

ALLETE launches new company to target clean energy marketplace

ALLETE, on July 28, announced the launch of a new company, ALLETE Clean Energy, that will leverage industry knowledge and innovation to bring clean energy to customers across North America.

The new company, a wholly-owned subsidiary of ALLETE that will operate independently of the corporation's Minnesota Power regulated electric utility, intends to acquire or develop projects aimed at delivering energy with limited environmental impact.

ALLETE Clean Energy will market to electric utilities, cooperatives, municipalities, independent power marketers and large end-users. ALLETE Clean Energy expects to take advantage of the growing trend toward sustainable power and the resulting state renewable

energy standards and anticipated standards at the federal level. Eric Norberg, with more than three decades of wide-ranging

experience in the electric industry, was named president of ALLETE Clean Energy. During Norberg's tenure as Minnesota Power's senior vice president of strategy and planning, he was heavily involved in spearheading the company's development of new wind farms in Minnesota and North Dakota, and in negotiating a long-term purchase of hydropower from Manitoba Hydro in Canada.

Norberg, 53, was instrumental in a strategic asset swap that secured for Minnesota Power a 465-mile direct current transmission line to transport wind power while the company phases out a contract to move coal-based electricity over the same line.

Continued on page 2



Dear Shareholders

ALLETE has moved ahead on several fronts to put the company on a sound future course toward organic growth and energy-centric expansion while limiting our dependence on carbon-based electric generation.

In late June, Minnesota Power signed 15 municipal customers to new long-term wholesale electric service contracts. A month later, another longtime municipal customer of ours, the city of Nashwauk, Minn., reached an agreement to sell Essar Steel Minnesota all the electricity it needs to power a mine and taconite production facility expected to be operational by the end of 2012, and, potentially a finished steel plant by 2015.

In May, we contracted with Manitoba Hydro to buy 250 megawatts of electricity for 15 years beginning in 2020. To take advantage of production tax credits and a favorable wind turbine market, we accelerated our plans to construct the Bison 3 expansion of our wind generation facility in south central North Dakota. These agreements support our long-term resource strategy of providing customers with a more flexible and diverse energy supply

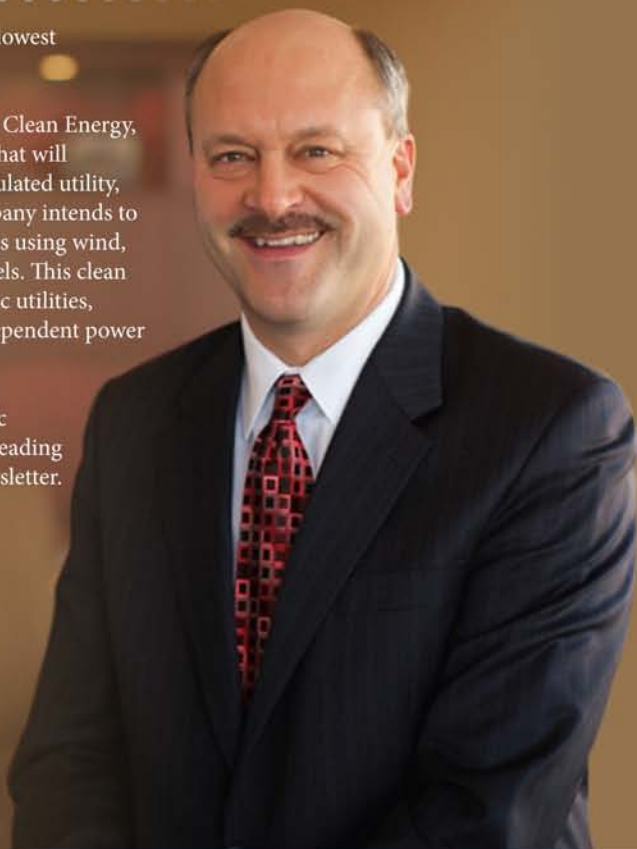
that's less carbon intensive at the lowest sustainable cost possible.

In late July we launched ALLETE Clean Energy, a new wholly-owned subsidiary that will operate independently of our regulated utility, Minnesota Power. Our new company intends to acquire or develop energy projects using wind, solar, biomass or cleaner fossil fuels. This clean energy will be marketed to electric utilities, cooperatives, municipalities, independent power marketers and large end-users.

We're excited about these strategic initiatives and hope you'll enjoy reading about them in this expanded newsletter.

As always, thank you for your investment in ALLETE.

Alan R. Hodnik
Chairman, President and
Chief Executive Officer



ALLETE Clean Energy (continued)

He was a principal in power marketing firms MPEX and Split Rock Energy, and was integrally involved in ALLETE's acquisition of the Taconite Harbor Energy Center after the closure of LTV Steel, its previous owner.

Besides pursuing wind, hydropower and biomass projects, ALLETE Clean Energy will explore other modes of electric power production involving solar energy and other new technologies. Low-pollution energy fuels such as natural gas and liquefied fossil fuels will also be explored for project development.

Norberg said ALLETE Clean Energy is pursuing strategic partnerships, that could help the new company gain entry into clean energy markets, lend complementary skills and resources to the enterprise and share in financial risk. ALLETE Clean Energy is initially targeting capital projects in the range of \$50 million to \$150 million that could be developed or acquired.



ALLETE Board of Directors visit site of Bison I, II, III wind projects in New Salem, North Dakota. (back row) Bruce Stender, Sidney Emery, Jr., Len Rodman, Al Hodnik, Don Shippar, James Haines, Jr., James Hoolihan, (front row) Kathleen Brekken, Madeleine Ludlow, Heidi Eddins, Douglas Neve, Kitty Dindo.

ALLETE recognized for gender diversity by Boston based "2020 Women" group

ALLETE has been recognized by a national organization as a winning "W Company" because of the high percentage of women on its board of directors.

Last month, ALLETE Chairman, President and CEO Al Hodnik was informed that the Boston-based "2020 Women on Boards" group had recognized ALLETE for reaching and exceeding the 20 percent threshold.

ALLETE was listed on the 2020WOB.com Web site directory along with other companies whose boards are made up of at least 20 percent women. ALLETE's board is made up of 33 percent women; four of its 12 directors are female: Kathleen Brekken, Kathryn Dindo, Heidi Eddins and Madeleine Ludlow.

A non-profit grassroots campaign, 2020 Women on Boards is committed to increasing the percentage of women who serve on public company boards to 20 percent or greater by the year 2020.



Artist's rendering of Manitoba Hydro's proposed Conawapa Dam.

Hydropower purchase agreement allows MP to 'store' wind energy

Minnesota Power and Manitoba Hydro in May signed a long-term power purchase agreement that will reduce carbon emissions for the utility division of ALLETE, provide the lowest-cost energy resource for consumers and introduce a unique way to "store" premier wind energy generated in North Dakota through hydroelectric reserves.

Manitoba Hydro, a Canadian Crown Corporation owned by the Province of Manitoba and based in Winnipeg, produces most of its power from hydroelectric stations in the northern reaches of the province.

For Minnesota Power, the purchase fits the Duluth-based utility's strategy of lessening its dependence on carbon-based generation. Buying hydroelectric power from Manitoba Hydro is the lowest-cost option for meeting the electric demands of its customers in the 2020 timeframe.

The agreement, subject to regulatory approval, calls for Manitoba Hydro to sell 250 megawatts (MW) of electricity to Minnesota Power for 15 years beginning in 2020. A unique aspect of the power purchase agreement is the inclusion of a "wind storage" provision that entitles Minnesota Power to transmit electric energy northward from its wind farms in North Dakota when wind production is high or electric loads are low.

When Minnesota Power transmits power northward, Manitoba Hydro will absorb it into its system – in essence storing the wind power – using the Manitoba system as a rechargeable battery.

This wind storage provision will allow Minnesota Power to balance its energy position and maximize the value of wind resources now under development in North Dakota.

The agreement provides for construction of additional transmission capacity between Manitoba and the U.S. Investing in transmission infrastructure is a key strategic element for

Continued on page 3

MP's wholesale electric sales to increase: Nashwauk signs contract with Essar Steel

Essar Steel Minnesota has signed a long-term agreement to purchase the electricity it needs to operate a taconite mine, processing plant, and later a steel mill, from the city of Nashwauk, Minn., which obtains its electric power from Minnesota Power.

Based in India, Essar is a global producer of steel with operations in Canada, the U.S., Asia and the Middle East. Essar Steel Minnesota is building a state-of-the-art open pit mine, concentrator and pellet plant in Nashwauk, and a planned direct reduced iron facility and a plant to cast steel slabs.

The estimated 70-110 megawatt taconite plant is expected to be operational by the end of 2012 and the steel plant is expected to begin operations by the end of 2015.

Minnesota Power has for many years provided electricity to Nashwauk, a city with no electric generation of its own on the west end of Minnesota's Mesabi Iron Range. The Duluth-based electric utility signed a new long-term municipal agreement to provide power to Nashwauk in February 2011.

Nashwauk is one of 16 municipalities in northern Minnesota that buys electricity on a wholesale basis from Minnesota Power. The electric service agreement between Essar and Nashwauk, finalized July 27, runs through at least April 30, 2022.

ALLETE Chairman, President and CEO Al Hodnik spoke at a press conference July 28 in Nashwauk at the invitation of Mayor William Hendricks. Steve Rutherford, project director for Essar Steel Minnesota, and Milt Latvala, chairman of the Nashwauk Public Utilities Commission, also spoke at the media event.

Rutherford, the Essar Project Director, said that "securing this agreement is a critical step in keeping our project on track. We value the rich experience both Minnesota Power and the city of Nashwauk have in mining and ore processing. As a company that is committed to minimizing its greenhouse gas footprint, Essar applauds Minnesota Power's efforts to expand its supply portfolio to include more wind and hydroelectric power."

In addition to the Nashwauk-Essar electric service contract, a three-party Facilities Construction Agreement involving Essar, Nashwauk and Minnesota Power addresses the transmission investments needed to bring large amounts of electricity to the new facilities. Water, sewer, transportation and other infrastructure work has been completed in the Nashwauk area in preparation for major construction.



Madhu Vuppuluri, Steve Rutherford and Al Hodnik survey the Essar site in Nashwauk, Minnesota.

Minnesota Power reaches long-term agreement with municipals

Minnesota Power in late June reached agreement with 15 Minnesota municipal customers on new wholesale electric service contracts that extend through June 30, 2019.

The municipal electric service contracts continue using formula-based electric rates authorized by the Federal Energy Regulatory Commission. Taken in total, the municipal contracts of Minnesota Power represent approximately 300 megawatts.

Minnesota Power provides wholesale electric service to the municipalities of Virginia, Hibbing, Grand Rapids, Brainerd, Ely, Aitkin, Two Harbors, Proctor, Biwabik, Buhl, Gilbert, Keewatin, Mountain Iron, Pierz, Randall and Nashwauk (which signed a new long-term agreement with Minnesota Power in February).

The company also provides wholesale electric service to Superior Water, Light & Power Co. in Superior, Wis. and to Dahlberg Light and Power, based in Solon Springs, Wis.

Hydropower purchase (continued)

ALLETE, which has an eight percent ownership interest in the American Transmission Company and is actively involved in the CapX2020 transmission initiative in the Upper Midwest.

Discussions on various transmission configurations are underway between the two utilities and the Midwest Independent System Operator (MISO).

Manitoba Hydro plans to construct two new hydroelectric stations on the upper Nelson River near Hudson Bay: the Keyask and the Conawapa installations. These new hydropower facilities would add another 1,930 MW of electricity to the Manitoba Hydro system.



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N.D. wind project timetable accelerated

Minnesota Power has accelerated its plans to build a third wind energy project in North Dakota, citing a competitive turbine market, federal production tax credits and regulatory support as factors for moving up its timeline.

The company submitted a plan to the Minnesota Public Utilities Commission in June to build a 105 megawatt, \$157 million wind farm in Oliver and Morton Counties in central North Dakota. The 35 turbine Bison 3 project will be constructed in the same proximity as the Company's Bison 1 and 2 wind projects. Coupled with the company's scheduled biomass and current wind projects, Bison 3 will move the company further toward its goal of achieving the State of Minnesota's mandate of 25 percent renewable energy by 2025.

In approving Minnesota Power's long-term resource plan, the Minnesota Public Utilities Commission in May ordered the company to strongly consider adding more wind to its renewable portfolio before the expiration of federal production tax credits on December 31, 2012.

The company is currently building two other wind developments in North Dakota, where wind resources are considered among the best in the country. The 82 MW Bison 1 is halfway complete, with the second phase expected to be online at the end of 2011. Bison 2, like Bison 3 a 105 MW wind development, will be constructed concurrently with Bison 3; both projects are scheduled to be in service in 2012. Bison 2 and 3 will begin construction upon receipt of necessary permits and approvals.

The energy from all three projects will be delivered to Minnesota Power customers via a direct current transmission line, which stretches 465 miles from the Square Butte Substation in Center, N.D. to the company's Arrowhead Substation near Duluth. The addition of Bison 3 will move the company within five percent of achieving the state's "25 by 2025" mandate in the year 2020.

The project will have little to no immediate impact on base electric rates. Over time, the addition of wind energy is expected to lower costs to customers by offsetting power purchases in the wholesale market. Minnesota Power will seek current cost recovery eligibility for Bison 3, which, if approved, will occur under the Company's Renewable Resources Rider.

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.