Wind Project, while workers and large cranes complete phase B of Bison 1, which is expected to be fully operational by the end of this year.

The Minnesota Public Utilities Commission (MPUC) on Oct. 20 unanimously approved Minnesota Power's investments and expenditures for its Bison 3 Wind Project near New Salem, N.D., clearing the way for the company to recover costs for the 105-megawatt wind farm through a renewable energy rider on customer bills.

In August, the MPUC approved the

investments and expenditures for the company's Bison 2 wind project, which like Bison 3, is scheduled for completion by the end of 2012, when production tax credits expire. North Dakota regulators in late summer and early fall authorized site construction on the two Bison phases.

Minnesota Power had earlier accelerated its Bison build-out, citing the tax credits and competitive wind turbine prices. The Bison project is logistically ideal from a transmission aspect and leverages a strong wind resource in North Dakota. In documents filed with the MPUC, the Minnesota Department of Commerce concluded that the cost of the Bison 3 project is significantly lower than all the comparable projects it had reviewed. It

said the Bison 3 megawatt-hour cost of \$27.94 is about 57 percent lower than the \$51 per MWh average cost for the most recently available wind projects.

In May, the Commission directed the company to give strong consideration to adding an additional 100 megawatts of wind generation beyond the Bison 2 capacity. Bison 1 is an 82-megawatt installation built in two phases. The first phase, completed a year ago, included the construction of a 22-mile transmission line and the installation of 16 wind turbines rated at 2.3 –megawatts each. Phase B, scheduled to go online yet this year, will deploy 15 direct-drive wind turbines of 3 MW each.



Minnesota Power's Nancy Norr, second from left, was among the groundbreakers at a September ceremony for Involta, which is building a \$10.5 million data center on property once owned by Minnesota Power in Duluth.



kota.

Bison 1 nears completion in North Dakota



Wind blades arrive at Bison construction site.

Bison 1 is expected to cost approximately \$177 million, of which \$158.8 million was spent through September 30, 2011. Bison 2 and Bison 3, both 105-MW projects, are expected to be completed by the end of 2012 at an estimated cost of \$160 million.

Nearly 200 employees and contractors were laboring on all three phases of the Bison project as November began. Wind generation equipment is being assembled at the Bison 1B construction site, concrete foundations are being poured at Bison 2 and preliminary road work has begun on Bison 3.

By Nov. 7, all 15 towers in Bison 1B had been erected and topped with the nacelles that house generation equipment. Rotors and blades were scheduled to be hoisted to the top of the towers in November. The goal at the adjacent Bison 2 project is to complete 20 tower foundations by year's end.

Two CapX2020 projects involving Minnesota Power push ahead

Construction began during the summer of 2011 on structures to support a new 230-kilovolt (kV) transmission line between Bemidji and Grand Rapids, Minn., while another section of new transmission line was being strung this fall with the aid of helicopters between Monticello and St. Cloud.

Both projects are part of a major initiative called CapX2020 to upgrade and expand the electric transmission grid. Minnesota Power is one of 11 transmission-owning utilities involved in the CapX2020 program.

Minnesota Power plans to initially invest in three CapX2020 transmission line projects, linking Bemidji and Grand Rapids, Monticello and St. Cloud and Fargo and St. Cloud. The company plans to invest between \$100 million and \$125 million in CapX2020 through 2015.

Chris Fleege, vice president of transmission at Minnesota Power, was among those in attendance in August for a groundbreaking ceremony at structure 77 of the Bemidji-Grand Rapids project. The 70-mile line will connect the Wilton Substation near Bemidji with Minnesota Power's Boswell Substation near Grand Rapids.

Innovative new industrial customer, Magnetation, signs new service contract with Minnesota Power

Minnesota Power in August completed an all-requirements electric service agreement to provide power to Magnetation, an innovative new company that produces iron concentrate from previously-mined ore.

Magnetation has begun construction of a facility near Taconite, Minn. that it expects to open in May of 2012. Minnesota Power anticipates a peak electric demand from Magnetation of about five to seven megawatts.

The privately-held company, founded in 2006, expects to produce 500,000 metric tons of iron concentrate in 2012 at the new plant and 800,000 tons annually thereafter, according to Larry Lehtinen, President and

CEO. The company has been producing iron concentrate from a facility in Keewatin, Minn. since February 2009.

Using a relatively simple process based on its patent-pending Rev3™ Separator, Lehtinen said he expects production to ramp up quickly at the two plants, to a total of more than a million tons of iron concentrate as soon as 2013.

Early in 2011, Magnetation reached an agreement with Cargill Inc. under which the companies will explore opportunities to develop and utilize Magnetation's proprietary mineral processing technology internationally.

Continued on Page 4

"This has been a collaborative effort from the CapX participant utilities and will be culminated with energizing the line in 2013," said Fleege. "Minnesota Power employees played a key role in the permitting of the 230 kV line."

Construction of the 28-mile 345 kV line between Monticello and St. Cloud is expected to be completed late this year. The CapX2020 utilities began deploying helicopters in August to assist in the stringing of transmission conductor (wire) from structure to structure as well as for installing supporting hardware.

In June, the MPUC approved the route permit for the Minnesota portion of the Fargo to St. Cloud project. The entire 238-mile, 345 kV line from Fargo to Monticello is expected to be in service by 2015.

Magnetation signs contract for power (continued)

Also this summer, Magnetation and Steel Dynamics, Inc, the majority owner of Mesabi Nugget Delaware, LLC, entered into a letter of intent to construct a \$50 million plant near Chisholm, Minn., to supply iron ore concentrate to Mesabi Nugget until it begins its own mining operations. Construction of the new plant is anticipated to begin in the spring of 2012, with operations expected to start in 2013. This is anticipated to be 5 to 7 MW of additional load for Minnesota Power.

In October 2011, Magnetation and integrated steelmaker AK Steel Corporation announced a joint venture, Magnetation LLC, which could lead to the construction of two facilities near Calumet and Coleraine, Minn. This partnership could result in an additional 10 to 15 MW of additional electric load for Minnesota Power. Magnetation and AK Steel have also indicated the potential for a three million ton pellet plant near the Coleraine plant, which could lead to additional Minnesota Power electric sales in 2016.

Keetac water quality permits could lead to 60 MW of additional load in 2015

United States Steel Corp. moved closer to restarting a pellet production line idled since 1980 at its Keewatin Taconite (Keetac) processing facility when the Minnesota Pollution Control Agency (MPCA) approved the project's water quality permits in October.

U.S. Steel, Minnesota Power's largest electric customer, announced its intent to restart the pellet line in February of 2008. In September of 2011, the MPCA Citizens Board approved a new air emissions permit for the facility that will make Keetac the first taconite plant in the world with a pollution control system aimed at reducing airborne mercury emissions.

Other project permits are expected to be approved and issued in the coming months, with production expected to begin in 2015. If restarted, the pellet line could bring 3.6 million tons of additional pelletmaking capability to northeastern Minnesota and could result in more than 60 MW of additional electric load.



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.

Sidoti coverage means five analysts now following ALE

Sidoti & Company initiated coverage of ALLETE stock in August with a neutral rating and a price target of \$43 per share, bringing to five the number of brokerage research firms now covering the company.

Sidoti's earnings per share projections "reflect a best-case scenario for ALLETE's resurgent Industrial segment," according to the research report it issued.

"Industrial power demand soared in 2010 as Minnesota-area mining and steel producing companies tapped the state's rich mineral reserves." The report also gave high marks to ALLETE's financial condition.

"In our view, ALE has a strong balance sheet that will accommodate self-financed growth initiatives and an attractive dividend yield," the report continued.

Sidoti's decision to initiate coverage of ALLETE follows by about a month the initiation of coverage of ALLETE by Robert W. Baird & Co. They join D.A. Davidson, CJS Securities and Williams Capital as other Wall Street "sell-side" analysts now following ALLETE stock.

"The more sell-side coverage we have, the more ALLETE is exposed to a wider base of investors," said ALLETE VP of Investor Relations Tim Thorp. Another benefit of having multiple brokerage firms analyzing the company, Thorp said, is the likelihood of a more balanced consensus view of ALLETE and its business prospects.

← *Minnesota Power's Fond du Lac hydropower facility, constructed in 1923, underwent extensive rehabilitation during the summer and fall of 2011. The company received a Department of Energy stimulus grant of \$800,000 for the project, which included replacement of the original cast-iron "water wheel," which will increase generation output.*