United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

(Mark One)

R Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended **December 31, 2008**

£ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. **1-3548**
ALLETE, Inc.
(Exact name of registrant as specified in its charter)

Minnesota	**41-0418150**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

30 West Superior Street, Duluth, Minnesota 55802-2093
(Address of principal executive offices, including zip code)
(218) 279-5000
(Registrant's telephone number, including area code)
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Stock Exchange on Which Registered
Common Stock, without par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes R No £

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes £ No R

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes R No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. R

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act).
Large Accelerated Filer R Accelerated Filer £ Non-Accelerated Filer £ Smaller Reporting Company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes £ No R

The aggregate market value of voting stock held by nonaffiliates on June 30, 2008, was $1,293,602,666.

As of February 1, 2009, there were 32,624,876 shares of ALLETE Common Stock, without par value, outstanding.

Documents Incorporated By Reference
Portions of the Proxy Statement for the 2009 Annual Meeting of Shareholders are incorporated by reference in Part III.

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Definitions

The following abbreviations or acronyms are used in the text. References in this report to “we,” “us” and “our” are to ALLETE, Inc. and its subsidiaries, collectively.

Abbreviation or Acronym	Term
AICPA	American Institute of Certified Public Accountants
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, LLC and its subsidiaries
AFUDC	Allowance for Funds Used During Construction - the cost of both debt and equity funds used to finance utility plant additions during construction periods
AREA	Arrowhead Regional Emission Abatement
ATC	American Transmission Company LLC
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
Company	ALLETE, Inc. and its subsidiaries
DRI	Development of Regional Impact
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Form 8-K	ALLETE Current Report on Form 8-K
Form 10-K	ALLETE Annual Report on Form 10-K
Form 10-Q	ALLETE Quarterly Report on Form 10-Q
FSP	Financial Accounting Standards Board Staff Position
GAAP	Accounting Principles Generally Accepted in the United States
GHG	Greenhouse Gas
Heating Degree Days	Measure of the extent to which the average daily temperature is below 65 degrees Fahrenheit, increasing demand for heating
Invest Direct	ALLETE’s Direct Stock Purchase and Dividend Reinvestment Plan
kV	Kilovolt(s)
Laskin	Laskin Energy Center
Manitoba Hydro	Manitoba Hydro-Electric Board
MBtu	Million British thermal units
Mesabi Nugget	Mesabi Nugget Delaware, LLC
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midwest Independent Transmission System Operator, Inc.
Moody’s	Moody’s Investors Service, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
NextEra Energy	NextEra Energy Resources, LLC
Non-residential	Retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional
NO_X	Nitrogen Oxide
Note ___	Note ___ to the consolidated financial statements in this Form 10-K
NPDES	National Pollutant Discharge Elimination System
NYSE	New York Stock Exchange
OES	Minnesota Office of Energy Security

Abbreviation or Acronym	Term
Oliver Wind I	Oliver Wind I Energy Center
Oliver Wind II	Oliver Wind II Energy Center
Palm Coast Park	Palm Coast Park development project in Florida
Palm Coast Park District	Palm Coast Park Community Development District
PolyMet Mining	PolyMet Mining Corp.
PSCW	Public Service Commission of Wisconsin
PUHCA 2005	Public Utility Holding Company Act of 2005
Rainy River Energy	Rainy River Energy Corporation - Wisconsin
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards No.
SO_2	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative
Standard & Poor's	Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
Taconite Ridge	Taconite Ridge Energy Center
Town Center	Town Center at Palm Coast development project in Florida
Town Center District	Town Center at Palm Coast Community Development District
WDNR	Wisconsin Department of Natural Resources

Safe Harbor Statement
Under the Private Securities Litigation Reform Act of 1995

Statements in this report that are not statements of historical facts may be considered “forward-looking” and, accordingly, involve risks and uncertainties that could cause actual results to differ materially from those discussed. Although such forward-looking statements have been made in good faith and are based on reasonable assumptions, there is no assurance that the expected results will be achieved. Any statements that express, or involve discussions as to, future expectations, risks, beliefs, plans, objectives, assumptions, events, uncertainties, financial performance or growth strategies (often, but not always, through the use of words or phrases such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “projects,” “will likely results,” “will continue, “ “could,” “may,” “potential,” “target,” “outlook” or words of similar meaning) are not statements of historical facts and may be forward-looking.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are hereby filing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected, or expectations suggested, in forward-looking statements made by or on behalf of ALLETE in this Annual Report on Form 10-K, in presentations, on our website, in response to questions or otherwise. These statements are qualified in their entirety by reference to, and are accompanied by, the following important factors, in addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements:

- our ability to successfully implement our strategic objectives;
- our ability to manage expansion and integrate acquisitions;
- prevailing governmental policies, regulatory actions, and legislation including those of the United States Congress, state legislatures, the FERC, the MPUC, the PSCW, and various local and county regulators, and city administrators, about allowed rates of return, financings, industry and rate structure, acquisition and disposal of assets and facilities, real estate development, operation and construction of plant facilities, recovery of purchased power, capital investments and other expenses, present or prospective wholesale and retail competition (including but not limited to transmission costs), zoning and permitting of land held for resale and environmental matters;
- the potential impacts of climate change and future regulation to restrict the emissions of GHG on our Regulated Operations;
- effects of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with laws and regulations;
- weather conditions;
- natural disasters and pandemic diseases;
- war and acts of terrorism;
- wholesale power market conditions;
- population growth rates and demographic patterns;
- effects of competition, including competition for retail and wholesale customers;
- changes in the real estate market;
- pricing and transportation of commodities;
- changes in tax rates or policies or in rates of inflation;
- project delays or changes in project costs;
- availability and management of construction materials and skilled construction labor for capital projects;
- changes in operating expenses**,** capital and land development expenditures;
- global and domestic economic conditions affecting us or our customers;
- our ability to access capital markets and bank financing;
- changes in interest rates and the performance of the financial markets;
- our ability to replace a mature workforce and retain qualified, skilled and experienced personnel; and
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this report are discussed in Item 1A under the heading “Risk Factors” beginning on page 20 of this Form 10-K. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by us in this Form 10-K and in our other reports filed with the SEC that attempt to advise interested parties of the factors that may affect our business.

Part I

Item 1. Business

In the fourth quarter of 2008, we made changes to our reportable business segments which are now comprised of Regulated Operations and Investments and Other. For additional information about our business segments, see Note 2.

Regulated Operations includes our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. Minnesota Power provides regulated utility electric service in northeastern Minnesota to 142,000 retail customers and wholesale electric service to 16 municipalities. SWL&P provides regulated electric service, natural gas and water service in northwestern Wisconsin to 15,000 electric customers, 12,000 natural gas customers and 10,000 water customers. Our regulated utility operations include retail and wholesale activities under the jurisdiction of state and federal regulatory authorities. (See Item 1. Business – Regulated Operations – Regulatory Matters.)

Investments and Other is comprised primarily of BNI Coal, our coal mining operations in North Dakota, and ALLETE Properties, our Florida real estate business. This segment also includes emerging technology investments ($7.4 million at December 31, 2008), a small amount of non-rate base generation, approximately 7,000 acres of land for sale in Minnesota, and earnings on cash and short-term investments.

ALLETE is incorporated under the laws of Minnesota. Our corporate headquarters are in Duluth, Minnesota. Statistical information is presented as of December 31, 2008, unless otherwise indicated. All subsidiaries are wholly owned unless otherwise specifically indicated. References in this report to “we,” “us” and “our” are to ALLETE and its subsidiaries, collectively.

Year Ended December 31	2008	2007	2006
Consolidated Operating Revenue – Millions	$801.0	$841.7	$767.1
Percentage of Consolidated Operating Revenue			
Regulated Operations	89	86	83
Investments and Other	11	14	17
	100%	100%	100%

For a detailed discussion of results of operations and trends, see Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations. For business segment information, see Note 1. Operations and Significant Accounting Policies and Note 2. Business Segments.

REGULATED OPERATIONS

Electric Sales / Customers

Regulated Utility Electric Sales Year Ended December 31 Millions of Kilowatt-hours	2008	%	2007	%	2006	%
Retail and Municipals						
Residential	1,172	9	1,141	9	1,100	9
Commercial	1,454	12	1,456	11	1,420	11
Industrial	7,192	57	7,054	55	7,206	56
Municipals (FERC rate regulated)	1,002	8	1,009	8	905	7
	10,820	**86**	**10,660**	**83**	**10,631**	**83**
Other Power Suppliers	1,800	14	2,157	17	2,153	17
	12,620	**100**	**12,817**	**100**	**12,784**	**100**

Industrial Customers. In 2008, our industrial customers represented 57 percent of total regulated utility kilowatt-hour sales. Our industrial customers are primarily in the taconite, paper, pulp, wood products and pipeline industries.

Industrial Customer Electric Sales **Year Ended December 31** **Millions of Kilowatt-hours**	**2008**	**%**	**2007**	**%**	**2006**	**%**
Taconite Producers	4,579	64	4,408	62	4,517	63
Paper, Pulp and Wood Products	1,567	22	1,613	23	1,689	23
Pipelines	582	8	562	8	550	8
Other Industrial	464	6	471	7	450	6
	7,192	**100**	**7,054**	**100**	**7,206**	**100**

Approximately 60 percent of the ore consumed by integrated steel facilities in the United States originates from six taconite customers of Minnesota Power, which represent 4,579 kilowatt-hours, or 64 percent, of our total industrial sales in 2008. Taconite, an iron-bearing rock of relatively low iron content, is abundantly available in Minnesota and an important domestic source of raw material for the steel industry. Taconite processing plants use large quantities of electric power to grind the iron-bearing rock, and agglomerate and pelletize the iron particles into taconite pellets. Strong worldwide steel demand, driven largely by extensive infrastructure development in China, resulted in very robust world iron ore demand and steel pricing for nearly a six-year period which lasted through the summer of 2008. Beginning in the fall of 2008, worldwide steel producers began to dramatically cut steel production in response to reduced demand driven largely by the world credit situation. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Outlook.)

In addition to serving the taconite industry, Minnesota Power also serves a number of customers in the paper, pulp and wood products industry, which represent 1,567 kilowatt-hours, or 22 percent, of our total industrial sales in 2008. In total, we serve four major paper and pulp mills directly and one paper mill indirectly by providing wholesale service to the retail provider of the mill. Minnesota Power also serves three wood product manufacturers.

Minnesota Power's paper and pulp customers ran at, or very near, full capacity for the majority of 2008 despite the fact that the industry continued to face high fiber, chemical, and energy costs as well as competition from exports in certain grades of paper products. Minnesota Power's customers benefited from the temporary or permanent idling of plants both in North America at mills other than those served by Minnesota Power and the idling of plants in Europe, as well as continued (but declining) strength of the Canadian dollar and the Euro which has reduced imports both from Canada and Europe.

The pipeline industry is the third key industrial segment served by Minnesota Power with services provided to two crude oil pipelines and one refinery, which represent 582 kilowatt-hours, or 8 percent, of our total industrial sales in 2008. These customers have a common reliance on the importation of Canadian crude oil. After near capacity operations in 2006, 2007, and 2008, both pipeline operators are executing expansion plans to transport Western Canadian crude oil reserves (Alberta Oil Sands) to United States markets. Access to traditional Midwest markets is being expanded to Southern markets as the Canadian supply is displacing domestic production and deliveries imported from the Gulf Coast.

Large Power Customer Contracts. Minnesota Power has contracts with 12 Large Power Customers, 11 of which require 10 MWs or more of generating capacity and one that requires at least 8 MWs of generating capacity. These customers consist of six taconite producing facilities (two of which are owned by one company and are served under a single contract), four paper and pulp mills, two pipeline companies and one manufacturer.

Large Power Customer contracts require Minnesota Power to have a certain amount of generating capacity available. In turn, each Large Power Customer is required to pay a minimum monthly demand charge that covers the fixed costs associated with having this capacity available to serve the customer, including a return on common equity. Most contracts allow customers to establish the level of megawatts subject to a demand charge on a four-month basis and require that a portion of their megawatt needs be committed on a take-or-pay basis for at least a portion of the agreement. In addition to the demand charge, each Large Power Customer is billed an energy charge for each kilowatt-hour used that recovers the variable costs incurred in generating electricity. Four of the Large Power Customers have interruptible service which provides a discounted demand rate for the ability to interrupt the customers during system emergencies. Minnesota Power also provides incremental production service for customer demand levels above the contractual take-or-pay levels. There is no demand charge for this service and energy is priced at an increment above Minnesota Power's cost. Incremental production service is interruptible.

All contracts with Large Power Customers continue past the contract termination date unless the required advance notice of cancellation has been given. The advance notice of cancellation varies from one to four years. Such contracts minimize the impact on earnings that otherwise would result from significant reductions in kilowatt-hour sales to such customers. Large Power Customers are required to take all of their purchased electric service requirements from Minnesota Power for the duration of their contracts. The rates and corresponding revenue associated with capacity and energy provided under these contracts are subject to change through the same regulatory process governing all retail electric rates. (See Regulatory Matters – Electric Rates)

REGULATED OPERATIONS (Continued)
Large Power Customers (Continued)

Minnesota Power, as permitted by the MPUC, requires its taconite-producing Large Power Customers to pay weekly for electric usage based on monthly energy usage estimates. The customers receive estimated bills based on Minnesota Power's prediction of the customer's energy usage, forecasted energy prices and fuel clause adjustment estimates. Minnesota Power's five taconite-producing Large Power Customers have generally predictable energy usage on a week-to-week basis, which makes the variance between the estimated usage and actual usage small.

Contract Status for Minnesota Power Large Power Customers
As of February 1, 2009

Customer	Industry	Location	Ownership	Earliest Termination Date
Hibbing Taconite Co. *(a)*	Taconite	Hibbing, MN	62.3% ArcelorMittal USA Inc. 23% Cliffs Natural Resources Inc. 14.7% United States Steel Corporation	December 31, 2015
ArcelorMittal USA – Minorca Mine *(b)*	Taconite	Virginia, MN	ArcelorMittal USA Inc.	February 28, 2013
United States Steel Corporation (USS – Minnesota Ore) *(c)*	Taconite	Mt. Iron, MN and Keewatin, MN	United States Steel Corporation	October 31, 2013
United Taconite LLC *(a)*	Taconite	Eveleth, MN	Cliffs Natural Resources Inc.	December 31, 2015
UPM, Blandin Paper Mill *(b)*	Paper	Grand Rapids, MN	UPM-Kymmene Corporation	February 28, 2013
Boise White Paper, LLC *(d)*	Paper	International Falls, MN	Boise Paper Holdings, LLC	December 31, 2013
Sappi Cloquet LLC *(b)*	Paper and Pulp	Cloquet, MN	Sappi Limited	February 28, 2013
NewPage Corporation – Duluth Mills	Paper and Pulp	Duluth, MN	NewPage Corporation	August 31, 2013
USG Interiors, Inc. *(e)*	Manufacturer	Cloquet, MN	USG Corporation	December 31, 2009
Enbridge Energy Company, Limited Partnership *(e)*	Pipeline	Deer River, MN Floodwood, MN	Enbridge Energy Company, Limited Partnership	June 30, 2009
Minnesota Pipeline Company *(e)*	Pipeline	Staples, MN Little Falls, MN Park Rapids, MN	60% Koch Pipeline Co. L.P. 40% Marathon Ashland Petroleum LLC	April 7, 2009

(a) Contract extensions at Hibbing Taconite Co. and United Taconite LLC are pending final approval from the MPUC.
(b) The contract will terminate four years from the date of written notice from either Minnesota Power or the customer. No notice of contract cancellation has been given by either party. Thus, the earliest date of cancellation is February 28, 2013.
(c) United States Steel Corporation includes the Minntac Plant in Mountain Iron, MN and the Keewatin Taconite Plant in Keewatin, MN.
(d) A contract amendment has been filed with the MPUC which provides for an extension of the agreement through December 31, 2013.
(e) Contracts with USG Interiors, Inc., Minnesota Pipeline Company, and Enbridge Energy Company are all in cancellation periods effective on or before December 31, 2009; new contracts are expected to be agreed upon prior to expiration.

In March 2008, Minnesota Power signed a new contract with Northshore Mining Company to meet additional load requirements. The contract was approved by the MPUC and runs through at least June 30, 2011.

In September 2008, Cliffs Natural Resources Inc. (Cliffs) and Minnesota Power signed new contracts for service to Hibbing Taconite Co. and United Taconite LLC. These electric service agreements, which are pending final MPUC approval, extend the existing contract terms out to at least December 31, 2015.

REGULATED OPERATIONS (Continued)

Residential and Commercial Customers. In 2008, our residential and commercial customers represented 21 percent of total regulated utility kilowatt-hour sales. Minnesota Power provides regulated utility electric service in northeastern Minnesota to approximately 142,000 residential and commercial customers. SWL&P provides regulated electric service, natural gas and water service in northwestern Wisconsin to 15,000 electric customers, 12,000 natural gas customers and 10,000 water customers.

Municipal Customers. In 2008, our municipal customers represented 8 percent of total regulated utility kilowatt-hour sales. Our municipal customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. The FERC has jurisdiction over our wholesale electric service, tariff rates, and operations. In 2008 Minnesota Power entered into new contracts with all of our municipal customers with the exception of one small customer whose contract is now in the cancellation period. The new contracts transition each customer to formula based rates, which means rates can be adjusted annually based on changes in costs. The new agreement with the private utility in Wisconsin is subject to PSCW approval. In November 2008, we filed a request with the FERC to implement the formula based rate provision in the new contracts. We anticipate final resolution and implementation of new rates in the first quarter of 2009.

Other Power Suppliers. The Company also enters into off system sales with Other Power Suppliers. These sales are dependent upon the availability of generation and are sold at market based prices into the MISO market on a daily basis or through bilateral agreements of various durations.

Approximately 200 MWs of capacity and energy from our Taconite Harbor facility in northern Minnesota has been sold through two sales contracts totaling 175 MWs (201 MWs including a 15 percent reserve), which were effective May 1, 2005, and expire on April 30, 2010. Both contracts contain fixed monthly capacity charges and fixed minimum energy charges. One contract provides for an annual escalator to the energy charge based on increases in our cost of coal, subject to a small minimum annual escalation. The other contract provides that the energy charge will be the greater of the fixed minimum charge or an annual amount based on the variable production cost of a combined-cycle, natural gas unit. Our exposure in the event of a full or partial outage at our Taconite Harbor facility is significantly limited under both contracts. When the buyer is notified at least two months prior to an outage, there is no liability. Outages with less than two months notice are subject to an annual duration limitation typical of this type of contract. These contracts qualify for the normal purchase normal sale exception under SFAS 133 “Accounting for Derivative Instruments and Hedging Activities” and are not required to be recorded at fair value.

For 2009, we have sold up to 225 MWs per month to Other Power Suppliers to mitigate the demand reduction expected from our taconite customers; these contracts expire at various times during 2009.

Power Supply

In order to meet our customer’s electric requirements, we utilize a mix of Company generation and purchased power. The Company’s generation is primarily coal fired, but also includes approximately 112 MWs of hydro generation from nine hydro stations in Minnesota and 25 MWs of wind generation. Purchased power is made up of long term power purchase agreements and market purchases. The following table reflects the Company’s generating capabilities and total electrical requirements as of December 31, 2008. Minnesota Power had an annual net peak load of 1,582 MWs on January 18, 2008.

Regulated Utility Power Supply	Unit No.	Year Installed	Net Winter Capability	For the Year Ended December 31, 2008 Electric Requirements	
			MW	MWh	%
Coal-Fired					
Boswell Energy Center	1	1958	69		
in Cohasset, MN	2	1960	69		
	3	1973	350		
	4	1980	429		
			917	6,365,305	48.5%
Laskin Energy Center	1	1953	55		
in Hoyt Lakes, MN	2	1953	55		
			110	659,439	5.0
Taconite Harbor Energy Center	1	1957	73		
in Taconite Harbor, MN	2	1957	73		
	3	1967	74		
			220	1,473,239	11.2
Total Coal			1,247	8,497,983	64.7
Steam – Purchased					
Hibbard Energy Center in Duluth, MN	3 & 4	1949, 1951	45	61,635	0.5
Hydro					
Group consisting of nine stations in MN	Various		112	487,930	3.7
Wind					
Taconite Ridge *(a)*	1	2008	4	18,587	0.2
Total Company Generation			1,408	9,066,135	69.1
Long Term Purchased Power					
Square Butte burns lignite coal near Center, ND				1,943,949	14.8
Wind – Oliver County, ND				366,945	2.8
Hydro – Manitoba Hydro				390,680	3.0
Total Long Term Purchased Power				2,701,574	20.6
Other Purchased Power*(b)*				1,357,023	10.3
Total Purchased Power				4,058,597	30.9
Total			1,408	13,124,732	100.0%

(a) The nameplate capacity of Taconite Ridge is 25 MWs. The capacity reflected in the table is actual accredited capacity of the facility. Accredited capacity is the amount of net generating capability associated with the facility for which capacity credit may be obtained using limited historical data. As more data is collected, actual accredited capacity may increase.
(b) Includes short term market purchases in the MISO market and from Other Power Suppliers.

Fuel. Minnesota Power purchases low-sulfur, sub-bituminous coal from the Powder River Basin coal region located in Montana and Wyoming. Coal consumption in 2008 for electric generation at Minnesota Power's coal-fired generating stations was approximately 5.2 million tons. As of December 31, 2008, Minnesota Power had a coal inventory of about 631,000 tons. Minnesota Power's primary coal supply agreements have expiration dates that are staggered from the end of 2009 through 2011. Under these agreements, Minnesota Power has the tonnage flexibility to procure 70 percent to 100 percent of its total coal requirements. In 2009, Minnesota Power expects to obtain coal under these coal supply agreements and in the spot market. This diversity in coal supply options allows Minnesota Power to manage its coal market price and supply risk and to take advantage of favorable spot market prices. Minnesota Power continues to explore future coal supply options. We believe that adequate supplies of low-sulfur, sub-bituminous coal will continue to be available.

In 2001, Minnesota Power and Burlington Northern Santa Fe Railway Company (BNSF) entered into a long-term agreement under which BNSF transports all of Minnesota Power's coal by unit train from the Powder River Basin directly to Minnesota Power's generating facilities or to designated interconnection points. Minnesota Power also has agreements with an affiliate of the Canadian National Railway and with Midwest Energy Resources Company to transport coal from BNSF interconnection points to certain Minnesota Power facilities.

On January 24, 2008, we received a letter from BNSF alleging that the Company defaulted on a material obligation under the Company's Coal Transportation Agreement (CTA). In the notice, BNSF claimed the Company underpaid approximately $1.6 million for coal transportation services in 2006 and that failure to pay such amount plus interest may result in BNSF's termination of the CTA. We believe we do not owe the amount claimed. On April 1, 2008, to ensure that BNSF did not attempt to terminate the CTA, we paid under protest the full amount claimed by BNSF and filed a demand for arbitration of the issue. On April 22, 2008, BNSF filed a counterclaim in the arbitration disputing our position that we are entitled to a refund from BNSF of $1.5 million plus interest for amounts that we overpaid for 2007 deliveries. The arbitration is proceeding in connection with the claim regarding 2006 payments and the counterclaim regarding 2007 payments, and we are unable to predict the outcome at this time. The delivered costs of fuel for the Company's generation are recoverable from Minnesota Power's utility customers through the fuel adjustment clause.

Coal Delivered to Minnesota Power **Year Ended December 31**	**2008**	**2007**	**2006**
Average Price per Ton	$22.73	$21.78	$20.19
Average Price per MBtu	$1.25	$1.20	$1.10

Long Term Purchased Power. Minnesota Power has contracts to purchase capacity and energy from various entities. The largest contract is with Square Butte. Under an agreement with Square Butte, expiring at the end of 2026, Minnesota Power is currently entitled to approximately 50 percent of the output of a 455-MW coal-fired generating unit located near Center, North Dakota. (See Note 8. Commitments, Guarantees, and Contingencies.) The Square Butte generating unit operated by Minnkota Power burns North Dakota lignite coal supplied by BNI Coal in accordance with the terms of a contract that extends through 2026. Square Butte's cost of lignite burned in 2008 was approximately $0.93 per MBtu. The lignite that has been dedicated to Square Butte by BNI Coal is located on lands essentially all of which are under private control and presently leased by BNI Coal. This lignite supply is sufficient to provide fuel for the anticipated useful life of the generating unit.

We have two wind power purchase agreements with an affiliate of NextEra Energy to purchase the output from two wind facilities, Oliver Wind I and II located near Center, North Dakota. We began purchasing the output from Oliver Wind I, a 50-MW facility, in December 2006 and the output from Oliver Wind II, a 48-MW facility in November 2007. Each agreement is for 25 years and provides for the purchase of all output from the facilities.

We currently have a 50 MW power purchase agreement with Manitoba Hydro that expires in April 2009. We have entered into an additional 50 MW power purchase agreement with Manitoba Hydro that begins May 2009 and runs through April 2015.

Transmission and Distribution

We have electric transmission and distribution lines of 500 kV (8 miles), 230 kV (605 miles), 161 kV (43 miles), 138 kV (126 miles), 115 kV (1,224 miles) and less than 115 kV (6,215 miles). We own and operate 165 substations with a total capacity of 10,179 megavoltamperes. Some of our transmission and distribution lines interconnect with other utilities.

Investment in ATC

Our wholly owned subsidiary, Rainy River Energy owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. ATC provides transmission service under rates regulated by the FERC that are set in accordance with the FERC's policy of establishing the independent operation and ownership of, and investment in, transmission facilities. We account for our investment in ATC under the equity method of accounting, pursuant to EITF 03-16, "Accounting for Investments in Limited Liability Companies." As of December 31, 2008, our equity investment balance in ATC was $76.9 million ($65.7 million at December 31, 2007).

Properties

We own office and service buildings, an energy control center, repair shops, lease offices, and storerooms in various localities. All of our electric plants are subject to mortgages, which collateralize the outstanding first mortgage bonds of Minnesota Power and SWL&P. Generally, we hold fee interest in our real properties subject only to the lien of the mortgages. Most of our electric lines are located on land not owned in fee, but are covered by appropriate easement rights or by necessary permits from governmental authorities. WPPI Energy owns 20 percent of Boswell Unit 4. WPPI Energy has the right to use our transmission line facilities to transport its share of Boswell generation. (See Note 4. Jointly-Owned Electric Facility.)

REGULATED OPERATIONS (Continued)

Regulatory Matters

We are subject to the jurisdiction of various regulatory authorities. The MPUC has regulatory authority over Minnesota Power's service area in Minnesota, retail rates, retail services, issuance of securities and other matters. The FERC has jurisdiction over the licensing of hydroelectric projects, the establishment of rates and charges for the sale of electricity for resale and transmission of electricity in interstate commerce, certain accounting and record-keeping practices and ATC. The PSCW has regulatory authority over SWL&P's retail sales of electricity, natural gas, water, issuances of securities, and other matters. The MPUC, FERC, and PSCW had regulatory authority over 62 percent, 10 percent, and 9 percent, respectively, of our 2008 consolidated operating revenue.

Electric Rates. Minnesota Power designs its electric service rates based on cost of service studies under which allocations are made to the various classes of customers. Nearly all retail sales include billing adjustment clauses, which adjust electric service rates for changes in the cost of fuel and purchased energy, recovery of current and deferred conservation improvement program expenditures and recovery of certain environmental and renewable expenditures.

Information published by the Edison Electric Institute (*Typical Bills and Average Rates Report – Winter 2008* and *Rankings – July 1, 2008*) ranked Minnesota Power as having the ninth lowest average retail rates out of 175 investor-owned utilities in the United States. According to this report, we had the lowest rates in Minnesota and in the region consisting of Iowa, Kansas, Minnesota, Missouri, North Dakota, South Dakota and Wisconsin.

Minnesota Power requires that all large industrial and commercial customers under contract specify the date when power is first required. Thereafter, the customer is generally billed monthly for at least the minimum power for which they contracted. These conditions are part of all contracts covering power to be supplied to new large industrial and commercial customers and to current customers as their contracts expire or are amended. All rates and other contract terms are subject to approval by appropriate regulatory authorities.

Minnesota Public Utilities Commission. On May 2, 2008, Minnesota Power filed a rate increase request with the MPUC seeking an average rate increase of 8.5 percent for retail customers. The rate filing seeks a return on equity of 11.15 percent, and a capital structure consisting of 54.8 percent equity and 45.2 percent debt. On an annualized basis, the requested rate increase would generate approximately $40 million in additional revenue. Interim rates were effective on August 1, 2008, and resulted in an increase for retail customers of approximately $36 million, or 7.5 percent, on an annualized basis, subject to refund pending the final rate order. Incremental revenue in 2008 from the interim retail rate increase was approximately $13 million. The transition to a new base cost of fuel coincident with interim rates resulted in the non-recovery through the fuel adjustment clause of approximately $19 million of fuel and purchased power costs incurred in 2008. We have entered into a stipulation and settlement agreement that would allow recovery of the $19 million in 2009 and which addresses specific concerns identified by interveners in the rate case; the stipulation and settlement agreement is subject to MPUC approval. The final rate order is expected in the second quarter of 2009. We cannot predict the final level of rates that may be approved by the MPUC. Prior to the May 2008 retail rate request Minnesota Power's rates were based on a 1994 MPUC retail rate order that allowed for an 11.6 percent return on equity.

Integrated Resource Plan. In October 2007, Minnesota Power filed its Integrated Resource Plan (IRP), a comprehensive estimate of future capacity needs within the Minnesota Power service territory. In October 2008, the MPUC issued an order approving our request to re-file the IRP by October 1, 2009 in order to incorporate the North Dakota wind project and otherwise update our load forecasting and modeling in the IRP. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Outlook for additional information on the North Dakota wind project.)

Minnesota Power plans to meet expected loads through approximately 2020 by adding a significant amount of renewable generation and some supporting peaking generation. We plan to add 300 to 500 megawatts of carbon-minimizing renewable energy to our generation mix. Besides the additional generation from renewable sources, Minnesota Power anticipates future supply will come from a combination of sources, including:

- "As-needed" peaking and intermediate generation facilities;
- Expiration of wholesale contracts presently in place;
- Short-term market purchases;
- Improved efficiency of existing generation and power delivery assets; and
- Expanded conservation and demand-side management initiatives.

We do not anticipate the need for new base load system generation within the Minnesota Power service territory through approximately 2020, and we project a one percent average annual growth in electric usage from our existing customers over that time frame.

AREA and Boswell Unit 3 Emission Reduction Plans. In May 2006, the MPUC authorized current cost recovery of expenditures to reduce emissions of SO_2, NO_X, and mercury emissions at Taconite Harbor and Laskin under the AREA Plan. The AREA Plan has significantly reduced emissions from Taconite Harbor and Laskin, while maintaining a reliable and reasonably-priced energy supply to meet the needs of our customers. Environmental retrofits at Laskin and Taconite Harbor Units 1 and 2 are complete and in service. The environmental regulatory requirements for Taconite Harbor Unit 3 are pending finalization of the Minnesota Regional Haze implementation plan by the MPCA. We are expecting to retrofit Taconite Harbor Unit 3 by 2013 and are evaluating compliance requirements and cost recovery options for this final unit.

We are making emission reduction investments at our Boswell Unit 3 generating unit. The investments in pollution control equipment will reduce particulates, SO_2, NO_X, and mercury emissions to meet future federal and state requirements. The MPUC has authorized a cash return on construction work in progress during the construction phase in lieu of AFUDC-Equity and allows for a return on investment and current cost recovery of incremental operations and maintenance expenses once the new equipment is installed and the unit is placed back in service in late 2009. We began cost recovery on January 1, 2008. In September 2008, we filed a petition with the MPUC to approve the Boswell Unit 3 rate adjustment for 2009. If approved, new rates would allow cost recovery relating to additional investments planned for 2009.

Boswell NO_X Reduction Plan. In September 2008, we submitted to the MPCA and MPUC a $92 million environmental initiative proposing cost recovery for NO_X emission reductions from Boswell Units 1, 2, and 4. If approved by the MPUC, the Boswell NO_X Reduction Plan is expected to significantly reduce NO_X emissions from these units. In conjunction with the NO_X reduction Plan, we plan to install an efficiency upgrade to the existing turbine/generator at Boswell Unit 4 adding approximately 60 MWs of total output with no additional emissions. A second filing requesting cost recovery for the plan will be submitted to the MPUC in the first quarter of 2009.

Conservation Improvement Program (CIP). Minnesota requires electric utilities to spend a minimum of 1.5 percent of gross operating revenues from service provided in the state on energy CIPs each year. These investments are recovered from retail customers through a billing adjustment and amounts included in retail base rates. The MPUC allows utilities to accumulate, in a deferred account for future cost recovery, all CIP expenditures, as well as a carrying charge on the deferred account balance. Minnesota's Next Generation Energy Act of 2007 introduced, in addition to minimum spending requirements, an energy-saving goal of 1.5 percent of gross annual retail electric energy sales by 2010. In May 2007, an abbreviated filing was submitted and subsequently approved by the MPUC, allowing the continuation of Minnesota Power's 2006-2007 CIP biennial and related goals for one additional year, through 2008. For future program years, Minnesota Power will build upon current successful CIPs in an effort to meet the newly established 1.5 percent energy-saving goal. Minnesota Power's CIP investment goal was $3.7 million for 2008 ($3.2 million for 2007 and 2006), with actual spending of $4.8 million in 2008 ($3.9 million in 2007; $3.8 million in 2006).

Federal Energy Regulatory Commission. The FERC has jurisdiction over our wholesale electric services and operations. Minnesota Power's hydroelectric facilities, which are located in Minnesota, are also licensed by the FERC.

On February 8, 2008, the FERC approved Minnesota Power's wholesale tariff rate increase effective March 1, 2008. Minnesota Power's wholesale customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. The FERC authorized an average 10.0 percent increase for wholesale municipal customers, and an overall return on equity of 11.25 percent. Incremental revenue in 2008 from the FERC authorized wholesale rate increase was approximately $6 million.

Public Service Commission of Wisconsin. SWL&P's current retail rates are based on a December 2008 PSCW retail rate order that became effective January 1, 2009, and allows for an 11.1 percent return on common equity. The new rates reflected a 3.5 percent average increase in retail utility rates for SWL&P customers (a 13.4 percent increase in water rates, a 4.7 percent increase in electric rates, and a 0.6 percent decrease in natural gas rates). On an annualized basis, the rate increase will generate approximately $3 million in additional revenue.

Regional Organizations

Midwest Independent Transmission System Operator, Inc. Minnesota Power and SWL&P are members of MISO, a regional transmission organization. Minnesota Power and SWL&P retain ownership of their respective transmission assets and control area functions, but their transmission network is under the regional operational control of MISO, and they take and provide transmission service under the MISO open access transmission tariff. MISO continues its efforts to standardize rates, terms, and conditions of transmission service over its broad region, encompassing all or parts of 15 states and one Canadian province, and over 100,000 MWs of generating capacity.

In January 2009, MISO launched the new Ancillary Services Market (ASM) aimed at establishing a market for energy and operating reserves. In May 2008, in preparation of the new market, Minnesota Power and the other investor-owned utilities in Minnesota prepared a joint filing seeking MPUC approval for the authority to account for costs and revenues that have been instituted by the ASM market. The MPUC held a discussion-only hearing on the joint filing in December 2008, and has indicated it will likely bring the matter back before the MPUC in the first quarter of 2009.

Mid-Continent Area Power Pool (MAPP). Minnesota Power also participates in MAPP, a power pool operating in parts of eight states in the Upper Midwest and in two Canadian provinces. MAPP functions include a regional transmission committee and a generation reserve sharing pool.

Minnesota Legislation

Renewable Energy. In February 2007, Minnesota enacted a law requiring Minnesota Power to generate or procure 25 percent of our energy from renewable energy sources by 2025. The law also requires Minnesota Power to meet interim milestones of 12 percent by 2012, 17 percent by 2016, and 20 percent by 2020. The law allows the MPUC to modify or delay a standard obligation if implementation will cause significant ratepayer cost or technical reliability issues. If a utility is not in compliance with a standard, the MPUC may order the utility to construct facilities, purchase renewable energy or purchase renewable energy credits. Minnesota Power was developing and making renewable supply additions as part of its generation planning strategy prior to the enactment of this law and this activity continues.

Greenhouse Gas Reduction. In 2007, Minnesota passed legislation establishing non-binding targets for carbon dioxide reductions. This legislation establishes a goal of reducing statewide GHG emissions across all sectors to a level at least 15 percent below 2005 levels by 2015, at least 30 percent below 2005 levels by 2025, and at least 80 percent below 2005 levels by 2050. Minnesota is also participating in the Midwestern Greenhouse Gas Reduction Accord, a regional effort to develop a multi-state approach to GHG emission reductions.

We cannot predict the nature or timing of any additional GHG legislation or regulation. Although we are unable to predict the compliance costs we might incur, the costs could have a material impact on our financial results.

Competition

In August 2005, the Energy Policy Act of 2005 (EPAct 2005) was signed into law, which and enacted PUHCA 2005. PUHCA 2005 gives FERC certain authority over books and records of public utility holding companies and their affiliates. It also addresses FERC review and authorization of the allocation of costs for non-power goods, or administrative or management services when requested by a holding company system or state commission. In addition, EPAct 2005 directs the FERC to issue certain rules addressing electricity reliability, investment in energy infrastructure, fuel diversity for electric generation, promotion of energy efficiency and wise energy use.

We believe the overall impact of the EPAct 2005 on the electric utility industry has been positive and are continuing to evaluate the effects on our business as this legislation is being implemented. This federal legislation is designed to bring more certainty to energy markets in which ALLETE participates, as well as to provide investment incentives for energy efficiency, energy infrastructure (such as electric transmission lines) and energy production. The FERC has the responsibility of implementing numerous new standards as a result of the promulgation of the EPAct 2005. To date the FERC's regulatory efforts under the EPAct 2005 appear to be generally positive for the utility industry. We cannot predict the timing or substance of any future legislation or regulation.

Franchises

Minnesota Power holds franchises to construct and maintain an electric distribution and transmission system in 93 cities and towns located within its electric service territory. SWL&P holds similar franchises for electric, natural gas and/or water systems in 15 cities and towns within its service territory. The remaining cities and towns served by us do not require a franchise to operate within their boundaries. Our exclusive service territories are established by state regulatory agencies.

INVESTMENTS AND OTHER

Investments and Other is comprised primarily of BNI Coal, our coal mining operations in North Dakota, and ALLETE Properties, our Florida real estate business. This segment also includes emerging technology investments ($7.4 million at December 31, 2008), a small amount of non-rate base generation, approximately 7,000 acres of land for sale in Minnesota, and earnings on cash and short-term investments.

BNI Coal

BNI Coal operates a lignite mine in North Dakota. BNI Coal is a low-cost supplier of lignite in North Dakota, producing about 4 million tons annually. Two electric generating cooperatives, Minnkota Power and Square Butte, presently consume virtually all of BNI Coal's production of lignite under cost-plus coal supply agreements extending through 2026. (See Item 1. Business – Fuel and Note 8. Commitments, Guarantees and Contingencies.) The mining process disturbs and reclaims between 200 and 250 acres per year. Laws require that the reclaimed land be at least as productive as it was prior to mining. The average cost to reclaim one acre of land is approximately $35,000, however, depending on conditions, it could be significantly higher. Reclamation costs are included in the cost of coal passed through to customers. With lignite reserves of an estimated 600 million tons, BNI Coal has ample capacity to expand production.

ALLETE Properties

ALLETE Properties is our real estate business that has operated in Florida since 1991. Our current strategy is to complete and maintain key entitlements and infrastructure improvements which enhance values without requiring significant additional investment, and position the current property portfolio for a maximization of value and cash flow when market conditions improve.

Our two major development projects include Town Center and Palm Coast Park. A third proposed development project, Ormond Crossings, is in the permitting and planning stage. Development activities involve mainly zoning, permitting, platting, and master infrastructure construction. Development costs are financed through a combination of community development district bonds, bank loans, and internally-generated funds.

Town Center. Town Center, which is located in the city of Palm Coast, is a mixed-use development with a neo-traditional downtown core area. Construction of the major infrastructure improvements at Town Center was substantially complete at the end of 2006. At build-out, Town Center is expected to include approximately 3,200 residential units and 3.8 million square feet of various types of non-residential space. Sites have also been set aside for a new city hall, a community center, an art and entertainment center, and other public uses. Market conditions will determine how quickly Town Center builds out.

Palm Coast Park. Palm Coast Park, which is located in the city of Palm Coast, is a 4,700-acre mixed-use development. Major infrastructure construction at Palm Coast Park was substantially complete at the end of 2007. At build-out, Palm Coast Park is expected to include approximately 4,000 residential units, 3.2 million square feet of various types of non-residential space and certain public facilities. Market conditions will determine how quickly Palm Coast Park builds out.

Ormond Crossings. Ormond Crossings is an approximately 6,000-acre mixed-use development that is located in both the city of Ormond Beach in Volusia County and unincorporated Flagler County. Planning, engineering design, and permitting of the master infrastructure are ongoing. We estimate the first two phases of Ormond Crossings will include 2,500–3,200 residential units and 2.5–3.5 million square feet of various types of non-residential space. Ormond Crossings will also include approximately 2,000 acres of a regionally significant wetlands mitigation bank that was permitted by the St. Johns River Water Management District in 2008 and is expected to be permitted by the U.S. Army Corps of Engineers in 2009. Wetland mitigation credits will be used at Ormond Crossings and will be available-for-sale to other developers. Market conditions will determine when and if Ormond Crossings will be built out. We do not expect any significant activity in 2009.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for more information on ALLETE Properties' land holdings.

Seller Financing. ALLETE Properties sometimes provides seller financing. At December 31, 2008, outstanding finance receivables were $13.6 million, with maturities up to 4 years. These finance receivables accrue interest at market-based rates and are collateralized by the financed properties.

Regulation. A substantial portion of our development properties in Florida are subject to federal, state and local regulations, and restrictions that may impose significant costs or limitations on our ability to develop the properties. Much of our property is vacant land and some is located in areas where development may affect the natural habitats of various protected wildlife species or in sensitive environmental areas such as wetlands.

Non-Rate Base Generation

Non-Rate base generation consists of approximately 50 MWs of generation. In 2008, we sold 0.2 million MWh of non-rate base generation (0.2 million in 2007 and 2006).

Non-Rate Base Power Supply	Unit No.	Year Installed	Year Acquired	Net Capability
				MW
Steam				
Wood-Fired *(a)*				
Cloquet Energy Center	5	2001	2001	23
in Cloquet, MN				
Rapids Energy Center *(b)*	6 & 7	1969, 1980	2000	29
in Grand Rapids, MN				
Hydro				
Conventional Run-of-River				
Rapids Energy Center *(b)*	4 & 5	1917	2000	1
in Grand Rapids, MN				

(a) Supplemented by coal.
(b) The net generation is primarily dedicated to the needs of one customer.

Other

Minnesota Land. We have about 7,000 acres of land available-for-sale in Minnesota. We acquired the land in 2001 when we purchased Taconite Harbor.

Emerging Technology Investments. The majority of our emerging technology investments are minority investments in venture capital funds. We account for our investment in venture capital funds under the equity method of accounting. The total carrying value of our emerging technology portfolio was $7.4 million at December 31, 2008. (See Note 6. Investments.) Our remaining commitment of $0.7 million at December 31, 2008 may be invested in 2009. We do not have plans to make any additional investments beyond this commitment.

Environmental Matters

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. We consider our businesses to be in substantial compliance with currently applicable environmental regulations and believe all necessary permits to conduct such operations have been obtained. Due to future stricter environmental requirements through legislation and/or rulemaking, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Requirements.)

We review environmental matters for disclosure on a quarterly basis. Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in the balance sheet at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. Costs related to environmental contamination treatment and cleanup are charged to expense unless recoverable in rates from customers.

Air. *Clean Air Act.* The federal Clean Air Act Amendments of 1990 (Clean Air Act) established the acid rain program which created emission allowances for SO_2 and system wide averaging NO_X limits. Minnesota Power's generating facilities mainly burn low-sulfur western sub-bituminous coal. Square Butte, located in North Dakota, burns lignite coal. All of these facilities are equipped with pollution control equipment such as scrubbers, bag houses, or electrostatic precipitators. Minnesota Power's generating facilities are currently in compliance with permitted emission requirements.

New Source Review. On August 8, 2008, Minnesota Power received a Notice of Violation (NOV) from the United States EPA asserting violations of the New Source Review (NSR) requirements of the Clean Air Act at Boswell Units 1-4 and Laskin Unit 2. The NOV also asserts that the Boswell Unit 4 Title V permit was violated. The NOV asserts that seven projects undertaken at these coal-fired plants between the years 1981 and 2000 should have been reviewed under the NSR requirements. Minnesota Power believes the projects were in full compliance with the Clean Air Act, NSR requirements and applicable permits.

The EPA has been conducting a nationwide enforcement initiative since 1999 relating to NSR requirements. In 2000, 2001, and 2002 Minnesota Power received requests from the EPA pursuant to Section 114(a) of the Clean Air Act seeking information regarding capital expenditures with respect to Boswell and Laskin. Minnesota Power responded to these requests; however, we had no further communications from the EPA regarding the information provided until receipt of the NOV.

We are engaged in discussions with the EPA regarding resolution of these matters, but we are unable to predict the outcome of these discussions. Since 2006, Minnesota Power has significantly reduced, and continues to reduce, emissions at Boswell and Laskin. The resolution could result in civil penalties and the installation of control technology, some of which is already planned or completed for other regulatory requirements. Any costs of installing pollution control technology would likely be eligible for recovery in rates over time subject to MPUC and FERC approval in a rate proceeding. We are unable to predict the ultimate financial impact or the resolution of these matters at this time.

EPA Clean Air Interstate Rule. In March 2005, the EPA announced the Clean Air Interstate Rule (CAIR) that sought to reduce and permanently cap emissions of SO_2, $NO_{X,}$ and particulates in the eastern United States. Minnesota is included as one of the 28 states considered as “significantly contributing” to air quality standards non-attainment in other downwind states. On July 11, 2008, the United States Court of Appeals for the District of Columbia Circuit (Court) vacated the CAIR and remanded the rulemaking to the EPA for reconsideration while also granting our petition that the EPA reconsider including Minnesota as a CAIR state. In September 2008, the EPA and others petitioned the Court for a rehearing or alternatively requested that the CAIR be remanded without a court order. In December 2008, the Court granted the request that the CAIR be remanded without a court order, effectively reinstating a January 1, 2009, compliance date for the CAIR, including Minnesota. However, Minnesota Power has received written assurance from the EPA that it intends to publish a rule amending the CAIR to stay its effectiveness with respect to Minnesota until completion of the EPA’s determination of whether Minnesota should be included as a CAIR state. Minnesota Power anticipates the EPA will act regarding this Minnesota administrative stay of the CAIR before CAIR compliance reporting would be required in 2010. If the CAIR ultimately goes into effect in Minnesota, we expect we will have to supplement ongoing emission control retrofits by providing for CAIR related emission allowance purchases, supplemental emission reductions or a combination of both.

Minnesota Regional Haze. The regional haze rule requires states to submit state implementation plans (SIPs) to the EPA to address regional haze visibility impairment in 156 federally-protected parks and wilderness areas. Under the regional haze rule, certain large stationary sources of visibility-impairing emissions that were put in place between 1962 and 1977 are required to install emission controls, known as best available retrofit technology (BART). We have certain steam units (Boswell Unit 3 and Taconite Harbor Unit 3) that are subject to BART requirements.

Pursuant to the regional haze rule, Minnesota was required to develop its SIP by December 2007. As a mechanism for demonstrating progress towards meeting the long-term regional haze goal, in April 2007 the MPCA advanced a draft conceptual SIP which relied on the implementation of CAIR. However, a formal SIP was never filed due to the Court’s review of CAIR as more fully described above under “EPA Clean Air Interstate Rule.” Subsequently, the MPCA has requested that companies with BART eligible units complete and submit a BART emissions control retrofit study, which we did as to Taconite Harbor Unit 3 in November 2008. The retrofit work currently underway on Boswell Unit 3 meets the BART requirement for that unit. It is uncertain what controls will ultimately be required by the MPCA at Taconite Harbor Unit 3 in connection with the regional haze rule.

EPA Clean Air Mercury Rule. In March 2005, the EPA also announced the Clean Air Mercury Rule (CAMR) that would have reduced and permanently capped emissions of electric utility mercury emissions in the continental United States. In February 2008, the Court overturned the CAMR and remanded the rulemaking to the EPA for reconsideration. In October 2008, the Department of Justice, on behalf of the EPA, petitioned the Supreme Court to review the Court’s decision in the CAMR case. It is uncertain how the Supreme Court will respond. Cost estimates for complying with CAMR or future mercury regulations under the Clean Air Act are therefore premature at this time.

Minnesota Mercury Emission Law. This legislation requires Minnesota Power to file mercury emission reduction plans for Boswell Units 3 and 4. The Boswell Unit 3 emission reduction plan was filed with the MPCA in October 2006. Minnesota Power is required to install mercury emission reduction technology and equipment by December 31, 2010. (See Item 1. Business – Regulated Operations – Minnesota Public Utilities Commission – AREA and Boswell Unit 3 Emission Reduction Plans.) The next step will be to file a mercury emissions reduction plan for Boswell Unit 4 by July 1, 2011, with implementation no later than December 31, 2014.

Environmental Matters (Continued)

Water. The Federal Water Pollution Control Act requires NPDES permits to be obtained from the EPA (or, when delegated, from individual state pollution control agencies) for any wastewater discharged into navigable waters. We have obtained all necessary NPDES permits, including NPDES storm water permits for applicable facilities, to conduct our operations. We are in material compliance with these permits.

Solid and Hazardous Waste. The Resource Conservation and Recovery Act of 1976 regulates the management and disposal of solid wastes and hazardous wastes. We are required to notify the EPA of hazardous waste activity and consequently, routinely submit the necessary reports to the EPA. The Toxic Substances Control Act regulates the management and disposal of materials containing polychlorinated biphenyl (PCB). In response to the EPA Region V's request for utilities to participate in the Great Lakes Initiative by voluntarily removing remaining PCB inventories, Minnesota Power replaced its PCB capacitor banks by 2005. PCB-contaminated oil in substation equipment was replaced by June 2007. We are in material compliance with these rules.

Manufactured Gas Plant Site. We are reviewing and addressing environmental conditions at a former manufactured gas plant site within the City of Superior, Wisconsin and formerly operated by SWL&P. We have been working with the WDNR to determine the extent of contamination and the remediation of contaminated locations. We have accrued a $0.5 million liability for this site at December 31, 2008, and have recorded a corresponding regulatory asset as we expect recovery of remediation costs to be allowed by the PSCW.

Employees

At December 31, 2008, ALLETE had 1,529 employees, of which 1,449 were full-time.

Minnesota Power and SWL&P have an aggregate 635 employees who are members of the International Brotherhood of Electrical Workers (IBEW) Local 31. The labor agreement with IBEW Local 31 expired on January 31, 2009. Both parties have agreed to extend the current agreement until a new agreement is signed. Negotiations are proceeding as anticipated and we remain optimistic of achieving a ratified agreement.

BNI Coal has 94 employees who are members of the IBEW Local 1593. BNI Coal and IBEW Local 1593 have a labor agreement which expires on March 31, 2011.

Availability of Information

ALLETE makes its SEC filings, including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, available free of charge on ALLETE's Website www.allete.com, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC.

Executive Officers of the Registrant

As of February 13, 2009, these are the executive officers of ALLETE.

Executive Officers	Initial Effective Date
Donald J. Shippar, Age 59	
Chairman, President and Chief Executive Officer	January 1, 2006
President and Chief Executive Officer	January 21, 2004
Executive Vice President – ALLETE and President – Minnesota Power	May 13, 2003
President and Chief Operating Officer – Minnesota Power	January 1, 2002
Robert J. Adams, Age 46	
Vice President – Business Development and Chief Risk Officer	May 13, 2008
Vice President – Utility Business Development	February 1, 2004
Deborah A. Amberg, Age 43	
Senior Vice President, General Counsel and Secretary	January 1, 2006
Vice President, General Counsel and Secretary	March 8, 2004
Steven Q. DeVinck, Age 49	
Controller	July 12, 2006
Mark A. Schober, Age 53	
Senior Vice President and Chief Financial Officer	July 1, 2006
Senior Vice President and Controller	February 1, 2004
Vice President and Controller	April 18, 2001
Donald W. Stellmaker, Age 51	
Treasurer	July 24, 2004
Claudia Scott Welty, Age 56	
Senior Vice President and Chief Administrative Officer	February 1, 2004

All of the executive officers have been employed by us for more than five years in executive or management positions. Prior to election to the positions shown above, the following executives held other positions with the Company during the past five years.

Ms. Amberg was a Senior Attorney.
Mr. DeVinck was Director of Nonutility Business Development, and Assistant Controller.
Mr. Stellmaker was Director of Financial Planning.

There are no family relationships between any of the executive officers. All officers and directors are elected or appointed annually.

The present term of office of the executive officers listed above extends to the first meeting of our Board of Directors after the next annual meeting of shareholders. Both meetings are scheduled for May 12, 2009.

Item 1A. Risk Factors

Readers are cautioned that forward-looking statements, including those contained in this Form 10-K, should be read in conjunction with our disclosures under the heading: “Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995” located on page 5 of this Form 10-K and the factors described below. The risks and uncertainties described in this Form 10-K are not the only ones facing our Company. Additional risks and uncertainties that we are not presently aware of, or that we currently consider immaterial, may also affect our business operations. Our business, financial condition or results of operations could suffer if the concerns set forth below are realized.

Our results of operations could be negatively impacted if our Large Power Customers experience an economic down cycle or fail to compete effectively in the global economy.

Our 12 Large Power Customers accounted for approximately 36 percent of our 2008 consolidated operating revenue (one of these customers accounted for 12.5 percent of consolidated revenue). These customers are involved in cyclical industries that by their nature are adversely impacted by economic downturns and are subject to strong competition in the global marketplace. An economic downturn or failure to compete effectively in the global economy could have a material adverse effect on their operations and, consequently, could negatively impact our results of operations if we are unable to remarket this energy at similar prices.

Our operations are subject to extensive governmental regulations that may have a negative impact on our business and results of operations.

We are subject to prevailing governmental policies and regulatory actions, including those of the United States Congress, state legislatures, the FERC, the MPUC and the PSCW. These governmental regulations relate to allowed rates of return, financings, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power and capital investments, and present or prospective wholesale and retail competition (including but not limited to transmission costs). These governmental regulations significantly influence our operating environment and may affect our ability to recover costs from our customers. We are required to have numerous permits, approvals and certificates from the agencies that regulate our business. We believe the necessary permits, approvals and certificates have been obtained for existing operations and that our business is conducted in accordance with applicable laws; however, we are unable to predict the impact on our operating results from the future regulatory activities of any of these agencies. Changes in regulations or the imposition of additional regulations could have an adverse impact on our results of operations.

Our ability to obtain rate adjustments to maintain current rates of return depends upon regulatory action under applicable statutes and regulations, and we cannot assure that rate adjustments will be obtained or current authorized rates of return on capital will be earned. Minnesota Power and SWL&P from time to time file rate cases with federal and state regulatory authorities. In future rate cases, if Minnesota Power and SWL&P do not receive an adequate amount of rate relief, rates are reduced, increased rates are not approved on a timely basis or costs are otherwise unable to be recovered through rates, we may experience an adverse impact on our financial condition, results of operations and cash flows. We are unable to predict the impact on our business and operations results from future regulatory activities of any of these agencies.

Our operations could be significantly impacted by initiatives designed to reduce the impact of greenhouse gas (GHG) emissions such as carbon dioxide from our generating facilities.

Proposals for voluntary initiatives and mandatory controls are being discussed within Minnesota, among a group of midwestern states that includes Minnesota, in the United States Congress and worldwide to reduce GHGs such as carbon dioxide, a by-product of burning fossil fuels. We currently use coal as the primary fuel in 94 percent of the energy produced by our generating facilities.

We cannot be certain whether new laws or regulations will be adopted to reduce GHGs and what affect any such laws or regulations would have on us. If any new laws or regulations are implemented, they could have a material effect on our results of operations, particularly if implementation costs are not fully recoverable from customers.

We are participating in research and study initiatives to mitigate the potential impact of carbon emissions regulation to our business. There is no assurance that our current reduction efforts will mitigate the impact of any new regulations.

The cost of environmental emission allowances could have a negative financial impact on our operations.

Minnesota Power is subject to numerous environmental laws and regulations which cap emissions and could require us to purchase environmental emissions allowances to be in compliance. The laws and regulations expose us to emission allowance price fluctuations which could increase our cost of operations. We are unable to predict emission allowance pricing or regulatory recovery of these costs. We are pursuing a current cost recovery mechanism with the MPUC.

Our operations pose certain environmental risks which could adversely affect our results of operations and financial condition.

We are subject to extensive environmental laws and regulations affecting many aspects of our present and future operations, including air quality, water quality, waste management, reclamation and other environmental considerations. These laws and regulations can result in increased capital, operating and other costs, as a result of compliance, remediation, containment and monitoring obligations, particularly with regard to laws relating to power plant emissions. These laws and regulations generally require us to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. Both public officials and private individuals may seek to enforce applicable environmental laws and regulations. We cannot predict the financial or operational outcome of any related litigation that may arise.

There are no assurances that existing environmental regulations will not be revised or that new regulations seeking to protect the environment will not be adopted or become applicable to us. Revised or additional regulations, which result in increased compliance costs or additional operating restrictions, particularly if those costs are not fully recoverable from customers, could have a material effect on our results of operations.

We cannot predict with certainty the amount or timing of all future expenditures related to environmental matters because of the difficulty of estimating such costs. There is also uncertainty in quantifying liabilities under environmental laws that impose joint and several liability on all potentially responsible parties.

The operation and maintenance of our generating facilities involve risks that could significantly increase the cost of doing business.

The operation of generating facilities involves many risks, including start-up risks, breakdown or failure of facilities, the dependence on a specific fuel source, or the impact of unusual or adverse weather conditions or other natural events, as well as the risk of performance below expected levels of output or efficiency, the occurrence of any of which could result in lost revenue, increased expenses or both. A significant portion of Minnesota Power's facilities were constructed many years ago. In particular, older generating equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to keep operating at peak efficiency. This equipment is also likely to require periodic upgrading and improvements due to changing environmental standards and technological advances. Minnesota Power could be subject to costs associated with any unexpected failure to produce power, including failure caused by breakdown or forced outage, as well as repairing damage to facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events. Further, our ability to successfully and timely complete capital improvements to existing facilities or other capital projects is contingent upon many variables and subject to substantial risks. Should any such efforts be unsuccessful, we could be subject to additional costs and/or the write-off of our investment in the project or improvement.

Our electrical generating operations must have adequate and reliable transmission and distribution facilities to deliver electricity to its customers.

Minnesota Power depends on transmission and distribution facilities owned by other utilities, and transmission facilities primarily operated by MISO, as well as its own such facilities, to deliver the electricity we produce and sell to our customers, and to other energy suppliers. If transmission capacity is inadequate our ability to sell and deliver electricity may be hindered. We may have to forego sales or we may have to buy more expensive wholesale electricity that is available in the capacity-constrained area. In addition, any infrastructure failure that interrupts or impairs delivery of electricity to our customers could negatively impact the satisfaction of our customers with our service.

In our operations the price of electricity and fuel may be volatile.

Volatility in market prices for electricity and fuel may result from:

- severe or unexpected weather conditions;
- seasonality;
- changes in electricity usage;
- transmission or transportation constraints, inoperability or inefficiencies;
- availability of competitively priced alternative energy sources;
- changes in supply and demand for energy;
- changes in power production capacity;
- outages at Minnesota Power's generating facilities or those of our competitors;
- changes in production and storage levels of natural gas, lignite, coal, crude oil and refined products;
- natural disasters, wars, sabotage, terrorist acts or other catastrophic events; and
- federal, state, local and foreign energy, environmental, or other regulation and legislation.

Since fluctuations in fuel expense related to our regulated utility operations are passed on to customers through our fuel clause, risk of volatility in market prices for fuel and electricity mainly impacts our non-rate base operations at this time.

We are dependent on good labor relations.

We believe our relations to be good with our 1,529 employees. Failure to successfully renegotiate labor agreements could adversely affect the services we provide and our results of operations. 729 of our employees are members of either the IBEW Local 31 or Local 1593. The labor agreement with Local 31 at Minnesota Power and SWL&P expired on January 31, 2009. Both parties have agreed to extend the current agreement until a new agreement is signed. Negotiations are proceeding as anticipated and we remain optimistic of achieving a ratified agreement. The labor agreement with Local 1593 at BNI Coal expires on March 31, 2011.

A downturn in economic conditions could adversely affect our real estate business.

The ability of our real estate business to generate revenue is directly related to the Florida real estate market, the national and local economy in general and changes in interest rates. While conditions in the Florida real estate market may fluctuate over time, continued demand for land is dependent on long-term prospects for strong, in-migration population expansion.

Our real estate business is subject to extensive regulation through Florida laws regulating planning and land development which makes it difficult and expensive for us to conduct our operations.

Development of real property in Florida entails an extensive approval process involving overlapping regulatory jurisdictions. Real estate projects must generally comply with the provisions of the Local Government Comprehensive Planning and Land Development Regulation Act (Growth Management Act). In addition, development projects that exceed certain specified regulatory thresholds require approval of a comprehensive DRI application. The Growth Management Act, in some instances, can significantly affect the ability of developers to obtain local government approval in Florida. In many areas, infrastructure funding has not kept pace with growth. As a result, substandard facilities and services can delay or prevent the issuance of permits. Consequently, the Growth Management Act could adversely affect the cost and our ability to develop future real estate projects. Changes in the Growth Management Act or DRI review process or the enactment of new laws regarding the development of real property could adversely affect our ability to develop future real estate projects.

Market performance and other changes could decrease the value of pension and postretirement health benefit plan assets, which then could require significant additional funding and increase annual expense.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under our pension and postretirement benefit plans. We have significant obligations to these plans and the Company holds significant assets in these trusts. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below our projected return rates. A decline in the market value of the pension and postretirement benefit plan assets will increase the funding requirements under our benefit plans if the actual asset returns do not recover. Additionally, our pension and postretirement benefit plan liabilities are sensitive to changes in interest rates. As interest rates decrease, the liabilities increase, potentially increasing benefit expense and funding requirements.

If we are not able to retain our executive officers and key employees, we may not be able to implement our business strategy and our business could suffer.

The success of our business heavily depends on the leadership of our executive officers, all of whom are employees-at-will and none of whom are subject to any agreements not to compete. If we lose the service of one or more of our executive officers or key employees, or if one or more of them decides to join a competitor or otherwise compete directly or indirectly with us, we may not be able to successfully manage our business or achieve our business objectives. We may have difficulty in retaining and attracting customers, developing new services, negotiating favorable agreements with customers and providing acceptable levels of customer service.

We rely on access to financing sources and capital markets. If we do not have access to sufficient capital in the amount and at the times needed, our ability to execute our business plans, make capital expenditures or pursue acquisitions that we may otherwise rely on for future growth could be impaired.

We rely on access to capital markets as sources of liquidity for capital requirements not satisfied by our cash flow from operations. If we are not able to access capital on satisfactory terms, the ability to implement our business plans may be adversely affected. Market disruptions or a downgrade of our credit ratings may increase the cost of borrowing or adversely affect our ability to access financial markets. Such disruptions could include a severe prolonged economic downturn, the bankruptcy of non-affiliated industry leaders in the same line of business or financial services sector, deterioration in capital market conditions, volatility in commodity prices or events such as those currently being experienced in the United States and abroad.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Properties are included in the discussion of our businesses in Item 1 and are incorporated by reference herein.

Item 3. Legal Proceedings

Material legal and regulatory proceedings are included in the discussion of our businesses in Item 1 and are incorporated by reference herein.

We are involved in litigation arising in the normal course of business. Also in the normal course of business, we are involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base and cost of service issues, among other things. We do not expect the outcome of these matters to have a material effect on our financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the NYSE under the symbol ALE. We have paid dividends without interruption on our common stock since 1948. A quarterly dividend of $0.44 per share on our common stock will be paid on March 1, 2009, to the holders of record on February 16, 2009.

The following table shows dividends declared per share, and the high and low prices for our common stock for the periods indicated as reported by the NYSE:

	2008			2007		
	Price Range		Dividends	Price Range		Dividends
Quarter	High	Low	Declared	High	Low	Declared
First	$39.86	$33.76	$0.43	$49.69	$44.93	$0.41
Second	46.11	38.82	0.43	51.30	45.39	0.41
Third	49.00	38.05	0.43	50.05	38.60	0.41
Fourth	44.63	28.28	0.43	46.48	38.17	0.41
Annual Total			$1.72			$1.64
Dividend Payout Ratio			61%			53%

At February 1, 2009, there were approximately 29,000 common stock shareholders of record.

Common Stock Repurchases. We did not repurchase any ALLETE common stock during the fourth quarter of 2008.

Item 6. Selected Financial Data

	2008	2007	2006	2005	2004
Operating Revenue	$801.0	$841.7	$767.1	$737.4	$704.1
Operating Expenses	679.2	710.0	628.8	692.3 *(g)*	603.2
Income from Continuing Operations Before Change in Accounting Principle	82.5	87.6	77.3	17.6 *(g)*	38.5
Income (Loss) from Discontinued Operations – Net of Tax	–	–	(0.9)	(4.3) *(g)*	73.7
Change in Accounting Principle – Net of Tax	–	–	–	–	(7.8) *(h)*
Net Income	82.5	87.6	76.4	13.3	104.4
Common Stock Dividends	50.4	44.3	40.7	34.4	79.7
Earnings Retained in (Distributed from) Business	$32.1	$43.3	$35.7	$(21.1)	$24.7
Shares Outstanding – Millions					
Year-End	32.6	30.8	30.4	30.1	29.7
Average *(a)*					
Basic	29.2	28.3	27.8	27.3	28.3
Diluted	29.3	28.4	27.9	27.4	28.4
Diluted Earnings (Loss) Per Share *(b)*					
Continuing Operations	$2.82	$3.08	$2.77	$0.64 *(g)*	$1.35 *(i)*
Discontinued Operations *(c)*	–	–	(0.03)	(0.16)	2.59
Change in Accounting Principle	–	–	–	–	(0.27)
	$2.82	$3.08	$2.74	$0.48	$3.67
Total Assets	$2,134.8	$1,644.2	$1,533.4 *(f)*	$1,398.8	$1,431.4
Long-Term Debt	588.3	410.9	359.8	387.8	389.4
Return on Common Equity	10.7%	12.4%	12.1%	2.2% *(g)*	8.3%
Common Equity Ratio	58.0%	63.7%	63.1%	60.7%	61.7%
Dividends Declared per Common Share	$1.72	$1.64	$1.45	$1.245	$2.8425
Dividend Payout Ratio	61%	53%	53%	259% *(g)*	77%
Book Value Per Share at Year-End	$25.37	$24.11	$21.90	$20.03	$21.23
Capital Expenditures by Segment *(d)*					
Regulated Operations	$317.0	$220.6	$107.5	$46.5	$41.7
Investments and Other *(e)*	5.9	3.3	1.9	12.1	16.1
Discontinued Operations	–	–	–	4.5	21.4
Total Capital Expenditures	$322.9	$223.9	$109.4	$63.1	$79.2

(a) Excludes unallocated ESOP shares.

(b) Common share and per share amounts have also been adjusted for all periods to reflect our September 20, 2004, one-for-three common stock reverse split.

(c) Operating results of our Water Services businesses and our telecommunications business are included in discontinued operations, and accordingly, amounts have been restated for all periods presented. (See Note 12. Discontinued Operations.)

(d) In the fourth quarter of 2008, we made changes to our reportable business segments in our continuing effort to manage and measure performance of our operations based on the nature of products and services provided and customers served. (See Note 2. Business Segments.)

(e) Excludes capitalized improvements on our development projects, which are included in inventory.

(f) Included $86.1 million of assets reflecting the adoption of SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."

(g) Impacted by a $50.4 million, or $1.84 per share, charge related to the assignment of the Kendall County power purchase agreement, a $2.5 million, or $0.09 per share, deferred tax benefit due to comprehensive state tax planning initiatives, and a $3.7 million, or $0.13 per share, current tax benefit due to a positive resolution of income tax audit issues.

(h) Reflected the cumulative effect on prior years (to December 2003) of changing to the equity method of accounting for investments in limited liability companies included in our emerging technology portfolio.

(i) Included a $10.9 million, or $0.38 per share, after-tax debt prepayment cost incurred as part of ALLETE's financial restructuring in preparation for the spin-off of the Automotive Services business and an $11.5 million, or $0.41 per share, gain on the sale of ADESA shares related to the Company's ESOP.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and notes to those statements and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Readers are cautioned that forward-looking statements should be read in conjunction with our disclosures in this Form 10-K under the headings: "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" located on page 5 and "Risk Factors" located in Item 1A. The risks and uncertainties described in this Form 10-K are not the only ones facing our Company. Additional risks and uncertainties that we are not presently aware of, or that we currently consider immaterial, may also affect our business operations. Our business, financial condition or results of operations could suffer if the concerns set forth in this Form 10-K are realized.

Overview

Regulated Operations includes our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC, a Wisconsin-based regulated utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. Minnesota Power provides regulated utility electric service in northeastern Minnesota to 142,000 retail customers and wholesale electric service to 16 municipalities. SWL&P provides regulated electric service, natural gas and water service in northwestern Wisconsin to 15,000 electric customers, 12,000 natural gas customers and 10,000 water customers. Our regulated utility operations include retail and wholesale activities under the jurisdiction of state and federal regulatory authorities. (See Item 1. Business – Regulated Operations – Regulatory Matters.)

Investments and Other is comprised primarily of BNI Coal, our coal mining operations in North Dakota, and ALLETE Properties, our Florida real estate business. This segment also includes emerging technology investments ($7.4 million at December 31, 2008), a small amount of non-rate base generation, approximately 7,000 acres of land for sale in Minnesota, and earnings on cash and short-term investments.

ALLETE is incorporated under the laws of Minnesota. Our corporate headquarters are in Duluth, Minnesota. Statistical information is presented as of December 31, 2008, unless otherwise indicated. All subsidiaries are wholly owned unless otherwise specifically indicated. References in this report to "we," "us" and "our" are to ALLETE and its subsidiaries, collectively.

2008 Financial Overview

Net income for 2008 was $82.5 million, or $2.82 per diluted share compared to $87.6 million, or $3.08 per diluted share for 2007. Earnings per diluted share decreased approximately $0.08 compared to 2007 as a result of additional shares of common stock outstanding in 2008. (See Note 9. Common Stock and Earnings Per Share.) Net income for 2008 was down $5.1 million from 2007 reflecting:

Regulated Operations contributed income of $67.9 million in 2008 ($62.4 million in 2007). The increase in earnings is primarily the result of higher rates and higher income from our investment in ATC. Higher rates resulted from a March 1, 2008 increase in FERC approved wholesale rates, an August 1, 2008 interim rate increase (subject to refund) for retail customers in Minnesota, and current cost recovery on our environmental retrofit projects. These rate increases were partially offset by the expiration of sales contracts to Other Power Suppliers, and higher operations and maintenance expense, depreciation expense, and interest expense.

Investments and Other reflected net income of $14.6 million in 2008 ($25.2 million in 2007). The decrease in 2008 is primarily due to lower net income at ALLETE Properties, which continues to experience difficult real estate market conditions in Florida. This decrease was partially offset by the sale of certain available-for-sale securities in the first quarter of 2008, and tax benefits and related interest recognized in the third quarter of 2008.

2008 Compared to 2007

See Note 2. Business Segments for financial results by segment.

Regulated Operations

Operating revenue decreased $11.6 million, or 2 percent, from 2007 primarily due to decreased fuel and purchased power recoveries and the expiration of sales contracts to Other Power Suppliers. These decreases were partially offset by higher rates and kilowatt-hour sales to retail and municipal customers.

Fuel and purchased power recoveries decreased due to a $42.0 million reduction in fuel and purchased power expense. (See Fuel and Purchased Power Expense discussion below.)

Revenue from sales to Other Power Suppliers decreased $21.1 million from 2007 due to the expiration of sales contracts.

2008 Compared to 2007 (Continued)
Regulated Operations (Continued)

Higher rates resulted from the August 1, 2008 interim rate increase (subject to refund) for retail customers in Minnesota of approximately $13 million, current cost recovery on our environmental retrofit projects of approximately $21 million, and the March 1, 2008 increase in FERC approved wholesale rates of approximately $6 million.

Kilowatt-hour sales to our retail and municipal customers increased 2 percent from 2007 primarily due to a 2 percent increase in industrial load. The increase in industrial sales was primarily due to an idled production line and production delays at one of our taconite customers in 2007. Total regulated utility kilowatt-hour sales were down 2 percent as the expiration of sales contracts to Other Power Suppliers more than offset the increased retail and municipal sales.

Kilowatt-hours Sold	2008	2007
Millions		
Regulated Utility		
Retail and Municipals		
Residential	1,172	1,141
Commercial	1,372	1,373
Industrial	7,192	7,054
Municipals	1,002	1,008
Other	82	84
Total Retail and Municipals	10,820	10,660
Other Power Suppliers	1,800	2,157
Total Regulated Utility Kilowatt-hours Sold	12,620	12,817

Revenue from electric sales to taconite customers accounted for 26 percent of consolidated operating revenue in 2008 (24 percent in 2007). Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in 2008 (9 percent in 2007). Revenue from electric sales to pipelines and other industrials accounted for 7 percent of consolidated operating revenue in 2008 (7 percent in 2007).

Operating expenses decreased $25.1 million, or 4 percent, from 2007.

Fuel and Purchased Power Expense decreased $42.0 million, or 12 percent, from 2007 primarily due to a decrease in purchased power expense reflecting higher electricity production at the Company's generation facilities. Megawatt-hour generation at our facilities and Square Butte increased 9 percent over 2007.

Operating and Maintenance Expense increased $10.0 million, or 4 percent, over 2007 primarily due to increased gas purchases, reflecting a colder 2008, and higher salaries and wages.

Depreciation Expense increased $6.9 million, or 16 percent, from 2007 reflecting higher property, plant, and equipment balances placed in service and higher annual depreciation rates for distribution and transmission effective January 1, 2008. We had been seeking to have the increased depreciation rates become effective with the date of final rates in the current retail rate filing (expected to be in the second quarter of 2009).

Interest expense increased $3.0 million, or 14 percent, from 2007 primarily due to higher long term debt balances from increased construction activity.

Equity earnings increased $2.7 million, or 21 percent, from 2007 reflecting higher earnings from our investment in ATC. (See Note 6. Investments.)

Investments and Other

Operating revenue decreased $29.1 million, or 25 percent, from 2007 primarily due to a decrease in revenue at ALLETE Properties. Weaker real estate market conditions in Florida led to the decline. Operating revenue in 2008 included a pre-tax gain of $4.5 million on the sale of our retail shopping center in Winter Haven, Florida in May 2008, as well as $3.7 million in previously deferred revenue.

2008 Compared to 2007 (Continued)
Investments and Other (Continued)

ALLETE Properties	2008		2007	
Revenue and Sales Activity	**Quantity**	**Amount**	**Quantity**	**Amount**
Dollars in Millions				
Revenue from Land Sales				
Non-residential Sq. Ft.	–	–	580,059	$17.0
Residential Units	–	–	736	14.8
Acres *(a)*	219	$6.3	483	10.6
Contract Sales Price *(b)*		6.3		42.4
Revenue Recognized from				
Previously Deferred Sales		3.7		3.1
Deferred Revenue		–		(1.2)
Revenue from Land Sales		10.0		44.3
Other Revenue		8.3		6.2
		$18.3		$50.5

(a) *Acreage amounts are shown on a gross basis, including wetlands and minority interest.*
(b) *Reflected total contract sales price on closed land transactions. Land sales are recorded using a percentage-of-completion method. (See Note 1. Operations and Significant Accounting Policies.)*

Operating expenses decreased $5.7 million, or 6 percent, from 2007 reflecting a decrease in the cost of real estate sold and decreased selling expenses.

Other income increased $0.6 million, or 5 percent, from 2007 primarily due to a $3.8 million after-tax gain realized from the sale of certain available-for-sale securities in the first quarter of 2008 and interest income related to tax benefits recognized in the third quarter of 2008. The gain was triggered when securities were sold to reallocate investments to meet defined investment allocations based upon an approved investment strategy. The increase was partially offset by fewer gains from land sales in Minnesota during 2008, and lower earnings on cash and short-term investments reflecting lower average cash balances, and the 2007 release from a loan guarantee for Northwest Airlines, Inc. of $1.0 million.

Income Taxes – Consolidated

For the year ended December 31, 2008, the effective tax rate on income from continuing operations before minority interest was 34.3 percent (34.8 percent for the year ended December 31, 2007). The effective tax rate in both years deviated from the statutory rate (approximately 40 percent) primarily due to the recognition of various tax benefits as well as deductions for Medicare health subsidies, AFUDC-Equity, investment tax credits, and wind production tax credits. In 2007, a tax benefit was realized as a result of a state income tax audit settlement ($1.6 million). In 2008, non-recurring tax benefits due to the closing of a tax year and the completion of an IRS review totaled $4.6 million.

2007 Compared to 2006

Regulated Operations

Operating revenue increased $84.6 million, or 13 percent, from 2006 primarily due to increased fuel and purchased power recoveries, increased kilowatt-hour sales to residential, commercial and municipal customers, increased power marketing prices, and rate increases at SWL&P.

Fuel and purchased power recoveries increased due to a $65.9 million increase in purchased power expense. (See Fuel and Purchased Power Expense discussion below.)

Revenue recovered through current cost recovery related to AREA Plan expenditures represented $3.2 million in 2007 ($0.1 million in 2006).

Revenue from sales to Other Power Suppliers increased $3.6 million from 2006 primarily due to a 3.6 percent increase in the price per kilowatt-hour.

New rates at SWL&P, which became effective January 1, 2007, reflect a 2.8 percent increase in electric rates, a 1.4 percent increase in gas rates and an 8.6 percent increase in water rates. These rate increases resulted in a $1.7 million increase in operating revenue.

Overall, kilowatt-hour sales were flat in 2007. Combined residential, commercial and municipal kilowatt-hour sales increased 181.0 million, or 5.3 percent, from 2006 while industrial kilowatt-hour sales decreased by 152.0 million, or 2.1 percent. The increase in residential, commercial and municipal kilowatt-hour sales was primarily because of two existing municipal customers converting to full-energy requirements and a 9.2 percent increase in Heating Degree Days. The reduction in industrial kilowatt-hour sales was primarily due to an idle production line and production delays at one of our taconite customers. In September 2007, the affected taconite customer resumed production on the idle line. Minor fluctuations in industrial kilowatt-hour sales generally do not have a large impact on revenue due to a fixed demand component of revenue that is less sensitive to changes in kilowatt-hours sales.

Kilowatt-hours Sold	**2007**	**2006**
Millions		
Regulated Utility		
Retail and Municipals		
Residential	1,141	1,100
Commercial	1,373	1,335
Industrial	7,054	7,206
Municipals	1,008	911
Other	84	79
Total Retail and Municipals	10,660	10,631
Other Power Suppliers	2,157	2,153
Total Regulated Utility	12,817	12,784

Revenue from electric sales to taconite customers accounted for 24 percent of consolidated operating revenue in 2007 and 2006. Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in each of 2007 and 2006. Revenue from electric sales to pipelines and other industrials accounted for 7 percent of consolidated operating revenue in 2007 (6 percent in 2006).

Operating expenses increased $76.9 million, or 14 percent, from 2006.

Fuel and Purchased Power Expense increased $65.9 million, or 23 percent, from 2006 primarily due to a $61.4 million increase in purchased power reflecting a 45 percent increase in market purchases and an 11 percent increase in market prices. The increase in purchased power expense reflects lower electricity production at the Company's generation facilities.

Boswell Unit 4 completed generator repairs and returned to service in May 2007. Substantially all of the costs of the replacement coils were covered under the original manufacturer's warranty.

Lower Square Butte entitlement and output contributed to higher purchased power expense. (See Note 8. Commitments, Guarantees and Contingencies.) Square Butte generation was lower in the fourth quarter of 2007 reflecting a major scheduled outage.

Replacement purchased power costs are recovered through the fuel adjustment clause in Minnesota.

Operating and Maintenance Expense increased $11.4 million, or 5 percent, from 2006 due to a $9.0 million increase in plant maintenance primarily due to planned and unscheduled outages and salary and wage increases.

Depreciation Expense decreased $0.4 million, or 1 percent, from 2006 primarily due to the life extension of Boswell Unit 3, mostly offset by higher depreciable asset balances.

Interest expense increased $0.8 million, or 4 percent, from 2006 primarily due to higher debt balances reflecting increased construction activity. The increase was partially offset by the capitalization of more AFUDC-Debt.

Other income increased $3.2 million from 2006 primarily due to higher earnings from the capitalization of AFUDC-Equity reflecting increased construction activity.

Equity earnings increased $9.6 million in 2007 resulting from our pro-rata share of ATC's earnings as discussed in Note 6. Our initial investment in ATC began in May 2006.

2007 Compared to 2006 (Continued)

Investments and Other

Operating revenue decreased $10.0 million, or 8 percent, from 2006 primarily due to a decline in revenue from land sales at ALLETE Properties in 2007, partially offset by higher revenue at BNI Coal realized under a cost-plus coal supply agreement. Revenue from land sales at ALLETE Properties in 2007 was $44.3 million, which included $3.1 million in previously deferred revenue. In 2006, revenue from land sales was $56.1 million which included $9.7 million in previously deferred revenue.

ALLETE Properties	2007		2006	
Revenue and Sales Activity	**Quantity**	**Amount**	**Quantity**	**Amount**
Dollars in Millions				
Revenue from Land Sales				
Non-residential Sq. Ft.	580,059	$17.0	401,971	$10.8
Residential Units	736	14.8	973	15.9
Acres *(a)*	483	10.6	732	24.4
Contract Sales Price *(b)*		42.4		51.1
Revenue Recognized from				
Previously Deferred Sales		3.1		9.7
Deferred Revenue		(1.2)		(3.8)
Adjustments *(c)*		–		(0.9)
Revenue from Land Sales		44.3		56.1
Other Revenue		6.2		6.5
		$50.5		$62.6

(a) *Acreage amounts are shown on a gross basis, including wetlands and minority interest.*

(b) *Reflected total contract sales price on closed land transactions. Land sales are recorded using a percentage-of-completion method. (See Note 1. Operations and Significant Accounting Policies.)*

(c) *Contributed development dollars, which are credited to cost of real estate sold.*

Operating expenses increased $4.3 million, or 5 percent, from 2006 reflecting higher coal production expense at BNI Coal and higher property taxes. The increase in property taxes is primarily due to higher assessed market values on our Minnesota land, while the increase in BNI Coal operating expenses is due to higher fuel costs, tire, and dragline repairs. At ALLETE Properties, higher community development district property tax assessments were partially offset by lower cost of sales.

Interest expense decreased $3.2 million from 2006 primarily due to more interest charged to the regulated utility in 2007 as a result of increased capital expenditures and interest on additional taxes owed on the gain on sale of our Florida Water Services Corporation assets in 2006. This decrease was partially offset by an increase of $0.5 million due to lower interest capitalization as the major infrastructure construction at Town Center was substantially completed at the end of 2006.

Other income increased $0.4 million from 2006 reflecting higher gains on Minnesota land sales and higher lease lot revenue due to leasing newly developed lots, partially offset by lower investment income as a result of lower average balances in 2007 and the release from a loan guarantee for Northwest Airlines, Inc. of $1.0 million.

Minority interest participation decreased due to lower Real Estate earnings.

Income Taxes – Consolidated

For the year ended December 31, 2007, the effective tax rate on income from continuing operations before minority interest was 34.8 percent (36.1 percent for the year ended December 31, 2006). The decrease in the effective rate compared to 2006 was primarily due to a tax benefit realized as a result of a state income tax audit settlement ($1.6 million), higher AFUDC-Equity, and a larger domestic manufacturing deduction taken in 2007 compared to 2006. The effective rate of 34.8 percent for the year ended December 31, 2007, deviated from the statutory rate (approximately 40 percent) due to the state income tax audit settlement, deductions for Medicare health subsidies and domestic manufacturing production, AFUDC-Equity and investment tax credits.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make various estimates and assumptions that affect amounts reported in the consolidated financial statements. These estimates and assumptions may be revised, which may have a material effect on the consolidated financial statements. Actual results may differ from these estimates and assumptions. These policies are discussed with the Audit Committee of our Board of Directors on a regular basis. The following represent the policies we believe are most critical to our business and the understanding of our results of operations.

Critical Accounting Estimates (Continued)

Regulatory Accounting. Our regulated utility operations are subject to the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." SFAS 71 requires us to reflect the effect of regulatory decisions in our financial statements. Regulatory assets or liabilities arise as a result of a difference between GAAP and the accounting principles imposed by the regulatory agencies. Regulatory assets represent incurred costs that have been deferred as they are probable for recovery in customer rates. Regulatory liabilities represent obligations to make refunds to customers and amounts collected in rates for which the related costs have not yet been incurred.

We recognize regulatory assets and liabilities in accordance with applicable state and federal regulatory rulings. The recoverability of regulatory assets is periodically assessed by considering factors such as, but not limited to, changes in regulatory rules and rate orders issued by applicable regulatory agencies. The assumptions and judgments used by regulatory authorities may have an impact on the recovery of costs, the rate of return on invested capital, and the timing and amount of assets to be recovered by rates. A change in these assumptions may result in a material impact on our results of operations. (See Note 5. Regulatory Matters.)

Valuation of Investments. Our long-term investment portfolio included the real estate assets of ALLETE Properties, debt and equity securities consisting primarily of securities held to fund employee benefits, our emerging technology portfolio, and auction rate securities. As part of our emerging technology portfolio, we have several minority investments in venture capital funds and direct investments in privately-held, start-up companies. We account for our investment in venture capital funds under the equity method and account for our direct investments in privately-held companies under the cost method because of our ownership percentage. Our policy is to review these investments for impairment on a quarterly basis by assessing such factors as continued commercial viability of products, cash flow and earnings. Any impairment would reduce the carrying value of the investment and be recognized as a loss. In 2008, there were no impairment losses recognized ($0.5 million pretax in 2007 and none in 2006). (See Note 6. Investments.)

Pension and Postretirement Health and Life Actuarial Assumptions. We account for our pension and postretirement benefit obligations in accordance with the provisions of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," SFAS 87, "Employers' Accounting for Pensions," and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." These standards require the use of assumptions in determining our obligations and annual cost of our pension and postretirement benefits. An important actuarial assumption for pension and other postretirement benefit plans is the expected long-term rate of return on plan assets. In establishing this assumption, we consider the diversification and allocation of plan assets, the actual long-term historical performance for the type of securities invested in, the actual long-term historical performance of plan assets and the impact of current economic conditions, if any, on long-term historical returns. Our pension asset allocation at December 31, 2008, was approximately 46 percent equity, 32 percent debt, 16 percent private equity, and 6 percent real estate. Equity securities consist of a mix of market capitalization sizes and both domestic and international securities. We currently use an expected long-term rate of return of 8.5 percent in our actuarial determination of our pension and other postretirement expense. We annually review our expected long-term rate of return assumption and will adjust it to respond to any changing market conditions. A one-quarter percent decrease in the expected long-term rate of return would increase the annual expense for pension and other postretirement benefits by approximately $1 million, pre-tax.

For plan valuation purposes, we currently use a discount rate of 6.12 percent. The discount rate is determined considering high-quality long-term corporate bond rates at the valuation date. The discount rate is compared to the Citigroup Pension Discount Curve adjusted for ALLETE's specific cash flows. We believe the adjusted discount curve used in this comparison does not materially differ in duration and cash flows for our pension obligation. (See Note 14. Pension and Other Postretirement Benefit Plans.)

Taxation. We are required to make judgments regarding the potential tax effects of various financial transactions and our ongoing operations to estimate our obligations to taxing authorities. These tax obligations include income, real estate and sales/use taxes. Judgments related to income taxes require the recognition in our financial statements of the largest tax benefit of a tax position that is "more-likely-than-not" to be sustained on audit. Tax positions that do not meet the "more-likely-than-not" criteria are reflected as a tax liability in accordance with FIN 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109". We must also assess our ability to generate capital gains to realize tax benefits associated with capital losses. Capital losses may be deducted only to the extent of capital gains realized during the year of the loss or during the two prior or five succeeding years for federal purposes. We have recorded a valuation allowance against our deferred tax assets associated with realized capital losses to the extent it has been determined that it is more-likely-than-not that some portion or all of the deferred tax asset will not be realized.

Outlook

ALLETE is committed to earning a financial return that rewards our shareholders, allows for reinvestment in our businesses and sustains growth. Minnesota Power's industrial customers are facing weak conditions in the markets for their products, and have and may continue to reduce the amount of energy they use. We will work to sell this released energy in the wholesale markets, and believe that our ability to produce energy at low cost will be a competitive advantage. Our focus will be to maintain the competitively-priced production of energy, while meeting environmental requirements. Minnesota Power will also focus on maintaining competitive retail rates, as we believe this is important to the success of our customers. Information published by the Edison Electric Institute in mid-2008 ranked Minnesota Power as having the ninth lowest retail rates out of 175 investor-owned utilities in the United States.

Our strategy going forward is to focus on growth opportunities within our core business as we expect to continue making significant investments to comply with renewable and environmental requirements, maintain our existing low-cost generation fleet, and strengthen and enhance the regional transmission grid. We will also look for additional transmission and renewable energy opportunities which take advantage of our geographical location between sources of renewable energy and growing energy markets. Earnings from our ATC investment are expected to grow as we anticipate making additional investments to fund our pro-rata share of ATC's capital expansion program. We expect to invest an additional $5 to $7 million in ATC during 2009.

Regulated Operations. Minnesota Power expects significant rate base growth over the next several years as it continues its program to comply with renewable energy requirements and environmental mandates. In addition, significant investment will be made in our existing low-cost generation fleet to provide for continued future operations. We anticipate our capital investments will be recovered through a combination of current cost recovery riders and anticipated increased base electric rates. We also expect an average annual kilowatt-hour growth of approximately 1 percent from our existing customers, as well as potential long term growth from several new industrial customers planning projects in our service territory.

Rate Cases. Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, the FERC or the PSCW.

On February 8, 2008, the FERC approved Minnesota Power's wholesale tariff rate increase effective March 1, 2008. Minnesota Power's wholesale customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. The FERC authorized an average 10.0 percent increase for wholesale municipal customers, and an overall return on equity of 11.25 percent. Incremental revenue in 2008 from the FERC authorized wholesale rate increase was approximately $6 million.

In 2008, Minnesota Power entered into new contracts with all of our wholesale customers with the exception of one small customer whose contract is now in the cancellation period. The new contracts transition each customer to formula based rates, which means rates can be adjusted annually based on changes in costs. The new agreement with the private utility in Wisconsin is subject to PSCW approval. In November 2008, we filed a request with the FERC to implement the formula based rate provision in the new contracts. We anticipate final resolution and implementation of new rates in the first quarter of 2009.

On May 2, 2008, Minnesota Power filed a rate increase request with the MPUC seeking an average rate increase of 8.5 percent for retail customers. The rate filing seeks a return on equity of 11.15 percent, and a capital structure consisting of 54.8 percent equity and 45.2 percent debt. On an annualized basis, the requested rate increase would generate approximately $40 million in additional revenue. Interim rates were effective on August 1, 2008, and resulted in an increase for retail customers of approximately $36 million, or 7.5 percent, on an annualized basis, subject to refund pending the final rate order. Incremental revenue in 2008 from the interim retail rate increase was approximately $13 million. The transition to a new base cost of fuel coincident with interim rates resulted in the non-recovery through the fuel adjustment clause of approximately $19 million of fuel and purchased power costs incurred in 2008. We have entered into a stipulation and settlement agreement that would allow recovery of the $19 million in 2009 and which addresses specific concerns identified by interveners in the rate case; the stipulation and settlement agreement is subject to MPUC approval. The final rate order is expected in the second quarter of 2009. We cannot predict the final level of rates that may be approved by the MPUC. Prior to the May 2008 retail rate request Minnesota Power's rates were based on a 1994 MPUC retail rate order that allowed for an 11.6 percent return on equity.

SWL&P's current retail rates are based on a December 2008 PSCW retail rate order that became effective January 1, 2009, and allows for an 11.1 percent return on common equity. The new rates reflected a 3.5 percent average increase in retail utility rates for SWL&P customers (a 13.4 percent increase in water rates, a 4.7 percent increase in electric rates, and a 0.6 percent decrease in natural gas rates). On an annualized basis, the rate increase will generate approximately $3 million in additional revenue.

Industrial Customers. Electric power is one of several key inputs in the mining, paper production, and pipeline industries. Approximately 57 percent of our Regulated Utility kilowatt-hour sales were made to our industrial customers in 2008, which include the taconite, paper and pulp, and pipeline industries.

Strong worldwide steel demand, driven largely by extensive infrastructure development in China, resulted in very robust world iron ore demand and steel pricing for nearly a six year period which lasted through the summer of 2008. Between 2004 and 2008 annual taconite production averaged just over 40 million tons per year from taconite mines in Northeastern Minnesota. Beginning in the fall of 2008, worldwide steel makers began to dramatically cut steel production in response to reduced demand driven largely by the world credit situation. During the fourth quarter of 2008, United States raw steel production was running at less than 50 percent of capacity and at levels not seen since the early 1980s. Currently, domestic raw steel production is at 45 percent of capacity reflecting poor demand in automobiles, durable goods, structural, and other steel products. Minnesota taconite producers began to be impacted in late 2008 and reduced production levels are expected in 2009. Consequently, 2009 demand nominations for power from our taconite customers are expected to be lower by at least 25 percent from 2008 levels. We intend to remarket available power to Other Power Suppliers in an effort to mitigate the earnings impact of these lower industrial sales. These sales are dependent upon the availability of generation and are sold at market based prices into the MISO market on a daily basis or through bilateral agreements of various durations. To date in 2009, we have sold power to Other Power Suppliers to mitigate the demand reductions made to date from our taconite customers. These contracts expire at various times during 2009, and have pricing levels similar to the rates charged to our large power customers. We will have additional power to sell in 2009 if our taconite customers continue to reduce their demand; we are unable to predict pricing levels on such sales at this time.

Minnesota Power’s paper and pulp customers ran at, or very near, full capacity for the majority of 2008 despite the fact that the industry continued to face high fiber, chemical, and energy costs as well as competition from exports in certain grades of paper products. Minnesota Power’s customers benefited from the temporary or permanent idling of plants both in North America at mills other than those served by Minnesota Power and the idling of plants in Europe, as well as continued (but declining) strength of the Canadian dollar and the Euro which has reduced imports both from Canada and Europe.

Our pipeline customers continued to operate at or above historic pumping levels during 2008 and forecast operating at record pumping levels in 2009. As Western Canadian oil sands reserves continue to develop and expand, pipeline operators served by the Company are executing expansion plans to transport additional crude oil supply to United States markets. We believe we are strategically positioned to serve these expanding pipeline facilities as Canadian supply continues to grow and displace domestic and imported Gulf Coast production.

Several natural resource-based companies continue to make progress developing new projects in Northeastern Minnesota that have the potential for long-term growth for Minnesota Power. These potential projects are in the ferrous and non-ferrous mining, paper, oil and steel related industries. They include the Polymet Mining Corp. (Polymet), Mesabi Nugget Delaware, LLC (Mesabi Nugget) and Essar Steel Limited Minnesota projects, as well as a proposed expansion at the Keewatin Taconite facility of United States Steel Corporation.

PolyMet. In 2007, the MPUC approved our contract with PolyMet, a new customer planning to start a copper, nickel and precious metals (non-ferrous) mining operation in Northeastern Minnesota. If PolyMet receives all necessary environmental permits and achieves start-up, the contract will run through at least 2018 and supply approximately 70 MWs of capacity. PolyMet continues to make progress towards production. In December 2008, PolyMet received a draft environmental impact statement from the Minnesota Department of Natural Resources.

Mesabi Nugget. In 2007, Minnesota Power entered into a contract with Mesabi Nugget, a joint venture between Steel Dynamics, Inc. and Kobe Steel Ltd. Mesabi Nugget will produce high-quality iron nuggets to supply steel mills owned by Steel Dynamics. Construction of the facility, near Hoyt Lakes, Minnesota, began in 2007 and completion is expected in late 2009. Mesabi Nugget is expected to initially be a 15-MW customer, with the potential for future load growth. The MPUC approved contract runs through at least 2017.

Keewatin Taconite. In February 2008, United States Steel announced its intent to restart a pellet line at its Keewatin Taconite processing facility. This pellet line, which has been idled since 1980, would be restarted and updated as part of a $300 million investment. It is anticipated to bring about 3.6 million tons of additional pellet making capability to Northeastern Minnesota, pending successful approval of environmental permitting.

In March 2008, Minnesota Power signed a new contract with Northshore Mining Company to meet additional load requirements. The contract was approved by the MPUC and runs through at least June 30, 2011.

In September 2008, Cliffs and Minnesota Power signed new contracts for service to Hibbing Taconite Co. and United Taconite LLC. These electric service agreements, which are pending final MPUC approval, extend the existing contract terms out to at least December 31, 2015.

Renewable Generation Sources. In February 2007, Minnesota enacted a law requiring Minnesota Power to generate or procure 25 percent of its energy from renewable energy sources by 2025. The law also requires Minnesota Power to meet interim milestones of 12 percent by 2012, 17 percent by 2016, 20 percent by 2020, and 25 percent by 2025. The law allows the MPUC to modify or delay a standard obligation if implementation will cause significant ratepayer cost or technical reliability issues. If a utility is not in compliance with a standard, the MPUC may order the utility to construct facilities, purchase renewable energy or purchase renewable energy credits. Minnesota Power was developing and making renewable supply additions as part of its generation planning strategy prior to the enactment of this law and this activity continues. Minnesota Power believes it will meet the requirements of this legislation.

The areas in which we operate have strong wind, water and biomass resources, and provide us with opportunities to develop a number of renewable forms of generation. Our electric service area in northeastern Minnesota is situated for delivery of renewable energy that is generated here and in adjoining regions. We intend to secure the most cost competitive and geographically advantageous renewable energy resources available. We believe that the demand for these resources is likely to grow, and the costs of the resources to generate renewable energy will continue to escalate. While we intend to maintain our disciplined approach to developing generation assets, we also believe that by acting sooner rather than later we can deliver lower cost power to our customers and maintain or improve our cost competitiveness among regional utilities. We will continue to work cooperatively with our customers, our regulators and the communities we serve to develop generation options that reflect the needs of our customers as well as the environment. We believe that our location and our proactive leadership in developing renewable generation provide us with a competitive advantage. For more than a century, we have been Minnesota's leading producer of renewable hydroelectric energy.

We are executing our renewable energy and environmental compliance strategy. Taconite Ridge Wind I, a $50 million, 25-MW wind facility located in northeastern Minnesota became operational in July 2008. In 2006 and 2007, we began long term purchase power agreements for 98 MWs of wind energy constructed in North Dakota (Oliver Wind I and II); 366,945 megawatt-hours were purchased under these agreements in 2008.

On May 13, 2008, we announced plans to develop several hundred megawatts of wind energy in North Dakota and purchase an existing 250 kV DC transmission line to transport this wind energy to our customers while gradually reducing the supply of energy currently delivered to our system on this same transmission line from Square Butte's coal-fired Milton R. Young Unit 2. The North Dakota wind project is expected to complete the 2025 renewable energy supply requirements for our retail load. In September 2008, we signed an agreement to purchase the transmission line from Square Butte Electric Cooperative for approximately $80 million. The transaction is subject to regulatory approvals and is anticipated to close in 2009.

In January 2008, Minnesota Power and Manitoba Hydro executed a term sheet to purchase surplus energy beginning in 2009 and an anticipated 250-MW capacity purchase to begin in about 2020. Minnesota Power anticipates the initial purchase of surplus energy will be about 100 MWs during high hydro production periods in the spring and fall. The 250-MW long-term purchase will require construction of hydroelectric facilities in Manitoba and major new transmission facilities between Canada and the United States. In November 2008, we signed an amendment to the term sheet extending the deadline to complete negotiations and sign a definitive agreement from November 30, 2008, to October 31, 2009. Both purchases require MPUC approval.

Integrated Resource Plan. On October 31, 2007, Minnesota Power filed its Integrated Resource Plan (IRP), a comprehensive estimate of future capacity needs within the Minnesota Power service territory. In October 2008, the MPUC issued an order approving our request to re-file the IRP by October 1, 2009 in order to incorporate the North Dakota wind project and otherwise update our load forecasting and modeling in the IRP.

Minnesota Power plans to meet expected loads through 2020 by adding a significant amount of renewable generation and some supporting peaking generation. We plan to add 300 to 500 MWs of carbon-minimizing renewable energy to our generation mix. Besides the additional generation from renewable sources, Minnesota Power anticipates future supply could come from a combination of sources, including:

- "As-needed" peaking and intermediate generation facilities;
- Expiration of wholesale contracts presently in place;
- Short-term market purchases;
- Improved efficiency of existing generation and power delivery assets; and
- Expanded conservation and demand-side management initiatives.

We do not anticipate the need for new base load system generation within the Minnesota Power service territory through approximately 2020, and we project a one percent average annual growth in electric usage from our existing customers over that time frame.

Climate Change. Minnesota Power has a long history of environmental stewardship. A key component of our energy strategy is a goal to reduce overall GHG emissions.

We believe that future regulations may restrict the emissions of GHGs from our generation facilities. Several proposals on the Federal level to "cap" the amount of GHG emissions have been made. Other proposals consider establishing emissions allowances or taxes as economic incentives to address the GHG emission issue.

In 2007, Minnesota passed legislation establishing non-binding targets for GHG reductions. This legislation establishes a goal of reducing statewide GHG emissions across all sectors producing those emissions to a level at least 15 percent below 2005 levels by 2015, at least 30 percent below 2005 levels by 2025, and at least 80 percent below 2005 levels by 2050. Minnesota is also participating in the Midwestern Greenhouse Gas Reduction Accord, a regional effort to develop a multi-state approach to GHG emission reductions. We are proactively taking steps to strategically engage the GHG emission issue and the impact of climate change regulation on our business.

Minnesota Power is addressing this challenge by taking the following steps that also ensure reliable and environmentally compliant generation resources to meet our customer's requirements.

- We will consider only carbon minimizing resources to supply power to our customers. We will not consider a new coal resource without a carbon emission solution.
- We are pursuing Minnesota's Renewable Energy Standard by adding significant renewable resources to our portfolio of generation facilities and power supply agreements.
- We plan to continue improving the efficiency of our coal-based generation facilities.
- We plan to implement demand side conservation efforts.
- We will continue to support research of technologies to reduce carbon emissions from generation facilities and support carbon sequestration efforts.
- We plan to achieve overall carbon emission reductions while maintaining competitively priced electric service to our customers.

The Company has become a "founding reporter" of The Climate Registry, an organization established to measure and publicly report GHG emissions consistently and accurately across borders and industry sectors. In becoming one of the founding reporters of The Climate Registry, we have voluntarily committed to measure, independently verify and publicly report our GHG emissions annually.

CapX 2020. Minnesota Power is a participant in the CapX 2020 initiative which represents an effort to ensure the electricity reliability of Minnesota and the surrounding region for the future. CapX 2020 includes the state's largest transmission owners, including electric cooperatives, municipals and investor-owned utilities, and has assessed the transmission system and projected growth in customer demand for electricity through 2020. Studies show that the region's transmission system will require major upgrades and expansion to accommodate increased electricity demand as well as support renewable energy expansion through 2020.

The CapX 2020 participants filed a Certificate of Need for three 345 kV lines and associated system interconnections with the MPUC in August 2007. Following a public process, the MPUC is expected to decide on the need for these 345 kV lines by early 2009. If the MPUC issues the required Certificate of Need, the MPUC will then determine routes for the new lines in subsequent proceedings. Portions of the 345 kV lines will also require approvals by federal officials and by regulators in North Dakota, South Dakota and Wisconsin. A fourth line, a 230 kV line in north central Minnesota, is also among the CapX 2020 projects. A request for a Certificate of Need Permit for this line was filed in March 2008, and a Route Permit application was filed in June 2008. The MPUC decision on need and routing are expected in 2010.

Minnesota Power may invest in two of the lines, a 250-mile 345 kV line between Fargo, North Dakota and Monticello, Minnesota, and a 70-mile 230 kV line between Bemidji and Grand Rapids, Minnesota. Our total investment in these two lines would be approximately $80 million. Upon receipt of the required Certificates of Need, we intend to include these costs in an annual filing with the MPUC for current cost recovery of the expenditures related to our investment in the lines under a Minnesota Power transmission cost recovery tariff rider mechanism authorized by Minnesota legislation. Construction of the lines is targeted to begin in 2010 and last approximately three to four years.

Outlook (Continued)
Regulated Operations (Continued)

AREA and Boswell Unit 3 Emission Reduction Plans. In May 2006, the MPUC authorized current cost recovery of expenditures to reduce emissions of SO_2, NO_X, and mercury emissions at Taconite Harbor and Laskin under the AREA Plan. The AREA Plan has significantly reduced emissions from Taconite Harbor and Laskin, while maintaining a reliable and reasonably-priced energy supply to meet the needs of our customers. Environmental retrofits at Laskin and Taconite Harbor Units 1 and 2 are complete and in service. The environmental regulatory requirements for Taconite Harbor Unit 3 are pending finalization of the Minnesota Regional Haze implementation plan by the MPCA. We are expecting to retrofit Taconite Harbor Unit 3 by 2013 and are evaluating compliance requirements and cost recovery options for this final unit.

We are making emission reduction investments at our Boswell Unit 3 generating unit. The investments in pollution control equipment will reduce particulates, SO_2, NO_X, and mercury emissions to meet future federal and state requirements. The MPUC has authorized a cash return on construction work in progress during the construction phase in lieu of AFUDC-Equity and allows for a return on investment and current cost recovery of incremental operations and maintenance expenses once the new equipment is installed and the unit is placed back in service in late 2009. We began cost recovery on January 1, 2008. In September 2008, we filed a petition with the MPUC to approve the Boswell Unit 3 rate adjustment for 2009. If approved, new rates would allow cost recovery relating to additional investments planned for 2009.

Boswell NO_X Reduction Plan. In September 2008, we submitted to the MPCA and MPUC a $92 million environmental initiative proposing cost recovery for NO_X emission reductions from Boswell Units 1, 2, and 4. If approved by the MPUC, the Boswell NO_X Reduction Plan is expected to significantly reduce NO_X emissions from these units. In conjunction with the NO_X reduction, we plan to install an efficiency improvement to the existing turbine/generator at Boswell Unit 4 adding approximately 60 MWs of total output with no additional emissions. A second filing requesting cost recovery for the plan will be submitted to the MPUC in the first quarter of 2009.

Transmission. In September 2008, we filed a petition with the MPUC seeking total 2009 cost recovery of $2.2 million for ongoing expenditures related to the Badoura and Tower transmission projects and certain MISO related transmission facility charges. The Tower and Badoura projects are being developed to address transmission inadequacies in northeastern Minnesota. Both projects will provide regional transmission benefits through increased voltage support and additional line capacity.

Depreciation. In a November 2008 Order, the MPUC increased depreciation rates for certain assets effective January 1, 2008. Minnesota Power had been seeking to have the increased depreciation rates become effective with the date of final rates in the current retail rate filing (expected to be in the second quarter of 2009). Under this order, depreciation expense increased approximately $3 million in 2008.

Investment in ATC. At December 31, 2008, our equity investment was $76.9 million, representing an approximate 8 percent ownership interest. ATC provides transmission service under rates regulated by the FERC that are set in accordance with the FERC's policy of establishing the independent operation and ownership of, and investment in, transmission facilities. ATC rates are based on a 12.2 percent return on common equity dedicated to utility plant. ATC has identified $2.7 billion in future projects needed over the next 10 years to improve the adequacy and reliability of the electric transmission system. This investment is expected to be funded through a combination of debt and investor contributions. As additional opportunities arise, we plan to make additional investments in ATC through general capital calls based upon our pro-rata ownership interest in ATC. On January 30, 2009, we invested an additional $1.9 million into ATC. In total, we expect to invest an additional $5 to $7 million throughout 2009.

Investments and Other

BNI Coal. In 2008, BNI Coal sold approximately 4.5 million tons of coal (4.0 million tons in 2007) and anticipates similar sales in 2009.

ALLETE Properties. ALLETE Properties is our real estate business that has operated in Florida since 1991. Our current strategy is to complete and maintain key entitlements and infrastructure improvements which enhance values without requiring significant additional investment, and position the current property portfolio for a maximization of value and cash flow when market conditions improve.

Our two major development projects include Town Center and Palm Coast Park. A third proposed development project, Ormond Crossings, is in the permitting and planning stage. Development activities involve mainly zoning, permitting, platting, and master infrastructure construction. See Item 1. Business – Investments and Other for additional descriptions of each of our development projects. Development costs are financed through a combination of community development district bonds, bank loans, and internally-generated funds.

Summary of Development Projects Land Available-for-Sale	Ownership	Total Acres *(a)*	Residential Units *(b)*	Non-residential Sq. Ft. *(b, c)*
Current Development Projects				
Town Center	80%			
At December 31, 2007		991	2,289	2,228,200
Property Sold		–	–	–
At December 31, 2008		991	2,289	2,228,200
Palm Coast Park	100%			
At December 31, 2007		3,436	3,154	3,116,800
Property Sold		–	–	–
Change in Estimate		–	85	–
At December 31, 2008		3,436	3,239	3,116,800
Total Current Development Projects		4,427	5,528	5,345,000
Proposed Development Project				
Ormond Crossings	100%			
At December 31, 2008		5,968	*(d)*	*(d)*
Total of Development Projects at December 31, 2008		**10,395**	**5,528**	**5,345,000**

(a) Acreage amounts are approximate and shown on a gross basis, including wetlands and minority interest.
(b) Estimated and includes minority interest. Density at build out may differ from these estimates.
(c) Depending on the project, non-residential includes retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional.
(d) A development order approved by the City of Ormond Beach includes up to 3,700 residential units and 5 million square feet of non-residential space. We estimate the first two phases of Ormond Crossings will include 2,500-3,200 residential units and 2.5-3.5 million square feet of various types of non-residential space. Density of the residential and non-residential components of the project will be determined based upon market and traffic mitigation cost considerations. Approximately 2,000 acres will be devoted to a regionally significant wetlands mitigation bank.

Other Land Available-for-Sale *(a)* Acres *(b)*	Total	Mixed Use	Residential	Non-residential	Agricultural
At December 31, 2007	1,573	362	248	424	539
Property Sold	(166)	(2)	(134)	(18)	(12)
Contributed Land	(54)	–	–	–	(54)
Change in Estimate	–	(7)	–	(4)	11
At December 31, 2008	1,353	353	114	402	484

(a) Other land includes land located in Palm Coast, Florida not included in development projects, Lehigh Acquisition Corporation and Cape Coral Holdings, Inc.
(b) Acreage amounts are approximate and shown on a gross basis, including wetlands and minority interest.

Pending Contracts. At December 31, 2008, total pending land sales under contract were $12.4 million ($55.2 million at December 31, 2007) and are scheduled to close at various times through 2009. However, given current market conditions it may be difficult to complete these closings in 2009. In July 2008, a $28.9 million contract with LDD Palm Coast North LLC, a subsidiary of Lowe Enterprises was terminated, and a $0.6 million contract deposit was forfeited. We are currently reviewing the best options to proceed with this property. We believe this property, along with the remaining property at Palm Coast Park, continues to have long-term value. We continue to have discussions with other buyers under pending contracts. Our objective is to proactively assist our buyers through this current period of weak market conditions, as we believe the long-term prospects for our properties are favorable. Our discussions sometimes result in adjustments to contract terms, and may include extending closing dates, revised pricing or termination. If a purchaser defaults on a sales contract, the legal remedy is usually limited to terminating the contract and retaining the purchaser's deposit. The property is then available for resale. In many cases, contract purchasers incur significant costs during due diligence, planning, designing and marketing the property before the contract closes, therefore they have substantially more at risk than the deposit.

Outlook (Continued)
Investments and Other (Continued)

Emerging Technology. We have the potential to recognize gains or losses on the sale of investments in our emerging technology portfolio. We plan to sell investments in our emerging technology portfolio when publically traded shares are distributed to us. Some restrictions on sales may apply, including, but not limited to, underwriter lock-up periods that typically extend for 180 days following an initial public offering. We have committed to make up to $0.7 million in additional investments in certain emerging technology holdings. We do not have plans to make any additional investments beyond this commitment.

Income Taxes. ALLETE's aggregate federal and multi-state statutory tax rate is expected to be approximately 40 percent for 2009. On an ongoing basis, ALLETE has certain tax credits and other tax adjustments that will reduce the statutory rate to the expected effective tax rate. These tax credits and adjustments historically have included items such as investment tax credits, wind production tax credits, AFUDC-Equity, domestic manufacturer's deduction, depletion, Medicare prescription reimbursement, as well as other items. The annual effective rate can also be impacted by such items as changes in income from operations before minority interest and income taxes, state and federal tax law changes that become effective during the year, business combinations and configuration changes, tax planning initiatives and resolution of prior years' tax matters. We expect our effective tax rate to be approximately 36 percent for 2009.

Liquidity and Capital Resources

Cash Flow Activities

ALLETE is well-positioned to meet the Company's immediate cash flow needs. With our cash balance of approximately $102 million, $160.5 million in Lines of Credit which includes a committed, syndicated, unsecured revolving line of credit of $150 million, and a debt to capital ratio of 42.2 percent at December 31, 2008, we project sufficient capital availability through the immediate term. If needed, we have the flexibility to reduce our planned capital expenditure program to meet changing capital market conditions.

Operating Activities. Cash from operating activities was $152.1 million for 2008 ($123.1 million for 2007; $142.0 million for 2006). Cash from operating activities was higher in 2008 than 2007 due to an increase in deferred income tax expense and decreased working capital requirements, which was partially offset by lower net income and higher contributions to defined benefit pension and postretirement health plans (included in Other Liabilities on the Consolidated Statement of Cash Flows). Working capital requirements decreased mainly due to lower uncollected purchased power costs (included in Prepayments and Other on the Consolidated Statement of Cash Flows). Deferred income tax expense increased due to the bonus depreciation provisions of the Economic Stimulus Act of 2008, and contributions to defined benefit pension and postretirement health plans increased $15.6 million during 2008.

Cash from operating activities was lower in 2007 than 2006 primarily due to a decrease in cash flow from operating assets and liabilities. Colder weather in December 2007 resulted in an increase in customer receivables of $14.7 million compared to 2006. Cash used for prepayments and other was higher in 2007 than 2006 due to an $11.5 million change in deferred fuel costs. The increase in deferred fuel costs was the result of higher purchased power expenses due to generation outages relating to the AREA Plan environmental retrofits, lower hydro generation, lower Square Butte entitlement and Square Butte's major scheduled outage. Other current liabilities decreased primarily due to a reduction in accrued taxes of $8.9 million. The decrease in cash from operating activities for 2007 was partially offset by increased earnings from continuing operations of $11.2 million and a decrease in cash used for discontinued operations of $13.5 million.

Investing Activities. Cash used for investing activities was $276.1 million for 2008 ($154.1 million for 2007; $154.2 million for 2006). Cash used for investing activities was higher than 2007 reflecting increased capital additions to property, plant, and equipment which were partially offset by the proceeds from the sale of assets (retail shopping center) in Winter Haven, Florida. Capital additions to property, plant, and equipment increased due to construction activity for environmental retrofit projects, AREA Plan projects, Taconite Ridge, and additional investments in ATC.

Cash used for investing activities was insignificantly lower in 2007 than 2006 primarily due to an increase of $81.4 million in net sales of short-term investments compared to $12.4 million in 2006. The net proceeds from the sale of short-term investments were used to fund increased additions to property, plant and equipment. Additions to property, plant and equipment were higher in 2007 than 2006 by $111.7 million primarily due to increased spending on major environmental construction projects. Cash invested in ATC decreased from $51.4 million in 2006 to $8.7 million in 2007.

Financing Activities. Cash from financing activities was $202.7 million for 2008 (cash from financing activities was $9.5 million for 2007; cash used for financing activities was $32.6 million for 2006). The increase in cash from financing activities resulted from the issuance of three series of first mortgage bonds: $60 million in February 2008; $75 million in May 2008; and $38 million in December 2008. In addition, 1.8 million shares of common stock were issued for net proceeds of $71.1 million. Financing activities increased to support our current capital expenditure program.

Cash from financing activities was higher in 2007 than 2006 primarily due to additional long-term debt issued in 2007, which included $60 million of first mortgage bonds, $50.0 million of senior unsecured notes and $12.5 million in collateralized tax exempt bonds at SWL&P. The increase in new long-term debt was offset partially by the retirement of $20.0 million in first mortgage bonds, $2.5 million in variable demand revenue refunding bonds and $6.5 million in SWL&P first mortgage bonds.

Working Capital. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. We have 0.8 million original issue shares of our common stock available for issuance through *Invest Direct*, our direct stock purchase and dividend reinvestment plan. Additionally, we have 0.9 million original issue shares of common stock available for issuance through a Distribution Agreement with KCCI, Inc. We have consolidated bank lines of credit aggregating $160.5 million, the majority of which expire in January 2012. In January 2006, we renewed, increased and extended a committed, syndicated, unsecured revolving credit facility (Line) with Bank of America as Agent, and four other banks, for $150 million. No individual bank has more than 25 percent participation in the Line. The Line was subsequently extended for an additional year in December 2006 and currently matures on January 11, 2012. At our request and subject to certain conditions, the Line may be increased to $200 million and extended for two additional 12-month periods. We may prepay amounts outstanding under the Line in whole or in part at our discretion. Additionally, we may irrevocably terminate or reduce the size of the Line prior to maturity. The Line may be used for general corporate purposes, working capital and to provide liquidity in support of our commercial paper program. The amount and timing of future sales of our securities will depend upon market conditions and our specific needs. We may sell securities to meet capital requirements, to provide for the retirement or early redemption of issues of long-term debt, to reduce short-term debt and for other corporate purposes.

Auction Rate Securities. As of December 31, 2008, we held $15.2 million of investments ($23.1 million at December 31, 2007) consisting of three auction rate municipal bonds (auction rate securities) with stated maturity dates ranging between 15 and 28 years. These ARS consist of guaranteed student loans insured or reinsured by the federal government and were historically auctioned every 35 days to set new rates and provide a liquidating event in which investors could either buy or sell securities. The auctions have been unable to sustain themselves during 2008 due to the overall lack of credit market liquidity and we have been unable to liquidate all of our ARS. As a result, we have classified the ARS as long-term investments and have the ability to hold these securities to maturity, until called by the issuer, or until liquidity returns to this market. In the meantime, these securities will pay a default rate which is typically above market interest rates.

The Company has used a discounted cash flow model to determine the estimated fair value of its investment in ARS as of December 31, 2008. The assumptions used in preparing the discounted cash flow model include the following: estimated interest rates, estimated discount rates (using yields of comparable traded instruments adjusted for illiquidity and other risk factors), amount of cash flows, and expected holding periods of the ARS. These inputs reflect the Company's judgments about assumptions that market participants would use in pricing ARS including assumptions about risk. Based upon the results of the discounted cash flow model and the fact that these ARS consist of guaranteed student loans insured or reinsured by the federal government no other than temporary impairment loss has been reported.

Securities. On December 10, 2007, ALLETE filed a registration statement with the SEC, pursuant to Rule 415 under the Securities Act of 1933, relating to the possible issuance from time to time of ALLETE common stock or first mortgage bonds. The amount of securities issuable by ALLETE is established from time to time by its board of directors. We may sell all or a portion of the above-described registered securities if warranted by market conditions and our capital requirements. Any offer and sale of the above-mentioned securities will be made only by means of a prospectus meeting the requirements of the Securities Act of 1933 and the rules and regulations there under.

On February 1, 2008, we issued $60 million in principal amount of First Mortgage Bonds, 4.86% Series due April 1, 2013, in the private placement market. We have the option to prepay all or a portion of the bonds at our discretion, subject to a make-whole provision. The bonds are subject to additional terms and conditions which are customary for this type of transaction. We used the proceeds from the sale of the bonds to fund utility capital expenditures and for general corporate purposes.

On May 14, 2008, we issued $75 million in principal amount of First Mortgage Bonds, 6.02% Series due May 1, 2023, in the private placement market. We have the option to prepay all or a portion of the bonds at our discretion, subject to a make-whole provision. The bonds are subject to additional terms and conditions which are customary for this type of transaction. We used the proceeds from the sale of the bonds to fund utility capital expenditures and for general corporate purposes.

We issued $80 million in principal amount of First Mortgage Bonds in the private placement market in three series as follows:

Issue Date	Maturity	Amount	Coupon
December 15, 2008	January 15, 2014	$18 Million	6.94%
December 15, 2008	January 15, 2016	$20 Million	7.70%
January 15, 2009	January 15, 2019	$42 Million	8.17%

We have the option to prepay all or a portion of the bonds at our discretion, subject to a make-whole provision. The bonds are subject to additional terms and conditions which are customary for this type of transaction. We intend to use the proceeds from the sale of the bonds to fund utility capital expenditures and for general corporate purposes.

On February 19, 2008, we entered into a Distribution Agreement with KCCI, Inc. with respect to the issuance and sale of up to 2.5 million shares of our common stock, without par value. The shares may be offered for sale, from time to time, in accordance with the terms of the Distribution Agreement, which terminates on June 30, 2009. For the year ended December 31, 2008, 1,556,200 shares of common stock have been issued under this agreement resulting in net proceeds of $60.8 million.

Financial Covenants. Our long-term debt arrangements contain customary covenants. In addition, our lines of credit and letters of credit supporting certain long-term debt arrangements contain financial covenants. The most restrictive covenant requires ALLETE to maintain a ratio of its Funded Debt to Total Capital of less than or equal to 0.65 to 1.00 measured quarterly. As of December 31, 2008 our ratio was approximately 0.40 to 1.00. Failure to meet this covenant could give rise to an event of default, if not corrected after notice from the lender, in which event ALLETE may need to pursue alternative sources of funding. Some of ALLETE's debt arrangements contain "cross-default" provisions that would result in an event of default if there is a failure under other financing arrangements to meet payment terms or to observe other covenants that would result in an acceleration of payments due. As of December 31, 2008, ALLETE was in compliance with its financial covenants.

Off-Balance Sheet Arrangements. Off-balance sheet arrangements are discussed in Note 8.

Contractual Obligations and Commercial Commitments. Our long-term debt obligations, including long-term debt due within one year, represent the principal amount of bonds, notes and loans which are recorded on our consolidated balance sheet, plus interest. The table below assumes the interest rate in effect at December 31, 2008, remains constant through the remaining term. (See Note 8. Commitment, Guarantees and Contingencies.)

Unconditional purchase obligations represent our Square Butte power purchase agreements, minimum purchase commitments under coal and rail contracts, and purchase obligations for certain capital expenditure projects. (See Note 8. Commitments, Guarantees and Contingencies.)

Under our power purchase agreement with Square Butte that extends through 2026, we are obligated to pay our pro rata share of Square Butte's costs based on our entitlement to the output of Square Butte's 455-MW coal-fired generating unit near Center, North Dakota. Our payment obligation is suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. The following table reflects our share of future debt service based on our output entitlement of 50 percent. For further information on Square Butte see Note. 8 Commitments, Guarantees and Contingencies.

We have two wind power purchase agreements with an affiliate of NextEra Energy to purchase the output from two wind facilities, Oliver Wind I and II located near Center, North Dakota. We began purchasing the output from Oliver Wind I, a 50-MW facility, in December 2006 and the output from Oliver Wind II, a 48-MW facility in November 2007. Each agreement is for 25 years and provides for the purchase of all output from the facilities. There are no fixed capacity charges, and we only pay for energy as it is delivered to us.

	Payments Due by Period				
Contractual Obligations		**Less than**	**1 to 3**	**4 to 5**	**After**
As of December 31, 2008	**Total**	**1 Year**	**Years**	**Years**	**5 Years**
Millions					
Long-Term Debt *(a)*	$979.6	$40.1	$106.6	$140.8	$692.1
Operating Lease Obligations	93.7	8.3	24.8	15.1	45.5
FIN 48 – Uncertain Tax Positions	1.2	1.0	0.2	–	–
Unconditional Purchase Obligations	352.9	77.1	63.3	28.8	183.7
	$1,427.4	$126.5	$194.9	$184.7	$921.3

(a) Includes interest and assumes variable interest rates in effect at December 31, 2008, remains constant through remaining term.

We expect to contribute approximately $30 - $35 million to our defined benefit pension plans and $11 million to our postretirement health and life plans in 2009. We are unable to predict contribution levels to our defined benefit pension or postretirement health and life plans after 2009.

Credit Ratings. Our securities have been rated by Standard & Poor's and by Moody's. Rating agencies use both quantitative and qualitative measures in determining a company's credit rating. These measures include business risk, liquidity risk, competitive position, capital mix, financial condition, predictability of cash flows, management strength and future direction. Some of the quantitative measures can be analyzed through a few key financial ratios, while the qualitative ones are more subjective. The disclosure of these credit ratings is not a recommendation to buy, sell or hold our securities. Ratings are subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Credit Ratings	Standard & Poor's	Moody's
Issuer Credit Rating	BBB+	Baa1
Commercial Paper	A-2	P-2
Senior Secured		
First Mortgage Bonds	A–	A3
Pollution Control Bonds	A–	A3
Unsecured Debt		
Collier County Industrial Development Revenue Bonds – Fixed Rate	BBB	–

Payout Ratio. In 2008, we paid out 61 percent (53 percent in 2007; 53 percent in 2006) of our per share earnings in dividends.

On January 22, 2009, our Board of Directors increased the dividend on ALLETE common stock by 2.3 percent, declaring a dividend of $0.44 per share payable on March 1, 2009, to shareholders of record at the close of business on February 16, 2009.

Capital Requirements

ALLETE's projected capital expenditures for the years 2009 through 2013 are presented in the table below. Actual capital expenditures may vary from the estimates due to changes in forecasted plant maintenance, regulatory decisions or approvals, future environmental requirements, base load growth or capital market conditions.

Capital Expenditures	2009	2010	2011	2012	2013	Total
Regulated Utility Operations						
Base and Other	$197	$125	$109	$114	$128	$673
Current Cost Recovery *(a)*						
Environmental	43	9	37	56	112	257
Renewable	29	138	16	15	–	198
Transmission	3	17	18	18	17	73
Generation	21	17	–	–	–	38
Total Current Cost Recovery	96	181	71	89	129	566
Regulated Utility Capital Expenditures	293	306	180	203	257	1,239
Other	7	8	11	8	26	60
Total Capital Expenditures	$300	$314	$191	$211	$283	$1,299

(a) Estimated current capital expenditures recoverable outside of a rate case.

We intend to finance expenditures from both internally generated funds and incremental debt and equity.

Environmental and Other Matters

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Due to future restrictive environmental requirements through legislation and/or rulemaking, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. We are unable to predict the outcome of the issues discussed in Note 8. (See Item 1. Business – Environmental Matters.)

Market Risk

Securities Investments

Available-for-Sale Securities. At December 31, 2008, our available-for-sale securities portfolio consisted of securities in a grantor trust, established to fund certain employee benefits, and auction rate securities. (See Note 6. Investments.)

Emerging Technology Portfolio. As part of our emerging technology portfolio, we have several minority investments in venture capital funds and direct investments in privately-held, start-up companies. (See Note 6. Investments.)

Market Risk (Continued)

Interest Rate Risk. We are exposed to risks resulting from changes in interest rates as a result of our issuance of variable rate debt. We manage our interest rate risk by varying the issuance and maturity dates of our fixed rate debt, limiting the amount of variable rate debt, and continually monitoring the effects of market changes in interest rates. The table below presents the long-term debt obligations and the corresponding weighted average interest rate at December 31, 2008.

	Expected Maturity Date							
Interest Rate Sensitive Financial Instruments	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**	**Fair Value**
Dollars in Millions								
Long-Term Debt								
Fixed Rate	$2.2	$1.1	$1.2	$1.2	$70.6	$438.6	$514.9	$477.6
Average Interest Rate – %	5.5	6.2	6.2	6.2	5.2	5.6	5.7	
Variable Rate	$8.2	$3.6	$10.5	$1.7	$2.8	$57.0	$83.8	$83.8
Average Interest Rate – % *(a)*	1.2	1.8	3.5	2.7	1.2	1.7	1.9	

(a) Assumes rate in effect at December 31, 2008, remains constant through remaining term.

The interest rates on variable rate long-term debt are reset on a periodic basis reflecting current market conditions. Based on the variable rate debt outstanding at December 31, 2008, and assuming no other changes to our financial structure, an increase or decrease of 100 basis points in interest rates would impact the amount of pretax interest expense by $0.8 million. This amount was determined by considering the impact of a hypothetical 100 basis point change to the average variable interest rate on the variable rate debt outstanding as of December 31, 2008.

Commodity Price Risk. Our regulated utility operations in Minnesota and Wisconsin incur costs for fuel (primarily coal), power and natural gas purchased for resale in our regulated service territories, and related transportation. Our regulated utilities' exposure to price risk for these commodities is significantly mitigated by the current ratemaking process and regulatory environment, which generally allows a fuel clause surcharge if costs are in excess of those in our last rate filing. Conversely, costs below those in our last rate filing result in a rate credit. We seek to prudently manage our customers' exposure to price risk by entering into contracts of various durations and terms for the purchase of coal and power (in Minnesota), power and natural gas (in Wisconsin), and related transportation costs.

Power Marketing. Our power marketing activities consist of (1) purchasing energy in the wholesale market for resale in our regulated service territories when retail energy requirements exceed generation output and (2) selling excess available energy and purchased power.

From time to time, our utility operations may have excess energy that is temporarily not required by retail and wholesale customers in our regulated service territory. We actively sell this energy to the wholesale market to optimize the value of our generating facilities. This energy is typically sold in the MISO market at market prices or through bilateral agreements of various duration to Other Power Suppliers.

New Accounting Standards

New accounting standards are discussed in Note 1.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk for information related to quantitative and qualitative disclosure about market risk.

Item 8. Financial Statements and Supplementary Data

See our consolidated financial statements as of December 31, 2008 and 2007, and for each of the three years in the period ended December 31, 2008, and supplementary data, also included, which are indexed in Item 15(a).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of ALLETE's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act")). Based upon those evaluations, our principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are effective to provide assurance that information required to be disclosed in ALLETE's reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and such information is accumulated and communicated to our management, including our principal executive and principal financial officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2008.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Unless otherwise stated, the information required for this Item is incorporated by reference herein from our Proxy Statement for the 2009 Annual Meeting of Shareholders (2009 Proxy Statement) under the following headings:

- **Directors.** The information regarding directors will be included in the "Election of Directors" section;
- **Audit Committee Financial Expert.** The information regarding the Audit Committee financial expert will be included in the "Audit Committee Report" section;
- **Audit Committee Members.** The identity of the Audit Committee members is included in the "Audit Committee Report" section;
- **Executive Officers.** The information regarding executive officers is included in Part I of this Form 10-K; and
- **Section 16(a) Compliance.** The information regarding Section 16(a) compliance will be included in the "Section 16(a) Beneficial Ownership Reporting Compliance" section.

Our 2009 Proxy Statement will be filed with the SEC within 120 days after the end of our 2008 fiscal year.

Code of Ethics. We have adopted a written Code of Ethics that applies to all of our employees, including our chief executive officer, chief financial officer and controller. A copy of our Code of Ethics is available on our Website at www.allete.com and print copies are available without charge upon request to ALLETE, Inc., Attention: Secretary, 30 West Superior St. Duluth, Minnesota 55802. Any amendment to the Code of Ethics or any waiver of the Code of Ethics will be disclosed on our Website at www.allete.com promptly following the date of such amendment or waiver.

Corporate Governance. The following documents are available on our Website at www.allete.com and print copies are available upon request:

- Corporate Governance Guidelines;
- Audit Committee Charter;
- Executive Compensation Committee Charter; and
- Corporate Governance and Nominating Committee Charter.

Any amendment to these documents will be disclosed on our Website at www.allete.com promptly following the date of such amendment.

Item 11. Executive Compensation

The information required for this Item is incorporated by reference herein from the "Compensation of Executive Officers," the "Compensation Discussion and Analysis", the "Executive Compensation Committee Report" and the "Director Compensation – 2008" sections in our 2009 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required for this Item is incorporated by reference herein from the "Securities Owned by Certain Beneficial Owners," the "Securities owned by Directors and Management" and the "Equity Compensation Plan Information" sections in our 2009 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required for this Item is incorporated by reference herein from the "Corporate Governance" section in our 2009 Proxy Statement.

We have adopted a Related Person Transaction Policy which is available on our Website at www.allete.com. Print copies are available without charge, upon request. Any amendment to this policy will be disclosed on our Website at www.allete.com promptly following the date of such amendment.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference herein from the "Audit Committee Report" section in our 2009 Proxy Statement.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a)	Certain Documents Filed as Part of this Form 10-K.	
(1)	Financial Statements	Page
	ALLETE	
	Report of Independent Registered Public Accounting Firm	49
	Consolidated Balance Sheet at December 31, 2008 and 2007	50
	For the Three Years Ended December 31, 2008	
	Consolidated Statement of Income	51
	Consolidated Statement of Cash Flows	52
	Consolidated Statement of Shareholders' Equity	53
	Notes to Consolidated Financial Statements	54
(2)	Financial Statement Schedules	
	Schedule II – ALLETE Valuation and Qualifying Accounts and Reserves	84
	All other schedules have been omitted either because the information is not required to be reported by ALLETE or because the information is included in the consolidated financial statements or the notes.	
(3)	Exhibits including those incorporated by reference.	

Exhibit Number

*3(a)1	-	Articles of Incorporation, amended and restated as of May 8, 2001 (filed as Exhibit 3(b) to the March 31, 2001, Form 10-Q, File No. 1-3548).
*3(a)2	-	Amendment to Articles of Incorporation, effective 12:00 p.m. Eastern Time on September 20, 2004 (filed as Exhibit 3 to the September 21, 2004, Form 8-K, File No. 1-3548).
*3(a)3	-	Amendment to Certificate of Assumed Name, filed with the Minnesota Secretary of State on May 8, 2001 (filed as Exhibit 3(a) to the March 31, 2001, Form 10-Q, File No. 1-3548).
*3(b)	-	Bylaws, as amended effective August 24, 2004 (filed as Exhibit 3 to the August 25, 2004, Form 8-K, File No. 1-3548).
*4(a)1	-	Mortgage and Deed of Trust, dated as of September 1, 1945, between Minnesota Power & Light Company (now ALLETE) and The Bank of New York Mellon (formerly Irving Trust Company) and Douglas J. MacInnes (successor to Richard H. West), Trustees (filed as Exhibit 7(c), File No. 2-5865).
*4(a)2	-	Supplemental Indentures to ALLETE's Mortgage and Deed of Trust:

Number	Dated as of	Reference File	Exhibit
First	March 1, 1949	2-7826	7(b)
Second	July 1, 1951	2-9036	7(c)
Third	March 1, 1957	2-13075	2(c)
Fourth	January 1, 1968	2-27794	2(c)
Fifth	April 1, 1971	2-39537	2(c)
Sixth	August 1, 1975	2-54116	2(c)
Seventh	September 1, 1976	2-57014	2(c)
Eighth	September 1, 1977	2-59690	2(c)
Ninth	April 1, 1978	2-60866	2(c)
Tenth	August 1, 1978	2-62852	2(d)2
Eleventh	December 1, 1982	2-56649	4(a)3
Twelfth	April 1, 1987	33-30224	4(a)3
Thirteenth	March 1, 1992	33-47438	4(b)
Fourteenth	June 1, 1992	33-55240	4(b)
Fifteenth	July 1, 1992	33-55240	4(c)
Sixteenth	July 1, 1992	33-55240	4(d)
Seventeenth	February 1, 1993	33-50143	4(b)
Eighteenth	July 1, 1993	33-50143	4(c)
Nineteenth	February 1, 1997	1-3548 (1996 Form 10-K)	4(a)3
Twentieth	November 1, 1997	1-3548 (1997 Form 10-K)	4(a)3
Twenty-first	October 1, 2000	333-54330	4(c)3
Twenty-second	July 1, 2003	1-3548 (June 30, 2003 Form 10-Q)	4
Twenty-third	August 1, 2004	1-3548 (Sept. 30, 2004 Form 10-Q)	4(a)
Twenty-fourth	March 1, 2005	1-3548 (March 31, 2005 Form 10-Q)	4
Twenty-fifth	December 1, 2005	1-3548 (March 31, 2006 Form 10-Q)	4
Twenty-sixth	October 1, 2006	1-3548 (2006 Form 10-K)	4
Twenty-seventh	February 1, 2008	1-3548 (2007 Form 10-K)	4(a)3
Twenty-eighth	May 1, 2008	1-3548 (June 30, 2008 Form 10-Q)	4

Exhibit Number		
4(a)3	-	Twenty-ninth Supplemental Indenture, dated as of November 1, 2008, between ALLETE and The Bank of New York Mellon and Douglas J. MacInnes, as Trustees.
4(a)4	-	Thirtieth Supplemental Indenture, dated as of January 1, 2009, between ALLETE and The Bank of New York Mellon and Douglas J. MacInnes, as Trustees.
*4(b)1	-	Indenture of Trust, dated as of August 1, 2004, between the City of Cohasset, Minnesota and U.S. Bank National Association, as Trustee relating to $111 Million Collateralized Pollution Control Refunding Revenue Bonds (filed as Exhibit 4(b) to the September 30, 2004, Form 10-Q, File No. 1-3548).
*4(b)2	-	Loan Agreement, dated as of August 1, 2004, between the City of Cohasset, Minnesota and ALLETE relating to $111 Million Collateralized Pollution Control Refunding Revenue Bonds (filed as Exhibit 4(c) to the September 30, 2004, Form 10-Q, File No. 1-3548).
*4(c)1	-	Mortgage and Deed of Trust, dated as of March 1, 1943, between Superior Water, Light and Power Company and Chemical Bank & Trust Company and Howard B. Smith, as Trustees, both succeeded by U.S. Bank Trust N.A., as Trustee (filed as Exhibit 7(c), File No. 2-8668).
*4(c)2	-	Supplemental Indentures to Superior Water, Light and Power Company's Mortgage and Deed of Trust:

Number	Dated as of	Reference File	Exhibit
First	March 1, 1951	2-59690	2(d)(1)
Second	March 1, 1962	2-27794	2(d)1
Third	July 1, 1976	2-57478	2(e)1
Fourth	March 1, 1985	2-78641	4(b)
Fifth	December 1, 1992	1-3548 (1992 Form 10-K)	4(b)1
Sixth	March 24, 1994	1-3548 (1996 Form 10-K)	4(b)1
Seventh	November 1, 1994	1-3548 (1996 Form 10-K)	4(b)2
Eighth	January 1, 1997	1-3548 (1996 Form 10-K)	4(b)3
Ninth	October 1, 2007	1-3548 (2007 Form 10-K)	4(c)3
Tenth	October 1, 2007	1-3548 (2007 Form 10-K)	4(c)4

*4(c)3	-	Eleventh Supplemental Indenture, dated as of December 1, 2008, between Superior Water, Light and Power Company and U.S. Bank National Association, as Trustees.
*4(d)	-	Amended and Restated Rights Agreement, dated as of July 12, 2006, between ALLETE and the Corporate Secretary of ALLETE, as Rights Agent (filed as Exhibit 4 to the July 14, 2006, Form 8-K, File No. 1-3548).
*10(a)	-	Power Purchase and Sale Agreement, dated as of May 29, 1998, between Minnesota Power, Inc. (now ALLETE) and Square Butte Electric Cooperative (filed as Exhibit 10 to the June 30, 1998, Form 10-Q, File No. 1-3548).
*10(c)	-	Master Agreement (without Appendices and Exhibits), dated December 28, 2004, by and between Rainy River Energy Corporation and Constellation Energy Commodities Group, Inc. (filed as Exhibit 10(c) to the 2004 Form 10-K, File No. 1-3548).
*10(d)1	-	Fourth Amended and Restated Committed Facility Letter (without Exhibits), dated January 11, 2006, by and among ALLETE and LaSalle Bank National Association, as Agent (filed as Exhibit 10 to the January 17, 2006, Form 8-K, File No. 1-3548).
*10(d)2	-	First Amendment to Fourth Amended and Restated Committed Facility Letter dated June 19, 2006, by and among ALLETE and LaSalle Bank National Association, as Agent (filed as Exhibit 10(a) to the June 30, 2006, Form 10-Q, File No. 1-3548).
10(d)3	-	Second Amendment to Fourth Amended and Restated Committed Facility Letter dated December 14, 2006, by and among ALLETE and LaSalle Bank National Association, as Agent.
*10(e)1	-	Financing Agreement between Collier County Industrial Development Authority and ALLETE dated as of July 1, 2006 (filed as Exhibit 10(b)1 to the June 30, 2006, Form 10-Q, File No. 1-3548).
*10(e)2	-	Letter of Credit Agreement, dated as of July 5, 2006, among ALLETE, the Participating Banks and Wells Fargo Bank, National Association, as Administrative Agent and Issuing Bank (filed as Exhibit 10(b)2 to the June 30, 2006, Form 10-Q, File No. 1-3548).
*10(g)	-	Agreement (without Exhibit) dated December 16, 2005, among ALLETE, Wisconsin Public Service Corporation and WPS Investments, LLC (filed as Exhibit 10 to the December 21, 2005 Form 8-K, File No. 1-3548).
+*10(h)1	-	Minnesota Power (now ALLETE) Executive Annual Incentive Plan, as amended, effective January 1, 1999 with amendments through January 2003 (filed as Exhibit 10 to the September 30, 2003, Form 10-Q, File No. 1-3548).
+*10(h)2	-	November 2003 Amendment to the ALLETE Executive Annual Incentive Plan (filed as Exhibit 10(t)2 to the 2003 Form 10-K, File No. 1-3548).
+*10(h)3	-	July 2004 Amendment to the ALLETE Executive Annual Incentive Plan (filed as Exhibit 10(a) to the June 30, 2004, Form 10-Q, File No. 1-3548).
+*10(h)4	-	January 2007 Amendment to the ALLETE Executive Annual Incentive Plan (filed as Exhibit 10(h)4 to the 2006 Form 10-K, File No. 1-3548).

Exhibit Number		
+*10(h)5	-	Form of ALLETE Executive Annual Incentive Plan 2006 Award (filed as Exhibit 10 to the February 17, 2006, Form 8-K, File No. 1-3548).
+*10(h)6	-	Form of ALLETE Executive Annual Incentive Plan Awards Effective 2007 (filed as Exhibit 10(h)7 to the 2006 Form 10-K, File No. 1-3548).
+*10(h)7	-	Form of ALLETE Executive Annual Incentive Plan Form of Awards Effective 2009.
+*10(i)1	-	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan, as amended and restated, effective January 1, 2004 (filed as Exhibit 10(u) to the 2003 Form 10-K, File No. 1-3548).
+*10(i)2	-	January 2005 Amendment to the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan (filed as Exhibit 10(b) to the March 31, 2005, Form 10-Q, File No. 1-3548).
+*10(i)3	-	August 2006 Amendments to the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan (filed as Exhibit 10(a) to the September 30, 2006, Form 10-Q, File No. 1-3548).
+*10(i)4	-	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan I (SERP I), as amended and restated, effective January 1, 2009.
+*10(i)5	-	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II (SERP II), effective January 1, 2009.
+*10(i)6	-	January 2009 Amendment to the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II (SERP II), effective January 20, 2009.
+*10(j)1	-	Minnesota Power and Affiliated Companies Executive Investment Plan I, as amended and restated, effective November 1, 1988 (filed as Exhibit 10(c) to the 1988 Form 10-K, File No. 1-3548).
+*10(j)2	-	Amendments through December 2003 to the Minnesota Power and Affiliated Companies Executive Investment Plan I (filed as Exhibit 10(v)2 to the 2003 Form 10-K, File No. 1-3548).
+*10(j)3	-	July 2004 Amendment to the Minnesota Power and Affiliated Companies Executive Investment Plan I (filed as Exhibit 10(b) to the June 30, 2004, Form 10-Q, File No. 1-3548).
+*10(j)4	-	August 2006 Amendment to the Minnesota Power and Affiliated Companies Executive Investment Plan I (filed as Exhibit 10(b) to the September 30, 2006, Form 10-Q, File No. 1-3548).
+*10(k)1	-	Minnesota Power and Affiliated Companies Executive Investment Plan II, as amended and restated, effective November 1, 1988 (filed as Exhibit 10(d) to the 1988 Form 10-K, File No. 1-3548).
+*10(k)2	-	Amendments through December 2003 to the Minnesota Power and Affiliated Companies Executive Investment Plan II (filed as Exhibit 10(w)2 to the 2003 Form 10-K, File No. 1-3548).
+*10(k)3	-	July 2004 Amendment to the Minnesota Power and Affiliated Companies Executive Investment Plan II (filed as Exhibit 10(c) to the June 30, 2004, Form 10-Q, File No. 1-3548).
+*10(k)4	-	August 2006 Amendment to the Minnesota Power and Affiliated Companies Executive Investment Plan II (filed as Exhibit 10(c) to the September 30, 2006, Form 10-Q, File No. 1-3548).
+*10(l)	-	Deferred Compensation Trust Agreement, as amended and restated, effective January 1, 1989 (filed as Exhibit 10(f) to the 1988 Form 10-K, File No. 1-3548).
+*10(m)1	-	ALLETE Executive Long-Term Incentive Compensation Plan as amended and restated effective January 1, 2006 (filed as Exhibit 10 to the May 16, 2005, Form 8-K, File No. 1-3548).
+*10(m)2	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan 2006 Nonqualified Stock Option Grant (filed as Exhibit 10(a)1 to the January 30, 2006, Form 8-K, File No. 1-3548).
+*10(m)3	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan 2006 Performance Share Grant (filed as Exhibit 10(a)2 to the January 30, 2006, Form 8-K, File No. 1-3548).
+*10(m)4	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan 2006 Long-Term Cash Incentive Award – President of ALLETE Properties (filed as Exhibit 10(a)3 to the January 30, 2006, Form 8-K, File No. 1-3548).
+*10(m)5	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan 2006 Stock Grant – President of ALLETE Properties (filed as Exhibit 10(a)4 to the January 30, 2006, Form 8-K, File No. 1-3548).
+10(m)6	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan Nonqualified Stock Option Grant Effective 2007 (filed as Exhibit 10(m)6 to the 2006 Form 10-K, File No. 1-3548).
+10(m)7	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan Performance Share Grant Effective 2007 (filed as Exhibit 10(m)7 to the 2006 Form 10-K, File No. 1-3548).
+10(m)8	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan Long-Term Cash Incentive Award Effective 2007 (filed as Exhibit 10(m)8 to the 2006 Form 10-K, File No. 1-3548).
+10(m)9	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan Stock Grant Effective 2007 (filed as Exhibit 10(m)9 to the 2006 Form 10-K, File No. 1-3548).
+10(m)10	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan Performance Share Grant Effective 2008 (filed as Exhibit 10(m)10 to the 2007 Form 10-K, File No. 1-3548).
+10(m)11	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan Performance Share Grant Effective 2009.

Exhibit Number		
+*10(m)12	-	Form of ALLETE Executive Long-Term Incentive Compensation Plan – Restricted Stock Unit Grant Effective 2009.
+*10(n)1	-	Minnesota Power (now ALLETE) Director Stock Plan, effective January 1, 1995 (filed as Exhibit 10 to the March 31, 1995 Form 10-Q, File No. 1-3548).
+*10(n)2	-	Amendments through December 2003 to the Minnesota Power (now ALLETE) Director Stock Plan (filed as Exhibit 10(z)2 to the 2003 Form 10-K, File No. 1-3548).
+*10(n)3	-	July 2004 Amendment to the ALLETE Director Stock Plan (filed as Exhibit 10(e) to the June 30, 2004, Form 10-Q, File No. 1-3548).
+*10(n)4	-	January 2007 Amendment to the ALLETE Director Stock Plan (filed as Exhibit 10(n)4 to the 2006 Form 10-K, File No. 1-3548).
+*10(n)5	-	ALLETE Non-Management Director Compensation Summary Effective February 15, 2007 (filed as Exhibit 10(n)6 to the 2006 Form 10-K, File No. 1-3548).
+*10(o)1	-	Minnesota Power (now ALLETE) Director Compensation Deferral Plan Amended and Restated, effective January 1, 1990 (filed as Exhibit 10(ac) to the 2002 Form 10-K, File No. 1-3548).
+*10(o)2	-	October 2003 Amendment to the Minnesota Power (now ALLETE) Director Compensation Deferral Plan (filed as Exhibit 10(aa)2 to the 2003 Form 10-K, File No. 1-3548).
+*10(o)3	-	January 2005 Amendment to the ALLETE Director Compensation Deferral Plan (filed as Exhibit 10(c) to the March 31, 2005, Form 10-Q, File No. 1-3548).
+*10(o)4	-	August 2006 Amendment to the ALLETE Director Compensation Deferral Plan (filed as Exhibit 10(d) to the September 30, 2006, Form 10-Q, File No. 1-3548).
+*10(o)5	-	ALLETE Non-Employee Director Compensation Deferral Plan II, effective January 1, 2009.
+*10(p)	-	ALLETE Director Compensation Trust Agreement, effective October 11, 2004 (filed as Exhibit 10(a) to the September 30, 2004, Form 10-Q, File No. 1-3548).
+*10(q)	-	ALLETE Change of Control Severance Pay Plan Effective February 13, 2008 (filed as Exhibit 10(q) to the 2007 Form 10-K, File No. 1-3548).
12	-	Computation of Ratios of Earnings to Fixed Charges.
21	-	Subsidiaries of the Registrant.
23(a)	-	Consent of Independent Registered Public Accounting Firm.
23(b)	-	Consent of General Counsel.
31(a)	-	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	-	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	-	Section 1350 Certification of Annual Report by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99	-	ALLETE News Release dated February 13, 2009, announcing earnings for the year ended December 31, 2008. **(This exhibit has been furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.)**

SWL&P is a party to other long-term debt instruments, $6,370,000 of City of Superior, Wisconsin, Collateralized Utility Revenue Refunding Bonds Series 2007A and $6,130,000 of City of Superior, Wisconsin, Collateralized Utility Revenue Bonds Series 2007B, that, pursuant to Regulation S-K, Item 601(b)(4)(iii), are not filed as exhibits since the total amount of debt authorized under each of these omitted instruments does not exceed 10 percent of our total consolidated assets. We will furnish copies of these instruments to the SEC upon its request.

We are a party to another long-term debt instrument, $38,995,000 of City of Cohasset, Minnesota, Variable Rate Demand Revenue Refunding Bonds (ALLETE, formerly Minnesota Power & Light Company, Project) Series 1997A, Series 1997B and Series 1997C that, pursuant to Regulation S-K, Item 601(b)(4)(iii), is not filed as an exhibit since the total amount of debt authorized under this omitted instrument does not exceed 10 percent of our total consolidated assets. We will furnish copies of this instrument to the SEC upon its request.

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* *Incorporated herein by reference as indicated.*

\+ *Management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 15(b) of Form 10-K.*

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLETE, Inc.

Dated: February 13, 2009 By /s/ Donald J. Shippar
Donald J. Shippar
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Donald J. Shippar Donald J. Shippar	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	February 13, 2009
Mark A. Schober Mark A. Schober	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 13, 2009
Steven Q. DeVinck Steven Q. DeVinck	Controller (Principal Accounting Officer)	February 13, 2009
Kathleen A. Brekken Kathleen A. Brekken	Director	February 13, 2009
Heidi J. Eddins Heidi J. Eddins	Director	February 13, 2009
Sidney W. Emery, Jr. Sidney W. Emery, Jr.	Director	February 13, 2009
James J. Hoolihan James J. Hoolihan	Director	February 13, 2009
Madeleine W. Ludlow Madeleine W. Ludlow	Director	February 13, 2009
George L. Mayer George L. Mayer	Director	February 13, 2009
Douglas C. Neve Douglas C. Neve	Director	February 13, 2009
Jack I. Rajala Jack I. Rajala	Director	February 13, 2009
Bruce W. Stender Bruce W. Stender	Director	February 13, 2009

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of ALLETE, Inc,

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of ALLETE, Inc. and its subsidiaries (the Company) at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 11 to the consolidated financial statements, in 2007 the Company adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109."

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Minneapolis, MN
February 13, 2009

ALLETE Consolidated Balance Sheet

December 31	2008	2007
Millions		
Assets		
Current Assets		
Cash and Cash Equivalents	$102.0	$23.3
Short-Term Investments	–	23.1
Accounts Receivable (Less Allowance of $0.7 and $1.0)	76.3	79.5
Inventories	49.7	49.5
Prepayments and Other	24.3	39.1
Total Current Assets	252.3	214.5
Property, Plant and Equipment – Net	1,387.3	1,104.5
Investment in ATC	76.9	65.7
Other Investments	136.9	148.1
Other Assets	281.4	111.4
Total Assets	$2,134.8	$1,644.2
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$75.7	$72.7
Accrued Taxes	12.9	14.8
Accrued Interest	8.9	7.8
Long-Term Debt Due Within One Year	10.4	11.8
Deferred Profit on Sales of Real Estate	–	2.7
Notes Payable	6.0	–
Other	36.8	27.3
Total Current Liabilities	150.7	137.1
Long-Term Debt	588.3	410.9
Deferred Income Taxes	169.6	144.2
Other Liabilities	389.3	200.1
Minority Interest	9.8	9.3
Total Liabilities	1,307.7	901.6
Commitments and Contingencies		
Shareholders' Equity		
Common Stock Without Par Value, 43.3 Shares Authorized		
32.6 and 30.8 Shares Outstanding	534.1	461.2
Unearned ESOP Shares	(54.9)	(64.5)
Accumulated Other Comprehensive Loss	(33.0)	(4.5)
Retained Earnings	380.9	350.4
Total Shareholders' Equity	827.1	742.6
Total Liabilities and Shareholders' Equity	$2,134.8	$1,644.2

The accompanying notes are an integral part of these statements.

ALLETE Consolidated Statement of Income

For the Year Ended December 31	2008	2007	2006
Millions Except Per Share Amounts			
Operating Revenue	$801.0	$841.7	$767.1
Operating Expenses			
Fuel and Purchased Power	305.6	347.6	281.7
Operating and Maintenance	318.1	313.9	298.4
Depreciation	55.5	48.5	48.7
Total Operating Expenses	679.2	710.0	628.8
Operating Income from Continuing Operations	121.8	131.7	138.3
Other Income (Expense)			
Interest Expense	(26.3)	(22.6)	(25.0)
Equity Earnings in ATC	15.3	12.6	3.0
Other	15.6	15.5	11.9
Total Other Income (Expense)	4.6	5.5	(10.1)
Income from Continuing Operations Before Minority			
Interest and Income Taxes	126.4	137.2	128.2
Income Tax Expense	43.4	47.7	46.3
Minority Interest	0.5	1.9	4.6
Income from Continuing Operations	82.5	87.6	77.3
Loss from Discontinued Operations – Net of Tax	–	–	(0.9)
Net Income	$82.5	$87.6	$76.4
Average Shares of Common Stock			
Basic	29.2	28.3	27.8
Diluted	29.3	28.4	27.9
Basic Earnings (Loss) Per Share of Common Stock			
Continuing Operations	$2.82	$3.09	$2.78
Discontinued Operations	–	–	(0.03)
	$2.82	$3.09	$2.75
Diluted Earnings (Loss) Per Share of Common Stock			
Continuing Operations	$2.82	$3.08	$2.77
Discontinued Operations	–	–	(0.03)
	$2.82	$3.08	$2.74
Dividends Per Share of Common Stock	$1.72	$1.64	$1.45

The accompanying notes are an integral part of these statements.

ALLETE Consolidated Statement of Cash Flows

For the Year Ended December 31	2008	2007	2006
Millions			
Operating Activities			
Net Income	$82.5	$87.6	$76.4
Loss from Discontinued Operations	–	–	0.9
Allowance for Funds Used During Construction	(3.3)	(3.8)	(0.5)
Income from Equity Investments, Net of Dividends	(3.1)	(2.7)	(1.8)
Gain on Sale of Assets	(4.8)	(2.2)	–
Gain on Sale of Available-for-sale Securities	(6.4)	–	–
Loss on Impairment of Investments	–	0.3	–
Depreciation Expense	55.5	48.5	48.7
Deferred Income Tax Expense	38.8	14.0	27.8
Minority Interest	0.5	1.9	4.6
Stock Compensation Expense	1.8	2.0	1.8
Bad Debt Expense	0.7	1.0	0.7
Changes in Operating Assets and Liabilities			
Accounts Receivable	2.4	(6.6)	7.5
Inventories	(0.2)	(6.1)	(10.3)
Prepayments and Other	11.2	(11.7)	(2.3)
Accounts Payable	(14.1)	9.4	5.1
Other Current Liabilities	5.9	(10.0)	0.2
Other Assets	(2.5)	0.8	(4.3)
Other Liabilities	(12.8)	0.7	1.0
Net Operating Activities for Discontinued Operations	–	–	(13.5)
Cash from Operating Activities	152.1	123.1	142.0
Investing Activities			
Proceeds from Sale of Available-for-sale Securities	62.3	449.7	608.8
Payments for Purchase of Available-for-sale Securities	(44.8)	(368.3)	(596.4)
Investment in ATC	(7.4)	(8.7)	(51.4)
Changes to Investments	(0.1)	(10.9)	(0.6)
Additions to Property, Plant and Equipment	(301.1)	(210.2)	(101.8)
Proceeds from Sale of Assets	20.4	1.5	–
Other	(5.4)	(7.2)	(15.0)
Net Investing Activities from Discontinued Operations	–	–	2.2
Cash for Investing Activities	(276.1)	(154.1)	(154.2)
Financing Activities			
Issuance of Common Stock	71.1	20.6	15.8
Issuance of Long-Term Debt	198.7	123.9	77.8
Issuance of Notes Payable	6.0	–	–
Reductions of Long-Term Debt	(22.7)	(90.7)	(78.9)
Dividends on Common Stock and Distributions to Minority Shareholders	(50.4)	(44.3)	(43.9)
Net Decrease in Book Overdrafts	–	–	(3.4)
Cash from (for) Financing Activities	202.7	9.5	(32.6)
Change in Cash and Cash Equivalents	78.7	(21.5)	(44.8)
Cash and Cash Equivalents at Beginning of Period	23.3	44.8	89.6
Cash and Cash Equivalents at End of Period	$102.0	$23.3	$44.8

The accompanying notes are an integral part of these statements.

ALLETE Consolidated Statement of Shareholders' Equity

Millions	Total Shareholders' Equity	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Common Stock
Balance at December 31, 2005	$602.8	$272.1	$(12.8)	$(77.6)	$421.1
Comprehensive Income					
Net Income	76.4	76.4			
Other Comprehensive Income – Net of Tax					
Unrealized Gains on Securities – Net	1.9		1.9		
Additional Pension Liability	6.4		6.4		
Total Comprehensive Income	84.7				
Adjustment to initially apply SFAS 158 – Net of Tax	(4.3)		(4.3)		
Common Stock Issued – Net	17.6				17.6
Dividends Declared	(40.7)	(40.7)			
ESOP Shares Earned	5.7			5.7	
Balance at December 31, 2006	665.8	307.8	(8.8)	(71.9)	438.7
Comprehensive Income					
Net Income	87.6	87.6			
Other Comprehensive Income – Net of Tax					
Unrealized Gains on Securities – Net	1.1		1.1		
Defined Benefit Pension and Other Postretirement Plans	3.2		3.2		
Total Comprehensive Income	91.9				
Adjustment to initially apply FIN 48	(0.7)	(0.7)			
Common Stock Issued – Net	22.5				22.5
Dividends Declared	(44.3)	(44.3)			
ESOP Shares Earned	7.4			7.4	
Balance at December 31, 2007	742.6	350.4	(4.5)	(64.5)	461.2
Comprehensive Income					
Net Income	82.5	82.5			
Other Comprehensive Income – Net of Tax					
Unrealized Loss on Securities – Net	(6.0)		(6.0)		
Reclassification Adjustment for Gains Included in Income	(3.7)		(3.7)		
Defined Benefit Pension and Other Postretirement Plans	(18.8)		(18.8)		
Total Comprehensive Income	54.0				
Adjustment to initially apply FAS 158 measurement date	(1.6)	(1.6)			
Common Stock Issued – Net	72.9				72.9
Dividends Declared	(50.4)	(50.4)			
ESOP Shares Earned	9.6			9.6	
Balance at December 31, 2008	$827.1	$380.9	$(33.0)	$(54.9)	$534.1

The accompanying notes are an integral part of these statements.

Note 1. Operations and Significant Accounting Policies

Financial Statement Preparation. References in this report to "we," "us" and "our" are to ALLETE and its subsidiaries, collectively. We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. These principles require management to make informed judgments, best estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates.

Principles of Consolidation. Our consolidated financial statements include the accounts of ALLETE and all of our majority-owned subsidiary companies. All material intercompany balances and transactions have been eliminated in consolidation.

Business Segments. In 2008, we changed our reportable segments (see Note 2. Business Segments.) Our Regulated Operations and Investments and Other segments were determined in accordance with SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." Segmentation is based on the manner in which we operate, assess, and allocate resources to the business. We measure performance of our operations through budgeting and monitoring of contributions to consolidated net income by each business segment. Discontinued Operations includes our Water Services businesses, the majority of which were sold in 2003. (See Note 12. Discontinued Operations.)

Regulated Operations includes retail and wholesale rate-regulated electric, natural gas, and water services in northeastern Minnesota and northwestern Wisconsin along with our Investment in ATC. Minnesota Power provides regulated utility electric service to 142,000 retail customers in northeastern Minnesota. SWL&P, a wholly-owned subsidiary, provides regulated utility electric, natural gas and water service in northwestern Wisconsin to 15,000 electric customers, 12,000 natural gas customers and 10,000 water customers. Approximately 40 percent of revenue from regulated operations is from Large Power Customers (36 percent of consolidated revenue). Large Power Customers consist of five taconite producers, four paper and pulp mills, two pipeline companies and one manufacturer under all-requirements contracts with expiration dates extending from April 2009 through December 2015. Revenue of $100.2 million (12.5 percent of consolidated revenue) was received from one taconite producer in 2008 (12.0 percent in 2007; 11.6 percent in 2006). Regulated utility rates are under the jurisdiction of Minnesota, Wisconsin and federal regulatory authorities. Billings are rendered on a cycle basis. Revenue is accrued for service provided but not billed. Regulated utility electric rates include adjustment clauses that: (1) bill or credit customers for fuel and purchased energy costs above or below the base levels in rate schedules; (2) bill retail customers for the recovery of conservation improvement program expenditures not collected in base rates; and (3) bill customers for the recovery of certain environmental expenditures. Fuel and purchased power expense is deferred to match the period in which the revenue for fuel and purchased power expense is collected from customers pursuant to the fuel adjustment clause. Our Investment in ATC includes our approximate 8 percent equity ownership interest in ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. ATC provides transmission service under rates regulated by the FERC that are set in accordance with the FERC's policy of establishing the independent operation and ownership of, and investment in, transmission facilities. (See Note 6. Investments.)

Investments and Other is comprised primarily of BNI Coal, our coal mining operations in North Dakota, and ALLETE Properties, our Florida real estate business. This segment also includes emerging technology investments ($7.4 million at December 31, 2008), a small amount of non-rate base generation, approximately 7,000 acres of land for sale in Minnesota, and earnings on cash and short-term investments.

BNI Coal, a wholly-owned subsidiary, mines and sells lignite coal to two North Dakota mine-mouth generating units, one of which is Square Butte. In 2008, Square Butte supplied approximately 55 percent (250 MWs) of its output to Minnesota Power under a long-term contract. (See Note 8. Commitments, Guarantees and Contingencies.) Coal sales are recognized when delivered at the cost of production plus a specified profit per ton of coal delivered.

ALLETE Properties is our real estate business that has operated in Florida since 1991. Our current strategy is to complete and maintain key entitlements and infrastructure improvements which enhance values without requiring significant additional investment, and position the current property portfolio for a maximization of value and cash flow when market conditions improve.

Full profit recognition is recorded on sales upon closing, provided cash collections are at least 20 percent of the contract price and the other requirements of SFAS 66, "Accounting for Sales of Real Estate," are met. In certain cases, where there are obligations to perform significant development activities after the date of sale, we recognize profit on a percentage-of-completion basis in accordance with SFAS 66. Pursuant to this method of accounting, gross profit is recognized based upon the relationship of development costs incurred as of that date to the total estimated development costs of the parcels, including related amenities or common costs of the entire project. Revenue and cost of real estate sold in excess of the amount recognized based on the percentage-of-completion method is deferred and recognized as revenue and cost of real estate sold during the period in which the related development costs are incurred. Deferred revenue and cost of real estate sold are recorded net as Deferred Profit on Sales of Real Estate on our consolidated balance sheet. On December 31, 2008, we had no deferred profit recorded on our consolidated balance sheet. Certain contracts allow us to receive participation revenue from land sales to third parties if various formula-based criteria are achieved.

Note 1. Operations and Significant Accounting Policies (Continued)

In certain cases, we pay fees or construct improvements to mitigate offsite traffic impacts. In return, we receive traffic impact fee credits as a result of some of these expenditures. We recognize revenue from the sale of traffic impact fee credits when payment is received.

Land held for sale is recorded at the lower of cost or fair value determined by the evaluation of individual land parcels and is included in Investments on our consolidated balance sheet. Real estate costs include the cost of land acquired, subsequent development costs and costs of improvements, capitalized development period interest, real estate taxes and payroll costs of certain employees devoted directly to the development effort. These real estate costs incurred are capitalized to the cost of real estate parcels based upon the relative sales value of parcels within each development project in accordance with SFAS 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects." The cost of real estate includes the actual costs incurred and the estimate of future completion costs allocated to the real estate sold based upon the relative sales value method.

Whenever events or circumstances indicate that the carrying value of the real estate may not be recoverable, impairments would be recorded and the related assets would be adjusted to their estimated fair value, less costs to sell.

As part of our emerging technology portfolio, we have several minority investments in venture capital funds and direct investments in privately-held, start-up companies. We account for our investment in venture capital funds under the equity method and account for our direct investments in privately-held companies under the cost method because of our ownership percentage. Long-term investments include auction rate securities and variable rate demand notes, and are classified as available-for-sale securities. All income generated from these short-term investments is recorded as interest income. (See Note 6. Investments.)

Property, Plant and Equipment. Property, plant and equipment are recorded at original cost and are reported on the balance sheet net of accumulated depreciation. Expenditures for additions and significant replacements and improvements are capitalized; maintenance and repair costs are expensed as incurred. Expenditures for major plant overhauls are also accounted for using this same policy. Gains or losses on non-rate base property, plant and equipment are recognized when they are retired or otherwise disposed. When regulated utility property, plant and equipment are retired or otherwise disposed, no gain or loss is recognized, pursuant to SFAS 71, "Accounting for the Effects of Certain Types of Regulations." Our Regulated Utility operations capitalize AFUDC, which includes both an interest and equity component. (See Note 3. Property Plant and Equipment.)

Long-Lived Asset Impairments. We account for our long-lived assets at depreciated historical cost. A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. We conduct this assessment using SFAS 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." Judgments and uncertainties affecting the application of accounting for asset impairment include economic conditions affecting market valuations, changes in our business strategy, and changes in our forecast of future operating cash flows and earnings. We would recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted future cash flows. Management judgment is involved in both deciding if testing for recoverability is necessary and in estimating undiscounted future cash flows.

Accounts Receivable. Accounts receivable are reported on the balance sheet net of an allowance for doubtful accounts. The allowance is based on our evaluation of the receivable portfolio under current conditions, overall portfolio quality, review of specific problems and such other factors that, in our judgment, deserve recognition in estimating losses.

Accounts Receivable

December 31 Millions	2008	2007
Trade Accounts Receivable		
Billed	$61.1	$63.9
Unbilled	15.9	16.6
Less: Allowance for Doubtful Accounts	0.7	1.0
Total Accounts Receivable – Net	$76.3	$79.5

Note 1. Operations and Significant Accounting Policies (Continued)

Inventories. Inventories are stated at the lower of cost or market. Amounts removed from inventory are recorded on an average cost basis.

Inventories		
December 31	2008	2007
Millions		
Fuel	$16.6	$22.1
Materials and Supplies	33.1	27.4
Total Inventories	$49.7	$49.5

Unamortized Discount and Premium on Debt. Discount and premium on debt are deferred and amortized over the terms of the related debt instruments using the effective interest method.

Cash and Cash Equivalents. We consider all investments purchased with original maturities of three months or less to be cash equivalents.

Supplemental Statement of Cash Flow Information

Consolidated Statement of Cash Flows Supplemental Disclosure			
For the Year Ended December 31	2008	2007	2006
Millions			
Cash Paid During the Period for			
Interest – Net of Amounts Capitalized	$25.2	$26.3	$25.3
Income Taxes	$6.5	$34.2	$32.4 *(a)*
Noncash Investing Activities			
Accounts Payable for Capital Additions to Property, Plant and Equipment	$17.1	$9.8	$7.1
AFUDC – Equity	$3.3	$3.8	$0.5

(a) Net of a $24.3 million cash refund.

Available-for-Sale Securities. Available-for-sale securities are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income (loss), net of tax. Unrealized losses that are other than temporary are recognized in earnings. Our auction rate securities (ARS) and variable rate demand notes, classified as available-for-sale securities, are recorded at cost because their cost approximates fair market value. These ARS were historically auctioned every 35 days to set new rates and provide a liquidating event in which investors could either buy or sell securities. The auctions have been unable to sustain themselves during 2008 due to the overall lack of credit market liquidity and we have been unable to liquidate all of our ARS. As a result, we have classified the ARS as long-term investments and have the ability to hold these securities to maturity, until called by the issuer, or until liquidity returns to this market. We use the specific identification method as the basis for determining the cost of securities sold. Our policy is to review available-for-sale securities for other than temporary impairment on a quarterly basis by assessing such factors as the share price trends and the impact of overall market conditions. (See Note 6. Investments.)

Accounting for Stock-Based Compensation. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, "Share-Based Payment," using the modified prospective transition method. Under this method, we recognize compensation expense for all share-based payments granted after January 1, 2006, and those granted prior to but not yet vested as of January 1, 2006. Under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation expense for those shares expected to vest over the required service period of the award. (See Note 15. Employee Stock and Incentive Plans.)

Prepayments and Other Current Assets

December 31	2008	2007
Millions		
Deferred Fuel Adjustment Clause	$13.1	$26.5
Other	11.2	12.6
Total Prepayments and Other Current Assets	$24.3	$39.1

Other Assets

December 31	2008	2007
Millions		
Deferred Regulatory Assets (See Note 5. Regulatory Matters)	$249.3	$76.6
Other	32.1	34.8
Total Other Assets	$281.4	$111.4

Other Liabilities

December 31	2008	2007
Millions		
Future Benefit Obligation Under Defined Benefit Pension and Other Postretirement Plans	$251.8	$71.6
Deferred Regulatory Liabilities (See Note 5. Regulatory Matters)	50.0	31.3
Asset Retirement Obligation (See Note 3. Property, Plant and Equipment)	39.5	36.5
Other	48.0	60.7
Total Other Liabilities	$389.3	$200.1

Environmental Liabilities. We review environmental matters for disclosure on a quarterly basis. Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in the balance sheet at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. Costs related to environmental contamination treatment and cleanup are charged to operating expense unless recoverable in rates from customers. (See Note 8. Commitments, Guarantees and Contingencies.)

Income Taxes. We file a consolidated federal income tax return. We account for income taxes using the liability method as prescribed by SFAS 109, "Accounting for Income Taxes." Under the liability method, deferred income tax assets and liabilities are established for all temporary differences in the book and tax basis of assets and liabilities, based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. Due to the effects of regulation on Minnesota Power, certain adjustments made to deferred income taxes are, in turn, recorded as regulatory assets or liabilities. Investment tax credits have been recorded as deferred credits and are being amortized to income tax expense over the service lives of the related property. Effective January 1, 2007, we adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109." Under this provision we are required to recognize in our financial statements the largest tax benefit of a tax position that is "more-likely-than-not" to be sustained, on audit, based solely on the technical merits of the position as of the reporting date. Only tax positions that meet the "more-likely-than-not" threshold may be recognized, and the term "more-likely-than-not" means more than 50 percent. (See Note 11. Income Tax Expense.)

Excise Taxes. We collect excise taxes from our customers levied by government entities. These taxes are stated separately on the billing to the customer and recorded as a liability to be remitted to the government entity. We account for the collection and payment of these taxes on the net basis.

Note 1. Operations and Significant Accounting Policies (Continued)

New Accounting Standards. *SFAS 157*. In September 2006, the FASB issued SFAS 157, “Fair Value Measurements,” to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value in GAAP, and expanding disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It clarifies the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements, and the effect of certain measurements on earnings for the period. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and is applied on a prospective basis. In February 2008, the FASB issued FSP FAS 157-1, "Application of FAS 157 to FAS 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under FAS 13", which excludes FAS 13, "Accounting for Leases," and its related interpretive accounting pronouncements that address leasing transactions, from the scope of FAS 157.

Also in February 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement 157," which delayed the effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The Company elected to defer the adoption of the nonrecurring fair value measurement disclosures of nonfinancial assets and liabilities. The adoption of FSP FAS 157-2 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

The implementation of SFAS 157 for financial assets and financial liabilities and FSP FAS 157-1, effective January 1, 2008, did not have a material impact on our consolidated financial position and results of operations. (See Note 6. Investments.) We are currently assessing the impact of SFAS 157 for nonfinancial assets and nonfinancial liabilities, but it is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

In October 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.” This FSP amends SFAS 157, to clarify various application issues with regard to the measurement principles of SFAS 157 when the market for financial assets is not active. This FSP became effective on October 10, 2008, and is applicable to prior periods for which financial statements have not yet been issued. The adoption of FSP FAS 157-3 did not have a material impact on our consolidated financial position, results of operations, or cash flows.

SFAS 159. In February 2007, the FASB issued SFAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” which is an elective, irrevocable election to measure eligible financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The election may only be applied at specified election dates and to instruments in their entirety rather than to portions of instruments. Upon initial election, the entity reports the difference between the instruments’ carrying value and their fair value as a cumulative-effect adjustment to the opening balance of retained earnings. At each subsequent reporting date, an entity reports in earnings, unrealized gains and losses on items for which the fair value option has been elected. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and is applied on a prospective basis. We have elected not to adopt the provisions of SFAS 159 at this time.

SFAS 160. In December 2007, the FASB issued SFAS 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin (ARB) 51,” to improve the relevance, comparability, and transparency of the financial information a reporting entity provides in its consolidated financial statements. SFAS 160 amends ARB 51 to establish accounting and reporting standards for noncontrolling interests in subsidiaries and to make certain consolidation procedures consistent with the requirements of SFAS 141R. It defines a noncontrolling interest in a subsidiary as an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 changes the way the consolidated income statement is presented by requiring consolidated net income to include amounts attributable to the parent and the noncontrolling interest. SFAS 160 establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary which do not result in deconsolidation. SFAS 160 also requires expanded disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. SFAS 160 shall be applied prospectively, with the exception of the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. ALLETE Properties does have certain noncontrolling interests in consolidated subsidiaries. If SFAS 160 had been applied as of December 31, 2008, the $9.8 million reported as Minority Interest in the Liabilities section on our consolidated balance sheet would have been reported as $9.8 million of Noncontrolling Interest in Subsidiaries in the Equity section of our consolidated balance sheet. Effective January 1, 2009, SFAS 160 will impact the presentation of our consolidated balance sheet, but it is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

FSP FAS 132(R)-1. In December 2008, the FASB issued FSP FAS 132(R)-1. This FSP amends SFAS 132(R), “Employers’ Disclosures about Pensions and Other Postretirement Benefits,” to provide guidance on an employer’s disclosures about plan assets, including employers’ investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. This FSP is effective for fiscal years ending after December 15, 2009. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. Early application of the provisions of this FSP is permitted.

Note 1. Operations and Significant Accounting Policies (Continued)

FSP FAS 140-4 and FIN 46(R)-8. In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8. This pronouncement amends SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" to require public entities to provide additional disclosures about the transfers of financial assets. The pronouncement also amends FIN 46, "Consolidation of Variable Interest Entities," requiring additional disclosures about a company's involvement with variable interest entities and qualifying special purpose entities. This FSP is effective for the first reporting period ending after December 15, 2008. We have adopted FSP FAS 140-R and FIN 46(R)-8 and have determined that ALLETE is not the primary beneficiary of any variable interest entities it is associated with. FSP FAS 140-4 and FIN 46(R)-8 did not have a material impact on our consolidated financial position, results of operations, or cash flows. (See Note 8. Commitments, Guarantees and Contingencies.)

Note 2. Business Segments

In the fourth quarter of 2008, we made changes to our reportable business segments in our continuing effort to manage and measure performance of our operations based on the nature of products and services provided and customers served. Previously, we reported a Regulated Utility segment which included our regulated utilities Minnesota Power and SWL&P. This prior segment is now combined with our previously disclosed segment, Investment in ATC, and renamed Regulated Operations. In addition, we combined the three previously reportable business segments Non-regulated Energy Operations, Real Estate, and Other into one reportable business segment called Investments and Other. The Real Estate segment was not a key component of ALLETE's business in 2008 and is not expected to be significant in the future. The Investments and Other segment also includes emerging technologies, and earnings on cash and short term investments. In 2008, none of the components of the Investments and Other segment contribute revenue, profit, or assets that are greater than 10 percent of consolidated revenue, profit, or assets. We have recast our segment information for fiscal years ended 2007 and 2006 to reflect the new reportable business segments. Presented below are the operating results and other financial information related to our reportable business segments. For a description of our reportable business segments, see Item 1. Business.

	Consolidated	Regulated Operations	Investments and Other
Millions			
2008			
Operating Revenue	$801.0	$712.2	$88.8
Fuel and Purchased Power	305.6	305.6	–
Operating and Maintenance	318.1	239.3	78.8
Depreciation Expense	55.5	50.7	4.8
Operating Income from Continuing Operations	121.8	116.6	5.2
Interest Expense	(26.3)	(24.0)	(2.3)
Equity Earnings in ATC	15.3	15.3	–
Other Income	15.6	3.6	12.0
Income from Continuing Operations Before Minority Interest and Income Taxes	126.4	111.5	14.9
Income Tax Expense (Benefit)	43.4	43.6	(0.2)
Minority Interest	0.5	–	0.5
Net Income	$82.5	$67.9	$14.6
Total Assets	$2,134.8	$1,832.1	$302.7
Capital Additions	$322.9	$317.0	$5.9

Note 2. Business Segments (Continued)

Millions	Consolidated	Regulated Operations	Investments and Other
2007			
Operating Revenue	$841.7	$723.8	$117.9
Fuel and Purchased Power	347.6	347.6	–
Operating and Maintenance	313.9	229.3	84.6
Depreciation Expense	48.5	43.8	4.7
Operating Income from Continuing Operations	131.7	103.1	28.6
Interest Expense	(22.6)	(21.0)	(1.6)
Equity Earnings in ATC	12.6	12.6	–
Other Income	15.5	4.1	11.4
Income from Continuing Operations Before Minority Interest and Income Taxes	137.2	98.8	38.4
Income Tax Expense	47.7	36.4	11.3
Minority Interest	1.9	–	1.9
Net Income	$87.6	$62.4	$25.2
Total Assets	$1,644.2	$1,396.6	$247.6
Capital Additions	$223.9	$220.6	$3.3

Millions	Consolidated	Regulated Operations	Investments and Other
2006			
Operating Revenue	$767.1	$639.2	$127.9
Fuel and Purchased Power	281.7	281.7	–
Operating and Maintenance	298.4	217.9	80.5
Depreciation Expense	48.7	44.2	4.5
Operating Income from Continuing Operations	138.3	95.4	42.9
Interest Expense	(25.0)	(20.2)	(4.8)
Equity Earnings in ATC	3.0	3.0	–
Other Income	11.9	0.9	11.0
Income from Continuing Operations Before Minority Interest and Income Taxes	128.2	79.1	49.1
Income Tax Expense	46.3	30.4	15.9
Minority Interest	4.6	–	4.6
Income from Continuing Operations	77.3	$48.7	$28.6
Loss from Discontinued Operations – Net of Tax	(0.9)		
Net Income	$76.4		
Total Assets	$1,533.4	$1,197.0	$336.4
Capital Additions	$109.4	$107.5	$1.9

Note 3. Property, Plant and Equipment

Property, Plant and Equipment December 31 Millions	2008	2007
Regulated Utility	$1,837.2	$1,683.0
Construction Work in Progress	303.0	165.8
Accumulated Depreciation	(806.8)	(796.8)
Regulated Utility Plant – Net	1,333.4	1,052.0
Non-Rate Base Energy Operations	94.0	89.9
Construction Work in Progress	3.9	2.5
Accumulated Depreciation	(47.2)	(43.2)
Non-Rate Base Energy Operations Plant – Net	50.7	49.2
Other Plant – Net	3.2	3.3
Property, Plant and Equipment – Net	$1,387.3	$1,104.5

Depreciation is computed using the straight-line method over the estimated useful lives of the various classes of assets. The MPUC and the PSCW have approved depreciation rates for our Regulated Utility plant.

Estimated Useful Lives of Property, Plant and Equipment				
Regulated Utility –	Generation	3 to 35 years	Non-Rate Base Operations	3 to 61 years
	Transmission	42 to 61 years	Other Plant	5 to 25 years
	Distribution	14 to 65 years		

Asset Retirement Obligations. Pursuant to SFAS 143, "Accounting for Asset Retirement Obligations," we recognize, at fair value, obligations associated with the retirement of certain tangible, long-lived assets that result from the acquisition, construction or development and/or normal operation of the asset. Asset retirement obligations (ARO) relate primarily to the decommissioning of our utility steam generating facilities and land reclamation at BNI Coal, and are included in Other Liabilities on our consolidated balance sheet. Removal costs associated with certain distribution and transmission assets have not been recognized under SFAS 143 as these facilities have indeterminate useful lives. The associated retirement costs are capitalized as part of the related long-lived asset and depreciated over the useful life of the asset. Conditional asset retirement obligations have been identified for treated wood poles and remaining polychlorinated biphenyl and asbestos-containing assets; however, removal costs have not been recognized because they are considered immaterial to our consolidated financial statements.

Long-standing ratemaking practices approved by applicable state and federal regulatory commissions have allowed provisions for future plant removal costs in depreciation rates. These plant removal cost recoveries were included in accumulated depreciation. With the adoption of SFAS 143, accumulated plant removal costs were reclassified either as AROs or as a regulatory liability for non-ARO obligations. To the extent annual accruals for plant removal costs determined under SFAS 143 differ from accruals under approved depreciation rates, a regulatory asset has been established under SFAS 71. (See Note 5. Regulatory Matters.)

Asset Retirement Obligation Millions	
Obligation at December 31, 2006	$27.2
Accretion Expense	2.1
Additional Liabilities Incurred in 2007	7.2
Obligation at December 31, 2007	36.5
Accretion Expense	2.0
Additional Liabilities Incurred in 2008	1.0
Obligation at December 31, 2008	$39.5

Note 4. Jointly-Owned Electric Facility

We own 80 percent of the 536-MW Boswell Energy Center Unit 4 (Boswell Unit 4). While we operate the plant, certain decisions about the operations of Boswell Unit 4 are subject to the oversight of a committee on which we and Wisconsin Public Power, Inc., the owner of the other 20 percent of Boswell Unit 4, have equal representation and voting rights. Each of us must provide our own financing and is obligated to pay our ownership share of operating costs. Our share of direct operating expenses of Boswell Unit 4 is included in operating expense on our consolidated statement of income. Our 80 percent share of the original cost of Boswell Unit 4, which is included in property, plant and equipment at December 31, 2008, was $328 million ($316 million at December 31, 2007). The corresponding accumulated depreciation balance was $173 million at December 31, 2008 ($170 million at December 31, 2007).

Note 5. Regulatory Matters

Electric Rates. Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, the FERC or the PSCW.

On February 8, 2008, the FERC approved Minnesota Power's wholesale rate increase effective March 1, 2008. Minnesota Power's wholesale customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. The FERC authorized an average 10.0 percent increase for wholesale municipal customers, and an overall return on equity of 11.25 percent. Incremental revenue in 2008 from the FERC authorized wholesale rate increase was approximately $6 million.

In 2008 Minnesota Power entered into new contracts with all of our wholesale customers with the exception of one small customer whose contract is now in the cancellation period. The new contracts transition each customer to formula based rates, which means rates can be adjusted annually based on changes in costs. The new agreement with the private utility in Wisconsin is subject to PSCW approval. In November 2008, we filed a request with the FERC to implement the formula based rate provision in the new contracts. We anticipate final resolution and implementation of new rates in the first quarter of 2009.

On May 2, 2008, Minnesota Power filed a rate increase request with the MPUC seeking an average rate increase of 8.5 percent for retail customers. The rate filing seeks a return on equity of 11.15 percent, and a capital structure consisting of 54.8 percent equity and 45.2 percent debt. On an annualized basis, the requested rate increase would generate approximately $40 million in additional revenue. Interim rates were effective on August 1, 2008, and resulted in an increase for retail customers of approximately $36 million, or 7.5 percent, on an annualized basis, subject to refund pending the final rate order. Incremental revenue in 2008 from the interim retail rate increase was approximately $13 million. The transition to a new base cost of fuel coincident with interim rates resulted in the non-recovery through the fuel adjustment clause of approximately $19 million of fuel and purchased power costs incurred in 2008. We have entered into a stipulation and settlement agreement that would allow recovery of the $19 million in 2009 and which addresses specific concerns identified by interveners in the rate case; the stipulation and settlement agreement is subject to MPUC approval. The final rate order is expected in the second quarter of 2009. We cannot predict the final level of rates that may be approved by the MPUC. Prior to the May 2008 retail rate request Minnesota Power's rates were based on a 1994 MPUC retail rate order that allowed for an 11.6 percent return on equity.

SWL&P's current retail rates are based on a December 2008 PSCW retail rate order that became effective January 1, 2009, and allows for an 11.1 percent return on common equity. The new rates reflected a 3.5 percent average increase in retail utility rates for SWL&P customers (a 13.4 percent increase in water rates, a 4.7 percent increase in electric rates, and a 0.6 percent decrease in natural gas rates). On an annualized basis, the rate increase will generate approximately $3 million in additional revenue.

In 2008, 81 percent of our consolidated operating revenue was under regulatory authority (76 percent in 2007; 72 percent in 2006). The MPUC had regulatory authority over approximately 62 percent of our consolidated operating revenue in 2008 (58 percent in 2007; 56 percent in 2006).

Deferred Regulatory Assets and Liabilities. Our regulated utility operations are subject to the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." We capitalize as regulatory assets incurred costs which are probable of recovery in future utility rates. Regulatory liabilities represent amounts expected to be credited to customers in rates. Regulatory assets and liabilities are included in Other Assets and Other Liabilities on our consolidated balance sheet except for deferred fuel adjustment clause charges which are included in Prepayments and Other Current Assets (See Note 1. Operations and Significant Accounting Policies). No regulatory assets or liabilities are currently earning a return.

Deferred Regulatory Assets and Liabilities

December 31 Millions	2008	2007
Regulatory Assets		
Income Taxes	$12.2	$11.3
Premium on Reacquired Debt	2.2	2.3
Future Benefit Obligations Under		
Defined Benefit Pension and Other Postretirement Plans (See Note 14. Pension and Other Postretirement Benefit Plans)	216.5	53.7
Deferred MISO Costs	3.9	3.7
Asset Retirement Obligation	5.1	3.6
Boswell Unit 3 Environmental Rider	3.8	–
Other	5.6	2.0
	249.3	76.6
Regulatory Liabilities		
Income Taxes	28.7	31.3
Plant Removal Obligations	15.9	–
Accrued MISO Refund	4.7	–
Other	0.7	–
	50.0	31.3
Net Deferred Regulatory Assets	$199.3	$45.3

Note 5. Regulatory Matters (Continued)

Investment in ATC. Our wholly owned subsidiary Rainy River Energy, owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. ATC provides transmission service under rates regulated by the FERC that are set in accordance with the FERC's policy of establishing the independent operation and ownership of, and investment in, transmission facilities. We account for our investment in ATC under the equity method of accounting, pursuant to EITF 03-16, "Accounting for Investments in Limited Liability Companies." As of December 31, 2008, our equity investment balance in ATC was $76.9 million ($65.7 million at December 31, 2007). On January 30, 2009, we invested an additional $1.9 million in ATC. In total, we expect to invest an additional $5 to $7 million throughout 2009.

ALLETE's Interest in ATC		
Year Ended December 31	**2008**	**2007**
Millions		
Equity Investment Beginning Balance	$65.7	$53.7
Cash Investments	7.4	8.7
Equity in ATC Earnings	15.3	12.6
Distributed ATC Earnings	(11.5)	(9.3)
Equity Investment Ending Balance	$76.9	$65.7

Note 6. Investments

Investments. At December 31, 2008, our long-term investment portfolio included the real estate assets of ALLETE Properties, debt and equity securities consisting primarily of securities held to fund employee benefits, our emerging technology portfolio, auction rate securities, and land held for sale in Minnesota.

Investments		
December 31	**2008**	**2007**
Millions		
ALLETE Properties	$84.9	$91.3
Available-for-sale Securities	32.6	30.5
Emerging Technology Portfolio	7.4	7.9
Other	12.0	18.4
Total Investments	$136.9	$148.1

ALLETE Properties	**2008**	**2007**
Millions		
Land Held for Sale Beginning Balance	$62.6	$58.0
Additions during period: Capitalized Improvements	10.5	12.8
Deductions during period: Cost of Real Estate Sold	(1.9)	(8.2)
Land Held for Sale Ending Balance	71.2	62.6
Long-Term Finance Receivables	13.6	15.3
Other *(a)*	0.1	13.4
Total Real Estate Assets	$84.9	$91.3

(a) Consisted primarily of a shopping center that was sold on May 1, 2008. The pre-tax gain of $4.5 million resulting from this sale is included in operating revenue on the Consolidated Statement of Income.

Land Held for Sale. Land held for sale is recorded at the lower of cost or fair value determined by the evaluation of individual land parcels. Land values are reviewed for impairment and no impairments were recorded in 2008 (none in 2007).

Finance Receivables. Finance receivables, which are collateralized by property sold, accrue interest at market-based rates and are net of an allowance for doubtful accounts of $0.1 million at December 31, 2008 ($0.2 million at December 31, 2007). The majority are receivables having maturities up to four years. Minority interest associated with real estate operations was $9.8 million at December 31, 2008 ($9.3 million at December 31, 2007).

Note 6. Investments (Continued)

Available-for-Sale Investments. We account for our available-for-sale portfolio in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." Our available-for-sale securities portfolio consisted of securities in a grantor trust established to fund certain employee benefits and auction rate securities.

Available-For-Sale Securities				
Millions				
		Gross Unrealized		
At December 31	Cost	Gain	(Loss)	Fair Value
2008	$40.5	–	$(7.9)	$32.6
2007(a)	$45.3	$8.4	$(0.1)	$53.6
2006	$123.2	$7.0	$(0.1)	$130.1

(a) Included $23.1 million of auction rate securities that were classified as Short-Term Investments and were subsequently reclassified in 2008 as Investments.

Year Ended December 31	Net Proceeds	Gross Realized Gain	(Loss)	Net Unrealized Gain (Loss) in Other Comprehensive Income
2008	$17.5	$6.5	$(0.1)	$(9.7)
2007	$81.4	–	–	$1.4
2006	$12.4	–	–	$2.5

Auction Rate Securities. As of December 31, 2008, we held $15.2 million of investments ($23.1 million at December 31, 2007) consisting of three auction rate municipal bonds (auction rate securities) with stated maturity dates ranging between 15 and 28 years. These ARS consist of guaranteed student loans insured or reinsured by the federal government. These ARS were historically auctioned every 35 days to set new rates and provide a liquidating event in which investors could either buy or sell securities. The auctions have been unable to sustain themselves during 2008 due to the overall lack of credit market liquidity and we have been unable to liquidate all of our ARS. As a result, we have classified the ARS as long-term investments and have the ability to hold these securities to maturity, until called by the issuer, or until liquidity returns to this market. In the meantime, these securities will pay a default rate which is typically above market interest rates.

The Company has used a discounted cash flow model to determine the estimated fair value of its investment in ARS as of December 31, 2008. The assumptions used in preparing the discounted cash flow model include the following: estimated interest rates, estimated discount rates (using yields of comparable traded instruments adjusted for illiquidity and other risk factors), amount of cash flows, and expected holding periods of the ARS. These inputs reflect the Company's judgments about assumptions that market participants would use in pricing ARS including assumptions about risk. Based upon the results of the discounted cash flow model and the fact that these ARS consist of guaranteed student loans insured or reinsured by the federal government no other than temporary impairment loss has been reported.

Emerging Technology Investments. The majority of our emerging technology investments are minority investments in venture capital funds. We account for our investment in venture capital funds under the equity method of accounting. The total carrying value of our emerging technology portfolio was $7.4 million at December 31, 2008. Our remaining commitment of $0.7 million at December 31, 2008 may be invested in 2009. We do not have plans to make any additional investments beyond this commitment. Based on our impairment analysis, we did not record any impairment in 2008 ($0.5 million in 2007, none in 2006).

Concentration of Credit Risk. Financial instruments that subject us to concentrations of credit risk consist primarily of accounts receivable. Minnesota Power sells electricity to 12 Large Power Customers. Receivables from these customers totaled approximately $11 million at December 31, 2008 ($14 million at December 31, 2007). Minnesota Power does not obtain collateral to support utility receivables, but monitors the credit standing of major customers. In addition, our taconite-producing Large Power Customers are on a weekly billing cycle, which allows us to closely manage collection of amounts due.

Note 6. Investments (Continued)

Fair Value of Financial Instruments. With the exception of the items listed below, the estimated fair value of all financial instruments approximates the carrying amount. The fair value for the items below were based on quoted market prices for the same or similar instruments.

Financial Instruments		
December 31	**Carrying Amount**	**Fair Value**
Millions		
Long-Term Debt, Including Current Portion		
2008	$598.7	$561.6
2007	$422.7	$410.9

Fair Value. Effective January 1, 2008, the Company adopted SFAS 157 as discussed in Note 1, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value.

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Instruments in this category include primarily mutual fund investments held to fund employee benefits.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category represent the Company's deferred compensation obligation and fixed income securities.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. At each balance sheet date, management performs an analysis of all instruments subject to SFAS 157 and includes in Level 3 all of those whose fair value is based on significant unobservable inputs. Instruments in this category include auction rate securities consisting of guaranteed student loans classified as Level 3 investments as of December 31, 2008. The Company also holds certain financial transmission rights (FTRs) related to our participation in MISO. These FTRs are accounted for as derivatives. While our valuation of these FTRs is based on Level 3 inputs, the fair value of our FTRs at December 31, 2008, is immaterial, and as a result we have not presented them in the tables below.

Note 6. Investments (Continued)

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	At Fair Value as of December 31, 2008			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Millions				
Assets:				
Mutual Funds	$13.5	–	–	$13.5
Bonds	–	$3.3	–	3.3
Auction Rate Securities	–	–	$15.2	15.2
Money Market Funds	10.6	–	–	10.6
Total Assets	$24.1	$3.3	$15.2	$42.6
Liabilities:				
Deferred compensation obligation	–	$13.5	–	$13.5
Total Liabilities	–	$13.5	–	$13.5
Total Net Assets (Liabilities)	$24.1	$(10.2)	$15.2	$29.1

Recurring Fair Value Measures as of December 31, 2008	**Auction Rate**
Activity in Level 3	**Securities**
Millions	
Balance as of January 1, 2008	–
Purchases, sales, issuances and settlements, net *(a)*	$(10.0)
Level 3 transfers in	25.2
Balance as of December 31, 2008	$15.2

(a) Includes a $5.2 million transfer of auction rate securities to our Voluntary Employee Benefit Association trust used to fund postretirement health and life benefits.

Note 7. Short-Term and Long-Term Debt

Short-Term Debt. Total short-term debt outstanding at December 31, 2008, was $10.4 million ($11.8 million at December 31, 2007) and consisted of Long-Term Debt Due Within One Year.

As of December 31, 2008, we had bank lines of credit aggregating $160.5 million ($160.0 million at December 31, 2007), the majority of which expire in January 2012. These bank lines of credit make financing available through short-term bank loans and provide credit support for commercial paper. At December 31, 2008, $7.3 million ($4.3 million at December 31, 2007) was drawn on our lines of credit leaving a $153.2 million balance available for use ($155.7 million at December 31, 2007). There was no commercial paper issued as of December 31, 2008 and 2007.

In January 2006, we renewed, increased and extended a committed, syndicated, unsecured revolving credit facility (Line) with Bank of America as Agent, and four other banks, for $150 million. No individual bank has more than 25 percent participation in the Line. The line was subsequently extended for an additional year in December 2006 and currently matures in January 2012. At our request and subject to certain conditions, the Line may be increased to $200 million and extended for two additional 12-month periods. The Line may be used for general corporate purposes and working capital, and to provide liquidity in support of our commercial paper program. We may prepay amounts outstanding under the Line in whole or in part at our discretion without premium or penalty. Additionally, we may irrevocably terminate or reduce the size of the Line prior to maturity without premium or penalty. No funds were drawn under this Line at December 31, 2008 and 2007.

On May 16, 2008, Florida Landmark Communities, Inc., a wholly owned subsidiary of Lehigh Acquisition Corporation, renewed and extended a revolving development loan with RBC Bank (successor by merger to CypressCoquina Bank) for $8.5 million. In October 2008, the revolving development loan was amended and restated as a $10.0 million term loan. ALLETE Properties through its subsidiaries also entered into a $3.0 million revolving development loan with Intracoastal Bank. At December 31, 2008, $1.3 million was drawn on this line of credit.

On May 21, 2008, BNI Coal, a wholly owned subsidiary of ALLETE, entered into a $6.0 million Promissory Note and Supplement (Line of Credit) with CoBANK, ACB. The Line of Credit has a variable interest rate with the option to fix the rate based on LIBOR plus a certain spread. The term of the Line of Credit is 12 months, with the option to renew annually. The Line of Credit is being used for general corporate purposes. As of December 31, 2008, the full amount of $6.0 million was drawn on the Line of Credit.

Note 7. Short-Term and Long-Term Debt (Continued)

Long-Term Debt. The aggregate amount of long-term debt maturing during 2009 is $10.4 million ($4.7 million in 2010; $11.7 million in 2011; $2.9 million in 2012; $73.4 million in 2013; and $495.5 million thereafter). Substantially all of our electric plant is subject to the lien of the mortgages collateralizing various first mortgage bonds.

On February 1, 2008, we issued $60 million in principal amount of First Mortgage Bonds, 4.86% Series due April 1, 2013, in the private placement market. We have the option to prepay all or a portion of the bonds at our discretion, subject to a make-whole provision. The bonds are subject to additional terms and conditions which are customary for this type of transaction. We used the proceeds from the sale of the bonds to fund utility capital expenditures and for general corporate purposes.

On May 14, 2008, we issued $75 million in principal amount of First Mortgage Bonds, 6.02% Series due May 1, 2023, in the private placement market. We have the option to prepay all or a portion of the bonds at our discretion, subject to a make-whole provision. The bonds are subject to additional terms and conditions which are customary for this type of transaction. We intend used the proceeds from the sale of the bonds to fund utility capital expenditures and for general corporate purposes.

We issued $80 million in principal amount of First Mortgage Bonds in the private placement market in three series as follows:

Issue Date	Maturity	Principal Amount	Coupon
December 15, 2008	January 15, 2014	$18 Million	6.94%
December 15, 2008	January 15, 2016	$20 Million	7.70%
January 15, 2009	January 15, 2019	$42 Million	8.17%

We have the option to prepay all or a portion of the bonds at our discretion, subject to a make-whole provision. The bonds are subject to additional terms and conditions which are customary for this type of transaction. We intend to use the proceeds from the sale of the bonds to fund utility capital expenditures and for general corporate purposes.

Long-Term Debt		
December 31	**2008**	**2007**
Millions		
First Mortgage Bonds		
4.86% Series Due 2013	$60.0	–
6.94% Series Due 2014	18.0	–
7.70% Series Due 2016	20.0	–
5.28% Series Due 2020	35.0	$35.0
4.95% Pollution Control Series F Due 2022	111.0	111.0
6.02% Series Due 2023	75.0	–
5.99% Series Due 2027	60.0	60.0
5.69% Series Due 2036	50.0	50.0
SWL&P First Mortgage Bonds		
7.25% Series Due 2013	10.0	–
Senior Unsecured Notes 5.99% Due 2017	50.0	50.0
Variable Demand Revenue Refunding Bonds		
Series 1997 A, B, and C Due 2009 – 2020	28.3	36.5
Industrial Development Revenue Bonds 6.5% Due 2025	6.0	6.0
Industrial Development Variable Rate Demand Refunding		
Revenue Bonds Series 2006 Due 2025	27.8	27.8
Other Long-Term Debt, 2.0% – 8.0% Due 2009 – 2037	47.6	46.4
Total Long-Term Debt	598.7	422.7
Less: Due Within One Year	10.4	11.8
Net Long-Term Debt	$588.3	$410.9

Financial Covenants. Our long-term debt arrangements contain customary covenants. In addition, our lines of credit and letters of credit supporting certain long-term debt arrangements contain financial covenants. The most restrictive covenant requires ALLETE to maintain a ratio of its Funded Debt to Total Capital of less than or equal to 0.65 to 1.00 measured quarterly. As of December 31, 2008 our ratio was approximately 0.40 to 1.00. Failure to meet this covenant could give rise to an event of default, if not corrected after notice from the lender, in which event ALLETE may need to pursue alternative sources of funding. Some of ALLETE's debt arrangements contain "cross-default" provisions that would result in an event of default if there is a failure under other financing arrangements to meet payment terms or to observe other covenants that would result in an acceleration of payments due.

Note 8. Commitments, Guarantees and Contingencies

Off-Balance Sheet Arrangements. *Square Butte Power Purchase Agreement.* Minnesota Power has a power purchase agreement with Square Butte that extends through 2026 (Agreement). It provides a long-term supply of low-cost energy to customers in our electric service territory and enables Minnesota Power to meet power pool reserve requirements. Square Butte, a North Dakota cooperative corporation, owns a 455-MW coal-fired generating unit (Unit) near Center, North Dakota. The Unit is adjacent to a generating unit owned by Minnkota Power, a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota Power serves as the operator of the Unit and also purchases power from Square Butte.

Minnesota Power was entitled to approximately 55 percent of the Unit's output under the Agreement in 2008. Beginning January 1, 2009, our output entitlement will remain 50 percent for the remainder of the contract.

Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Minnesota Power's payment obligation will be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At December 31, 2008, Square Butte had total debt outstanding of $315.1 million. Total annual debt service for Square Butte is expected to be approximately $29 million in each of the years 2009 through 2013. Variable operating costs include the price of coal purchased from BNI Coal, our subsidiary, under a long-term contract.

On May 13, 2008, we announced plans to develop several hundred megawatts of wind energy in North Dakota and purchase an existing 250 kV DC transmission line to transport this wind energy to customers while gradually reducing the supply of energy currently delivered to our system on this same transmission line from Square Butte's coal-fired Milton R. Young Unit 2. The North Dakota wind project is expected to complete the 2025 renewable energy supply requirements for our retail load. In September 2008, we signed an agreement to purchase the transmission line from Square Butte Electric Cooperative for approximately $80 million. The transaction is subject to regulatory approvals and is anticipated to close in 2009.

Minnesota Power's cost of power purchased from Square Butte during 2008 was $56.7 million ($57.3 million in 2007; $57.9 million in 2006). This reflects Minnesota Power's pro rata share of total Square Butte costs, based on the 55 percent output entitlement in 2008, the 60 percent output entitlement in 2007 and the 66 percent output entitlement in 2006. Included in this amount was Minnesota Power's pro rata share of interest expense of $11.6 million in 2008 ($11.0 million in 2007; $12.6 million in 2006). Minnesota Power's payments to Square Butte are approved as a purchased power expense for ratemaking purposes by both the MPUC and the FERC.

Wind Power Purchase Agreements. We have two wind power purchase agreements with an affiliate of NextEra Energy to purchase the output from two wind facilities, Oliver Wind I and II located near Center, North Dakota. We began purchasing the output from Oliver Wind I, a 50-MW facility, in December 2006 and the output from Oliver Wind II, a 48-MW facility in November 2007. Each agreement is for 25 years and provides for the purchase of all output from the facilities.

The power purchase agreements (PPA) described above have been evaluated under the provisions of FIN 46-R. We have determined that either we have no variable interest in the PPA, or where we do have variable interests, we are not the primary beneficiary; therefore, consolidation is not required. These conclusions are based on the following factors: we have no equity investment in these facilities and do not incur actual or expected losses related to the loss of facility value, and we do not exude significant control over the operations of each of these facilities. Our financial exposure relating to these PPAs relates to our fixed capacity and energy payments, which are disclosed above.

Leasing Agreements. BNI Coal is obligated to make lease payments for a dragline totaling $2.8 million annually for the lease term which expires in 2027. BNI Coal has the option at the end of the lease term to renew the lease at a fair market rental, to purchase the dragline at fair market value, or to surrender the dragline and pay a $3.0 million termination fee. We lease other properties and equipment under operating lease agreements with terms expiring through 2016. The aggregate amount of minimum lease payments for all operating leases is $8.3 million in 2009, $8.2 million in 2010, $8.3 million in 2011, $8.2 million in 2012, $7.8 million in 2013 and $52.9 million thereafter. Total rent and lease expense was $8.5 million in 2008 ($8.4 million in 2007; $8.3 million in 2006).

Coal, Rail and Shipping Contracts. We have three coal supply agreements with various expiration dates ranging from December 2009 to December 2011. We also have rail and shipping agreements for the transportation of all of our coal, with various expiration dates ranging from December 2009 to December 2011. Our minimum annual payment obligations under these coal, rail and shipping agreements are currently $43.9 million in 2009, $9.5 million in 2010, $5.4 million in 2011, and no specific commitments beyond 2011. Our minimum annual payment obligations will increase when annual nominations are made for coal deliveries in future years.

Note 8. Commitments, Guarantees and Contingencies (Continued)

On January 24, 2008, we received a letter from BNSF alleging that the Company defaulted on a material obligation under the Company's Coal Transportation Agreement (CTA). In the notice, BNSF claimed the Company underpaid approximately $1.6 million for coal transportation services in 2006 and that failure to pay such amount plus interest may result in BNSF's termination of the CTA. We believe we do not owe the amount claimed. On April 1, 2008, to ensure that BNSF did not attempt to terminate the CTA, we paid under protest the full amount claimed by BNSF and filed a demand for arbitration of the issue. On April 22, 2008, BNSF filed a counterclaim in the arbitration disputing our position that we are entitled to a refund from BNSF of $1.5 million plus interest for amounts that we overpaid for 2007 deliveries. The arbitration is proceeding in connection with the claim regarding 2006 payments and the counterclaim regarding 2007 payments, and we are unable to predict the outcome at this time. The delivered costs of fuel for the Company's generation are recoverable from Minnesota Power's utility customers through the fuel adjustment clause.

Fuel Clause Recovery of MISO Day 2 Costs. Under a December 2006 MPUC order, we are allowed to accumulate MISO Day 2 administrative charges as a regulatory asset until we file our next rate case, at which time recovery for such charges will be determined. The balance of this regulatory asset is $3.9 million on December 31, 2008, and we are currently recovering these charges in interim rates. The final rate order is expected in the second quarter of 2009. We cannot predict the final level of rates that may be approved by the MPUC.

Emerging Technology Portfolio. We have investments in emerging technologies through minority investments in venture capital funds structured as limited liability companies, and direct investments in privately-held, start-up companies. We have committed to make additional investments in certain emerging technology venture capital funds. The remaining commitment of $0.7 million at December 31, 2008 may be invested in 2009. We do not have plans to make any additional investments beyond this commitment.

Environmental Matters. Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Due to future restrictive environmental requirements through legislation and/or rulemaking, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. We review environmental matters on a quarterly basis. Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in the balance sheet at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. Costs related to environmental contamination treatment and cleanup are charged to expense unless recoverable in rates from customers.

EPA Clean Air Interstate Rule. In March 2005, the EPA announced the Clean Air Interstate Rule (CAIR) that sought to reduce and permanently cap emissions of SO_2, NO_X and particulates in the eastern United States. Minnesota in included as one of the 28 states considered as "significantly contributing" to air quality standards non-attainment in other downwind states. On July 11, 2008, the United States Court of Appeals for the District of Columbia Circuit (Court) vacated the CAIR and remanded the rulemaking to the EPA for reconsideration while also granting our petition that the EPA reconsider including Minnesota as a CAIR state. In September 2008, the EPA and others petitioned the Court for a rehearing or alternatively requested that the CAIR be remanded without a court order. In December 2008, the Court granted the request that the CAIR be remanded without a court order, effectively reinstating a January 1, 2009, compliance date for the CAIR, including Minnesota. However, Minnesota Power has been assured by the EPA that it intends to publish a rule amending the CAIR to stay its effectiveness with respect to Minnesota until completion of the EPA's determination of whether Minnesota should be included as a CAIR state. Minnesota Power anticipates the EPA will act regarding this Minnesota administrative stay of the CAIR before CAIR compliance reporting would be required in 2010.

On remand, the EPA has been instructed by the Court to remedy the CAIR's "more than several fatal flaws" and to reevaluate the inclusion of Minnesota as a CAIR state. If the EPA revises the CAIR, the EPA would need to specifically justify including Minnesota with those states subject to such revised rules. If the CAIR ultimately goes into effect in Minnesota, we expect we will have to supplement ongoing emission control retrofits by providing for CAIR related emission allowance purchases, supplemental emission reductions or a combination of both. Though we anticipate that emission reduction measures taken with AREA and Boswell Unit 3 emission control retrofits will suffice to satisfy environmental requirements for the next several years, it is uncertain when or how the CAIR will change as a result of EPA's rulemaking on remand.

Note 8. Commitments, Guarantees and Contingencies (Continued)
Environmental Matters (Continued)

Minnesota Regional Haze. The regional haze rule requires States to submit state implementation plans (SIPs) to the EPA to address regional haze visibility impairment in 156 federally-protected parks and wilderness areas. Under the regional haze rule, certain large stationary sources of visibility-impairing emissions that were put in place between 1962 and 1977 are required to install emission controls, known as best available retrofit technology (BART). We have certain steam units (Boswell Unit 3 and Taconite Harbor Unit 3) that are subject to BART requirements.

Pursuant to the regional haze rule, Minnesota was required to develop its SIP by December 2007. As a mechanism for demonstrating progress towards meeting the long-term regional haze goal, in April 2007 the MPCA advanced a draft conceptual SIP which relied on the implementation of CAIR. However, a formal SIP was never filed due to the Court's review of CAIR as more fully described above under "EPA Clean Air Interstate Rule." Subsequently, the MPCA has requested that companies with BART eligible units complete and submit a BART emissions control retrofit study, which we did as to Taconite Harbor Unit 3 in November 2008. The retrofit work currently underway on Boswell Unit 3 meets the BART requirement for that unit. It is uncertain what controls will ultimately be required by the MPCA at Taconite Harbor Unit 3 in connection with the regional haze rule.

EPA Clean Air Mercury Rule. In March 2005, the EPA also announced the Clean Air Mercury Rule (CAMR) that would have reduced and permanently capped emissions of electric utility mercury emissions in the continental United States. In February 2008, the Court overturned the CAMR and remanded the rulemaking to the EPA for reconsideration. In October 2008, the Department of Justice (DOJ), on behalf of the EPA, petitioned the Supreme Court to review the Court's decision in the CAMR case. It is uncertain how the Supreme Court will respond. Cost estimates for complying with future mercury regulations under the Clean Air Act are therefore premature at this time.

New Source Review. On August 8, 2008, Minnesota Power received a Notice of Violation (NOV) from the United States EPA asserting violations of the New Source Review (NSR) requirements of the Clean Air Act at Boswell Units 1-4 and Laskin Unit 2. The NOV also asserts that the Boswell Unit 4 Title V permit was violated. The NOV asserts that seven projects undertaken at these coal-fired plants between the years 1981 and 2000 should have been reviewed under the NSR requirements. Minnesota Power believes the projects were in full compliance with the Clean Air Act, NSR requirements and applicable permits.

The EPA has been conducting a nationwide enforcement initiative since 1999 relating to NSR requirements. In 2000, 2001, and 2002 Minnesota Power received requests from the EPA pursuant to Section 114(a) of the Clean Air Act seeking information regarding capital expenditures with respect to Boswell and Laskin. Minnesota Power responded to these requests; however, we had no further communications from the EPA regarding the information provided until receipt of the NOV.

We are engaged in discussions with the EPA regarding resolution of these matters, but we are unable to predict the outcome of these discussions. Since 2006, Minnesota Power has significantly reduced, and continues to reduce, emissions at Boswell and Laskin. The resolution could result in civil penalties and the installation of control technology, some of which is already planned or completed for other regulatory requirements. Any costs of installing pollution control technology would likely be eligible for recovery in rates over time subject to MPUC and FERC approval in a rate proceeding. We are unable to predict the ultimate financial impact or the resolution of these matters at this time.

Manufactured Gas Plant Site. We are reviewing and addressing environmental conditions at a former manufactured gas plant site within the City of Superior, Wisconsin and formerly operated by SWL&P. We have been working with the WDNR to determine the extent of contamination and the remediation of contaminated locations. We have accrued a $0.5 million liability for this site at December 31, 2008, and have recorded a corresponding regulatory asset as we expect recovery of remediation costs to be allowed by the PSCW.

Real Estate. As of December 31, 2008, ALLETE Properties, through its subsidiaries, had surety bonds outstanding of $21.4 million primarily related to performance and maintenance obligations to governmental entities to construct improvements in the company's various projects. The remaining work to be completed on these improvements is estimated to be approximately $10.2 million, and ALLETE Properties does not believe it is likely that any of these outstanding bonds will be drawn upon.

Community Development District Obligations. *Town Center.* In March 2005, the Town Center District issued $26.4 million of tax-exempt, 6% Capital Improvement Revenue Bonds, Series 2005, which are payable through property tax assessments on the land owners over 31 years (by May 1, 2036). The bond proceeds were used to pay for the construction of a portion of the major infrastructure improvements at Town Center. The bonds are payable from and secured by the revenue derived from assessments imposed, levied and collected by the Town Center District. The assessments represent an allocation of the costs of the improvements, including bond financing costs, to the lands within the Town Center District benefiting from the improvements. The assessments were billed to Town Center landowners effective November 2006. To the extent that we still own land at the time of the assessment, in accordance with EITF 91-10, "Accounting for Special Assessments and Tax Increment Financing Entities," we will incur the cost of our portion of these assessments, based upon our ownership of benefited property. At December 31, 2008, we owned approximately 69 percent of the assessable land in the Town Center District (approximately 69 percent at December 31, 2007). As we sell property, the obligation to pay special assessments will pass to the new landowners. Under current accounting rules, these bonds are not reflected as debt on our consolidated balance sheet.

Note 8. Commitments, Guarantees and Contingencies (Continued)

Palm Coast Park. In May 2006, the Palm Coast Park District issued $31.8 million of tax-exempt, 5.7% Special Assessment Bonds, Series 2006, which are payable through property tax assessments on the land owners over 31 years (by May 1, 2037). The bond proceeds were used to pay for the construction of a portion of the major infrastructure improvements at Palm Coast Park and to mitigate traffic and environmental impacts. The bonds are payable from and secured by the revenue derived from assessments imposed, levied and collected by the Palm Coast Park District. The assessments represent an allocation of the costs of the improvements, including bond financing costs, to the lands within the Palm Coast Park District benefiting from the improvements. The assessments were billed to Palm Coast Park landowners effective November 2007. To the extent that we still own land at the time of the assessment, in accordance with EITF 91-10, "Accounting for Special Assessments and Tax Increment Financing Entities," we will incur the cost of our portion of these assessments, based upon our ownership of benefited property. At December 31, 2008, we owned 86 percent of the assessable land in the Palm Coast Park District (86 percent at December 31, 2007). As we sell property, the obligation to pay special assessments will pass to the new landowners. Under current accounting rules, these bonds are not reflected as debt on our consolidated balance sheet.

Other. We are involved in litigation arising in the normal course of business. Also in the normal course of business, we are involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base and cost of service issues, among other things. While the resolution of such matters could have a material effect on earnings and cash flows in the year of resolution, none of these matters are expected to materially change our present liquidity position, or have a material adverse effect on our financial condition.

Note 9. Common Stock and Earnings Per Share

Our Articles of Incorporation contain provisions that, under certain circumstances, would restrict the payment of common stock dividends. As of December 31, 2008, no retained earnings were restricted as a result of these provisions.

Summary of Common Stock	Shares	Equity
	Thousands	Millions
Balance at December 31, 2005	30,143	$421.1
2006 Employee Stock Purchase Plan	12	0.5
Invest Direct *(a)*	218	10.0
Options and Stock Awards	63	7.1
Balance at December 31, 2006	30,436	$438.7
2007 Employee Stock Purchase Plan	17	0.7
Invest Direct *(a)*	331	15.1
Options and Stock Awards	43	6.7
Balance at December 31, 2007	30,827	$461.2
2008 Employee Stock Purchase Plan	17	0.6
Invest Direct *(a)*	161	6.9
Options and Stock Awards	24	4.6
Equity Issuance Program	1,556	60.8
Balance at December 31, 2008	32,585	$534.1

(a) Invest Direct is ALLETE's direct stock purchase and dividend reinvestment plan.

Equity Issuance Program. On February 19, 2008, we entered into a Distribution Agreement with KCCI, Inc. with respect to the issuance and sale of up to 2.5 million shares of our common stock, without par value. The shares may be offered for sale, from time to time, in accordance with the terms of the Distribution Agreement, which terminates on June 30, 2009. For the year ended December 31, 2008, 1,556,200 shares of common stock have been issued under this agreement resulting in net proceeds of $60.8 million.

Shareholder Rights Plan. In 1996, we adopted a rights plan that provides for a dividend distribution of one preferred share purchase right (Right) to be attached to each share of common stock. In July 2006, we amended the rights plan to extend the expiration of the Rights to July 11, 2009. The amendment also provides that the Company may not consolidate, merge, or sell a majority of its assets or earning power if doing so would be counter to the intended benefits of the Rights or would result in the distribution of Rights to the shareholders of the other parties to the transaction. Finally, the amendment provides for the creation of a committee of independent directors to annually review the terms and conditions of the amended rights plan (Rights Plan), as well as to consider whether termination or modification of the Rights Plan would be in the best interests of the shareholders and to make a recommendation based on such review to the Board of Directors.

Note 9. Common Stock and Earnings Per Share (Continued)

The Rights, which are currently not exercisable or transferable apart from our common stock, entitle the holder to purchase one-and-a-half one-hundredths (three two-hundredths) of a share of ALLETE's Junior Serial Preferred Stock A, without par value. The purchase price, as defined in the Rights Plan, remains at $90. These Rights would become exercisable if a person or group acquires beneficial ownership of 15 percent or more of our common stock or announces a tender offer which would increase the person's or group's beneficial ownership interest to 15 percent or more of our common stock, subject to certain exceptions. If the 15 percent threshold is met, each Right entitles the holder (other than the acquiring person or group) to receive, upon payment of the purchase price, the number of shares of common stock (or, in certain circumstances, cash, property or other securities of ours) having a market value equal to twice the exercise price of the Right. If we are acquired in a merger or business combination, or more than 50 percent of our assets or earning power are sold, each exercisable Right entitles the holder to receive, upon payment of the purchase price, the number of shares of common stock of the acquiring or surviving company having a value equal to twice the exercise price of the Right. Certain stock acquisitions will also trigger a provision permitting the Board of Directors to exchange each Right for one share of our common stock.

The Rights are nonvoting and may be redeemed by us at a price of $0.005 per Right at any time they are not exercisable. One million shares of Junior Serial Preferred Stock A have been authorized and are reserved for issuance under the Rights Plan.

Earnings Per Share. The difference between basic and diluted earnings per share arises from outstanding stock options and performance share awards granted under our Executive and Director Long-Term Incentive Compensation Plans. In accordance with SFAS 128, "Earnings Per Share," for 2008, 0.6 million options to purchase shares of common stock were excluded from the computation of diluted earnings per share because the option exercise prices were greater than the average market prices, and therefore, their effect would be anti-dilutive (0.2 million shares were excluded for 2007 and none in 2006).

Reconciliation of Basic and Diluted Earnings Per Share			
For the Year Ended December 31	**Basic**	**Dilutive Securities**	**Diluted**
Millions Except Per Share Amounts			
2008			
Income from Continuing Operations	$82.5	–	$82.5
Common Shares	29.2	0.1	29.3
Per Share from Continuing Operations	$2.82	–	$2.82
2007			
Income from Continuing Operations	$87.6	–	$87.6
Common Shares	28.3	0.1	28.4
Per Share from Continuing Operations	$3.09	–	$3.08
2006			
Income from Continuing Operations	$77.3	–	$77.3
Common Shares	27.8	0.1	27.9
Per Share from Continuing Operations	$2.78	–	$2.77

Note 10. Other Income (Expense)

For the Year Ended December 31	**2008**	**2007**	**2006**
Millions			
Loss on Emerging Technology Investments	$(0.7)	$(1.3)	$(0.9)
AFUDC - Equity	3.3	3.8	0.5
Debt Prepayment Premium and Unamortized Debt Issuance Costs	–	–	(0.6)
Investments and Other Income	13.0	13.0	12.9
Total Other Income	$15.6	$15.5	$11.9

Note 11. Income Tax Expense

Income Tax Expense Year Ended December 31 Millions	2008	2007	2006
Current Tax Expense			
Federal	$6.2	$26.5	$8.9*(a)*
State	(1.6)	7.2	9.6
Total Current Tax Expense	4.6	33.7	18.5
Deferred Tax Expense			
Federal	29.3	10.7	28.0*(a)*
State	13.4	4.7	2.0
Change in Valuation Allowance	(2.9)	(0.3)	(1.1)
Investment Tax Credit Amortization	(1.0)	(1.1)	(1.1)
Total Deferred Tax Expense	38.8	14.0	27.8
Income Tax Expense for Continuing Operations	43.4	47.7	46.3
Income Tax Expense (Benefit) for Discontinued Operations	–	–	(0.6)
Total Income Tax Expense	$43.4	$47.7	$45.7

(a) Included a current federal tax benefit of $24.3 million and a deferred federal tax expense of $24.3 million related to the refund from the Kendall County capital loss carryback.

Reconciliation of Taxes from Federal Statutory Rate to Total Income Tax Expense for Continuing Operations Year Ended December 31 Millions	2008	2007	2006
Income from Continuing Operations Before Minority Interest and Income Taxes	$126.4	$137.2	$128.2
Statutory Federal Income Tax Rate	35%	35%	35%
Income Taxes Computed at 35% Statutory Federal Rate	$44.2	$48.0	$44.9
Increase (Decrease) in Tax Due to:			
Amortization of Deferred Investment Tax Credits	(1.0)	(1.1)	(1.1)
State Income Taxes – Net of Federal Income Tax Benefit	4.8	7.4	6.5
Depletion	(0.8)	(0.9)	(1.1)
Employee Benefits	0.2	0.4	0.1
Domestic Manufacturing Deduction	(0.1)	(1.1)	(0.6)
Regulatory Differences for Utility Plant	(1.6)	(2.2)	(0.9)
Positive Resolution of Audit Issues	–	(1.6)	–
Other	(2.3)	(1.2)	(1.5)
Total Income Tax Expense for Continuing Operations	$43.4	$47.7	$46.3

The effective tax rate on income from continuing operations before minority interest was a 34.3 percent for 2008; (34.8 percent for 2007; 36.1 percent for 2006). The 2008 effective tax rate was impacted by deductions for Medicare health subsidies (included in Employee Benefits, above), domestic manufacturing deduction, AFUDC-Equity (included in Regulatory Differences for Utility Plant, above), investment tax credits, wind production tax credits, depletion, recognition of a benefit on the reversal of a previously uncertain tax position ($1.7 million included in Other, above) and a benefit for the reversal of a state income tax valuation allowance ($2.9 million included in State Income Taxes, above). The 2007 effective tax rate was impacted by state income tax audit settlements ($1.6 million), deductions for Medicare health subsidies (included in Employee Benefits, above), domestic manufacturing deduction, AFUDC-Equity (included in Regulatory Differences for Utility Plant, above), investment tax credits and depletion.

Note 11. Income Tax Expense (Continued)

Deferred Tax Assets and Liabilities December 31 Millions	2008	2007
Deferred Tax Assets		
Employee Benefits and Compensation *(a)*	$125.2	$80.5
Property Related	36.4	26.5
Investment Tax Credits	10.7	11.4
Other	16.3	13.4
Gross Deferred Tax Assets	188.6	131.8
Deferred Tax Asset Valuation Allowance	(0.4)	(3.3)
Total Deferred Tax Assets	$188.2	$128.5
Deferred Tax Liabilities		
Property Related	$235.6	$201.7
Regulatory Asset for Benefit Obligations	87.7	21.6
Unamortized Investment Tax Credits	15.1	16.1
Employee Benefits and Compensation	1.2	19.5
Fuel Clause Adjustment	5.3	10.7
Other	14.0	8.1
Total Deferred Tax Liabilities	$358.9	$277.7
Accumulated Deferred Income Taxes	$170.7	$149.2
Recorded as:		
Net Current Deferred Tax Liabilities *(b)*	$1.1	$5.0
Net Long-Term Deferred Tax Liabilities	169.6	144.2
Net Deferred Tax Liabilities	$170.7	$149.2

(a) Includes Unfunded Employee Benefits
(b) Included in Other Current Liabilities.

Uncertain Tax Positions. Effective January 1, 2007, we adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109." As a result of the implementation of FIN 48, we recognized a $1.0 million increase in the liability for unrecognized tax benefits. The adoption of FIN 48 also resulted in a reduction in retained earnings of $0.7 million, a reduction of deferred tax liabilities of $0.8 million and an increase in accrued interest of $0.5 million. Subsequent to the implementation of FIN 48, ALLETE's gross unrecognized tax benefits were $10.4 million. Of this total, $6.8 million (net of federal tax benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate.

Uncertain Tax Positions Millions December 31, 2007	Gross Unrecognized Income Tax Benefits
Balance at January 1, 2007	$10.4
Additions for Tax Positions Related to the Current Year	0.8
Reductions for Tax Positions Related to the Current Year	–
Additions for Tax Positions Related to Prior Years	–
Reduction for Tax Positions Related to Prior Years	(2.4)
Settlements	(3.5)
Balance at December 31, 2007	$5.3
Less: Tax Attributable to Temporary Items and Federal Benefit on State Tax	(2.3)
Total Unrecognized Tax Benefits that, if Recognized, Would Impact the Effective Income Tax Rate as of December 31, 2007	$3.0
December 31, 2008	
Balance at January 1, 2008	$5.3
Additions for Tax Positions Related to the Current Year	0.7
Reductions for Tax Positions Related to the Current Year	–
Additions for Tax Positions Related to Prior Years	4.5
Reduction for Tax Positions Related to Prior Years	(2.5)
Settlements	–
Balance at December 31, 2008	$8.0
Less: Tax Attributable to Temporary Items and Federal Benefit on State Tax	(6.8)
Total Unrecognized Tax Benefits that, if Recognized, Would Impact the Effective Tax Rate as of December 31, 2008	$1.2

Note 11. Income Tax Expense (Continued)

We recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses in the Consolidated Statement of Income. As of December 31, 2007, the Company had $0.9 million of accrued interest and no accrued penalties related to unrecognized tax benefits included in the Consolidated Balance Sheet. As of December 31, 2008, the liability for the payment of interest is $0.6 million with no penalties.

We file income tax returns in the U.S. federal and various state jurisdictions. ALLETE is no longer subject to federal examination for years before 2005 or state examinations for years before 2004.

We expect that the total amount of unrecognized tax benefits as of December 31, 2008, will change by less than $1.0 million in the next 12 months due to statute expirations.

Note 12. Discontinued Operations

Water Services. Financial results for 2006 reflected additional legal and administrative expenses incurred by the Company to exit the Water Services businesses. There were no discontinued operations in 2008 or 2007.

Discontinued Operations	
Summary Income Statement	
For the Year Ended December 31	**2006**
Millions	
Loss on Disposal	
Water Services	$(1.5)
	(1.5)
Income Tax Expense (Benefit)	
Water Services	(0.6)
	(0.6)
Net Loss on Disposal	(0.9)
Loss from Discontinued Operations	$(0.9)

Note 13. Other Comprehensive Income (Loss)

Other Comprehensive Income (Loss)	**Pre-Tax**	**Tax Expense**	**Net-of-Tax**
Year Ended December 31	**Amount**	**(Benefit)**	**Amount**
Millions			
2008			
Unrealized Loss on Securities During the Year	$(9.7)	$(3.7)	$(6.0)
Reclassification Adjustment for Gains Included in Income	(6.4)	(2.7)	(3.7)
Defined Benefit Pension and Other Postretirement Plans	(32.1)	(13.3)	(18.8)
Other Comprehensive Loss	$(48.2)	$(19.7)	$(28.5)
2007			
Unrealized Gain on Securities During the Year	$1.4	$0.3	$1.1
Defined Benefit Pension and Other Postretirement Plans	5.5	2.3	3.2
Other Comprehensive Income	$6.9	$2.6	$4.3
2006			
Unrealized Gain on Securities During the Year	$2.5	$0.6	$1.9
Defined Benefit Pension and Other Postretirement Plans	11.0	4.6	6.4
Other Comprehensive Income	$13.5	$5.2	$8.3

Accumulated Other Comprehensive Income (Loss)		
December 31	**2008**	**2007**
Millions		
Unrealized Gain (Loss) on Securities	$(4.6)	$5.1
Defined Benefit Pension and Other Postretirement Plans	(28.4)	(9.6)
Total Accumulated Other Comprehensive Loss	$(33.0)	$(4.5)

Note 14. Pension and Other Postretirement Benefit Plans

We have noncontributory defined benefit pension plans covering eligible employees. The plans provide defined benefits based on years of service and final average pay. We also have defined contribution pension plans covering substantially all employees; employer contributions are made through our employee stock ownership plan. (See Note 15. Employee Stock and Incentive Plans.) In 2008, we made a total of $10.9 million in contributions to ALLETE's defined benefit pension plans (no contributions were made in 2007).

On August 9, 2006, ALLETE's Board of Directors approved amendments to the Minnesota Power and Affiliated Companies Retirement Plan A (Retirement Plan A) and the Minnesota Power and Affiliated Companies Retirement Savings and Stock Ownership Plan (RSOP). Retirement Plan A was amended to suspend further crediting service pursuant to the plan, effective as of September 30, 2006, and to close Retirement Plan A to new participants. Participants will continue to accrue benefits under the plan for future pay increases. In conjunction with this change, the Board of Directors took action to increase benefits employees will receive under the RSOP. The modification of Retirement Plan A required us to re-measure our pension expense as of August 9, 2006. As a result of the re-measurement, Retirement Plan A pension expense for 2006 was reduced by $0.2 million.

We have postretirement health care and life insurance plans covering eligible employees. The postretirement health plans are contributory with participant contributions adjusted annually. Postretirement health and life benefits are funded through a combination of Voluntary Employee Benefit Association trusts (VEBAs), established under section 501(c)(9) of the Internal Revenue Code, and an irrevocable grantor trust. Contributions deductible for income tax purposes are made directly to the VEBAs; nondeductible contributions are made to the irrevocable grantor trust. Amounts are transferred from the irrevocable grantor trust to the VEBAs when they become deductible for income tax purposes. In 2008, $10.1 million was transferred from the grantor trust to the VEBAs ($6.2 million in 2007; $3.6 million in 2006). In 2008, including the amount transferred from the grantor trust, we made a total of $13.8 million in contributions to ALLETE's postretirement health and life plan ($12.6 million in 2007).

We expect to contribute approximately $30 - $35 million to our defined benefit pension plans and $11 million to our postretirement health and life plans in 2009. We are unable to predict contribution levels to our defined benefit pension or postretirement health and life plans after 2009.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158). SFAS 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but that are not recognized as components of net periodic benefit cost. SFAS 158 also requires additional disclosures in the notes to financial statements. SFAS 158 was effective for fiscal years ending after December 15, 2006.

The defined benefit pension and postretirement health and life benefit costs recognized annually by our regulated companies are expected to be recovered through rates filed with our regulatory jurisdictions. As a result, these amounts that are required to otherwise be recognized in accumulated other comprehensive income under the provisions of SFAS 158 have been recognized as a long-term regulatory asset on our consolidated balance sheet, in accordance with the requirements of SFAS 71. The defined benefit pension and postretirement health and life benefit costs associated with our other non-rate base operations are recognized in accumulated other comprehensive income, in accordance with SFAS 158.

Pursuant to SFAS 158, we were required to change our measurement date from September 30 to December 31 during the year ended December 31, 2008. On January 1, 2008, ALLETE recorded three months of pension expense as a reduction to retained earnings in the amount of $1.6 million, net of tax, to reflect the impact of this measurement date change. Also on January 1, 2008, we recorded $0.8 million relating to three months of amortization for transition obligations, prior service costs, and prior gains and losses within accumulated other comprehensive income.

Note 14. Pension and Other Postretirement Benefit Plans (Continued)

Pension Obligation and Funded Status	December 31, 2008	September 30, 2007
Millions		
Accumulated Benefit Obligation	$406.6	$384.9
Change in Benefit Obligation		
Obligation, Beginning of Year	$421.9	$417.7
Service Cost	7.3	5.3
Interest Cost	31.8	23.4
Actuarial Loss (Gain)	3.2	(5.6)
Benefits Paid	(29.9)	(21.6)
Participant Contributions	6.1	2.7
Obligation, End of Year	$440.4	$421.9
Change in Plan Assets		
Fair Value, Beginning of Year	$405.6	$364.7
Actual Return on Plan Assets	(120.2)	58.9
Employer Contribution	18.2	3.6
Benefits Paid	(29.9)	(21.6)
Fair Value, End of Year	$273.7	$405.6
Funded Status, End of Year	$(166.7)	$(16.3)
Net Pension Amounts Recognized in Consolidated Balance Sheet Consist of:		
Noncurrent Assets	–	$29.3
Current Liabilities	$(0.9)	$(0.8)
Noncurrent Liabilities	$(165.8)	$(44.8)

The pension costs that are reported as a component within our consolidated balance sheet, reflected in regulatory long-term assets and accumulated other comprehensive income, consist of the following:

Unrecognized Pension Costs		
Year Ended December 31	**2008**	**2007**
Millions		
Net Loss	$193.2	$31.1
Prior Service Cost	2.4	3.2
Transition Obligation	–	–
Total Unrecognized Pension Costs	$195.6	$34.3

Components of Net Periodic Pension Expense			
Year Ended December 31	**2008**	**2007**	**2006**
Millions			
Service Cost	$5.8	$5.3	$9.1
Interest Cost	25.4	23.4	22.2
Expected Return on Plan Assets	(32.5)	(30.6)	(28.6)
Amortization of Loss	1.6	4.9	4.6
Amortization of Prior Service Costs	0.6	0.6	0.6
Net Pension Expense	$0.9	$3.6	$7.9

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income and Regulatory Assets		
Year Ended December 31	**2008**	**2007**
Millions		
Net Loss (Gain)	$164.0	$(35.4)
Amortization of Prior Service Costs	(0.6)	(0.6)
Amortization of Loss (Gain)	(1.6)	(3.3)
Total Recognized in Other Comprehensive Income and Regulatory Assets	$161.8	$(39.3)

Information for Pension Plans with an Accumulated Benefit Obligation in Excess of Plan Assets	December 31, 2008	September 30, 2007
Millions		
Projected Benefit Obligation	$440.4	$170.6
Accumulated Benefit Obligation	$406.6	$188.3
Fair Value of Plan Assets	$273.7	$145.3

Postretirement Health and Life Obligation and Funded Status	December 31, 2008	September 30, 2007
Millions		
Change in Benefit Obligation		
Obligation, Beginning of Year	$153.7	$138.9
Service Cost	5.0	4.2
Interest Cost	11.7	7.9
Actuarial Loss	4.0	7.5
Participant Contributions	2.0	1.4
Benefits Paid	(9.5)	(6.2)
Obligation, End of Year	$166.9	$153.7
Change in Plan Assets		
Fair Value, Beginning of Year	$90.9	$78.9
Actual Return on Plan Assets	(25.2)	9.6
Employer Contribution	20.3	6.8
Participant Contributions	1.9	1.4
Benefits Paid	(9.3)	(5.8)
Fair Value, End of Year	$78.6	$90.9
Funded Status, End of Year	$(88.3)	$(62.8)
Net Postretirement Health and Life Amounts Recognized in Consolidated Balance Sheet Consist of:		
Current Liabilities	$(0.7)	$(0.6)
Noncurrent Liabilities	$(87.6)	$(62.2)

Under SFAS 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions,” only assets in the VEBAs are treated as plan assets in the above table for the purpose of determining funded status. In addition to the postretirement health and life assets reported in the previous table, we had $14.1 million in an irrevocable grantor trusts at December 31, 2008 ($30.5 million at December 31, 2007). We consolidate the irrevocable grantor trusts and it is included in Investments on our consolidated balance sheet.

The postretirement health and life costs that are reported as a component within our consolidated balance sheet, reflected in regulatory long-term assets and accumulated other comprehensive income, consist of the following:

Unrecognized Postretirement Health and Life Costs Year Ended December 31	2008	2007
Millions		
Net Loss	$59.2	$22.7
Prior Service Cost	–	(0.1)
Transition Obligation	9.4	12.6
Total Unrecognized Postretirement Health and Life Costs	$68.6	$35.2

Components of Net Periodic Postretirement Health and Life Expense Year Ended December 31	2008	2007	2006
Millions			
Service Cost	$4.0	$4.2	$4.4
Interest Cost	9.4	7.8	7.4
Expected Return on Plan Assets	(7.2)	(6.5)	(5.6)
Amortization of Loss	1.4	1.0	1.7
Amortization of Transition Obligation	2.5	2.4	2.4
Net Postretirement Health and Life Expense	$10.1	$8.9	$10.3

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income and Regulatory Assets Year Ended December 31	2008	2007
Millions		
Net Loss (Gain)	$38.3	$4.5
Amortization of Transition Obligation	(2.5)	(2.5)
Amortization of Prior Service Costs	–	–
Amortization of Loss (Gain)	(1.4)	(0.9)
Total Recognized in Other Comprehensive Income and Regulatory Assets	$34.4	$1.1

Estimated Future Benefit Payments	Pension	Postretirement Health and Life
Millions		
2009	$24.1	$7.0
2010	$25.6	$7.8
2011	$26.5	$8.7
2012	$27.4	$9.3
2013	$28.6	$10.0
Years 2014 – 2018	$160.0	$59.5

The pension and postretirement health and life costs recorded in other long-term assets and accumulated other comprehensive income expected to be recognized as a component of net pension and postretirement benefit costs for the year ending December 31, 2009, are as follows:

	Pension	Postretirement Health and Life
Millions		
Net Loss	$3.4	$2.5
Prior Service Costs	$0.6	–
Transition Obligations	–	$2.5
Total Pension and Postretirement Health and Life Costs	$4.0	$5.0

Weighted-Average Assumptions Used to Determine Benefit Obligation	December 31, 2008	September 30, 2007
Discount Rate	6.12%	6.25%
Rate of Compensation Increase	4.3 – 4.6%	4.3 – 4.6%
Health Care Trend Rates		
Trend Rate	9%	10%
Ultimate Trend Rate	5%	5%
Year Ultimate Trend Rate Effective	2012	2012

Weighted-Average Assumptions Used to Determine Net Periodic Benefit Costs Year Ended December 31	2008	2007	2006
Discount Rate	6.25%	5.75%	5.50%
Expected Long-Term Return on Plan Assets *(a)*			
Pension	9.0%	9.0%	9.0%
Postretirement Health and Life	7.2 – 9.0%	5.0 – 9.0%	5.0 – 9.0%
Rate of Compensation Increase	4.3 – 4.6%	4.3 – 4.6%	3.5 – 4.5%

(a) The expected long term rate of return used to determine net periodic benefit expenses for 2009 has been reduced to 8.5 percent.

In establishing the expected long-term return on plan assets, we consider the diversification and allocation of plan assets, the actual long-term historical performance for the type of securities invested in, the actual long-term historical performance of plan assets, and the impact of current economic conditions, if any, on long-term historical returns.

Currently for plan valuation purposes, the discount rate is determined considering high-quality long-term corporate bond rates at the valuation date. The discount rate is compared to the Citigroup Pension Discount Curve adjusted for ALLETE's specific cash flows.

Note 14. Pension and Other Postretirement Benefit Plans (Continued)

Sensitivity of a One-Percentage-Point Change in Health Care Trend Rates	One Percent Increase	One Percent Decrease
Millions		
Effect on Total of Postretirement Health and Life Service and Interest Cost	$2.0	$(1.7)
Effect on Postretirement Health and Life Obligation	$19.5	$(16.2)

	Pension		Postretirement Health and Life *(a)*	
Actual Plan Asset Allocations	**2008**	**2007**	**2008**	**2007**
Equity Securities	46%	61%	47%	66%
Debt Securities	32%	25%	40%	24%
Real Estate	6%	2%	–	–
Private Equity	16%	9%	9%	5%
Cash	–	3%	4%	5%
	100%	100%	100%	100%

(a) Includes VEBAs and irrevocable grantor trusts.

Pension plan equity securities did not include ALLETE common stock at December 31, 2008 or September 30, 2007.

To achieve strong returns within managed risk, we diversify our asset portfolio to approximate the target allocations in the table below. Equity securities are diversified among domestic companies with large, mid and small market capitalizations, as well as investments in international companies. In addition, all debt securities must have a Standard & Poor's credit rating of A or higher.

Plan Asset Target Allocations	Pension	Postretirement Health and Life *(a)*
Equity Securities	55%	55%
Debt Securities	24%	24%
Real Estate	9%	9%
Private Equity	11%	11%
Cash	1%	1%
	100%	100%

(a) Includes VEBAs and irrevocable grantor trusts.

FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act)" provides accounting and disclosure guidance for employers that sponsor postretirement health care plans that provide prescription drug benefits. FSP 106-2 requires that the accumulated postretirement benefit obligation and postretirement benefit cost reflect the impact of the Act upon adoption. We provide postretirement health benefits that include prescription drug benefits which qualify us for the federal subsidy under the Act. The expected reimbursement for Medicare health subsidies reduced our after-tax postretirement medical expense by $1.2 million for 2008 ($2.3 million for 2007; $2.4 million in 2006). In 2005 we enrolled with the Centers for Medicare and Medicaid Services' (CMS) and began recovering the subsidy in 2007. We received $0.3 million in 2007 for 2006, and expect to receive a reimbursement in 2009 for 2007.

Note 15. Employee Stock and Incentive Plans

Employee Stock Ownership Plan. We sponsor a leveraged employee stock ownership plan (ESOP) within the RSOP. As of their date of hire, all employees of ALLETE, SWL&P and Minnesota Power Affiliate Resources are eligible to contribute to the plan. In 1990, the ESOP issued a $75 million note (term not to exceed 25 years at 10.25 percent) to us as consideration for 2.8 million shares (1.9 million shares adjusted for stock splits) of our newly issued common stock. The note was refinanced in 2006 at 6 percent. We make annual contributions to the ESOP equal to the ESOP's debt service less available dividends received by the ESOP. The majority of dividends received by the ESOP are used to pay debt service, with the balance distributed to participants. The ESOP shares were initially pledged as collateral for its debt. As the debt is repaid, shares are released from collateral and allocated to participants based on the proportion of debt service paid in the year. As shares are released from collateral, we report compensation expense equal to the current market price of the shares less dividends on allocated shares. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; available dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest. ESOP compensation expense was $10.3 million in 2008 ($9.2 million in 2007; $6.9 million in 2006).

Note 15. Employee Stock and Incentive Plans (Continued)

Pursuant to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans," unallocated ALLETE common stock currently held and purchased by the ESOP will be treated as unearned ESOP shares and not considered as outstanding for earnings per share computations. ESOP shares are included in earnings per share computations after they are allocated to participants.

Year Ended December 31	2008	2007	2006
Millions			
ESOP Shares			
Allocated	2.0	1.8	1.7
Unallocated	1.9	2.2	2.5
Total	3.9	4.0	4.2
Fair Value of Unallocated Shares	$61.3	$87.1	$115.2

Stock-Based Compensation. *Stock Incentive Plan.* Under our Executive Long-Term Incentive Compensation Plan (Executive Plan), share-based awards may be issued to key employees through a broad range of methods, including non-qualified and incentive stock options, performance shares, performance units, restricted stock, stock appreciation rights and other awards. There are 1.5 million shares of common stock reserved for issuance under the Executive Plan, with 0.7 million of these shares available for issuance as of December 31, 2008.

We had a Director Long-Term Stock Incentive Plan (Director Plan) which expired on January 1, 2006. No grants have been made since 2003 under the Director Plan. Approximately 3,879 options were outstanding under the Director Plan at December 31, 2008.

We currently have the following types of share-based awards outstanding:

Non-Qualified Stock Options. The options allow for the purchase of shares of common stock at a price equal to the market value of our common stock at the date of grant. Options become exercisable beginning one year after the grant date, with one-third vesting each year over three years. Options may be exercised up to ten years following the date of grant. In the case of qualified retirement, death or disability, options vest immediately and the period over which the options can be exercised is three years. Employees have up to three months to exercise vested options upon voluntary termination or involuntary termination without cause. All options are cancelled upon termination for cause. All options vest immediately upon retirement, death, disability or a change of control, as defined in the award agreement. We determine the fair value of options using the Black-Scholes option-pricing model. The estimated fair value of options, including the effect of estimated forfeitures, is recognized as expense on the straight-line basis over the options' vesting periods, or the accelerated vesting period if the employee is retirement eligible.

The following assumptions were used in determining the fair value of stock options granted during 2008, under the Black-Scholes option-pricing model:

	2008	2007	2006
Risk-Free Interest Rate	2.8%	4.8%	4.5%
Expected Life	5 Years	5 Years	5 Years
Expected Volatility	20%	20%	20%
Dividend Growth Rate	4.4%	5.0%	5.0%

The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the grant date. Expected volatility is estimated based on the historic volatility of our stock and the stock of our peer group companies. We utilize historical option exercise and employee pre-vesting termination data to estimate the option life. The dividend growth rate is based upon historical growth rates in our dividends.

Performance Shares. Under these awards, the number of shares earned is contingent upon attaining specific performance targets over a three-year performance period. In the case of qualified retirement, death or disability during a performance period, a pro-rata portion of the award will be earned at the conclusion of the performance period based on the performance goals achieved. In the case of termination of employment for any reason other than qualified retirement, death or disability, no award will be earned. If there is a change in control, a pro-rata portion of the award will be paid based on the greater of actual performance up to the date of the change in control or target performance. The fair value of these awards is equal to the grant date fair value which is estimated based upon the assumed share-based payment three years from the date of grant. Compensation cost is recognized over the three-year performance period based on our estimate of the number of shares which will be earned by the award recipients.

Note 15. Employee Stock and Incentive Plans (Continued)

Employee Stock Purchase Plan (ESPP). Under our ESPP, eligible employees may purchase ALLETE common stock at a 5 percent discount from the market price. Because the discount is not greater than 5 percent, we are not required by SFAS 123R to apply fair value accounting to these awards.

RSOP. Shares held in our RSOP are excluded from SFAS 123R and are accounted for in accordance with the AICPA Statement of Position No. 93-6, "Employers' Accounting for Employee Stock Ownership Plans."

The following share-based compensation expense amounts were recognized in our consolidated statement of income for the periods presented since our adoption of SFAS 123R.

Share-Based Compensation Expense			
For the Year Ended December 31	**2008**	**2007**	**2006**
Millions			
Stock Options	$0.7	$0.8	$0.8
Performance Shares	1.1	1.0	1.0
Total Share-Based Compensation Expense	$1.8	$1.8	$1.8
Income Tax Benefit	$0.7	$0.7	$0.7

There were no capitalized stock-based compensation costs at December 31, 2008, 2007, or 2006.

As of December 31, 2008, the total unrecognized compensation cost for the performance share awards not yet recognized in our statements of income was $1.3 million. This amount is expected to be recognized over a weighted-average period of 1.7 years.

The following table presents information regarding our outstanding stock options for the year ended December 31, 2008.

	Number of Options	**Weighted-Average Exercise Price**	**Aggregate Intrinsic Value**	**Weighted-Average Remaining Contractual Term**
			Millions	
Outstanding at December 31, 2007	510,992	$39.83	$(0.1)	6.8 years
Granted	180,815	$39.10		
Exercised	(16,627)	$25.56		
Forfeited	(2,761)	$39.39		
Outstanding at December 31, 2008	672,419	$39.99	$(5.2)	6.9 years
Exercisable at December 31, 2008	406,894	$34.48	$(2.7)	5.7 years
Fair Value of Options				
Granted During the Year	$3.97			

The weighted-average grant-date fair value of options was $6.18 for 2008 ($6.92 for 2007; $6.48 for 2006). The intrinsic value of a stock award is the amount by which the fair value of the underlying stock exceeds the exercise price of the award. The total intrinsic value of options exercised was $0.2 million during 2008 ($0.4 million in 2007; $0.6 million in 2006).

At December 31, 2008, options outstanding consisted of 0.1 million with exercise prices ranging from $18.85 to $29.79, 0.4 million with exercise prices ranging from $37.76 to $41.35 and 0.2 million with exercise prices ranging from $44.15 to $48.65. The options with exercise prices ranging from $18.85 to $29.79 have an average remaining contractual life of 3.0 years; all are exercisable at December 31, 2008, at a weighted average price of $26.91. The options with exercise prices ranging from $37.76 to $41.35 have an average remaining contractual life of 7.3 years; less than 0.2 million are exercisable on December 31, 2008, at a weighted average price of $39.52. The options with exercise prices ranging from $44.15 to $48.65 have an average remaining contractual life of 7.5 years; all are exercisable on December 31, 2008, at a weighted average price of $46.25.

Note 15. Employee Stock and Incentive Plans (Continued)

Performance Shares. The following table presents information regarding our non-vested performance shares for the year ended December 31, 2008.

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2007	68,501	$45.63
Granted	36,684	54.05
Unearned Grant Award	(23,624)	42.80
Forfeited	(2,323)	50.87
Non-vested at December 31, 2008	79,238	50.22

Less than 0.1 million performance share were granted in February 2008 for the performance period ending in 2010. The ultimate issuance is contingent upon the attainment of certain future performance goals of ALLETE during the performance periods. The grant date fair value of the performance share awards was $1.8 million.

No performance shares were awarded in February 2008 for the three-year performance period ending in 2007, as performance targets were not met. However, in accordance with SFAS No. 123R, no compensation expense previously recognized in connection with those grants will be reversed.

Note 16. Quarterly Financial Data (Unaudited)

Information for any one quarterly period is not necessarily indicative of the results which may be expected for the year.

Quarter Ended	Mar. 31	Jun. 30	Sept. 30	Dec. 31
Millions Except Earnings Per Share				
2008				
Operating Revenue	$213.4	$189.8	$201.7	$196.1
Operating Income	$31.3	$17.5	$33.2	$39.8
Net Income	$23.6	$10.7	$24.7	$23.5
Earnings Per Share of Common Stock				
Basic	$0.82	$0.37	$0.85	$0.78
Diluted	$0.82	$0.37	$0.85	$0.78
2007				
Operating Revenue	$205.3	$223.3	$200.8	$212.3
Operating Income	$40.7	$33.3	$24.3	$33.4
Net Income	$26.3	$22.6	$16.5	$22.2
Earnings Per Share of Common Stock				
Basic	$0.93	$0.80	$0.58	$0.78
Diluted	$0.93	$0.80	$0.58	$0.77

ALLETE
Valuation and Qualifying Accounts and Reserves

For the Year Ended December 31	Balance at Beginning of Year	Additions Charged to Income	Other Changes	Deductions from Reserves *(a)*	Balance at End of Period
Millions					
Reserve Deducted from Related Assets					
Reserve For Uncollectible Accounts					
2008 Trade Accounts Receivable	$1.0	$1.0	–	$1.3	$0.7
Finance Receivables – Long-Term	0.2	–	–	0.1	0.1
2007 Trade Accounts Receivable	1.1	1.0	–	1.1	1.0
Finance Receivables – Long-Term	0.2	–	–	–	0.2
2006 Trade Accounts Receivable	1.0	0.7	_	0.6	1.1
Finance Receivables – Long-Term	0.6	_	_	0.4	0.2
Deferred Asset Valuation Allowance					
2008 Deferred Tax Assets	3.3	(2.9)	–	–	0.4
2007 Deferred Tax Assets	3.6	(0.3)	–	–	3.3
2006 Deferred Tax Assets	4.1	(1.1)	$0.6	–	3.6

(a) Includes uncollectible accounts written off.

ALLETE, Inc.
(formerly Minnesota Power & Light Company

and formerly Minnesota Power, Inc.)

TO

THE BANK OF NEW YORK MELLON
(formerly The Bank of New York
(formerly Irving Trust Company))

AND

DOUGLAS J. MacINNES
(successor to Richard H. West, J. A. Austin,
E. J. McCabe, D. W. May, J. A. Vaughan and W. T. Cunningham)

As Trustees under ALLETE, Inc.'s Mortgage and Deed of Trust dated as of September 1, 1945

Twenty-ninth Supplemental Indenture
Providing, among other things, for
First Mortgage Bonds, 6.94% Series due January 15, 2014
(Thirty-fifth Series)
and
First Mortgage Bonds, 7.70% Series due January 15, 2016
(Thirty-sixth Series)

Dated as of November 1, 2008

TWENTY-NINTH SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of November 1, 2008, by and between ALLETE, Inc. (formerly Minnesota Power & Light Company and formerly Minnesota Power, Inc.), a corporation of the State of Minnesota, whose post office address is 30 West Superior Street, Duluth, Minnesota 55802 (hereinafter sometimes called the "Company"), and The Bank of New York Mellon (formerly The Bank of New York (formerly Irving Trust Company)), a corporation of the State of New York, whose post office address is 101 Barclay Street, New York, New York 10286 (hereinafter sometimes called the "Corporate Trustee"), and DOUGLAS J. MACINNES (successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May, J. A. Vaughan and W. T. Cunningham), whose post office address is 1784 W. McGalliard Avenue, Hamilton, New Jersey 08610 (said Douglas J. MacInnes being hereinafter sometimes called the "Co-Trustee" and the Corporate Trustee and the Co-Trustee being hereinafter together sometimes called the "Trustees"), as Trustees under the Mortgage and Deed of Trust, dated as of September 1, 1945, between the Company and Irving Trust Company and Richard H. West (Douglas J. MacInnes, successor Co-Trustee), as Trustees, securing bonds issued and to be issued as provided therein (hereinafter sometimes called the "Mortgage"), reference to which Mortgage is hereby made, this indenture (hereinafter sometimes called the "Twenty-ninth Supplemental Indenture") being supplemental thereto:

WHEREAS, the Mortgage was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of October 16, 1957, was executed and delivered under which J. A. Austin succeeded Richard H. West as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of April 4, 1967, was executed and delivered under which E. J. McCabe in turn succeeded J. A. Austin as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, under the Sixth Supplemental Indenture, dated as of August 1, 1975, to which reference is hereinafter made, D. W. May in turn succeeded E. J. McCabe as Co-Trustee under the Mortgage; and

WHEREAS, an instrument, dated as of June 25, 1984, was executed and delivered under which J. A. Vaughan in turn succeeded D. W. May as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of July 27, 1988, was executed and delivered under which W. T. Cunningham in turn succeeded J. A. Vaughan as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, on May 12, 1998, the Company filed Amended and Restated Articles of Incorporation with the Secretary of State of the State of Minnesota changing its name from Minnesota Power & Light Company to Minnesota Power, Inc. effective May 27, 1998; and

WHEREAS, an instrument, dated as of April 15, 1999, was executed and delivered under which Douglas J. MacInnes in turn succeeded W. T. Cunningham as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, on May 8, 2001, the Company filed Amended and Restated Articles of Incorporation with the Secretary of State of the State of Minnesota changing its name from Minnesota Power, Inc. to ALLETE, Inc.; and

WHEREAS, by the Mortgage the Company covenanted, among other things, that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Mortgage and to make subject to the lien of the Mortgage any property thereafter acquired and intended to be subject to the lien thereof; and

WHEREAS, for said purposes, among others, the Company executed and delivered the following indentures supplemental to the Mortgage:

Designation	Dated as of
First Supplemental Indenture	March 1, 1949
Second Supplemental Indenture	July 1, 1951
Third Supplemental Indenture	March 1, 1957
Fourth Supplemental Indenture	January 1, 1968
Fifth Supplemental Indenture	April 1, 1971
Sixth Supplemental Indenture	August 1, 1975
Seventh Supplemental Indenture	September 1, 1976
Eighth Supplemental Indenture	September 1, 1977
Ninth Supplemental Indenture	April 1, 1978
Tenth Supplemental Indenture	August 1, 1978
Eleventh Supplemental Indenture	December 1, 1982
Twelfth Supplemental Indenture	April 1, 1987
Thirteenth Supplemental Indenture	March 1, 1992
Fourteenth Supplemental Indenture	June 1, 1992
Fifteenth Supplemental Indenture	July 1, 1992
Sixteenth Supplemental Indenture	July 1, 1992
Seventeenth Supplemental Indenture	February 1, 1993
Eighteenth Supplemental Indenture	July 1, 1993
Nineteenth Supplemental Indenture	February 1, 1997
Twentieth Supplemental Indenture	November 1, 1997
Twenty-first Supplemental Indenture	October 1, 2000
Twenty-second Supplemental Indenture	July 1, 2003
Twenty-third Supplemental Indenture	August 1, 2004
Twenty-fourth Supplemental Indenture	March 1, 2005
Twenty-fifth Supplemental Indenture	December 1, 2005
Twenty-sixth Supplemental Indenture	October 1, 2006
Twenty-seventh Supplemental Indenture	February 1, 2008
Twenty-eighth Supplemental Indenture	May 1, 2008

which supplemental indentures were filed and recorded in various official records in the State of Minnesota; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, as heretofore supplemented, the following series of First Mortgage Bonds:

Series	Principal Amount Issued	Principal Amount Outstanding
3-1/8% Series due 1975	$26,000,000	None
3-1/8% Series due 1979	4,000,000	None
3-5/8% Series due 1981	10,000,000	None
4-3/4% Series due 1987	12,000,000	None
6-1/2% Series due 1998	18,000,000	None
8-1/8% Series due 2001	23,000,000	None
10-1/2% Series due 2005	35,000,000	None
8.70% Series due 2006	35,000,000	None
8.35% Series due 2007	50,000,000	None
9-1/4% Series due 2008	50,000,000	None

Pollution Control Series A	111,000,000	None
Industrial Development Series A	2,500,000	None
Industrial Development Series B	1,800,000	None
Industrial Development Series C	1,150,000	None
Pollution Control Series B	13,500,000	None
Pollution Control Series C	2,000,000	None
Pollution Control Series D	3,600,000	None
7-3/4% Series due 1994	55,000,000	None
7-3/8% Series due March 1, 1997	60,000,000	None
7-3/4% Series due June 1, 2007	55,000,000	None
7-1/2% Series due August 1, 2007	35,000,000	None
Pollution Control Series E	111,000,000	None
7% Series due March 1, 2008	50,000,000	None
6-1/4% Series due July 1, 2003	25,000,000	None
7% Series due February 15, 2007	60,000,000	None
6.68% Series due November 15, 2007	20,000,000	None
Floating Rate Series due October 20, 2003	250,000,000	None
Collateral Series A	255,000,000	None
Pollution Control Series F	111,000,000	111,000,000
5.28% Series due August 1, 2020	35,000,000	35,000,000
5.69% Series due March 1, 2036	50,000,000	50,000,000
5.99% Series due February 1, 2027	60,000,000	60,000,000
4.86% Series due April 1, 2013	60,000,000	60,000,000
6.02% Series due May 1, 2023	75,000,000	75,000,000

which bonds are also hereinafter sometimes called bonds of the First through Thirty-fourth Series, respectively; and

WHEREAS, Section 8 of the Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder and of coupons to be attached to coupon bonds of such series shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such bonds are to be issued and/or secured under the Mortgage; and

WHEREAS, Section 120 of the Mortgage provides, among other things, that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Mortgage, whether such power, privilege or right is in any way restricted or is unrestricted, may (to the extent permitted by law) be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may cure any ambiguity contained therein, or in any supplemental indenture, or may establish the terms and provisions of any series of bonds (other than said First Series) by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS, the Company now desires to create a new series of bonds and (pursuant to the provisions of Section 120 of the Mortgage) to add to its covenants and agreements contained in the Mortgage, as heretofore supplemented, certain other covenants and agreements to be observed by it and to alter and amend in certain respects the covenants and provisions contained in the Mortgage, as heretofore supplemented; and

WHEREAS, the execution and delivery by the Company of this Twenty-ninth Supplemental Indenture, and the terms of the bonds of the Thirty-fifth Series and the Thirty-sixth Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That the Company, in consideration of the premises and of One Dollar to it duly paid by the Trustees at or before the ensealing and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustees and in order further to secure the payment of both the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, as heretofore supplemented, according to their tenor and effect and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances) unto THE BANK OF NEW YORK MELLON and DOUGLAS J. MACINNES, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all property, real, personal and mixed, of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind or nature acquired by the Company after the date of the execution and delivery of the Mortgage, as heretofore supplemented (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or, subject to the provisions of subsection (I) of Section 87 of the Mortgage, hereafter acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Twenty-ninth Supplemental Indenture) all lands, power sites, flowage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants for the generation of electricity by steam, water and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water works, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, electric, gas and other machines, regulators, meters, transformers, generators, motors, electrical, gas and mechanical appliances, conduits, cables, water, steam heat, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture and chattels; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of electric current, gas, steam heat or water for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

TOGETHER WITH all and singular the tenements, hereditaments, prescriptions, servitudes and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

IT IS HEREBY AGREED by the Company that, subject to the provisions of subsection (I) of Section 87 of the Mortgage, all the property, rights, and franchises acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) after the date hereof, except any herein or in the Mortgage, as heretofore supplemented, expressly excepted, shall be and are as fully granted and conveyed hereby and by the Mortgage and as fully embraced within the lien hereof and the lien of the Mortgage as if such property, rights and franchises were now owned by the Company and were specifically described herein or in the Mortgage and conveyed hereby or thereby.

PROVIDED that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, hypothecated, affected, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this Twenty-ninth Supplemental Indenture and from the lien and operation of the Mortgage, namely: (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the Mortgage or covenanted so to be; (2) merchandise, equipment, apparatus, materials or supplies held for the purpose of sale or other disposition in the usual course of business; fuel, oil and similar materials and supplies consumable in the operation of any of the properties of the Company; all aircraft, rolling stock, trolley coaches, buses, motor coaches, automobiles and other vehicles and materials and supplies held for the purpose of repairing or replacing (in whole or part) any of the same; all timber, minerals, mineral rights and royalties; (3) bills, notes and accounts receivable, judgments, demands and choses in action, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the Company's contractual rights or other interest in or with respect to tires not owned by the Company; (4) the last day of the term of any lease or leasehold which may hereafter become subject to the lien of the Mortgage; (5) electric energy, gas, steam, ice, and other materials or products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; and (6) the Company's franchise to be a corporation; provided, however, that the property and rights expressly excepted from the lien and operation of this Twenty-ninth Supplemental Indenture and from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that either or both of the Trustees or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 thereof.

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto the Trustees and their successors and assigns forever.

IN TRUST NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as supplemented, this Twenty-ninth Supplemental Indenture being supplemental thereto.

AND IT IS HEREBY COVENANTED by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and Trustees and the beneficiaries of the trust with respect to said property, and to the Trustees and their successors in the trust in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to said Trustees by the Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustees and their successors in said trust under the Mortgage as follows:

ARTICLE I
Thirty-fifth Series of Bonds

SECTION 1. There shall be a series of bonds designated "6.94% Series due January 15, 2014" (herein sometimes referred to as the "Thirty-fifth Series"), each of which shall also bear the descriptive title "First Mortgage Bond", and the form thereof, which shall be established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Thirty-fifth Series shall be dated as in Section 10 of the Mortgage provided, mature on January 15, 2014, be issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, in any multiple or multiples of One Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and bear interest from December 15, 2008 (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 6.94% per annum, payable semi-annually on January 15 and July 15 of each year, commencing July 15, 2009, the principal of and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

(I) **Optional Prepayment.** The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the bonds of the Thirty-fifth Series at 100% of the principal amount so prepaid, and the Make-Whole Amount determined for the Settlement Date specified by the Company in such notice with respect to such principal amount. The Company will give each registered owner of Bonds of the Thirty-fifth Series written notice (by first class mail or such other method as may be agreed upon by the Company and such registered owner) of each optional prepayment under this subsection (I) mailed or otherwise given not less than 30 days and not more than 60 days prior to the date fixed for such prepayment, to each such registered owner at his, her or its last address appearing on the registry books. Each such notice shall specify the Settlement Date (which shall be a Business Day), the aggregate principal amount of the bonds of the Thirty-fifth Series to be prepaid on such date, the principal amount of each bond held by such registered owner to be prepaid (determined in accordance with subsection (II) of this section), and the interest to be paid on the Settlement Date with respect to such principal amount being prepaid, and shall be accompanied by a certificate signed by a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such Settlement Date, the Company shall send to each registered owner of bonds of the Thirty-fifth Series (by first class mail or by such other method as may be agreed upon by the Company and such registered owner) a certificate signed by a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified Settlement Date. As promptly as practicable after the giving of the notice and the sending of the certificates provided in this subsection, the Company shall provide a copy of each to the Corporate Trustee. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice or certificate. The bonds of the Thirty-fifth Series are not otherwise subject to voluntary or optional prepayment.

(II) **Allocation of Partial Prepayments.** In the case of each partial prepayment of the bonds of the Thirty-fifth Series, the principal amount of the Bonds of the Thirty-fifth Series to be prepaid shall be allocated by the Company among all of the Bonds of the Thirty-fifth Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

(III) **Maturity; Surrender, Etc.** In the case of each notice of prepayment of bonds of the Thirty-fifth Series pursuant to this section, if cash sufficient to pay the principal amount to be prepaid on the Settlement Date (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any, is not paid as agreed upon by the Company and each registered owner of the affected bonds, or, to the extent that there is no such agreement entered into with one or more such owners, deposited with the Corporate Trustee on or before the Settlement Date, then such notice of prepayment shall be of no effect. If such cash is so paid or deposited, such principal amount of the bonds of the Thirty-fifth Series shall be deemed paid for all purposes and interest on such principal amount shall cease to accrue. In case the Company pays any registered owner pursuant to an agreement with that registered owner, the Company shall notify the Corporate Trustee as promptly as practicable of such agreement and payment, and shall furnish the Corporate Trustee with a copy of such agreement; in case the Company deposits any cash with the Corporate Trustee, the Company shall provide therewith a list of the registered owners and the amount of such cash each registered owner is to receive. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice, list or agreement, and shall not be chargeable with knowledge of any of the contents of any such agreement. Any bond prepaid in full shall be surrendered to the Company or the Corporate Trustee for cancellation on or before the Settlement Date or, with respect to cash deposited with the Corporate Trustee, before payment of such cash by the Corporate Trustee; any bond prepaid in part shall be surrendered to the Company or the Corporate Trustee on or before the Settlement Date (unless otherwise agreed between the Company and the registered owner) or, with respect to cash deposited with the Corporate Trustee before payment of such cash by the Corporate Trustee, for a substitute bond in the principal amount remaining unpaid.

(IV) **Make-Whole Amount.**

"Make-Whole Amount" means, with respect to any bond of the Thirty-fifth Series, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such bond of the Thirty-fifth Series over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Business Day" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"Called Principal" means, with respect to any bond of the Thirty-fifth Series, the principal of such bond that is to be prepaid pursuant to subsection (I) of this section.

"Discounted Value" means, with respect to the Called Principal of any bond of the Thirty-fifth Series, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the bonds of the Thirty-fifth Series is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any bond of the Thirty-fifth Series, 0.5% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" on the Bloomberg Financial Markets Service (or such other display on the Bloomberg Financial Markets Service having the same information as PX1 if PX1 is replaced by the Bloomberg Financial Markets Service) for the most recently issued actively traded on-the-run benchmark U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable bond of the Thirty-fifth Series.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Bond of the Thirty-fifth Series, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Bonds of the Thirty-fifth Series, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to subsection (I) of this section.

"Settlement Date" means, with respect to the Called Principal of any Bond of the Thirty-fifth Series, the date on which such Called Principal is to be prepaid pursuant to subsection (I) of this section.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

(V) At the option of the registered owner, any bonds of the Thirty-fifth Series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, together with a written instrument of transfer wherever required by the Company duly executed by the registered owner or by his duly authorized attorney, shall (subject to the provisions of Section 12 of the Mortgage) be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations.

Bonds of the Thirty-fifth Series shall be transferable (subject to the provisions of Section 12 of the Mortgage) at the office or agency of the Company in the Borough of Manhattan, The City of New York. The Company shall not be required to make transfers or exchanges of bonds of the Thirty-fifth Series for a period of ten (10) days next preceding any designation of bonds of said series to be prepaid, and the Company shall not be required to make transfers or exchanges of any bonds of said series designated in whole or in part for prepayment.

Upon any exchange or transfer of bonds of the Thirty-fifth Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Mortgage, but the Company hereby waives any right to make a charge in addition thereto for any exchange or transfer of bonds of the Thirty-fifth Series.

After the delivery of this Twenty-ninth Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage and receipt of consideration therefor by the Company, there shall be an initial issue of bonds of the Thirty-fifth Series for the aggregate principal amount of $18,000,000.

ARTICLE II

Thirty-sixth Series of Bonds

SECTION 1. There shall be a series of bonds designated "7.70% Series due January 15, 2016" (herein sometimes referred to as the "Thirty-sixth Series"), each of which shall also bear the descriptive title "First Mortgage Bond", and the form thereof, which shall be established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Thirty-sixth Series shall be dated as in Section 10 of the Mortgage provided, mature on January 15, 2016, be issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, in any multiple or multiples of One Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and bear interest from December 15, 2008 (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 7.70% per annum, payable semi-annually on January 15 and July 15 of each year, commencing July 15, 2009, the principal of and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

(I) **Optional Prepayment.** The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the bonds of the Thirty-sixth Series at 100% of the principal amount so prepaid, and the Make-Whole Amount determined for the Settlement Date specified by the Company in such notice with respect to such principal amount. The Company will give each registered owner of Bonds of the Thirty-sixth Series written notice (by first class mail or such other method as may be agreed upon by the Company and such registered owner) of each optional prepayment under this subsection (I) mailed or otherwise given not less than 30 days and not more than 60 days prior to the date fixed for such prepayment, to each such registered owner at his, her or its last address appearing on the registry books. Each such notice shall specify the Settlement Date (which shall be a Business Day), the aggregate principal amount of the bonds of the Thirty-sixth Series to be prepaid on such date, the principal amount of each bond held by such registered owner to be prepaid (determined in accordance with subsection (II) of this section), and the interest to be paid on the Settlement Date with respect to such principal amount being prepaid, and shall be accompanied by a certificate signed by a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such Settlement Date, the Company shall send to each registered owner of bonds of the Thirty-sixth Series (by first class mail or by such other method as may be agreed upon by the Company and such registered owner) a certificate signed by a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified Settlement Date. As promptly as practicable after the giving of the notice and the sending of the certificates provided in this subsection, the Company shall provide a copy of each to the Corporate Trustee. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice or certificate. The bonds of the Thirty-sixth Series are not otherwise subject to voluntary or optional prepayment.

(II) **Allocation of Partial Prepayments.** In the case of each partial prepayment of the bonds of the Thirty-sixth Series, the principal amount of the Bonds of the Thirty-sixth Series to be prepaid shall be allocated by the Company among all of the Bonds of the Thirty-sixth Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

(III) **Maturity; Surrender, Etc.** In the case of each notice of prepayment of bonds of the Thirty-sixth Series pursuant to this section, if cash sufficient to pay the principal amount to be prepaid on the Settlement Date (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any, is not paid as agreed upon by the Company and each registered owner of the affected bonds, or, to the extent that there is no such agreement entered into with one or more such owners, deposited with the Corporate Trustee on or before the Settlement Date, then such notice of prepayment shall be of no effect. If such cash is so paid or deposited, such principal amount of the bonds of the Thirty-sixth Series shall be deemed paid for all purposes and interest on such principal amount shall cease to accrue. In case the Company pays any registered owner pursuant to an agreement with that registered owner, the Company shall notify the Corporate Trustee as promptly as practicable of such agreement and payment, and shall furnish the Corporate Trustee with a copy of such agreement; in case the Company deposits any cash with the Corporate Trustee, the Company shall provide therewith a list of the registered owners and the amount of such cash each registered owner is to receive. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice, list or agreement, and shall not be chargeable with knowledge of any of the contents of any such agreement. Any bond prepaid in full shall be surrendered to the Company or the Corporate Trustee for cancellation on or before the Settlement Date or, with respect to cash deposited with the Corporate Trustee, before payment of such cash by the Corporate Trustee; any bond prepaid in part shall be surrendered to the Company or the Corporate Trustee on or before the Settlement Date (unless otherwise agreed between the Company and the registered owner) or, with respect to cash deposited with the Corporate Trustee before payment of such cash by the Corporate Trustee, for a substitute bond in the principal amount remaining unpaid.

(IV) **Make-Whole Amount.**

"Make-Whole Amount" means, with respect to any bond of the Thirty-sixth Series, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such bond of the Thirty-sixth Series over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Business Day" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"Called Principal" means, with respect to any bond of the Thirty-sixth Series, the principal of such bond that is to be prepaid pursuant to subsection (I) of this section.

"Discounted Value" means, with respect to the Called Principal of any bond of the Thirty-sixth Series, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the bonds of the Thirty-sixth Series is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any bond of the Thirty-sixth Series, 0.5% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" on the Bloomberg Financial Markets Service (or such other display on the Bloomberg Financial Markets Service having the same information as PX1 if PX1 is replaced by the Bloomberg Financial Markets Service) for the most recently issued actively traded on-the-run benchmark U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable bond of the Thirty-sixth Series.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Bond of the Thirty-sixth Series, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date

on which interest payments are due to be made under the terms of the Bonds of the Thirty-sixth Series, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to subsection (I) of this section.

"Settlement Date" means, with respect to the Called Principal of any Bond of the Thirty-sixth Series, the date on which such Called Principal is to be prepaid pursuant to subsection (I) of this section.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

(V) At the option of the registered owner, any bonds of the Thirty-sixth Series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, together with a written instrument of transfer wherever required by the Company duly executed by the registered owner or by his duly authorized attorney, shall (subject to the provisions of Section 12 of the Mortgage) be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations.

Bonds of the Thirty-sixth Series shall be transferable (subject to the provisions of Section 12 of the Mortgage) at the office or agency of the Company in the Borough of Manhattan, The City of New York. The Company shall not be required to make transfers or exchanges of bonds of the Thirty-sixth Series for a period of ten (10) days next preceding any designation of bonds of said series to be prepaid, and the Company shall not be required to make transfers or exchanges of any bonds of said series designated in whole or in part for prepayment.

Upon any exchange or transfer of bonds of the Thirty-sixth Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Mortgage, but the Company hereby waives any right to make a charge in addition thereto for any exchange or transfer of bonds of the Thirty-sixth Series.

After the delivery of this Twenty-ninth Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage and receipt of consideration therefor by the Company, there shall be an initial issue of bonds of the Thirty-sixth Series for the aggregate principal amount of $20,000,000.

ARTICLE III
Reservation of Right to Amend the Mortgage

SECTION 1. The Company reserves the right, without any vote, consent or other action by the holders of Bonds of the Thirty-fifth Series, the Thirty-sixth Series or any subsequent series, to amend the Mortgage, as herein or heretofore supplemented as follows:

(A) By deleting from Section 35(a) the phrase "having its principal office and place of business in the Borough of Manhattan, The City of New York" and the word "such" at the location in said Section 35(a) at which such word first appears.

(B) By adding the following at the end of the first sentence of Section 101:

> "; provided however, that if all of the bonds at that time Outstanding are registered as to principal and interest or as to principal only, such notice shall be sufficiently given if mailed, postage prepaid to each such registered owner of bonds at his/her last address appearing on the registry books, on or before the date of on which the first publication of such notice would otherwise have been required."

ARTICLE IV
Miscellaneous Provisions

SECTION 1. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words "and January 15, 2014 and January 15, 2016" after the words "and May 1, 2023."

SECTION 2. Subject to the amendments provided for in this Twenty-ninth Supplemental Indenture, the terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Twenty-ninth Supplemental Indenture, have the meanings specified in the Mortgage, as heretofore supplemented.

SECTION 3. The holders of bonds of the Thirty-fifth Series and the Thirty-sixth Series consent that the Company may, but shall not be obligated to, fix a record date for the purpose of determining the holders of bonds of the Thirty-fifth Series and the Thirty-sixth Series entitled to consent to any amendment, supplement or waiver. If a record date is fixed, those persons who were holders at such record date (or their duly designated proxies), and only those persons, shall be entitled to consent to such amendment, supplement or waiver or to revoke any consent previously given, whether or not such persons continue to be holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

SECTION 4. The Trustees hereby accept the trusts herein declared, provided, created or supplemented and agree to perform the same upon the terms and conditions herein and in the Mortgage set forth and upon the following terms and conditions:

The Trustees shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Twenty-ninth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVII of the Mortgage shall apply to and form part of this Twenty-ninth Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Twenty-ninth Supplemental Indenture.

SECTION 5. Whenever in this Twenty-ninth Supplemental Indenture any party hereto is named or referred to, this shall, subject to the provisions of Articles XVI and XVII of the Mortgage, as heretofore supplemented, be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Twenty-ninth Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustees shall, subject as aforesaid, bind and inure to the benefit of the respective successors and assigns of such party whether so expressed or not.

SECTION 6. Nothing in this Twenty-ninth Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds and coupons Outstanding under the Mortgage, any right, remedy, or claim under or by reason of this Twenty-ninth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Twenty-ninth Supplemental Indenture contained by and on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

SECTION 7. This Twenty-ninth Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 8. The Company, the mortgagor named herein, by its execution hereof acknowledges receipt of a full, true and complete copy of this Twenty-ninth Supplemental Indenture.

IN WITNESS WHEREOF, ALLETE, Inc. has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President, one of its Vice Presidents, or its Treasurer, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, all in the City of Duluth, Minnesota, and The Bank of New York Mellon has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by one of its Vice Presidents or one of its Assistant Vice Presidents and its corporate seal to be attested by one of its Assistant Treasurers, one of its Vice Presidents or one of its Assistant Vice Presidents, and Douglas J. MacInnes has hereunto set his hand and affixed his seal, all in The City of New York, as of the day and year first above written.

ALLETE, Inc.

By /s/ Mark Schober
Mark Schober
Senior VP & CFO

Attest:

/s/ Deborah A. Amberg
Deborah A. Amberg
Sr. VP, General Counsel, & Secretary

Executed, sealed and delivered by ALLETE, Inc.
in the presence of:

/s/ Dawn LaPointe

/s/ Jodi Nash

Trustees' Signature Page Follows

THE BANK OF NEW YORK MELLON,
as Trustee

By /s/ Mary Miselis
Mary Miselis
Vice President

Attest:

/s/ Rafael E. Miranda
Rafael E. Miranda
Vice President

/s/ Douglas J. MacInnes L.S.
DOUGLAS J. MACINNES

Executed, sealed and delivered by THE BANK OF NEW YORK MELLON and DOUGLAS J. MACINNES in the presence of:

/s/ James Briggs

/s/ Lindsey Widdis

Twenty-ninth Supplemental Indenture dated as of November 1, 2008
To Mortgage and Deed of Trust dated as of September 1, 1945

Trustees' Signature Page

STATE OF MINNESOTA)
) ss.:
COUNTY OF ST. LOUIS)

On this 4th day of December, 2008, before me, a Notary Public within and for said County, personally appeared Mark Schober and Deborah A. Amberg, to me personally known, who, being each by me duly sworn, did say that they are respectively the Senior Vice President and CFO and the Senior Vice President, General Counsel, and Secretary of ALLETE, Inc., the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said Mark Schober and Deborah A. Amberg acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 4th day of December, 2008, Mark Schober, to me known to be the Senior Vice President and CFO, and Deborah A. Amberg, to me known to be the Senior Vice President, General Counsel, and Secretary, of the above named ALLETE, Inc., the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are respectively the Senior Vice President and CFO and the Senior Vice President, General Counsel, and Secretary of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors and stockholders, and said Mark Schober and Deborah A. Amberg then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 4th day of December, 2008, before me personally came Mark Schober and Deborah A. Amberg, to me known, who, being by me duly sworn, did depose and say that they respectively reside at 202 W. Owatonna Street, Duluth, Minnesota, and 2738 Northridge Drive, Duluth, Minnesota; that they are respectively the Senior Vice President and CFO and the Senior Vice President, General Counsel, and Secretary of ALLETE, Inc., one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

GIVEN under my hand and notarial seal this 4th day of December, 2008.

/s/ Jodi Nash

Notary Public

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

On this 9 day of December, 2008, before me, a Notary Public within and for said County, personally appeared Mary Miselis and Rafael E. Miranda, to me personally known, who, being each by me duly sworn, did say that they are respectively a Vice President and a Vice President of THE BANK OF NEW YORK MELLON, the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said Vice President and Vice President acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 9 day of December, 2008, Rafael E. Miranda, to me known to be a Vice President, and Mary Miselis, known to me to be a Vice President, of the above named THE BANK OF NEW YORK MELLON, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are respectively a Vice President and an Officer of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said Rafael E. Miranda and Mary Miselis then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 9 day of December, 2008, before me personally came Rafael E. Miranda and Mary Miselis, to me known, who, being by me duly sworn, did depose and say that they each reside at 101 Barclay Street, 8W, New York, New York 10286; that they are respectively a Vice President and an Officer of THE BANK OF NEW YORK MELLON, one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

GIVEN under my hand and notarial seal this 9 day of December, 2008.

/s/ Carlos R. Luciano

Notary Public, State of New York

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

On this 9 day of December, 2008, before me personally appeared DOUGLAS J. MACINNES, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

Personally came before me this 9 day of December, 2008, the above named DOUGLAS J. MACINNES, to me known to be the person who executed the foregoing instrument, and acknowledged the same.

On the 9 day of December, 2008, before me personally came DOUGLAS J. MACINNES, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same.

GIVEN under my hand and notarial seal this 9 day of December, 2008.

/s/ Carlos R. Luciano
Notary Public, State of New York

ALLETE, Inc.

(formerly Minnesota Power & Light Company
and formerly Minnesota Power, Inc.)
TO

THE BANK OF NEW YORK MELLON

(formerly The Bank of New York)
(formerly Irving Trust Company)

AND

DOUGLAS J. MacINNES

(successor to Richard H. West, J. A. Austin,
E. J. McCabe, D. W. May, J. A. Vaughan and W. T. Cunningham)

As Trustees under ALLETE, Inc.'s Mortgage and Deed of Trust dated as of September 1, 1945

Thirtieth Supplemental Indenture
Providing, among other things, for
First Mortgage Bonds, 8.17% Series due January 15, 2019
(Thirty-seventh Series)

Dated as of January 1, 2009

THIRTIETH SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of January 1, 2009, by and between ALLETE, Inc. (formerly Minnesota Power & Light Company and formerly Minnesota Power, Inc.), a corporation of the State of Minnesota, whose post office address is 30 West Superior Street, Duluth, Minnesota 55802 (hereinafter sometimes called the "Company"), and THE BANK OF NEW YORK MELLON (formerly The Bank of New York (formerly Irving Trust Company)), a corporation of the State of New York, whose post office address is 101 Barclay Street, New York, New York 10286 (hereinafter sometimes called the "Corporate Trustee"), and DOUGLAS J. MACINNES (successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May, J. A. Vaughan and W. T. Cunningham), whose post office address is 1784 W. McGalliard Avenue, Hamilton, New Jersey 08610 (said Douglas J. MacInnes being hereinafter sometimes called the "Co-Trustee" and the Corporate Trustee and the Co-Trustee being hereinafter together sometimes called the "Trustees"), as Trustees under the Mortgage and Deed of Trust, dated as of September 1, 1945, between the Company and Irving Trust Company and Richard H. West (Douglas J. MacInnes, successor Co-Trustee), as Trustees, securing bonds issued and to be issued as provided therein (hereinafter sometimes called the "Mortgage"), reference to which Mortgage is hereby made, this indenture (hereinafter sometimes called the "Thirtieth Supplemental Indenture") being supplemental thereto:

WHEREAS, the Mortgage was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of October 16, 1957, was executed and delivered under which J. A. Austin succeeded Richard H. West as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of April 4, 1967, was executed and delivered under which E. J. McCabe in turn succeeded J. A. Austin as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, under the Sixth Supplemental Indenture, dated as of August 1, 1975, to which reference is hereinafter made, D. W. May in turn succeeded E. J. McCabe as Co-Trustee under the Mortgage; and

WHEREAS, an instrument, dated as of June 25, 1984, was executed and delivered under which J. A. Vaughan in turn succeeded D. W. May as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of July 27, 1988, was executed and delivered under which W. T. Cunningham in turn succeeded J. A. Vaughan as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, on May 12, 1998, the Company filed Amended and Restated Articles of Incorporation with the Secretary of State of the State of Minnesota changing its name from Minnesota Power & Light Company to Minnesota Power, Inc. effective May 27, 1998; and

WHEREAS, an instrument, dated as of April 15, 1999, was executed and delivered under which Douglas J. MacInnes in turn succeeded W. T. Cunningham as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, on May 8, 2001, the Company filed Amended and Restated Articles of Incorporation with the Secretary of State of the State of Minnesota changing its name from Minnesota Power, Inc. to ALLETE, Inc.; and

WHEREAS, by the Mortgage the Company covenanted, among other things, that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Mortgage and to make subject to the lien of the Mortgage any property thereafter acquired and intended to be subject to the lien thereof; and

WHEREAS, for said purposes, among others, the Company executed and delivered the following indentures supplemental to the Mortgage:

Designation	Dated as of
First Supplemental Indenture	March 1, 1949
Second Supplemental Indenture	July 1, 1951
Third Supplemental Indenture	March 1, 1957
Fourth Supplemental Indenture	January 1, 1968
Fifth Supplemental Indenture	April 1, 1971
Sixth Supplemental Indenture	August 1, 1975
Seventh Supplemental Indenture	September 1, 1976
Eighth Supplemental Indenture	September 1, 1977
Ninth Supplemental Indenture	April 1, 1978
Tenth Supplemental Indenture	August 1, 1978
Eleventh Supplemental Indenture	December 1, 1982
Twelfth Supplemental Indenture	April 1, 1987
Thirteenth Supplemental Indenture	March 1, 1992
Fourteenth Supplemental Indenture	June 1, 1992
Fifteenth Supplemental Indenture	July 1, 1992
Sixteenth Supplemental Indenture	July 1, 1992
Seventeenth Supplemental Indenture	February 1, 1993
Eighteenth Supplemental Indenture	July 1, 1993
Nineteenth Supplemental Indenture	February 1, 1997
Twentieth Supplemental Indenture	November 1, 1997
Twenty-first Supplemental Indenture	October 1, 2000
Twenty-second Supplemental Indenture	July 1, 2003
Twenty-third Supplemental Indenture	August 1, 2004
Twenty-fourth Supplemental Indenture	March 1, 2005
Twenty-fifth Supplemental Indenture	December 1, 2005
Twenty-sixth Supplemental Indenture	October 1, 2006
Twenty-seventh Supplemental Indenture	February 1, 2008
Twenty-eighth Supplemental Indenture	May 1, 2008
Twenty-ninth Supplemental Indenture	November 1, 2008

which supplemental indentures were filed and recorded in various official records in the State of Minnesota; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, as heretofore supplemented, the following series of First Mortgage Bonds:

Series	Principal Amount Issued	Principal Amount Outstanding
3-1/8% Series due 1975	$26,000,000	None
3-1/8% Series due 1979	4,000,000	None
3-5/8% Series due 1981	10,000,000	None
4-3/4% Series due 1987	12,000,000	None
6-1/2% Series due 1998	18,000,000	None
8-1/8% Series due 2001	23,000,000	None
10-1/2% Series due 2005	35,000,000	None
8.70% Series due 2006	35,000,000	None
8.35% Series due 2007	50,000,000	None
9-1/4% Series due 2008	50,000,000	None
Pollution Control Series A	111,000,000	None
Industrial Development Series A	2,500,000	None

Industrial Development Series B	1,800,000	None
Industrial Development Series C	1,150,000	None
Pollution Control Series B	13,500,000	None
Pollution Control Series C	2,000,000	None
Pollution Control Series D	3,600,000	None
7-3/4% Series due 1994	55,000,000	None
7-3/8% Series due March 1, 1997	60,000,000	None
7-3/4% Series due June 1, 2007	55,000,000	None
7-1/2% Series due August 1, 2007	35,000,000	None
Pollution Control Series E	111,000,000	None
7% Series due March 1, 2008	50,000,000	None
6-1/4% Series due July 1, 2003	25,000,000	None
7% Series due February 15, 2007	60,000,000	None
6.68% Series due November 15, 2007	20,000,000	None
Floating Rate Series due October 20, 2003	250,000,000	None
Collateral Series A	255,000,000	None
Pollution Control Series F	111,000,000	111,000,000
5.28% Series due August 1, 2020	35,000,000	35,000,000
5.69% Series due March 1, 2036	50,000,000	50,000,000
5.99% Series due February 1, 2027	60,000,000	60,000,000
4.86% Series due April 1, 2013	60,000,000	60,000,000
6.02% Series due May 1, 2023	75,000,000	75,000,000
6.94% Series due January 15, 2014	18,000,000	18,000,000
7.70% Series due January 15, 2016	20,000,000	20,000,000

which bonds are also hereinafter sometimes called bonds of the First through Thirty-sixth Series, respectively; and

WHEREAS, Section 8 of the Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder and of coupons to be attached to coupon bonds of such series shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such bonds are to be issued and/or secured under the Mortgage; and

WHEREAS, Section 120 of the Mortgage provides, among other things, that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Mortgage, whether such power, privilege or right is in any way restricted or is unrestricted, may (to the extent permitted by law) be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may cure any ambiguity contained therein, or in any supplemental indenture, or may establish the terms and provisions of any series of bonds (other than said First Series) by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS, the Company now desires to create a new series of bonds and (pursuant to the provisions of Section 120 of the Mortgage) to add to its covenants and agreements contained in the Mortgage, as heretofore supplemented, certain other covenants and agreements to be observed by it and to alter and amend in certain respects the covenants and provisions contained in the Mortgage, as heretofore supplemented; and

WHEREAS, the execution and delivery by the Company of this Thirtieth Supplemental Indenture, and the terms of the bonds of the Thirty-seventh Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That the Company, in consideration of the premises and of One Dollar to it duly paid by the Trustees at or before the ensealing and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustees and in order further to secure the payment of both the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, as heretofore supplemented, according to their tenor and effect and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances) unto THE BANK OF NEW YORK MELLON and DOUGLAS J. MACINNES, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all property, real, personal and mixed, of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind or nature acquired by the Company after the date of the execution and delivery of the Mortgage, as heretofore supplemented (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or, subject to the provisions of subsection (I) of Section 87 of the Mortgage, hereafter acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Thirtieth Supplemental Indenture) all lands, power sites, flowage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants for the generation of electricity by steam, water and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water works, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, electric, gas and other machines, regulators, meters, transformers, generators, motors, electrical, gas and mechanical appliances, conduits, cables, water, steam heat, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture and chattels; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of electric current, gas, steam heat or water for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

TOGETHER WITH all and singular the tenements, hereditaments, prescriptions, servitudes and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

IT IS HEREBY AGREED by the Company that, subject to the provisions of subsection (I) of Section 87 of the Mortgage, all the property, rights, and franchises acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) after the date hereof, except any herein or in the Mortgage, as heretofore supplemented, expressly excepted, shall be and are as fully granted and conveyed hereby and by the Mortgage and as fully embraced within the lien hereof and the lien of the Mortgage as if such property, rights and franchises were now owned by the Company and were specifically described herein or in the Mortgage and conveyed hereby or thereby.

PROVIDED that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, hypothecated, affected, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this Thirtieth Supplemental Indenture and from the lien and operation of the Mortgage, namely: (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the Mortgage or covenanted so to be; (2) merchandise, equipment, apparatus, materials or supplies held for the purpose of sale or other disposition in the usual course of business; fuel, oil and similar materials and supplies consumable in the operation of any of the properties of the Company; all aircraft, rolling stock, trolley coaches, buses, motor coaches, automobiles and other vehicles and materials and supplies held for the purpose of repairing or replacing (in whole or part) any of the same; all timber, minerals, mineral rights and royalties; (3) bills, notes and accounts receivable, judgments, demands and choses in action, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the Company's contractual rights or other interest in or with respect to tires not owned by the Company; (4) the last day of the term of any lease or leasehold which may hereafter become subject to the lien of the Mortgage; (5) electric energy, gas, steam, ice, and other materials or products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; and (6) the Company's franchise to be a corporation; provided, however, that the property and rights expressly excepted from the lien and operation of this Thirtieth Supplemental Indenture and from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that either or both of the Trustees or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 thereof.

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto the Trustees and their successors and assigns forever.

IN TRUST NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as supplemented, this Thirtieth Supplemental Indenture being supplemental thereto.

AND IT IS HEREBY COVENANTED by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and Trustees and the beneficiaries of the trust with respect to said property, and to the Trustees and their successors in the trust in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to said Trustees by the Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustees and their successors in said trust under the Mortgage as follows:

ARTICLE I
Thirty-seventh Series of Bonds

SECTION 1. There shall be a series of bonds designated "8.17% Series due January 15, 2019" (herein sometimes referred to as the "Thirty-seventh Series"), each of which shall also bear the descriptive title "First Mortgage Bond", and the form thereof, which shall be established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Thirty-seventh Series shall be dated as in Section 10 of the Mortgage provided, mature on January 15, 2019, be issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, in any multiple or multiples of One Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and bear interest from January 15, 2009 (computed on the basis of a 360-day year of twelve thirty-day months) at the rate of 8.17% per annum, payable semi-annually on January 15 and July 15 of each year, commencing July 15, 2009, the principal of and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

(I) **Optional Prepayment.** The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the bonds of the Thirty-seventh Series at 100% of the principal amount so prepaid, and the Make-Whole Amount determined for the Settlement Date specified by the Company in such notice with respect to such principal amount. The Company will give each registered owner of Bonds of the Thirty-seventh Series written notice (by first class mail or such other method as may be agreed upon by the Company and such registered owner) of each optional prepayment under this subsection (I) mailed or otherwise given not less than 30 days and not more than 60 days prior to the date fixed for such prepayment, to each such registered owner at his, her or its last address appearing on the registry books. Each such notice shall specify the Settlement Date (which shall be a Business Day), the aggregate principal amount of the bonds of the Thirty-seventh Series to be prepaid on such date, the principal amount of each bond held by such registered owner to be prepaid (determined in accordance with subsection (II) of this section), and the interest to be paid on the Settlement Date with respect to such principal amount being prepaid, and shall be accompanied by a certificate signed by a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such Settlement Date, the Company shall send to each registered owner of bonds of the Thirty-seventh Series (by first class mail or by such other method as may be agreed upon by the Company and such registered owner) a certificate signed by a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified Settlement Date. As promptly as practicable after the giving of the notice and the sending of the certificates provided in this subsection, the Company shall provide a copy of each to the Corporate Trustee. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice or certificate. The bonds of the Thirty-seventh Series are not otherwise subject to voluntary or optional prepayment.

(II) **Allocation of Partial Prepayments.** In the case of each partial prepayment of the bonds of the Thirty-seventh Series, the principal amount of the Bonds of the Thirty-seventh Series to be prepaid shall be allocated by the Company among all of the Bonds of the Thirty-seventh Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

(III) **Maturity; Surrender, Etc.** In the case of each notice of prepayment of bonds of the Thirty-seventh Series pursuant to this section, if cash sufficient to pay the principal amount to be prepaid on the Settlement Date (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any, is not paid as agreed upon by the Company and each registered owner of the affected bonds, or, to the extent that there is no such agreement entered into with one or more such owners, deposited with the Corporate Trustee on or before the Settlement Date, then such notice of prepayment shall be of no effect. If such cash is so paid or deposited, such principal amount of the bonds of the Thirty-seventh Series shall be deemed paid for all purposes and interest on such principal amount shall cease to accrue. In case the Company pays any registered owner pursuant to an agreement with that registered owner, the Company shall notify the Corporate Trustee as promptly as practicable of such agreement and payment, and shall furnish the Corporate Trustee with a copy of such agreement; in case the Company deposits any cash with the Corporate Trustee, the Company shall provide therewith a list of the registered owners and the amount of such cash each registered owner is to receive. The Trustees shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the information set forth in any such notice, list or agreement, and shall not be chargeable with knowledge of any of the contents of any such agreement. Any bond prepaid in full shall be surrendered to the Company or the Corporate Trustee for cancellation on or before the Settlement Date or, with respect to cash deposited with the Corporate Trustee, before payment of such cash by the Corporate Trustee; any bond prepaid in part shall be surrendered to the Company or the Corporate Trustee on or before the Settlement Date (unless otherwise agreed between the Company and the registered owner) or, with respect to cash deposited with the Corporate Trustee before payment of such cash by the Corporate Trustee, for a substitute bond in the principal amount remaining unpaid.

(IV) **Make-Whole Amount.**

"Make-Whole Amount" means, with respect to any bond of the Thirty-seventh Series, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such bond of the Thirty-seventh Series over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Business Day" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"Called Principal" means, with respect to any bond of the Thirty-seventh Series, the principal of such bond that is to be prepaid pursuant to subsection (I) of this section.

"Discounted Value" means, with respect to the Called Principal of any bond of the Thirty-seventh Series, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the bonds of the Thirty-seventh Series is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any bond of the Thirty-seventh Series, 0.5% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" on the Bloomberg Financial Markets Service (or such other display on the Bloomberg Financial Markets Service having the same information as PX1 if PX1 is replaced by the Bloomberg Financial Markets Service) for the most recently issued actively traded on-the-run benchmark U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the most recently issued, actively traded on-the-run benchmark U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable bond of the Thirty-seventh Series.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Bond of the Thirty-seventh Series, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Bonds of the Thirty-seventh Series, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to subsection (I) of this section.

"Settlement Date" means, with respect to the Called Principal of any Bond of the Thirty-seventh Series, the date on which such Called Principal is to be prepaid pursuant to subsection (I) of this section.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

(V) At the option of the registered owner, any bonds of the Thirty-seventh Series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, together with a written instrument of transfer wherever required by the Company duly executed by the registered owner or by his duly authorized attorney, shall (subject to the provisions of Section 12 of the Mortgage) be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations.

Bonds of the Thirty-seventh Series shall be transferable (subject to the provisions of Section 12 of the Mortgage) at the office or agency of the Company in the Borough of Manhattan, The City of New York. The Company shall not be required to make transfers or exchanges of bonds of the Thirty-seventh Series for a period of ten (10) days next preceding any designation of bonds of said series to be prepaid, and the Company shall not be required to make transfers or exchanges of any bonds of said series designated in whole or in part for prepayment.

Upon any exchange or transfer of bonds of the Thirty-seventh Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Mortgage, but the Company hereby waives any right to make a charge in addition thereto for any exchange or transfer of bonds of the Thirty-seventh Series.

After the delivery of this Thirtieth Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage and receipt of consideration therefor by the Company, there shall be an initial issue of bonds of the Thirty-seventh Series for the aggregate principal amount of $42,000,000.

ARTICLE II
Reservation of Right to Amend the Mortgage

SECTION 1. The Company reserves the right, without any vote, consent or other action by the holders of Bonds of the Thirty-seventh Series or any subsequent series, to amend the Mortgage, as herein or heretofore supplemented as follows:

(A) By deleting from Section 35(a) the phrase “having its principal office and place of business in the Borough of Manhattan, The City of New York” and the word “such” at the location in said Section 35(a) at which such word first appears.

(B) By adding the following at the end of the first sentence of Section 101:

> “; provided however, that if all of the bonds at that time Outstanding are registered as to principal and interest or as to principal only, such notice shall be sufficiently given if mailed, postage prepaid to each such registered owner of bonds at his/her last address appearing on the registry books, on or before the date of on which the first publication of such notice would otherwise have been required.”

ARTICLE III
Miscellaneous Provisions

SECTION 1. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words “and January 15, 2019 after the words “and January 15, 2014 and January 15, 2016.”

SECTION 2. Subject to the amendments provided for in this Thirtieth Supplemental Indenture, the terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Thirtieth Supplemental Indenture, have the meanings specified in the Mortgage, as heretofore supplemented.

SECTION 3. The holders of bonds of the Thirty-seventh Series consent that the Company may, but shall not be obligated to, fix a record date for the purpose of determining the holders of bonds of the Thirty-seventh Series entitled to consent to any amendment, supplement or waiver. If a record date is fixed, those persons who were holders at such record date (or their duly designated proxies), and only those persons, shall be entitled to consent to such amendment, supplement or waiver or to revoke any consent previously given, whether or not such persons continue to be holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

SECTION 4. The Trustees hereby accept the trusts herein declared, provided, created or supplemented and agree to perform the same upon the terms and conditions herein and in the Mortgage set forth and upon the following terms and conditions:

The Trustees shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Thirtieth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVII of the Mortgage shall apply to and form part of this Thirtieth Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Thirtieth Supplemental Indenture.

SECTION 5. Whenever in this Thirtieth Supplemental Indenture any party hereto is named or referred to, this shall, subject to the provisions of Articles XVI and XVII of the Mortgage, as heretofore supplemented, be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Thirtieth Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustees shall, subject as aforesaid, bind and inure to the benefit of the respective successors and assigns of such party whether so expressed or not.

SECTION 6. Nothing in this Thirtieth Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds and coupons Outstanding under the Mortgage, any right, remedy, or claim under or by reason of this Thirtieth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Thirtieth Supplemental Indenture contained by and on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

SECTION 7. This Thirtieth Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 8. The Company, the mortgagor named herein, by its execution hereof acknowledges receipt of a full, true and complete copy of this Thirtieth Supplemental Indenture.

IN WITNESS WHEREOF, ALLETE, Inc. has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President, one of its Vice Presidents, or its Treasurer, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, all in the City of Duluth, Minnesota, and The Bank of New York Mellon has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by one of its Vice Presidents or one of its Assistant Vice Presidents and its corporate seal to be attested by one of its Assistant Treasurers, one of its Vice Presidents or one of its Assistant Vice Presidents, and Douglas J. MacInnes has hereunto set his hand and affixed his seal, all in The City of New York, as of the day and year first above written.

ALLETE, Inc.

By /s/ Mark Schober
Mark Schober
Senior Vice President and
Chief Financial Officer

Attest:

/s/ Deborah A. Amberg
Deborah A. Amberg
Senior Vice President, General Counsel
and Secretary

Executed, sealed and delivered by ALLETE, Inc.
in the presence of:

/s/ Dawn LaPointe

/s/ Jodi Nash

Trustees' Signature Page Follows

THE BANK OF NEW YORK MELLON,
as Trustee

By /s/ Mary Miselis
Mary Miselis
Vice President

Attest:

/s/ Geovanni Barris
Geovanni Barris
Vice President

/s/ Douglas J. Macinnes L.S.
DOUGLAS J. MACINNES

Executed, sealed and delivered by THE BANK OF NEW YORK MELLON and DOUGLAS J. MACINNES in the presence of:

/s/ Scott Klein

/s/ Kimberly Davidson

Thirtieth Supplemental Indenture dated as of January 1, 2009
To Mortgage and Deed of Trust dated as of September 1, 1945

Trustees' Signature Page

STATE OF MINNESOTA)
) ss.:
COUNTY OF ST. LOUIS)

On this 6th day of January, 2009, before me, a Notary Public within and for said County, personally appeared Mark Schober and Deborah A. Amberg, to me personally known, who, being each by me duly sworn, did say that they are respectively the Senior Vice President and Chief Financial Officer and the Senior Vice President, General Counsel and Secretary of ALLETE, Inc., the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said Mark Schober and Deborah A. Amberg acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 6th day of January, 2009, Mark Schober, to me known to be the Senior Vice President and Chief Financial Officer, and Deborah A. Amberg, to me known to be the Senior Vice President, General Counsel and Secretary, of the above named ALLETE, Inc., the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are respectively the Senior Vice President and Chief Financial Officer and the Senior Vice President, General Counsel and Secretary of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors and stockholders, and said Mark Schober and Deborah A. Amberg then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 6th day of January, 2009, before me personally came Mark Schober and Deborah A. Amberg, to me known, who, being by me duly sworn, did depose and say that they respectively reside at 202 W. Owatonna Street, Duluth, Minnesota, and 2738 Northridge Drive, Duluth, Minnesota; that they are respectively the Senior Vice President and Chief Financial Officer and the Senior Vice President, General Counsel and Secretary of ALLETE, Inc., one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

GIVEN under my hand and notarial seal this 6th day of January, 2009.

/s/ Jodi Nash
Notary Public

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

On this 7th day of January, 2009, before me, a Notary Public within and for said County, personally appeared Mary Miselis and Rafael E. Miranda, to me personally known, who, being each by me duly sworn, did say that they are each a Vice President of THE BANK OF NEW YORK MELLON, the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said Mary Miselis and Rafael E. Miranda acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 7th day of January, 2009, Mary Miselis, to me known to be a Vice President, and Rafael E. Miranda, known to me to be a Vice President, of the above named THE BANK OF NEW YORK MELLON, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are each a Vice President of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said Mary Miselis and Rafael E. Miranda then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 7th day of January, 2009, before me personally came Mary Miselis and Rafael E. Miranda, to me known, who, being by me duly sworn, did depose and say that they each reside at 101 Barclay Street, 8W, New York, New York 10286; that they are each a Vice President of THE BANK OF NEW YORK MELLON, one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

GIVEN under my hand and notarial seal this 7th day of January, 2009.

/s/

Carlos R. Luciano

< /font> Notary Public, State of New York

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

On this 7th day of January, 2009, before me personally appeared DOUGLAS J. MACINNES, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

Personally came before me this 7th day of January, 2009, the above named DOUGLAS J. MACINNES, to me known to be the person who executed the foregoing instrument, and acknowledged the same.

On the 7th day of January, 2009, before me personally came DOUGLAS J. MACINNES, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same.

GIVEN under my hand and notarial seal this 7th day of January, 2009.

/s/ Carlos R. Luciano

Notary Public, State of New York

SUPERIOR WATER, LIGHT AND POWER COMPANY
2915 Hill Avenue, Superior, WI 54880

To

U.S. BANK NATIONAL ASSOCIATION
(formerly First Bank (N.A.))

As Trustee Under Superior Water, Light
and Power Company's Mortgage and Deed of Trust,
Dated as of March 1, 1943

ELEVENTH SUPPLEMENTAL INDENTURE

Dated as of December 1, 2008

This instrument drafted by
Chapman and Cutler LLP
Chicago, IL

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ELEVENTH SUPPLEMENTAL INDENTURE

SUPPLEMENTAL INDENTURE, dated as of the 1st day of December, 2008, made and entered into by and between SUPERIOR WATER, LIGHT AND POWER COMPANY, a corporation of the State of Wisconsin, whose address is 2915 Hill Avenue, Superior, Wisconsin 54880 (the "*Company*") and U.S. BANK NATIONAL ASSOCIATION (successor to Chemical Bank, as Corporate Trustee, and Peter Morse, as Co-Trustee), a national banking association, whose principal trust office at the date hereof is in St. Paul, Minnesota (the "*Trustee*"), as Trustee under the Mortgage and Deed of Trust dated as of March 1, 1943 (hereinafter called the "*Mortgage*"), which Mortgage was executed and delivered by the Company to secure the payment of bonds issued or to be issued under and in accordance with the provisions of the Mortgage, reference to which Mortgage is hereby made, this Eleventh Supplemental Indenture (the "*Eleventh Supplemental Indenture*") being supplemental thereto;

WHEREAS, said Mortgage was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on May 3, 1943, in Volume 191 of Mortgages at page 1, Document No. 362844; and

WHEREAS, an instrument dated as of September 15, 1949, was executed by the Company appointing Russell H. Sherman as Co-Trustee in succession to said Howard B. Smith, resigned, under said Mortgage, and by Russell H. Sherman accepting the appointment as Co-Trustee under said Mortgage in succession to the said Howard B. Smith, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on October 8, 1949, in Volume 196 of Mortgages at page 510, Document No. 398649; and

WHEREAS, by the Mortgage, the Company covenanted that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectively the purposes of the Mortgage and to make subject to the lien of the Mortgage any property acquired after the date of the execution of the Mortgage and intended to be subject to the lien thereof; and

WHEREAS, the Company executed and delivered its First Supplemental Indenture, dated as of March 1, 1951 (hereinafter called its "*First Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 30, 1951, in Volume 205 of Mortgages at page 73, Document No. 405297; and

WHEREAS, an instrument dated as of May 16, 1961, was executed by the Company appointing Richard G. Pintard as Co-Trustee in succession to said Russell H. Sherman, resigned, under said Mortgage and by Richard G. Pintard accepting the appointment as Co-Trustee under said Mortgage in succession to said Russell H. Sherman, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on May 31, 1961, in Volume 256 of Mortgages at page 423, Document No. 453857; and

WHEREAS, the Company executed and delivered its Second Supplemental Indenture, dated as of March 1, 1962 (hereinafter called its "*Second Supplemental Indenture*"), which was

recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 26, 1962, in Volume 261 of Mortgages at page 81, Document No. 457662; and

WHEREAS, an instrument dated as of June 23, 1976, was executed by the Company appointing Steven F. Lasher as Co-Trustee in succession to said Richard G. Pintard, resigned, under said Mortgage and by Steven F. Lasher accepting the appointment as Co-Trustee under said Mortgage in succession to said Richard G. Pintard, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on July 16, 1976, in Volume 353 of Records at page 274, Document No. 532495; and

WHEREAS, the Company executed and delivered its Third Supplemental Indenture, dated as of July 1, 1976 (hereinafter called its "*Third Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on October 1, 1976, in Volume 355 of Records at page 683, Document No. 534332; and

WHEREAS, an instrument dated as of December 30, 1977, was executed by the Company appointing C. G. Martens as Co-Trustee in succession, to said Steven F. Lasher, resigned, under said Mortgage and by C. G. Martens accepting the appointment as Co-Trustee under said Mortgage in succession to said Steven F. Lasher, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on February 13, 1985, in Volume 436 of Records at page 264, Document No. 589308; and

WHEREAS, the Company executed and delivered its Fourth Supplemental Indenture, dated as of March 1, 1985 (hereinafter called its "*Fourth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 19, 1985, in Volume 436 of Records at page 910, Document No. 589776; and

WHEREAS, an instrument dated as of October 26, 1992, was executed by the Company appointing Peter Morse as Co-Trustee in succession to said C. G. Martens, resigned, under said Mortgage and by Peter Morse accepting the appointment as Co-Trustee under said Mortgage in succession to said C. G. Martens, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on November 13, 1992, in Volume 539 of Records at page 9, Document No. 649056; and

WHEREAS, the Company executed and delivered its Fifth Supplemental Indenture, dated as of December 1, 1992, (hereinafter called its "*Fifth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on December 28, 1992, in Volume 541 of Records at page 229, Document No. 650104; and

WHEREAS, the Company executed and delivered its Sixth Supplemental Indenture, dated as of March 24, 1994 (hereinafter called its "*Sixth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 29, 1994, in Volume 568 of Records at page 757, Document No. 662228; and

WHEREAS, the Company executed and delivered its Seventh Supplemental Indenture, dated as of November 1, 1994 (hereinafter called its "*Seventh Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on January 18, 1995, in Volume 583 of Records at page 242, Document No. 669350; and

WHEREAS, an instrument dated as of January 20, 1995, was executed by The Prudential Insurance Company pursuant to Section 102 of the Mortgage appointing First Bank (N.A.) as Trustee in succession to Chemical Bank as Corporate Trustee and Peter Morse as Co-Trustee under said Mortgage and by First Bank (N.A.) (U.S. Bank National Association, successor) accepting the appointment as Trustee under such Mortgage in succession to said Chemical Bank and said Peter Morse, which instrument was recorded in the Office of the Register of Deeds in and for Douglas County, Wisconsin on April 6, 1995 in Volume 585 of Records at page 953, Document No. 670717; and

WHEREAS, the Company executed and delivered its Eighth Supplemental Indenture, dated as of January 1, 1997 (hereinafter called its "*Eighth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on January 7, 1997, in Volume 617 of Records at page 536, Document No. 685699; and

WHEREAS, the Company executed and delivered its Ninth Supplemental Indenture, dated as of October 1, 2007 (hereinafter called its "*Ninth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on September 27, 2007, as Document No. 810920; and

WHEREAS, the Company executed and delivered its Tenth Supplemental Indenture, dated as of October 1, 2007 (hereinafter called its "*Tenth Supplemental Indenture*"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on September 27, 2007, as Document No. 810921; and;

WHEREAS, in addition to the property described in the Mortgage, as heretofore supplemented, the Company has acquired certain other property, rights and interests in property; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, bonds of a series entitled and designated First Mortgage Bonds, 3 3/8% Series due 1973 (the "*Bonds of the First Series*"), in the aggregate principal amount of Two Million Five Hundred Thousand Dollars ($2,500,000), none of which Bonds of the First Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 3 1/10% Series due 1981 (the "*Bonds of the Second Series*"), in the aggregate principal amount of Five Million Dollars ($5,000,000), none of which Bonds of the Second Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 5% Series due 1992 (the "*Bonds of the Third Series*"), in the aggregate principal amount of Two Million Seven Hundred Thousand Dollars ($2,700,000), none of which Bonds of the Third Series are now outstanding; bonds of a series entitled and designated First Mortgage Bonds, 9 5/8% Series due 2001 (the "*Bonds of the Fourth Series*"), the interest rate for which bonds was modified to 6.10% by the Sixth

Supplemental Indenture, in the aggregate principal amount of Three Million Dollars ($3,000,000), none of which bonds of the Fourth Series are now outstanding; bonds of a series entitled and designated First Mortgage Bonds, 12 1/2% Series due 1992 (the "*Bonds of the Fifth Series*"), in the aggregate principal amount of Three Million Five Hundred Thousand Dollars ($3,500,000), none of which Bonds of the Fifth Series are now outstanding; Bonds of a series entitled and designated First Mortgage Bonds, 7.91% Series due 2013 (the "*Bonds of the Sixth Series*"), in the aggregate principal amount of Five Million Dollars ($5,000,000) of which One Million Two Hundred Fifty Thousand Dollars ($1,250,000) aggregate principal amount is now outstanding; Bonds of a series entitled and designated First Mortgage Bonds, 7.27% Series due 2008 (the "*Bonds of the Seventh Series*"), in the aggregate principal amount of Six Million Dollars ($6,000,000), the full amount of which remains outstanding; Bonds of a series entitled and designated First Mortgage Bonds, 5.375% Series due 2021 (the "*Bonds of the Eighth Series*"), in the aggregate principal amount of Six Million Three Hundred Seventy Thousand Dollars ($6,370,000), the full amount of which remains outstanding; and Bonds of a series entitled and designated First Mortgage Bonds, 5.75% Series due November 1, 2037 (the "*Bonds of the Ninth Series*"), in the aggregate principal amount of Six Million One Hundred Thirty Thousand Dollars ($6,130,000), the full amount of which remains outstanding; and

WHEREAS, Section 8 of the Mortgage provides that the form of each series of bonds (other than Bonds of the First Series) issued thereunder shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein; and

WHEREAS, Section 120 of the Mortgage provides, among other things, that the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may establish the terms and provisions of any series of bonds other than said Bonds of the First Series, by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to be of record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS, the Company now desires to create a new series of bonds and to add to the covenants, limitations or restrictions contained in the Mortgage certain other covenants, limitations or restrictions to be observed by it and to amend the Mortgage; and

WHEREAS, the execution and delivery by the Company of this Eleventh Supplemental Indenture, and the terms of the Bonds of the Tenth Series hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

NOW, THEREFORE, THIS INDENTURE WITNESSETH: That Superior Water, Light and Power Company, in consideration of the premises and of One Dollar ($1) to it duly paid by the Trustee at or before the ensealing and delivery of these presents, the receipt whereof is

hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustee and in order further to secure the payment both of the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, according to their tenor and effect, and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances as defined in Section 6 of the Mortgage) unto U.S. Bank National Association, as Trustee under the Mortgage, and to its successor or successors in said trust, and to said Trustee and its successors and assigns forever, all and singular the permits, franchises, rights, privileges, grants and property, real, personal and mixed, now owned or which may be hereafter acquired by the Company (except any of the character herein or in the Mortgage expressly excepted), including (but not limited to) its electric light and power works, gas works, water works, buildings, structures, machinery, equipment, mains, pipes, lines, poles, wires, easements, rights of way, permits, franchises, rights, privileges, grants and all property of every kind and description, situated in the City of Superior, Douglas County, Wisconsin, or elsewhere in Douglas County, Wisconsin, in Washburn County, Wisconsin, or in any other place or places now owned by the Company, or that may be hereafter acquired by it, including, but not limited to, the following described properties of the Company--that is to say:

All property, real, personal and mixed, acquired by the Company after the date of the execution and delivery of the Mortgage (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or hereafter acquired by the Company and wheresoever situated, including (without in any wise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Eleventh Supplemental Indenture) all lands, power sites, flowage rights, water rights, water franchises, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants, works, reservoirs and tanks for the pumping and purification of water; all water works; all plants for the generation of electricity by water, steam and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, street and interurban railway systems, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, water, electric, gas and other machines, regulators, meters, transformers, generators, motors, water, electrical, gas and mechanical appliances, conduits, cables, water, steam, heat, gas or other mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture, chattels and choses in action; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of water, electric current, gas, steam heat or hot water for any purpose, including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

Together with all and singular the tenements, hereditaments and appurtenances belonging or in any wise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

It is hereby agreed by the Company that all the property, rights and franchises acquired by the Company after the date hereof (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted) shall be and are as fully granted and conveyed hereby and as fully embraced within the lien of the Mortgage as if such property, rights and franchises were now owned by the Company and were specifically described herein and conveyed hereby.

Provided that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of the Mortgage, viz: (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the Mortgage or covenanted so to be; (2) merchandise, equipment, materials or supplies held for the purpose of sale in the usual course of business and fuel, oil and similar materials and supplies consumable in the operation of any properties of the Company; rolling stock, buses, motor coaches, automobiles and other vehicles; (3) bills, notes and accounts receivable, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the last day of the term of any lease or leasehold which may heretofore have or hereafter may become subject to the lien of the Mortgage; (4) water, electric energy, gas, ice and other materials or products pumped, stored, generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; (5) the Company's franchise to be a corporation; and (6) all permits, franchises, rights, privileges, grants and property in the state of Minnesota now owned or hereafter acquired unless such permits, franchises, rights, privileges, grants and property in the state of Minnesota shall have been subjected to the lien of the Mortgage by an indenture or indentures supplemental to the Mortgage, pursuant to authorization of the Board of Directors of the Company, whereupon all the permits, franchises, rights, privileges, grants and property then owned or thereafter acquired by the Company in the state of Minnesota (except property of the character expressly excepted from the lien of the Mortgage in clauses (1) to (5) above, inclusive), shall become and be subject to the lien of the Mortgage as part of the Mortgaged and Pledged Property and may be released, funded and otherwise dealt with on the same terms and subject to the same conditions and restrictions as though not theretofore excepted from the lien of the Mortgage; *provided, however,* that the property and rights expressly excepted from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that the Trustee or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 of the Mortgage.

To have and to hold all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto U.S. Bank National Association as Trustee, and its successors and assigns forever.

In trust nevertheless, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as heretofore supplemented, this Eleventh Supplemental Indenture being supplemental thereto.

And it is hereby covenanted by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and the Trustee and the beneficiaries of the trust with respect to said property, and to the Trustee and its successors as Trustee of said property, in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to the Trustee by the Mortgage as part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustee and its successors in said trust under the Mortgage as follows:

ARTICLE I

BONDS OF THE TENTH SERIES

Section 1.1. There shall be a tenth series of bonds designated *"First Mortgage Bonds, 7.25% Series due December 15, 2013"* (the *"Bonds of the Tenth Series"*), which shall be limited to $10,000,000 aggregate principal amount, and shall be issued as fully registered bonds without coupons in the denominations of $1,000 or any multiple thereof. The Bonds of the Tenth Series shall be dated on the date of issuance thereof, mature on December 15, 2013 or upon earlier acceleration or redemption, and shall bear interest (computed on the basis of a 360-day year of twelve 30 day months) from their date of issuance, at the rate of 7.25% per annum, payable semiannually on June 15 and December 15 of each year commencing June 15, 2009 and at the rate of 9.25% per annum on any overdue payment of principal or premium, if any, and to the extent enforceable under applicable law, or any overdue payment of interest. The Bonds of the Tenth Series shall be numbered R-1 and upward and otherwise shall be substantially in the form attached hereto as Exhibit A. Except as hereinafter provided, the principal of, and the premium, if any, and the interest on each said bond to be payable at the office of the Company in Superior, Wisconsin or agency of the Company in the City of St. Paul, Minnesota, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

Notwithstanding any provision to the contrary in the Mortgage or the Bonds of the Tenth Series, the first paragraph of Section 9 of the Bond Purchase Agreement shall govern the method of payment of principal, premium, if any, and interest on the Bonds of the Tenth Series to the holders thereof; *provided, however,* that the Trustee shall have no obligation to comply with the provisions of Section 9 with respect to any transferee of the Purchaser or any other holder of the Bonds of the Tenth Series until such transferee or holder shall have made the agreement described in Section 9. Subject to such proviso, the Trustee hereby consents to the method of payment described in Section 9. The Trustee shall not be liable or responsible to any holder of Bonds of the Tenth Series entitled to the benefits of Section 9 or to any transferee thereof or to the Company for any act or omission to act on the part of the Company or any such holder of Bonds of the Tenth Series in connection with Section 9. The Company hereby indemnifies the Trustee against all liabilities, if any, resulting from acts or omissions on its part or on the part of the Company in connection with Section 9.

The Bonds of the Tenth Series shall be dated as of the date of authentication thereof by the Trustee (except that if any Bond of the Tenth Series shall be authenticated on an interest payment date for the Bonds of the Tenth Series to which interest has been paid, such Bond shall be dated as of the day following) and shall bear interest from the fifteenth day of June or December, as the case may be, next preceding the date of such Bond to which interest has been paid; *provided, however,* that if any such Bond shall be authenticated before June 15, 2009, such Bond shall bear interest from the date of the original issue of the Bonds of the Tenth Series; and *provided further* that if the Company shall at the time of the authentication of any Bond of the Tenth Series be in default in the payment of interest upon the Bonds of the Tenth Series, such Bond shall be dated as of, and shall bear interest from, the date of the beginning of the period for which such interest is so in default.

Upon notice as provided in the following paragraph, the Bonds of the Tenth Series may be redeemed prior to maturity, in whole at any time or in part (in multiples of $500,000) from time to time, at the option of the Company, or by the application (either at the option of the Company or pursuant to the requirements of the Mortgage) of cash delivered to or deposited with the Trustee pursuant to the provisions of Section 39, Section 55, Section 61, Section 64 or Section 118 of the Mortgage or with the Proceeds of Released Property, in any such case at 100% of the principal amount of the Bonds being redeemed plus interest accrued thereon to the date of redemption, together with a premium equal to the Make-Whole Amount, if any, with respect to the Bonds of the Tenth Series being redeemed determined five Business Days prior to the date of such redemption.

Notice of any redemption of the Bonds of the Tenth Series shall be given by mail, postage prepaid, at least 30 but not more than 60 days prior to the date of redemption, to the registered owners of all Bonds of the Tenth Series to be so redeemed at their respective addresses appearing on the books maintained by the Company pursuant to Section 13 of the Mortgage. Any notice which is mailed as herein provided shall be conclusively presumed to have been properly and sufficiently given on the date of such mailing, whether or not the registered owner receives the notice. In any case, failure to give notice by mail, or any defect in such notice, to the registered owner of any Bond of the Tenth Series designated for redemption in whole or in part shall not affect the validity of the proceedings for the redemption of any other Bond of the Tenth Series. Two Business Days prior to the redemption date specified in such notice, the Company shall provide each registered owner of Bonds of the Tenth Series to be redeemed with written notice of the premium, if any, payable with respect thereto and a reasonably detailed computation of the Make-Whole Amount.

All partial redemptions of Bonds of the Tenth Series shall be made ratably among all registered owners thereof in the proportion which the principal amount of the Bonds held by each registered owner bears to the aggregate principal amount of all Bonds of the Tenth Series then outstanding, computed to the nearest $1,000 principal amount of the Bonds of the Tenth Series.

In the event that the principal amount of the Bonds of the Tenth Series is declared due and payable upon the occurrence of a Default or becomes due and payable pursuant to Section 73 of the Mortgage, there shall then become due and payable, together with the principal amount of the Bonds of the Tenth Series and interest accrued thereon, a premium equal to the amount of the Make-Whole Amount which would have been payable with respect to such Bonds of the Tenth Series, if they had been redeemed at the option of the Company pursuant to Section 1.1 in this Eleventh Supplemental Indenture on the date on which the Bonds of the Tenth Series became due and payable; *provided* that such premium, if any, with respect to the Bonds of the Tenth Series shall become due and payable only if such Default is, or such sale is made following a Default, other than one specified in subsections (e) or (f) of Section 65 of the Mortgage.

Any Bonds of the Tenth Series shall be transferable by the registered owner thereof in person, or by its attorney duly authorized in writing, at the office or agency of the Company in the City of St. Paul, Minnesota, or the office of the Company in Superior, Wisconsin, upon surrender thereof for cancellation, together with a written instrument of transfer in form approved by the Company duly executed by such registered owner or by its duly authorized attorney. Upon any such transfer, a new Bond or Bonds of the Tenth Series for the same aggregate principal amount will be issued to the transferee in exchange therefor. Any Bond of the Tenth Series may, at the option of the registered owner thereof and upon surrender thereof for cancellation at such office or agency, be exchanged as prescribed in the Mortgage for another Bond or Bonds of the Tenth Series of other authorized denominations having the same aggregate principal amount. In the event any written instrument of transfer is required in connection with any transfer or exchange of any Bond of the Tenth Series, an instrument in the form attached hereto as Exhibit B is hereby approved by the Company for the purposes of Section 12 of the Mortgage.

Notwithstanding any provision of Section 12 or Section 16 of the Mortgage, (a) no charge will be made by the Company for any transfer or exchange of any Bond of the Tenth Series or, in the case of any lost, destroyed or mutilated Bond, the issuance, authentication and delivery of a new Bond of the Tenth Series in substitution thereof, whether for any stamp tax or other governmental charge, if any, applicable thereto or otherwise, and the Company shall reimburse the Trustee for all expenses incurred in connection therewith and (b) in the event of any loss, destruction or mutilation of any Bond of the Tenth Series, and a request by the holder for issuance of a new Bond of the Tenth Series in substitution therefor, the holder's unsecured indemnity agreement shall be deemed to be satisfactory to the Company and the Trustee for purposes of Section 16 of the Mortgage.

Notwithstanding any provision of Section 15 of the Mortgage, Bonds of the Tenth Series shall be authenticated, issued and delivered only as definitive bonds. Bonds of the Tenth Series so authenticated, issued and delivered may be in the form of fully engraved bonds, bonds printed or lithographed on engraved borders, bonds printed or bonds typewritten.

ARTICLE II

COVENANTS AND RESTRICTIONS

Section 2.1. The Company covenants that, so long as any Bonds of the Tenth Series are outstanding, it will not merge or consolidate with any other Person or sell, lease or transfer or otherwise dispose (a "*Disposition*") of all or a Substantial Part of its assets, or assets which shall have contributed a Substantial Part of net income of the Company for any of the three fiscal years then most recently ended, to any Person; *provided, however,* that the Company may merge or consolidate with, or sell or transfer all or substantially all of its assets to, Allete, but only if (a) in the event that Allete is the continuing or surviving corporation or the acquiring corporation, Allete shall be a solvent corporation and shall expressly assume in writing all of the obligations of the Company under the Mortgage, this Eleventh Supplemental Indenture, the Bonds of the Tenth Series and the Bond Purchase Agreement, including all covenants therein and herein contained, and Allete shall succeed to and be substituted for the Company with the same effect as if it had been named herein as a party hereto, and (b) the Company as the continuing or surviving corporation or Allete as the continuing or surviving corporation or acquiring corporation, as the case may be, shall not, immediately after such merger or consolidation, or such sale or other disposition, be in default under any of such obligations. Notwithstanding the foregoing, the Company may make a Disposition and the assets subject to such Disposition shall not be included in the determination of Substantial Part to the extent that an amount equal to the net proceeds from such Disposition are, within 365 days of such Disposition (A) reinvested in assets of a similar nature of at least equivalent value to be used in the existing business of the Company, and/or (B) applied to the payment or prepayment of the Bonds of the Tenth Series. For purposes of foregoing clause (B), used to prepay (not less than 30 or more than 60 days following such offer) the Bonds of the Tenth Series at a price of 100% of the principal amount of the Bonds of the Tenth Series to be prepaid (without any Make-Whole Amount) together with interest accrued to the date of prepayment; provided that if any holder of the Bonds of the Tenth Series declines such offer, the amount that would have been paid to such holder shall be offered pro rata to the other holders of the Bonds of the Tenth Series that have accepted the offer. A failure by a holder of Bonds of the Tenth Series to respond in writing not later than 10 Business Days prior to the proposed prepayment date to an offer to prepay made pursuant to this Section 2.1 shall be deemed to constitute a rejection of such offer by such holder.

Section 2.2. The Company covenants that, so long as any Bonds of the Tenth Series shall remain outstanding, the Company will not issue, sell or otherwise dispose of any of its shares of capital stock to any Person other than Allete.

Section 2.3. The Company covenants that, so long as any of the Bonds of the Sixth Series are outstanding, or so long as the Company is subject to any covenant in any other debt instrument prohibiting it from owning Subsidiaries, the Company shall not have any Subsidiaries.

Section 2.4. The Company will not at any time permit any Subsidiary to, directly or indirectly, create, incur, assume, guarantee, have outstanding, or otherwise become or remain directly or indirectly liable with respect to, any Debt other than:

(a) Debt of a Subsidiary owed to the Company;

(b) Debt of a Subsidiary outstanding at the time such Subsidiary becomes a Subsidiary, *provided* that (i) such Debt shall not have been incurred in contemplation of such Subsidiary becoming a Subsidiary and (ii) immediately after such Subsidiary becomes a Subsidiary no Default or Potential Default shall exist, and *provided*, *further*, that such Debt may not be extended, renewed or refunded except as otherwise permitted by this Agreement; and

(c) Debt of a Subsidiary in addition to that otherwise permitted by the foregoing provisions of this Section 2.4, *provided* that on the date the Subsidiary incurs or otherwise becomes liable with respect to any such additional Debt and immediately after giving effect thereto and the concurrent retirement of any other Debt,

(i) no Default or Potential Default exists, and

(ii) simultaneously with the incurrence thereof, the Company delivers a Net Earnings Certificate showing, on the date of issuance of such Debt by such Subsidiary, the Company's Adjusted Net Earnings to be as required by Section 27 of the Indenture to issue at least $1.00 of additional bonds under the Indenture.

Section 2.5. A default by the Company in the observance of any covenant or agreement contained in Sections 2.1 through 2.4, inclusive, of this Eleventh Supplemental Indenture or the occurrence of an Event of Default (as defined herein) shall be deemed to constitute an additional and independent Default under, and defined in, Section 65 of the Mortgage. None of the additional Defaults provided for pursuant to this Section 2.5 are intended or shall be deemed to limit any of the Defaults currently expressed in the Mortgage and none of the Defaults currently expressed in the Mortgage are intended or shall be deemed to limit any of the additional Defaults provided for pursuant to this Section 2.5.

ARTICLE III

MISCELLANEOUS PROVISIONS

*Section 3.1.*For purposes of this Eleventh Supplemental Indenture, the following terms have the following meanings indicated below:

"Allete" shall mean ALLETE, Inc., a Minnesota corporation, or any successor to Allete, Inc.

"Bond Purchase Agreement" shall mean the Bond Purchase Agreement dated as of December 15, 2008, between the Company and the Purchaser.

"*Business Day*" shall mean any day other than a Saturday, Sunday or a day on which commercial banks in Chicago, Illinois, or Milwaukee, Wisconsin, are required or authorized to be closed.

"*Capitalized Lease Obligation*" shall mean with respect to any Person any rental obligation which, under generally accepted accounting principles, would be required to be capitalized on the books of such Person, taken at the amount thereof accounted for as indebtedness (net of interest expense) in accordance with such principles.

"*Consolidated Net Worth*" shall mean the net worth of the Company and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

"*Debt*" means, with respect to any Person, without duplication,

(a) its liabilities for borrowed money;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including, without limitation, all liabilities created or aris ing under any conditional sale or other title retention agreement with respect to any such property);

(c) its Capital Lease Obligations;

(d) all liabilities for borrowed money secured by any lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities); and

(e) any guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (d) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (e) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"*Disposition*" shall have the meaning set forth for such term in Section 2.1.

"*Event of Default*" shall mean any of the following events which shall occur and be continuing for any reason whatsoever at any time when any of the Bonds of the Tenth Series shall be outstanding (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) the Company defaults in the payment of any principal or premium, if any, payable with respect to any Bond of the Tenth Series when the same shall become due, either by the terms thereof or otherwise as provided in the Mortgage, this Eleventh Supplemental Indenture or the Bond Purchase Agreement; or

(ii) the Company defaults in the payment of any interest on any Bond of the Tenth Series for more than 5 days after the due date; or

(iii) the Company defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of or interest on any other obligation for money borrowed (or any Capitalized Lease Obligation, any obligation under a conditional sale or other title retention agreement, any obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any period of grace provided with respect thereto and as a result, the aggregate principal amount of all such defaulted obligations exceeds $100,000 or the Company fails to perform or observe any other agreement, term or condition contained in any agreement under which any such obligations are created (or if any other event thereunder or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or to permit the holder or holders of such obligations (or a trustee on behalf of such holder or holders) to cause, such obligations in the aggregate principal amount in excess of $100,000 to become due (or to be repurchased by the Company) prior to any stated maturity; or

(iv) any representation or warranty made by the Company in this Eleventh Supplemental Indenture or the Bond Purchase Agreement or by the Company or any of its officers in any writing furnished in connection with or pursuant to this Eleventh Supplemental Indenture or the Bond Purchase Agreement shall be false in any material respect on the date as of which made; or

(v) the Company fails to perform or observe any agreement, term or condition contained in the Mortgage, this Eleventh Supplemental Indenture or the Bond Purchase Agreement; or

(vi) the Company makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(vii) any decree or order for relief in respect of the Company is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (herein called the Bankruptcy Law), of any jurisdiction; or

(viii) the Company petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company or of any Substantial Part of the assets of the Company or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings relating to the Company under the Bankruptcy Law of any other jurisdiction; or

(ix) any such petition or application is filed, or any such proceedings are commenced, against the Company, and the Company by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings; or

(x) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xi) any order, judgment or decree is entered in any proceedings against the Company decreeing a split-up of the Company which requires the divestiture of assets representing a Substantial Part of the assets of the Company or which requires the divestiture of assets which shall have contributed a Substantial Part of the net income of the Company for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xii) a final judgment in an amount in excess of $100,000 is rendered against the Company and, within 60 days after entry thereof, such judgment is not discharged or execution thereof stayed pending appeal, or within 60 days after the expiration of any such stay, such judgment is not discharged; or

(xiii) Allete shall cease to own of record and beneficially 100% of the outstanding shares of capital stock of the Company.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Make-Whole Amount" means, with respect to any Bond of the Tenth Series, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Bond of the Tenth Series over the amount of such Called Principal, *provided* that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Bond of the Tenth Series, the principal of such Bond of the Tenth Series that is to be prepaid or has become or is declared to be immediately due and payable, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Bond of the Tenth Series, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Bond of the Tenth Series is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Bond of the Tenth Series, the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date.

In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Bond of the Tenth Series.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Bond of the Tenth Series, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, *provided* that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Bond of the Tenth Series, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date.

"Settlement Date" means, with respect to the Called Principal of any Bond of the Tenth Series, the date on which such Called Principal is to be prepaid or has become or is declared to be immediately due and payable, as the context requires.

"*Person*" shall mean and include an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization and a government or any department or agency thereof.

"*Proceeds of Released Property*" shall mean the aggregate of the cash deposited with or received by the Corporate Trustee pursuant to the provisions of Section 59, Section 60, Section 61 (except such cash as is to be paid over to the Company under the provisions of Section 61), or Section 62 of the Mortgage.

"*Purchaser*" means Modern Woodmen of America.

"*Subsidiary*" means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"*Substantial Part*" shall mean when used with respect to assets or net income 15% or more of such assets or net income, respectively.

Section 3.2. The terms defined in the Mortgage, as heretofore supplemented, shall for all purposes of this Eleventh Supplemental Indenture have the meanings specified in the Mortgage, as heretofore supplemented.

Section 3.3. The Trustee hereby accepts the trust herein declared, provided and created and agrees to perform the same upon the terms and conditions herein and in the Mortgage, as heretofore supplemented, set forth and upon the following terms and conditions.

Section 3.4. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Eleventh Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVII of the Mortgage shall apply to and form part of this Eleventh Supplemental Indenture with the same force and effect as if the same were herein set forth in full, with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Eleventh Supplemental Indenture.

Section 3.5. Subject to the provisions of Article XVI and Article XVII of the Mortgage, whenever in this Eleventh Supplemental Indenture any of the parties hereto is named or referred to, this shall be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Eleventh Supplemental Indenture contained by or on behalf of the Company or by or on behalf of the Trustee shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

Section 3.6. Nothing in this Eleventh Supplemental Indenture, express or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds Outstanding under the Mortgage, any right, remedy or claim under or by reason of this Eleventh Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements of this Eleventh Supplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

Section 3.7. This Eleventh Supplemental Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Superior Water, Light and Power Company has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, and U.S. Bank National Association has caused its corporate name to be hereunto affixed, and this instrument to be signed by its President and to be attested by its Secretary, all as of the 1st day of December, 2008.

SUPERIOR WATER, LIGHT AND POWER COMPANY

By: /s/ Chris E. Fleege
President

ATTEST:

/s/ Janet A. Blake
Secretary

Executed, sealed and delivered by
Superior Water, Light and Power
Company in the presence of:

/s/ William S. Bombich

/s/ Nancy A. Venne

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: /s/ Richard Prokosch
Vice President

ATTEST:

/s/ Raymond Haverstock

&

1 6 0 ; Vice President

Executed and delivered by U.S. Bank National Association in the presence of:

/s/ Diane Johnson

/s/ Joshua Hahn

STATE OF WISCONSIN)
) SS.
COUNTY OF DOUGLAS)

Personally came before me this 1stday of December 2008 , Christopher E. Fleege, to me known to be the President, and Janet A. Black, to me known to be the Secretary, of the above-named SUPERIOR WATER, LIGHT AND POWER COMPANY, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn, did depose and say and acknowledge that they are respectively the President and Secretary of said corporation, that the seal affixed to said instrument is the corporate seal of said corporation, and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said President and Secretary, then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

Given under my hand and notarial seal this 1st day of December, 2008.

/s/ Nancy A. Venne
Notary Public, State of Wisconsin
My Commission expires July 1, 2012

STATE OF MINNESOTA)
) SS.
COUNTY OF RAMSEY)

Personally came before me this 3rd day of December, 2008, Richard Prokosch, to me known to be the Vice President and Raymond Haverstock, to me known to be the Vice President of the above-named U.S. BANK NATIONAL ASSOCIATION, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn, did depose and say and acknowledge that they are respectively the Vice President and Vice President of said corporation, and that they signed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said Vice President and Vice President then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

Given under my hand and notarial seal this 3rd day of December, 2008.

/s/ Denise R. Landeen
Notary Public, State of Minnesota
My Commission expires January 31, 2012

EXHIBIT A

[FORM OF BOND OF THE TENTH SERIES]

SUPERIOR WATER, LIGHT AND POWER COMPANY
FIRST MORTGAGE BOND

7.25% Series due December 15, 2013

No. R- & #
1 6 0 ; $___

SUPERIOR WATER, LIGHT AND POWER COMPANY, a corporation of the State of Wisconsin (hereinafter called the "*Company*"), for value received, hereby promises to pay to _____, or registered assigns, on December 15, 2013, _____ DOLLARS ($) in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts, and to pay to the registered owner hereof interest thereon in like coin or currency (computed on the basis of a 360-day year of twelve 30-day months) at the rate of seven and twenty-five hundredths percent (7.25%) per annum semiannually on June 15 and December 15 of each year commencing June 15, 2009 until the principal thereof shall have become due and payable and at the rate of 9.25% per annum on any overdue payment of principal or premium, if any, and, to the extent enforceable under applicable law, on any overdue payment of interest. The principal hereof (and premium, if any) and interest hereon shall be paid at the office or agency of the Company in the City of St. Paul, Minnesota, or the office of the Company in Superior, Wisconsin or as shall be otherwise agreed to pursuant to the provisions of the Eleventh Supplemental Indenture hereinafter referred to.

This bond is one of an issue of bonds of the Company issuable in series and is one of a series designated the First Mortgage Bonds, 7.25% Series due December 15, 2013 (the "*Bonds of the Tenth Series*") created by the Eleventh Supplemental Indenture dated as of December 15, 2008 executed by the Company to U.S. Bank National Association (successor Trustee to Chemical Bank and Peter Morse), as Trustee, all bonds of all series being issued and to be issued under and equally secured by a Mortgage and Deed of Trust (herein, together with any indentures supplemental thereto, called the "*Mortgage*"), dated as of March 1, 1943, executed by the Company to Chemical Bank & Trust Company and Howard B. Smith, as Trustees (U.S. Bank National Association, successor Trustee). Reference is made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders of the bonds and of the Trustee in respect thereof, the duties and immunities of the Trustee and terms and conditions upon which the bonds are and are to be secured and the circumstances under which additional bonds may be issued.

With the consent of the Company and to the extent permitted by and as provided in the Mortgage, the rights and obligations of the Company and/or the rights of the holders of the bonds and/or coupons and/or the terms and provisions of the Mortgage may be modified or altered by affirmative vote of the holders of at least seventy per centum (70%) in principal amount of the bonds then outstanding under the Mortgage and, if the rights of the holders of one or more, but

less than all, series of bonds then outstanding are to be affected, then also by affirmative vote of the holders of at least seventy per centum (70%) in principal amount of the bonds then outstanding of each series of bonds so to be affected (excluding in any case bonds disqualified from voting by reason of the Company's interest therein as provided in the Mortgage); provided that, without the consent of the holder hereof, no such modification or alteration shall, among other things, impair or affect the right of the holder to receive payment of the principal of (and premium, if any) and interest on this bond, on or after the respective due dates and at the places and in the respective amounts expressed herein, or permit the creation of any lien equal or prior to the lien of the Mortgage or deprive the holder of the benefit of a lien on the mortgaged and pledged property, or give any bond or bonds secured by the Mortgage any preference over any other bond or bonds so secured, or reduce the percentage in principal amount of the bonds required to authorize or consent to any such modification or alteration of the Mortgage.

The Bonds of the Tenth Series may be redeemed prior to maturity, in whole at any time or in part (in multiples of $500,000) from time to time, at the option of the Company, or by the application (either at the option of the Company or pursuant to the requirements of the Mortgage) of cash delivered to or deposited with the Trustee pursuant to the provisions of Section 39, Section 55, Section 61, Section 64 or Section 118 of the Mortgage or with the Proceeds of Released Property (as defined in said Eleventh Supplemental Indenture), in any such case at 100% of the principal amount to be so redeemed, plus accrued interest thereon to the redemption date together with a premium equal to the Make-Whole Amount (as defined in said Eleventh Supplemental Indenture), if any, with respect to the Bonds of the Tenth Series, being redeemed.

Notice of any redemption of the Bonds of the Tenth Series shall be given by mail at least 30 days prior to the redemption date, all as more fully provided in said Eleventh Supplemental Indenture and the Mortgage. Notice of redemption having been duly given, the Bonds of the Tenth Series called for redemption shall become due and payable upon the redemption date, and if the redemption price shall have been deposited with the Trustee, interest thereon shall cease to accrue on and after the redemption date (unless such bonds shall have been properly presented for payment on, or within one year after, the redemption date and shall not have been paid) and on the redemption date or whenever thereafter the redemption price thereof shall have been deposited with the Trustee such bonds shall no longer be entitled to the lien of the Mortgage.

The principal hereof may be declared or may become due prior to the maturity date hereinbefore named on the conditions, in the manner and at the time set forth in the Mortgage, upon the occurrence of a default as in the Mortgage provided.

This bond is transferable as prescribed in the Mortgage by the registered owner hereof in person, or by its duly authorized attorney, at the office or agency of the Company in the City of St. Paul, Minnesota or the office of the Company in Superior, Wisconsin upon surrender hereof for cancellation, together with a written instrument of transfer in form approved by the Company duly executed by the registered owner hereof or by its duly authorized attorney, and thereupon a new fully registered bond or bonds of the same series for a like principal amount will be issued to the transferee in exchange herefor as provided in the Mortgage. This bond may, at the option

of the registered owner hereof and upon surrender hereof for cancellation at such office or agency, be exchanged as prescribed in the Mortgage for other registered bonds of the same series of other authorized denominations having a like aggregate principal amount. No charge will be made by the Company for any transfer or exchange of this bond or, in case this bond shall be lost, destroyed or mutilated, the issuance, authentication and delivery of a new bond in substitution hereof. The Company and the Trustee may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment and for all other purposes and neither the Company nor the Trustee shall be affected by any notice to the contrary.

As provided in the Mortgage, the Company shall not be required to make transfers or exchanges of bonds of any series for a period of ten (10) days next preceding any interest payment date for bonds of said series, or next preceding any designation of bonds of said series to be redeemed, and the Company shall not be required to make transfers or exchanges of any bonds designated in whole or in part for redemption.

No recourse shall be had for the payment of the principal of or interest on this bond against any incorporator or any past, present or future subscriber to the capital stock, stockholder, officer, or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company or any predecessor of successor corporation, under any rule of law, statute, or constitution or by the enforcement of any assessment or otherwise, all such liability of incorporators, subscribers, stockholders, officers, and directors being released by the holder or owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Mortgage.

This bond shall not become obligatory until U.S. Bank National Association, the Trustee under the Mortgage, or its successor thereunder, shall have signed the form of authentication certificate endorsed hereon.

IN WITNESS WHEREOF, SUPERIOR WATER, LIGHT AND POWER COMPANY has caused this bond to be signed in its corporate name by its President or one of its Vice-Presidents and its Treasurer and its corporate seal to be impressed or imprinted hereon and attested by its Secretary or one of its Assistant Secretaries on, 20____.

SUPERIOR WATER, LIGHT AND POWER COMPANY

By_____
Christopher E. Fleege
President

By_____
William S. Bombich
Treasurer

ATTEST:

_____
Janet A. Blake
Secretary

[FORM OF TRUSTEE'S AUTHENTICATION CERTIFICATE]

This bond is one of the bonds, of the series herein designated, described or provided for in the within-mentioned Mortgage.

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By_____
Authorized Officer

EXHIBIT B

ASSIGNMENT AND IRREVOCABLE BOND POWER
FOR
SUPERIOR WATER, LIGHT AND POWER COMPANY
FIRST MORTGAGE BOND
_____% SERIES DUE _____

FOR VALUE RECEIVED, _____ do___ hereby sell, assign and transfer unto _____ one First Mortgage Bond, ____% Series due _____ of Superior Water, Light and Power Company (the "Company") for _____ dollars ($_____), No. _____, standing in _____ name _____ on the books of the Company and do___ hereby irrevocably constitute and appoint _____ attorney to transfer the said bond on the books of the Company, with full power of substitution in the premises.

IN WITNESS WHEREOF, _____ ha___ hereunto set ____ hand _____ [and seal _____] at _____ this ____ day of _____, 20_____.

_____ [SEAL]

_____ [SEAL]

STATE OF _____)
) SS.
COUNTY OF _____)

I, _____, a notary public in and for said County, in the State aforesaid, do hereby certify, that _____
_____
who _____ personally known to me to be the same person__ whose name__ _____ subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that _____ signed, sealed and delivered the said instrument as _____ free and voluntary act for the use and purposes therein set forth.

Given under my hand and official seal this ____ day of _____, 20_____.

Notary Public_____
My Commission Expires _____

ALLETE Executive Annual Incentive Plan
Form of Award
Effective 2009
[Eligible Executive Employees]

Target Award Opportunity

Base Salary	$
Times	
Award Opportunity (percent of base salary)	%
Equals	
Target Award	$

Performance Levels and Award Amounts

	If Threshold Net Income Achieved				If Threshold Net Income Not Achieved			
	Below Threshold	Threshold	Target	Superior	Below Threshold	Threshold	Target	Superior
Net Income	0%	25%	50%	100%	0%	0%	0%	0%
Cash Flow	0%	12.5%	25%	50%	0%	12.5%	25%	50%
Strategic Goals	0%	0%	25%	50%	0%	0%	0%	0%
Payout as Percent of Target Award Opportunity	0%	37.5%	100%	200%	0%	12.5%	25%	50%

Goals

	Goal Weighting
Financial Goals	
Net Income	**50%**
Cash from Operating Activities	**25%**
Strategic Goals	**25%**
	100%

ALLETE AND AFFILIATED COMPANIES

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

(As Amended and Restated Effective January 1, 2009)

TABLE OF CONTENTS

ALLETE AND AFFILIATED COMPANIES

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

(As Amended and Restated

Effective January 1, 2009)

SECTION 1. ESTABLISHMENT AND PURPOSE

1.1 Establishment of Plan

ALLETE, Inc., formerly MINNESOTA POWER & LIGHT COMPANY (the "Company" and also sometimes "ALLETE") established, effective as of July 1, 1980, a Supplemental Retirement Plan for eligible executives of the Company, such Plan to be known as the SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (THE "PLAN"). The Plan was established in order to provide supplemental current or retirement benefits payable as provided hereafter solely from the general assets of the Company. The Plan is intended to be exempt from the participation, vesting, funding, and fiduciary requirements of Title 1 of the Employee Retirement Income Security Act of 1974.

Effective as of January 1, 1981, the Plan was amended to include compensation attributable to the Company's Incentive Compensation Plan in determining benefits under this Plan.

Effective as of January 1, 1982, the Plan was amended to change the manner in which Incentive Awards are accounted for when determining benefits payable at retirement under Section 4.6.

Effective December 1, 1982, the Plan was amended to change the deferral and cash payment options of the Plan.

The Plan was amended including revisions through and including May 10, 1983, and restated in its entirety as of January 1, 1983. The revisions included a provision to provide benefits that are above the limitations under Section 415 of the Internal Revenue Code.

Effective January 1, 1984, the Plan was amended to provide for a predetermined interest rate of 10.5% to be used in determining the value of certain benefits under the Plan.

Effective January 1, 1987, the Plan was amended to provide for two additional investment choices for monies deferred under the Plan and to make other minor changes to the Plan.

Effective August 1, 1987, the Plan has been amended to provide for a fixed rate of return of 8% under Section 4.15 for deferral elections made after that date rather than a return that is the greater of 10.5% or the Company's actual overall percentage return on capital, and to make a minor change in the Plan name.

Effective May 1, 1988, the Plan was amended so that benefits under Subsections 4.1(c) and (d) of the 1988 Plan document are available only to active Participants who were age 60 or older as of said date.

Effective November 1, 1988, the Plan has been amended to make revisions in certain discretions available to the Company and to eligible Participants.

Effective January 1, 1990, the Plan has been amended to remove Participant choice with respect to the payment of benefits under Subsection 4.1(b). The Plan has also been amended to eliminate the makeup of the 2% CORE benefits, which were eliminated under the Supplemental Retirement Plan (SRP) to account for the Employee Stock Ownership Plan (ESOP), and to provide for a makeup of the Employee Stock Ownership Plan Partnership account allocation contribution. The Plan was also amended to eliminate the benefits previously described in Subsections 4.1(c) and (d) of the 1988 legal plan document.

Effective August 1, 1992, the Plan was amended to change the date Retirement Benefits are due and payable from the last day of the month to the first day of the month.

Effective March 1, 1994, the Plan was amended to calculate the monthly benefit provided under Section 4.6 using a final average earnings calculation which combines Results Sharing with Incentive Compensation.

Effective August 1, 1994, the Plan was amended at Section 3.1 to eliminate the eligibility option of annual compensation in excess of $100,000, to increase voluntary deferrals, to provide for a present value calculation at Subsection 4.1(d), to change options for measuring indexes for monies deferred under the Plan, and to make other minor administrative changes.

Effective January 1, 1995, the Plan was amended to suspend benefit payments when a Participant is re-employed by the Company in a regular, full-time position.

Effective January 1, 1997, the Plan was amended to allow for Participants to change the duration of the distribution period.

Effective June 17, 1997, the Plan was amended to credit accounts during distribution of benefits with the Company's return on capital fixed rate of 8%.

Effective July 1, 1998, the Plan was amended to combine deferred amounts into a single Executive Deferral Account.

Effective January 1, 1999, the Plan was amended to allow participation by those employees who receive a management salary.

Effective January 1, 2001, the Plan was amended to provide that the Executive Deferral Account be distributed pursuant to the Participant's election in the event of death, to distribute account balances of less than $10,000 in a lump sum, and to change the name of the Plan to the ALLETE Supplemental Executive Retirement Plan.

Effective January 1, 2002 the Plan was amended to allow the choice of a life or joint and survivor annuity for Retirement Benefits, to eliminate deferrals which exceeded limitations imposed by Code Section 415, to allow unscheduled in-service withdrawals, to remove the limitation on deferrals of annual salary, and to provide a supplemental tax benefit for participants in the event that they are terminated due to a change in control, and to reflect the merger of the Supplemental Retirement Plan and the Employee Stock Ownership Plan into the Retirement Savings and Stock Ownership Plan.

Effective January 20, 2003, deferrals of stock option gains were eliminated.

Effective December 1, 2003, the termination of a Participant is clarified to include the sale of a Participant's employer, but not the separation of a Participant's employer from the Company through a stock dividend.

Effective January 1, 2005, the Plan was amended (1) to reflect the cessation of further deferrals thereunder after 2004; (2) to provide Plan Participants with the opportunity to revoke their deferral elections for their 2004 bonuses and 2005 salary and make new deferral elections for their 2005 bonuses; and (3) to the extent that any such deferral elections are not so revoked, to redirect the deferral of 2004 deferred bonuses, 2005 deferred salary, and 2005 deferred bonuses to the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II.

Effective October 1, 2006, the Plan was amended to eliminate the supplemental tax benefit for Participants in the event that they are terminated due to a change in control.

Effective January 1, 2007, the Plan was amended to identify the interest rate(s) applicable to the calculation of a monthly annuity with respect to Executive Deferral Account distributions. The Plan was further amended to establish the 15-year monthly annuity as the default form of Retirement Benefit and the life annuity as the optional form of Retirement Benefit. In addition, a Participant who was eligible for a retirement benefit under both this Plan and SERP II was required to elect the same form of retirement benefit under both this Plan and SERP II.

Effective January 1, 2009, the Plan was amended (1) to eliminate the requirement that a Participant who was eligible for a Retirement Benefit under both this Plan and SERP II was required to elect the same form of Retirement Benefit under both this Plan and SERP II and (2) to conform certain administrative provisions in this Plan to the administrative provisions in SERP II.

1.2 Purpose of the Plan

It is the purpose of this Plan to provide eligible executives with benefits that will compensate them for limitations which apply to the Minnesota Power and Affiliated Companies Flexible Compensation Plan, Minnesota Power and Affiliated Companies Retirement Savings and Stock Ownership Plan (sometimes hereinafter the "Retirement Savings and Stock Ownership Plan" or "RSOP"), Minnesota Power and Affiliated Companies Retirement Plan A and to provide a benefit which includes compensation attributable to the ALLETE Executive Annual Incentive Plan (sometimes hereinafter the "Annual Incentive Plan") and Other Awards as though such awards were eligible for benefit plans which are qualified under Section 401(a) and (k) of the Code. The Plan also provides for deferral of salary and annual and long-term incentive compensation awards.

SECTION 2. DEFINITIONS

2.1 Definitions

Whenever used in the Plan, the following terms shall have the respective meanings set forth below, unless otherwise expressly provided herein, and when the defined meaning is intended, the term is capitalized:

(A) "**Annual Incentive Award**" means the annual award received by a Participant under the ALLETE Executive Annual Incentive Plan or any predecessor plan.

(B) **“Change in Control”** means change of control of ALLETE, Inc. as defined in the ALLETE Executive Long Term Incentive Compensation Plan.

(C) **“Committee”** means the the Employee Benefit Plans Committee appointed by the Board or delegates of the Employee Benefit Plans Committee with authority to administer the Plan as provided under Section 5.1.

(D) **“Company”** means ALLETE, Inc., and any other affiliated company which adopts this Plan by action of its Board of Directors and is consented to by the Compensation Committee of the ALLETE Board of Directors. A list of such companies shall be maintained by ALLETE.

(E) **“Compensation”** means the Participant’s earnings during a calendar year, before any reduction pursuant to Code Sections 125, 132(f)(4), or 401(k). It does not include overtime compensation, if any, bonuses, Annual Incentive Awards and Other Awards, expenses, allowances, commission payments (except when regular compensation consists wholly or in part of commissions, in which case commission payments are included), employer contributions or awards under this Plan or other employee benefit plans, imputed income (whether such imputed income is from vehicle use, life insurance premiums, or any other source) payments made pursuant to the Results Sharing Program, payment of stock options and performance shares under the Long Term Incentive Compensation Plan, and any other payments of a similar nature. In the case of a Participant who is employed jointly by the Company and an affiliated company (as defined in the RSOP), Compensation as defined herein shall include amounts received from all such companies.

(F) “**Deferred Stock Unit**” means the units credited to a Participant which correspond to the number of shares the Participant deferred in accordance with Section 4.5.

(G) **"Eligible Surviving Spouse"** means surviving spouse as defined in the Company's Retirement Plan A.

(H) **"Executive Deferral Account" or "EDA" or "Account"** means the account where deferrals pursuant to Sections 4.1, 4.2, 4.3, 4.4 and 4.5 are credited.

(I) **"Other Award"** means an annual award received by the Participant as approved by the Committee and which is not the Annual Incentive Award described in Subsection 2.1(A), and does not include a severance benefit.

(J) **"Pay"** means the annual salary as of October 1 of the year prior to the year for which the allocation is attributed to under Section 4.1 of this Plan.

(K) **"Participant"** is defined in Section 3.

(L) **"Retire" or "Retirement"** means a Participant's termination of employment after attaining "Early Retirement Age" or "Normal Retirement Age" defined as the earliest date under any qualified retirement plan of the Participant's employer.

(M) **"Retirement Benefit"** means the benefit payable to a Participant pursuant to the Plan by reason of the Participant's Retirement with the Company described in Section 4.6.

(N) **"Retirement Plan A"** means the Minnesota Power and Affiliated Companies Retirement Plan A.

(O) **"Retirement Savings and Stock Ownership Plan" or "RSOP"** means the Minnesota Power and Affiliated Companies Retirement Savings and Stock Ownership Plan.

(P) **"SERP II"** means the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II.

(Q) **"Stock Option Gain Shares Deferral Election"** means the annual election made by the Participant in accordance with Section 4.5.

(R) **"Supplemental Salary Reduction Agreement"** means an agreement entered into by a Participant and the Company in December of a fiscal year under which the Participant irrevocably agrees to forego compensation that would otherwise be paid to the Participant during the next fiscal year.

(S) **"Valuation Date"** means each date on which the Accounts are valued as provided in Subsection 4.7(C).

2.2 Gender and Number

Except when otherwise indicated by the context, any masculine terminology used herein shall also include the feminine, and the use of any term herein in the singular may also include the plural.

SECTION 3. ELIGIBILITY AND PARTICIPATION

3.1 Eligibility

Any employee of the Company shall become a Participant as follows:

(A) For benefits under Section 4.1, 4.2, 4.3 and 4.4, an employee in management salary grade or other employees as approved by the Committee, who participates in the ALLETE Executive Annual Incentive Plan or is eligible to receive an Other Award, shall be eligible to participate in this Plan beginning with the first calendar year in which such employee becomes eligible to receive Annual Incentive Awards or Other Awards.

The following conditions must also be satisfied:

i. The Participant is in the employment of the Company on the last day of the calendar year;

ii. The Participant died while employed by the Company during such calendar year;

iii. The Participant Retired during such calendar year;

iv. The Participant is disabled and is receiving benefit payments under the Company's Long-Term Disability Benefit Plan during such calendar year; or

v. The Participant was on leave of absence at the close of such calendar year and received Compensation from the Company during such year.

(B) For benefits under Section 4.5, senior executive employees are eligible as approved by the Company's Board of Directors. Effective January 20, 2003, no additional employees are eligible for the benefits provided under Section 4.5.

(C) For benefits under Section 4.6, employees who received an Annual Incentive Award or Other Awards while in ALLETE management salary grades SA – SM.

3.2 Participation

An employee who becomes a Participant shall remain eligible to have an account in the Plan as a Participant hereunder, without regard to Compensation and Annual Incentive Awards or Other Awards received in subsequent years, until the last to occur of (i) the employee's Retirement or termination from service for any reason or (ii) the date all benefits, if any, to which he or she is entitled hereunder have been distributed. Employees, who were former Participants, who become employed by an ALLETE wholly or partially owned company, shall not be considered as retired or terminated until such time as they become retired or terminated from the new company. If a Participant is employed by a subsidiary of the Company, and such subsidiary is no longer at least 50% owned by the Company, then such Participant will be considered to be terminated or Retired (as defined in Section 2.1(L)) on such date. Distribution of the Participant's benefits under Sections 4.9, 4.10 or 4.13 shall occur as provided therein.

Notwithstanding the preceding sentence of this Paragraph, in the event that a Participant is employed by a subisidary of the Company which is distributed to shareholders through a stock spin off to shareholders of ALLETE, then the Participant will not be considered to be terminated or Retired (as defined in Section 2.1(L)) for purposes of Section 4.9, 4.10 or 4.13 until their employment at such distributed company terminates for any reason, including Retirement. For purposes of Section 4.6, the Participant will be considered Retired (as set forth in Section 2.1(L)) if the Participant continues employment at such distributed company until the Participant's 50th birthday. Any employment period, salary or other amount earned while employed at such distributed company, however, will not be included in the calculation of the benefit provided under Section 4.6.

An employee who was a Participant, but is not currently eligible for benefits under Sections 4.1, 4.2, 4.3, 4.4, and 4.5, will not receive account additions as described herein. However, the employee may be eligible for benefits under Section 4.6 if they qualify under the terms provided in that Section.

An employee who is a Participant who dies prior to Retirement is no longer entitled to the benefit described under Section 4.6.

3.3 No Guarantee of Employment

Participation in the Plan does not constitute a guarantee or contract of employment with the Company. Such participation shall in no way interfere with any rights the Company would have in the absence of such participation to determine the duration of the employee's employment with the Company.

SECTION 4. BENEFITS

4.1 Annual Makeup Award

For each calendar year ending on or after December 31, 1980, and except as hereinafter specifically provided in this Section 4, the Company shall credit each Participant who qualifies:

(A) **Flexible Dollar Makeup.** An amount equal to the sum of (a) 2% plus (b) the Participant's life insurance percentage under the Minnesota Power and Affiliated Companies Flexible Compensation Program for nonunion employees, multiplied by the following: (i) the total of the Participant's Annual Incentive Award and Other Awards for such year, plus (ii) any amount of the Participant's annual Pay not included in calculating benefits under the Minnesota Power and Affiliated Companies Flexible Compensation Program for nonunion employees for such year due to limitations under Internal Revenue Service (IRS) Code Section 404(l).

(B) **RSOP Allocation Makeup.** An amount equal to the applicable Partnership allocation percent being contributed under Section 4.4(c) of the RSOP of the following:

(a) the total of the Participant's Annual Incentive Award and Other Award for such year, plus

(b) the amount of the Participant's Compensation not included in calculating benefits under the RSOP due to limitations under IRS Code Section 404(l).

If a Participant transfers to an ineligible status, dies or Retires during the year, this calculation will be based on the full Annual Incentive Award and Other Award. If a Participant's annual Pay exceeds that amount allowed under IRS qualified plan's compensation limit, the amount of Participant's annual Pay will be prorated for the number of months in an eligible status.

(C) **RSOP Match Allocation Makeup**. An amount equal to 50% of the amount deferred by the Participant under Section 4.2 of this Plan plus any amount deferred under Section 5.1 of the RSOP, provided, however, that for any calendar year, such match shall not apply to any amount deferred by a Participant in excess of the amount specified in Subsection 4.4(e) of the RSOP of the Participant's Compensation plus Annual Incentive Award and Other Award. Such amount shall be reduced by any amount being contributed by the Company under Subsection 4.4(e) of the RSOP.

4.2 Salary Deferral

Effective through December 31, 2002, the Company shall credit each Participant who qualifies an amount equal to the amount for which a Participant has elected to reduce his or her annual salary pursuant to a Supplemental Salary Reduction Agreement, not to exceed 25% of the Participant's annual salary less the amount allowable to be deferred under the RSOP. Effective January 1, 2003, the Company shall credit each Participant who qualifies an amount equal to the amount for which a Participant has elected to reduce his or her annual salary pursuant to a Supplemental Salary Reduction Agreement.

4.3 Bonus Deferral

The Company shall credit each Participant who qualifies an amount equal to the amount for which a Participant has elected to defer his or her Annual Incentive Award or Other Award.

4.4 Severance Deferral

The Company shall credit each Participant who qualifies an amount equal to the amount for which a Participant has elected to defer his or her severance benefit as approved for deferral by the Committee.

4.5 Non-Qualified Stock Option Gain Deferral

Effective July 1, 1999 through January 20, 2003, the Company shall credit each Participant who qualifies an amount, equal to the amount for which a Participant has elected to defer receipt of his or her shares of ALLETE stock acquired through an Ownership Retention Option Program provided in the Long Term Incentive Compensation Plan and pursuant to the Stock Option Gain Shares Deferral Election.

4.6 Retirement Benefit

At the Retirement of a Participant, the Company shall credit each Participant who qualifies under Subsection 3.1(C) with a Retirement Benefit. The Retirement Benefit shall be calculated as follows:

(A) The monthly Retirement Benefit that would be provided by Retirement Plan A if:

(1) any annual salary limitation in calculating benefits under Retirement Plan A due to the limitation imposed by any provision of the Code Section 404(l) did not exist, and the limitation on annual benefits contained in Code Section 415 did not exist.

(2) Effective through December 31, 2003, the largest sum of four Annual Incentive Awards and Other Awards plus Results Sharing (if any) during any consecutive 48-month period in the most recent 15-year period had been added to the final average earning calculation in Subsection 2.1(q) of Retirement Plan A and such calculation was then reduced by any Results Sharing and Other Awards included in the calculation of final average earnings in Subsection 2.1(q) of Retirement Plan A. The periods covering final average earnings and the four consecutive Annual Incentive Awards and Other Awards plus Results Sharing need not cover the same 48-month period.

Effective January 1, 2004, the largest sum of four Annual Incentive Awards or Other Awards (if any) during any consecutive 48-month period in the most recent 15-year period had been added to the total of the final average earning computation in Subsection 2.1(q) of Retirement Plan A. The periods covering final average earnings and the four consecutive Annual Incentive Awards and/or Other Awards need not cover the same 48-month period. Notwithstanding the foregoing, any Other Award(s) included in Retirement Plan A final average earnings, shall be reduced from the amount herein.

(B) Less the actual monthly retirement benefit provided by Retirement Plan A.

(C) To determine the amount to be credited to the Participants, the resulting difference of (A) less (B) (provided the difference is greater than zero) is multiplied by 12, and the result is multiplied by a factor. Such factor is calculated by first determining a 60% joint and survivor benefit using the respective employee and spouse ages; second, by adjusting for cost of living as described in Section 4.8 of Retirement Plan A and each of the components is multiplied by 50% and the results are added together. The change in the consumer price index shall be assumed to change after the Participant's Retirement at the same average annual rate as the change in the consumer price index for the five-year period ending on the later of the June 30 or the December 31 immediately preceding Retirement. The interest rate to be used in determining the present value and the monthly annuity shall be an annual percentage rate of 8% or such other rate as determined by the Committee.

4.7 Benefit Allocations and Maintenance of Accounts

(A) The amounts specified in Sections 4.1 and 4.3 shall be allocated to the Participant as soon as administratively practicable after the end of the Plan Year.

(B) The amounts specified in Sections 4.2, 4.4 and 4.5 shall be allocated as soon as administratively practicable, but no later than the month following the end of the month in which the benefit was earned by the Participant.

(C) The Company shall establish and maintain, in the name of each Participant, an individual account to be known as the Executive Deferral Account (herein referred to as "EDA" or "Account"). The Committee shall determine the investment funds (known as Investment Funds) available under the Plan and may add or delete Investment Funds from time to time. Account contributions under Sections 4.1, 4.2, 4.3, and 4.4 may be credited in the same manner as if actually invested in the manner identified by the Participant's election among Investment Funds as directed by the Participant. Account additions under Section 4.5 shall be credited to the Participant's Deferred Stock Unit account within the EDA.

As of each Valuation Date, each Account shall be adjusted to reflect the effect of investment gains or losses, income contributions, distributions, transfers and all other transactions with respect to that Account since the previous Valuation Date.

(D) The Account of each Participant shall be entered on the books of the Company and shall represent a liability, payable when due under this Plan, out of the general assets of the Company. Prior to benefits becoming due hereunder, the Company shall expense the liability for payment of such accounts in accordance with policies determined appropriate by the Company's auditors.

4.8 Date of Benefit Commencement

(A) Executive Deferal Account Election

(1) All amounts credited to a Participant's Account under Section 4.1, 4.2, 4.3, 4.4, and Deferred Stock Units under Section 4.5, shall be distributed pursuant to an election submitted by the Participant. Elections under this 4.8 must be made in writing to the Committee prior to the end of the calendar year preceding the year in which benefits are earned. Participants who become eligible during the Plan Year shall make their election upon becoming eligible. If no election has been received herein, or the Participant Retires or dies prior to the benefit allocation, the allocation for such Plan Year shall be paid in cash. If a Participant transfers to an ineligible status during the calendar year, any such award specified in Section 4.1 and or 4.3 shall be paid in cash.

Each Participant shall have the right to elect to have all or any portion of the benefit amounts allocated to said Participant for a calendar year paid under one of the following options:

(a) in cash (either partially or totally);

(b) deferred to a date specified by the Participant (at which time such benefit amounts shall be paid as a lump sum, with the latest deferral date to be no later than April 1 following a Participant attaining age 70 ½); or

(c) deferred to the earlier to occur of the following events:

(i) Retirement or at the time when a disabled Participant is no longer eligible to receive benefits under the applicable employer's long-term disability benefit plan or, if elected, up to five years after Retirement but in no event later than April 1 following a Participant attaining age 70 ½.

(ii) Death of the Participant.

(iii) Termination of the Participant's employment other than at Retirement or long-term disability.

(B) Commencement of Retirement Benefits.

Pursuant to Section 4.6, this benefit shall commence on the last day of the month following the date of the Participant's Retirement. If a Participant dies or terminates employment prior to Retirement, the Retirement Benefit described in Section 4.6 shall be forfeited and will not be payable.

4.9 Form of Benefit Payment - Executive Deferral Account

Subject to the provisions of Sections 4.11, 4.12 and 4.13 hereof, and in accordance with Subsection 4.8(A)(1)(c), a Participant may elect distribution of the Executive Deferral Account as a lump sum, five (5), ten (10), or fifteen (15) year monthly annuity, or partial lump sum with the remainder paid in a five (5), ten (10), fifteen (15) year monthly annuity. Any monthly annuity provided under this section shall be calculated using a 7.5% interest rate, or other rate as approved by the Committee. Notwithstanding the foregoing, monthly annuities under this section shall be calculated using an 8% interest rate in any circumstance in which one of the following conditions applies: (i) the Participant left service prior to January 1, 2007; or (ii) the Participant provided official notice of retirement to the Company prior to January 1, 2007 with an effective retirement date on or before April 1, 2007. Deferred Stock Units shall be distributed in equal annual installments, during the elected payout period. If a Participant has not elected a payout period, the balance will be paid in a lump sum. The Participant may change the length of the payment period, if such change is received by the Committee more than 12 months prior to commencement of the payment period. Notwithstanding the above, if the sum of Sections 4.1, 4.2, 4.3, 4.4 and 4.5 is less than $10,000, the EDA is paid as a lump sum.

EDA distributions (except Deferred Stock Units) will be paid in cash, in equal monthly installments commencing on the last day of the month pursuant to Participants election in Subsection 4.8(A)(1)(c), except that Deferred Stock Units will be distributed in shares of stock commencing within the first 60 days of the Plan Year pursuant to the Participant's election in Subsection 4.8(A)(1)(c).

If a Participant has commenced receipt of benefits under this Plan, and is re-employed by the Company, payments shall be suspended until the Participant again becomes eligible to receive payments under the Plan.

4.10 Form of Payment - Retirement Benefits

The normal, or default, form of the Retirement Benefits provided for in Section 4.6 will be a 15-year monthly annuity (calculated using the interest rate applicable for determining actuarial equivalence or other rate as approved by the Committee). The Participant may elect to receive the Retirement Benefits in the optional form of a monthly life annuity (calculated using the factor described in Section 4.6), such amount to be adjusted (i.e., cost-of-living adjustments) in the same manner as provided in Section 5.11 of Retirement Plan A.

If the actuarial present value of the Retirement Benefits under Section 4.6 is less than $10,000, the benefit will be paid out in a lump sum payment.

If a Participant has commenced receipt of Retirement Benefits under this Plan and is re-employed by the Company, Retirement Benefit payments under this Plan shall be suspended upon such re-employment until the Participant again becomes eligible to receive Retirement Benefit payments under the Plan.

4.11 Benefit Payments Upon Participant's Death

Each Participant shall have the right, in accordance with procedures established from time to time by the Committee, to designate a Beneficiary(ies) (both primary as well as contingent) to whom Plan benefits shall, if permitted by the Plan, be paid if a Participant dies prior to complete distribution of benefits. Each Beneficiary designation shall be in a written form prescribed by the Committee, and will be effective only when filed with the Committee during the Participant's lifetime. Any Beneficiary designation may be changed by a Participant without the consent of the previously named Beneficiary by filing a new Beneficiary designation with the Committee. The most recent Beneficiary designation received by the Committee shall control the payment of all benefits under the Plan in the event of the Participant's death.

In the absence of an effective Beneficiary designation, or if all designated Beneficiaries predecease the Participant or die prior to the complete distribution of the Participant's benefits, benefits shall be paid in the following order of precedence: (1) the Participant's surviving spouse; (2) the Participant's children (including adopted children), per stirpes; or (3) the Participant's estate.

The benefits shall be paid under the circumstances as described in (a) or (b) below:

(a) If the designated beneficiary is the Eligible Surviving Spouse, the payment as elected by the Participant pursuant to Section 4.9 & 4.10 will be paid to the beneficiary beginning the month following the date of death of the Participant, except if the benefit elected under Section 4.10 is a life annuity, the surviving spouse will receive 60% of the Participant's life annuity benefit for the remainder of the beneficiary's life. If the Participant has elected a distribution to commence prior to Retirement, the Company shall pay the remaining payments to the Participant's beneficiary in the same manner and at the same time as if the Participant had lived to receive such payments, subject to the conditions set forth in this Section.

(b) If the designated beneficiary is anyone other than the Eligible Surviving Spouse, the remaining benefit payments shall be paid in a lump sum in the month following the month of the Participant's death, except if the benefit elected under Section 4.10 is a life annuity, the payments end.

In the event a Participant dies prior to Retirement, the benefit described in Section 4.6 shall be forfeited and will not be payable.

4.12 Benefit Payment Upon Disability

In the event a Participant is determined to be disabled under the Company's Long Term Disability Plan, the Participant shall continue to be eligible for this Plan during such period of disability. If the Participant ceases to be disabled prior to Retirement and does not return to active employment with the Company, the Participant shall be deemed to have terminated employment. The Company shall pay the Participant the balance credited to the Participant's EDA account in a single lump sum the month following the month of such termination.

4.13 Benefit Payments Upon Termination Other Than Retirement, Death or Disability

If a Participant's employment with the Company terminates for any reason other than Retirement, death or disability, the Company shall pay each Participant the balance credited to the Participant's EDA account in a single lump sum no later than the month following the month in which the Participant terminates, without regard to any election made by the Participant under Section 4.8. The benefit described in Section 4.6 shall be forfeited and will not be payable.

4.14 Hardship and Unscheduled Benefit Payments

(A) A Participant who has demonstrated a severe financial need as approved by the Committee may request a lump sum distribution of all or any portion of their EDA. Partial distributions will be taken pro rata from the Participant's EDA sub-accounts. However, if a Participant has commenced payment of benefits, the hardship distribution will be the entire remaining balance.

(B) A Participant may elect at any time prior to the time that the first payment from his or her account would otherwise be paid, to withdraw in a single lump sum all, or a specified portion of the balance of his or her Executive Deferral Account. A Participant may also make an election at any time subsequent to the start of installment payments from his or her Executive Deferral Account. Withdrawals under this Section will be reduced in amount by an early withdrawal penalty equal to ten percent of the amount requested, which will be deducted from the amount paid to the Participant and forfeited by the Participant to the Company. Written notice of election to withdraw under this Section stating the lump sum amount withdrawn shall be sent to the Company, and payment of the early withdrawal shall be made by the Company within thirty days of receipt of written notice.

4.15 Cessation of Deferrals Permitted by IRS Notice 2005-1.

Notwithstanding any other Plan provision to the contrary, no amount of Annual Makeup Award, Salary Deferral, Bonus Deferral, Severance Deferral, Non-qualified Stock Option Gain Deferral, or Retirement Benefit (collectively "Deferral") earned for services performed in Plan years beginning after December 31, 2004 shall be deferred under this Plan. Accordingly, any election to make any Deferral under this Plan shall terminate as to future Deferrals as of December 31, 2004 and shall no longer have any force or effect under this Plan. Subject to Section 4.16 hereof, Bonus Deferrals that were earned in 2004 and Deferrals earned in 2005, in each case, that are subject to Deferral elections made under the terms of this Plan shall not be credited under this Plan, but shall be credited under SERP II in accordance with the terms of SERP II and shall be subject to the terms and conditions of such SERP II, including, without limitation, its distribution provisions. No new Deferral elections shall be made under this Article 4 with respect to amounts earned after December 31, 2004. Investment earnings (and losses) shall continue to be credited (or debited) to each participant's EDA account as provided in this Article 4.

4.16 Elections Permitted by IRS Notice 2005-1.

Notwithstanding anything contained herein to the contrary, (i) any Participant who elected a 2004 Bonus Deferral may revoke his or her election in its entirety; (ii) any Participant who elected a 2005 Salary Deferral may revoke his or her election in part or in its entirety; and (iii) any Participant who elected a 2005 Bonus Deferral may file a new deferral election with respect to such 2005 Bonus Deferral, in each case as provided in this Section 4.16. Such revocation election with respect to 2004 Bonus Deferral and/or 2005 Salary Deferral or new deferral election with respect to 2005 Bonus Deferral must be in writing on a form provided by the Committee and must be filed with the Committee on or before January 28, 2005. Any Participant who revokes his or her 2004 Bonus Deferral Election as provided herein shall receive such bonus in cash at or about the same time that such award is paid to other employees of the Company. Any Participant who revokes his or her 2005 Salary Deferral will be paid in accordance with the Company's standard payroll practices.

SECTION 5. ADMINISTRATION

5.1 Administration of Plan

(A) Administrator. The Employee Benefit Plans Committee shall administer the Plan. Notwithstanding the foregoing, the Committee may delegate any of its duties to such other person or persons from time-to-time as it may designate. Members of the Employee Benefit Plans Committee may participate in the Plan; however, any individual serving on the Employee Benefit Plans Committee shall not vote or act on any matter relating solely to himself or herself.

(B) Duties. The Committee is authorized to construe and interpret all provisions of the Plan, and the Committee is authorized to remedy any errors, inconsistencies or omissions, to resolve any ambiguities, to adopt rules and practices concerning the administration of the Plan, and to make any determinations and calculations necessary or appropriate hereunder. The Company shall pay all expenses and liabilities incurred in connection with Plan administration.

(C) Agents. The Committee may engage the services of accountants, attorneys, actuaries, investment consultants, and such other professional personnel as are deemed necessary or advisable to assist in fulfilling the Committee's responsibilities. The Committee, the Company and the Board may rely upon the advice, opinions or valuations of any such persons.

(D) Binding Effect of Decisions. The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan. Neither the Committee, its delegates, nor the Board shall be personally liable for any good faith action, determination or interpretation with respect to the Plan, and each shall be fully protected by the Company in respect of any such action, determination or interpretation.

(E) Employer Information. To enable the Committee to perform its duties, the Company shall supply full and timely information to the Committee on all matters relating to the compensation of Plan Participants, the date and circumstances of the Participant's Retirement, death, disability or Termination, and other pertinent information as the Committee may reasonably require.

5.2 Uniform Rules

In administering the Plan, the Committee will apply uniform rules to all Participants similarly situated.

5.3 Notice of Address

Any payment to a Participant or beneficiary, at the last known post office address on file with the Company, shall constitute a complete acquittance and discharge to the Company and any director or officer with respect thereto unless the Company shall have received prior written notice of any change in the address, condition, or status of the distributee. Neither the Company nor any director or officer shall have any duty or obligation to search for or ascertain the whereabouts of any Participant or his beneficiary.

5.4 Correction of Errors

It is recognized that in the operation and administration of the Plan, certain mathematical and accounting errors may be made or mistakes may arise by reason of factual errors in information supplied to the Company. The Company shall have power to cause such equitable adjustments to be made to correct for such errors as the Company in its discretion considers appropriate. Such adjustments shall be final and binding on all persons.

5.5 Claims Procedure

(A) Presentation of Claim. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may file with the Committee a written claim for a determination with respect to Plan benefits. The claim must state with particularity the determination desired by the Claimant.

(B) Notification of Decision. The Committee shall consider a Claimant's claim, and within 90 days after the claim is received, shall notify the Claimant in writing:

(1) That the claim has been allowed in full; or

(2) That the claim has been denied, in whole or in part, and such notice must set forth in a manner calculated to be understood by the Claimant:

(a) The specific reason(s) for the denial of the claim, or any part of it;

(b) Specific reference(s) to pertinent provisions of the Plan upon which such denial was based;

(c) A description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and

(d) An explanation of the claim review procedures and time limits, including a statement of the Claimant's right to initiate a civil action pursuant to section 502(a) of ERISA following an adverse determination upon review.

(3) If the Committee determines that an extension of time for processing is required, written notice of the extension shall be furnished to the Claimant prior to termination of the original 90-day period. In no event shall such extension exceed 90 days from the end of such initial period.

(4) In the case of a claim for disability benefits, the Committee shall notify the Claimant, in accordance with Section 5.5(B)(2) above, within 45 days after the claim is received. The notification shall advise the Claimant whether the Committee's denial relied upon any specific rule, guideline, protocol or scientific or clinical judgment.

(5) In the case of a claim for disability benefits, if the Committee determines that an extension of time for processing is required due to matters beyond the control of the Plan, written notice of the extension shall be furnished to the Claimant prior to termination of the original 45-day period. Such extension shall not exceed 30 days from the end of the initial period. If, prior to the end of the first 30-day extension period, the Committee determines that, due to matters beyond the control of the Plan, an additional extension of time for processing is required, written notice of a second 30-day extension shall be furnished to the Claimant prior to termination of the first 30-day extension.

(C) Review of a Denied Claim. Within 90 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file a written request for a review of the denial of the claim and of pertinent documents. The Claimant (or the Claimant's duly authorized representative):

(1) May request reasonable access to, and copies of, all documents, records, and other information relevant to the claim, which shall be provided to Claimant free of charge;

(2) May submit written comments or other documents; and

(D) Decision on Review. The Committee shall review all comments or other documents submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Committee shall render its decision on review promptly, and not later than 60 days after the filing of a written request for review of the denial (or, if other special circumstances require additional time and written notice of such extension and circumstances is given to the Claimant within the initial 60-day period). The Committee shall notify the Claimant, in language calculated to be understood by the Claimant:

(1) That the claim has been allowed in full; or

(2) That the claim has been denied, in whole or in part, and such notice must set forth:

(a) Specific reasons for the decision;

(b) Specific reference(s) to the pertinent Plan provisions upon which the decision was based;

(c) A statement that Claimant is entitled to reasonable access to, and copies of, all documents, records or other information relevant to the claim upon request and free of charge;

(d) A statement regarding the Claimant's right to initiate an action pursuant to section 502(a) of ERISA; and

(e) Such other matters as the Committee deems relevant.

(3) In the case of a claim for disability benefits, the notice shall set forth:

(a) Whether the Committee's denial relied upon any specific rule, guideline, protocol or scientific or clinical judgment; and

(b) The following statement: "You and your Plan may have other voluntary alternative dispute resolution options, such as mediation. One way to find out what may be available is to contact your local U.S. Department of Labor Office and your State insurance regulatory agency."

(E) Other Remedies. A Claimant's compliance with the foregoing procedures is a mandatory prerequisite to a Claimant's right to pursue any other remedy with respect to any claim relating to this Plan.

5.6 Change of Law

The Committee may make payments of any benefits or deferred amounts to be paid under the Plan, to any Participant or Participants, or to the beneficiary of any Participant or Participants, in advance of the date when otherwise due, (i) if, based on a change in federal tax law or regulation, published rulings or similar announcements by the Internal Revenue Service, decision by a court of competent jurisdiction involving the Plan, a Participant or a beneficiary, or a closing agreement made under Section 7121 of the Internal Revenue Code of 1986 that involves the Plan, a Participant or a beneficiary, it determines that a Participant or beneficiary will recognize income for federal income tax purposes with respect to amounts that are otherwise not then payable under the Plan; or (ii) if it shall be determined that the Plan is subject to the requirements of Parts 2 and 3 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, because such Plan is not maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees.

5.7 Tax Withholding

The Company shall have the right to deduct from all payments to be made under the Plan, any federal, state or local taxes or other charges required by law to be withheld with respect to such payments.

5.8 Generation-Skipping Tax

Notwithstanding any provisions in this Plan to the contrary, the Committee may withhold any benefits payable to a beneficiary as a result of the death of the Participant (or the death of any beneficiary designated by the Participant) until such time as (i) the Committee is able to determine whether a generation-skipping transfer tax, as defined in Chapter 13 of the Internal Revenue Code of 1986, or any substitute provision therefor, is payable by the Company; and (ii) the Committee has determined the amount of generation-skipping transfer tax that is due, including interest thereon. If any such tax is payable, the Committee shall reduce the benefits otherwise payable hereunder to such beneficiary by the amount necessary to provide said beneficiary with a benefit equal to the amounts that would have been payable if the original benefits had been calculated on the basis of a value for the Participant's supplemental account reduced by an amount equal to the generation-skipping transfer tax and any interest thereon that is payable as a result of the death in question. The Committee may also withhold from distribution by further reduction of the then net value of benefits calculated in accordance with the terms of the previous sentence such amounts as the Committee feels are reasonably necessary to pay additional generation-skipping transfer tax and interest thereon from amounts initially calculated to be due. Any amounts so withheld, and not actually paid as a generation-skipping transfer tax or interest thereon, shall be payable as soon as there is a final determination of the applicable generation-skipping tax and interest thereon.

SECTION 6. GENERAL PROVISIONS

6.1 Nonassignability

Benefits under the Plan are not in any way subject to the debts of other obligations of the persons entitled thereto and may not voluntarily or involuntarily be sold, transferred, or assigned.

6.2 Incompetency

If the Committee determines that a distribution under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct such distribution to be paid to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of majority, competence, capacity, guardianship, or status as a legal representative as it may deem appropriate prior to distribution of a payment. Any distribution shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability for such payment amount.

6.3 Employment Rights

The establishment of the Plan shall not be construed as conferring any legal rights upon any Participant or any other person for a continuation of employment, nor shall it interfere with the rights of the Company to discharge any person and/or treat such person without regard to the effect which such treatment might have upon him or her as a person covered by this Plan.

6.4 No Individual Liability

It is declared to be the express purpose and intention of the Plan that no liability whatever shall attach to or be incurred by the shareholders, officers, or directors of the Company, or any representatives appointed hereunder by the Company, under or by reason of any of the terms or conditions of the Plan.

6.5 Illegality of Particular Provision

If any particular provision of the Plan shall be found to be illegal or unenforceable, such provision shall not affect the other provisions thereof, but the Plan shall be construed in all respects as if such invalid provision were omitted.

6.6 Contractual Obligations

It is intended that the Company is under a contractual obligation to make payments to Participants from the general funds and assets of the Company in accordance with the terms and conditions of the Plan, with such payments to reduce the amounts allocated to the Participant’s account hereunder. A Participant shall have no rights to such payments other than as a general, unsecured creditor of the Company.

6.7 Counterparts

This Plan may be executed in any number of counterparts, each of which shall constitute but one and the same instrument and may be sufficiently evidenced by any one counterpart.

6.8 Evidence

Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information which the person relying thereon considers pertinent and reliable, and signed, made or presented by the proper party or parties.

6.9 Action by Company

Any action required of or permitted by the Company under the Plan shall be by resolution of it's Board of Directors or by a person or persons authorized by resolution of the Board to act on its behalf with respect to the Plan.

6.10 Notice

Any notice or filing required or permitted under the Plan shall be sufficient if in writing and if (i) hand-delivered or sent by telecopy, (ii) sent by registered or certified mail, or (iii) sent by nationally-recognized overnight courier. Such notice shall be deemed given as of (a) the date of delivery if hand-delivered or sent by telecopy, (b) as of the date shown on the postmark on the receipt for registration or certification, if delivery is by mail, or (c) on the first business day after dispatch, if sent by nationally-recognized overnight courier.

SECTION 7. AMENDMENT AND TERMINATION

7.1 Amendment and Termination

The Company expects the Plan to be permanent, but since future conditions affecting the Company cannot be anticipated or foreseen, the Company must necessarily and does hereby reserve the right to amend, modify, or terminate the Plan at any time by written resolution of its Board of Directors. Provided, however, no amendment, termination or other change in the Plan shall reduce the amount allocated to the account of a Participant on the date of such amendment, termination or other change, which account balance shall be payable to such Participant or such Participant's beneficiary as provided herein.

7.2 Reorganization of the Company

In the event of a merger or consolidation of the Company, or the transfer of substantially all of the assets of the Company to another corporation, such continuing, resulting or transferee corporation shall have the right to continue and carry on the Plan and to assume all liabilities of the Company hereunder without obtaining the consent of any Participant or beneficiary. If such successor shall assume the liabilities of the Company hereunder, then the Company shall be relieved of all such liability, and no Participant or beneficiary shall have the right to assert any claim against the Company for benefits under or in connection with this Plan.

7.3 Prohibition on Material Modifications

Notwithstanding anything to the contrary contained herein, this Plan is intended to be grandfathered under and exempt from section 409A of the Internal Revenue Code ("Section 409A") and shall be administered and interpreted in a manner intended to ensure that the Plan remains exempt from Section 409A. No amendments or other modifications to the Plan shall be made, interpreted or construed in a manner that would cause a material modification (within the meaning of Section 409A, including Treasury Regulation § 1.409A-6(a)(4)) to the Plan or to the benefits available under the Plan.

SECTION 8. APPLICABLE LAWS

8.1 Applicable Laws.

The Plan shall be governed by and construed according to the laws of the State of Minnesota.

IN WITNESS WHEREOF, ALLETE, Inc. has caused these presents to be signed and its corporate seal to be hereunto affixed by its duly authorized officers, effective as of January 1, 2009

ALLETE, Inc.

By: Donald J. Shippar

Donald J. Shippar

Its: Chairman, President and Chief Executive Officer

ATTEST

By: Deborah A. Amberg

Deborah A. Amberg

Its: Senior Vice President, General Counsel and Secretary

ALLETE AND AFFILIATED COMPANIES

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN II

Effective January 1, 2009

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ALLETE AND AFFILIATED COMPANIES

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN II

Effective January 1, 2009

ARTICLE 1

Establishment and Purpose

This document includes the terms of the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II. The purpose of SERP II is to provide eligible Employees (i) an opportunity to elect to defer compensation and (ii) a supplemental Retirement Benefit, the primary purpose of which is to compensate for annual compensation limits and maximum benefit limitations imposed by the Code on Retirement Plans maintained by the Company. SERP II is a successor to the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan ("SERP I"). On December 31, 2004, the Company froze SERP I with respect to all deferrals and vested accrued Retirement Benefits (if any). On January 1, 2005, the Company established SERP II to govern (a) amounts initially deferred after December 31, 2004 and investment earnings thereon; (b) Retirement Benefit accruals after December 31, 2004; and (c) accrued but unvested SERP I Retirement Benefits as of December 31, 2004. From January 1, 2005 to the effective date hereof, the Company operated and administered the Plan in all material respects in good faith compliance with the applicable requirements of Section 409A, the final and proposed Treasury Regulations, IRS Notice 2005-1, and all other IRS guidance. The Company now hereby amends and restates SERP II in its entirety to comply with Section 409A, effective January 1, 2009. The Company intends that SERP II constitute an unfunded deferred compensation plan for a select group of management or highly compensated employees within the meaning of ERISA sections 201(2), 301(a)(3) and 401(a)(1). All provisions of SERP II shall be interpreted and administered to the extent possible in a manner consistent with the stated intentions. Capitalized terms, unless otherwise defined herein, shall have the meaning provided in Appendix A.

ARTICLE 2

Section 409A Plans and Organization

2.1 **Section 409A Plans.**

The provisions of SERP II include terms and conditions applicable to the following 409A Plans:

2.1.1 An elective account balance plan for Employees for purposes of Elective Deferrals;

2.1.2 A non-elective account balance plan for Employees for purposes of Non-Elective Deferrals; and

2.1.3 A non-account balance plan for Employees.

2.2 **Organization.** Except as otherwise provided in this section or in a specific section, all provisions of the Plan apply to all amounts deferred under any Article of the Plan.

2.2.1 The provisions of Article 5 apply only for purposes of identifying employees eligible to receive an Annual Make-Up Award and the amount of the award, if any.

2.2.2 The provisions of Articles 6 and 7 apply only to the extent that SERP II provides for Employees' Elective Deferrals, or Non-Elective Deferrals or both, which, for purposes of Section 409A, represent the elective and non-elective account balance plans identified in subsections 2.1.1 and 2.1.2, respectively.

2.2.3 The provisions of Article 8 apply only to the extent that SERP II provides for Retirement Benefits, which represent the non-account balance plan identified in subsection 2.1.3.

2.3 **Section 409A Compliance.** To the extent that any provision of the Plan would cause a conflict with the requirements of Section 409A, or would cause the administration of the Plan to fail to satisfy Section 409A, such provision shall be deemed null and void to the extent permitted by applicable law. Nothing herein shall be construed as a guarantee of any particular tax treatment to a Participant.

ARTICLE 3

Administration

3.1 **Administrator.**

The Administrator shall administer the Plan or may delegate any of its duties to such other person or persons from time to time as it may designate. Members of the Employee Benefit Plans Committee may participate in SERP II; however, any individual serving on the Employee Benefit Plans Committee shall not vote or act on any matter relating solely to himself or herself.

3.2 **Duties.**

The Administrator has the authority to construe and interpret all provisions of the Plan and, to the extent permitted by Section 409A, the Administrator is authorized to remedy any errors, inconsistencies or omissions, to resolve any ambiguities, to adopt rules and practices concerning the administration of the Plan, and to make any determinations and calculations necessary or appropriate hereunder. The Company shall pay all expenses and liabilities incurred in connection with Plan administration.

3.3 **Agents.**

The Administrator may engage the services of accountants, attorneys, actuaries, investment consultants, and such other professional personnel as are deemed necessary or advisable to assist in fulfilling the Administrator's responsibilities. The Administrator, the Company and the Board may rely upon the advice, opinions or valuations of any such persons.

3.4 **Binding Effect of Decisions.**

The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan. Neither the Administrator, its delegates, nor the Board shall be personally liable for any good faith action, determination or interpretation with respect to the Plan, and each shall be fully protected by the Company in respect of any such action, determination or interpretation.

3.5 **Employer Information.**

To enable the Administrator to perform its duties, each Employer shall supply full and timely information to the Administrator on all matters relating to the compensation of its Participants, the date and circumstances of the Participant's death, Disability or Separation from Service, and other pertinent information as the Administrator may reasonably require.

ARTICLE 4

Participation

4.1 **Eligibility and Commencement of Participation.**

Eligible Employees may participate in the Plan, except to the extent provided in Section 8.1 regarding eligibility for Retirement Benefits. Each Plan Year, the Administrator shall notify Eligible Employees of their eligibility to participate in the Plan during the following Plan Year. An Eligible Employee shall become a Participant either upon the initial submission of an election form on which the Eligible Employee has elected Elective Deferrals or upon first receiving an allocation of Non-Elective Deferrals.

4.2 **Special Rule for Initial Participation.**

Within 30 days after the date an individual first becomes an Eligible Employee, the individual may elect to commence participating with respect to compensation to be paid for services performed after the election is filed. This election relating to initial participation in the Plan is available only to Participants who do not participate in any Aggregated Plans. If an Employee whose participation in the Plan is terminated again becomes an Eligible Employee, he or she may elect to defer pursuant to this Section only if the Employee was ineligible to defer compensation in this Plan and all other Related Company elective account balance plans, within the meaning of Section 409A, for the 24 months preceding the date on which the Participant again became eligible to participate in this Plan.

4.3 **Termination of Participation.**

If the Administrator determines in good faith that a Participant is no longer an Eligible Employee, the Participant shall cease active participation in the Plan on the last day of the Plan Year during which the Participant ceased to be an Eligible Employee, and the terms of this Plan shall continue to govern Participant's Account until the Participant's Account is paid in full.

ARTICLE 5

Annual Make-Up Award

5.1 **Eligibility.**

An Employee who: (i) was a Participant as of September 30, 2006, (ii) has continuously remained an Employee in ALLETE management salary grade SA-SM, and (iii) has continuously participated in the ALLETE Executive Annual Incentive Plan or been eligible to receive a Bonus shall be eligible to receive an Annual Make-up Award. Any other Employee shall be eligible to receive an Annual Make-up Award if the Employee: (i) initially becomes, or again becomes, a Participant after September 30, 2006, (ii) is in ALLETE management salary grade SF-SM, and (iii) participates in the ALLETE Executive Annual Incentive Plan or is eligible to receive a Bonus.

5.2 **Amount of Annual Make-Up Award.**

The Annual Make-Up Award shall be the sum of the Flexible Dollar Makeup, the RSOP Allocation Makeup and the RSOP Match Allocation Makeup, each calculated as described in this section.

5.2.1 **Flexible Dollar Makeup.** The Flexible Dollar Makeup for a Plan Year shall equal the product of A and B, with A equal to the sum of (i) 2% and (ii) the Participant's life insurance percentage under the Minnesota Power and Affiliated Companies Flexible Compensation Plan for nonunion employees, and B equal to the sum of: (a) the total of the Participant's Annual Incentive Award and other awards (to the extent included in calculations for the Retirement Plans) for such year, and (b) the Participant's Salary (determined as of October 1 of the prior Plan Year) in excess of the Code section 401(a)(17) limitation in effect for that Plan Year.

5.2.2 **RSOP Allocation Makeup.** For a Participant who was a Participant as of September 30, 2006, for so long as he remains continuously eligible as a Participant, the RSOP Allocation Makeup for a Plan Year shall equal the product of C and D, with C equal to the sum of (i) 1.5% and (ii) the percentage (if any) being allocated for that year as an excess amount pursuant to the RSOP, and D equal to the sum of (a) the total of the Participant's Annual Incentive Award and other award (to the extent included in calculations for the Retirement Plans) for such year, and (b) the amount of the Participant's Salary in excess of the Code section 401(a)(17) limitation in effect for that Plan Year.

For a Participant who becomes a Participant on or after October 1, 2006, the RSOP Allocation Makeup for a Plan Year shall equal the product of E and F, with E equal to the sum of: (i) 6% and (ii) the percentage, if any, being allocated as an excess amount pursuant to the RSOP; and F equal to the sum of (a) the total of the Participant's Annual Incentive Award and other award (to the extent included in calculations for the Retirement Plans) for the year, and (b) the amount of the Participant's Salary in excess of the Code section 401(a)(17) limitation in effect for that Plan Year.

If a Participant ceases to be an Eligible Employee during a Plan Year, the RSOP Allocation Makeup for that Plan Year will be calculated by: (i) taking into account the full Annual Incentive Award and other award (to the extent included in calculations for the Retirement Plans) and, (ii) with respect to any Participant whose base salary exceeds the Code section 401(a)(17) limitation in effect for that Plan Year, prorating the Participant's Salary to reflect the period during the Plan Year for which the Participant was an Eligible Employee.

5.2.3 **RSOP Match Allocation Makeup.** The RSOP Match Allocation Makeup for a Plan Year shall equal the excess of G over H, with G equal to the lesser of: (i) the sum of the Participant's Elective Deferrals out of Salary and RSOP deferrals (including both pre-tax and Roth after-tax deferrals), and (ii) with respect to any Eligible Employee who was a Participant as of September 30, 2006, for so long as he remains continuously eligible as a Participant, 4% of the Participant's Salary plus Bonus; or with respect to any Eligible Employee who becomes a Participant on or after October 1, 2006, 5% of the Participant's Salary plus Bonus; and H equal to RSOP matching contributions for the Plan Year on behalf of the Participant.

5.3 **Payment.**

Except to the extent deferred in accordance with this Plan, the Annual Make-Up Award for any year shall be paid between January 1 and March 15 of the year following the year to which the award relates.

ARTICLE 6

SERP II Account Balance Plan for Employees

6.1 **Elective Deferrals.**

6.1.1 **Deferral Elections.** For each Plan Year, a Participant may elect to defer some or all of Salary, Bonus, and, if eligible, an Annual Make-up Award, Severance Pay and Other Awards. Elections are effective on a calendar year basis and become irrevocable no later than the date specified by the Administrator, but in any event before the beginning of the Plan Year to which the elections relate. A Participant's elections will become effective only if the forms required by the Administrator have been properly completed and signed by the Participant, timely delivered to the Administrator, and accepted by the Administrator. A Participant who fails to file elections before the required date will be treated as having elected not to defer any amounts for the following Plan Year. For any Plan Year the Administrator may, in its sole discretion, decide not to allow one or more Participants to defer certain types of compensation.

6.1.2 **Special Rule for Performance-Based Compensation.** The Administrator, in its complete and sole discretion, may allow a Participant to revise a deferral election with respect to a Bonus if the Administrator determines that the Bonus is performance-based compensation within the meaning of Section 409A and the election becomes irrevocable no later than the earlier of: (a) six months preceding the end of the performance period to which the Bonus relates; or (b) the date as of which the Bonus has become readily ascertainable, within the meaning of Section 409A.

6.1.3 **Special Rule for Severance Pay.** A Participant may elect to defer all or a portion of Severance Pay by filing with the Administrator an irrevocable deferral election no later than the date the Participant obtains a legally binding right to the Severance Pay.

6.1.4 **Cancellation of Deferral Election due to Disability.** If a Participant becomes disabled, the Administrator may, in its sole discretion, cancel the Participant's deferral election, with respect to amounts to be deferred on or after the cancellation, by the end of the year during which the Participant becomes disabled, or, if later, the 15th day of the third month following the date on which the Participant becomes disabled. For purposes of this Section, a Participant shall be disabled if the Participant is suffering from any medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties of his position or any substantially similar position, if such impairment can be expected to result in death or can be expected to last for a continuous period of six months.

The Participant may elect to defer amounts for the Plan Year Following his return to employment and for every Plan year thereafter while an Eligible Employee, provided the Participant's deferral election otherwise complies with all of the requirements of this Section.

6.1.5 **Cancellation of Deferral Election due to Unforeseeable Emergency.** If a Participant experiences an Unforeseeable Emergency during a Plan Year, the Participant may submit to the Administrator a written request to cancel Elective Deferrals for the Plan Year to satisfy the Unforeseeable Emergency. If the Administrator either approves the Participant's request to cancel Elective Deferrals for the Plan Year, or approves a request for a distribution of in accordance with Section 6.4.6, then effective as of the date the request is approved the Administrator shall cancel the Participant's deferral elections for the remainder of the Plan Year. A Participant whose Elective Deferrals are canceled during a Plan Year in accordance with this section may elect Elective Deferrals for the following Plan Year; provided, however, if required to comply with Treasury Regulations section 1.401(k)-1(d)(3), the Participant may not elect to defer any amounts attributable to periods less than six months from the date on which the Participant receives a distribution on account of an Unforeseeable Emergency.

6.1.6 **Withholding of Deferrals.** The Administrator will withhold Elective Deferrals not later than the end of the calendar year during which the Company would otherwise have paid the amounts to the Participant but for the Participant's deferral election. The Administrator will not withhold Elective Deferrals from a Participant's Salary during any period in which the Participant is on an unpaid leave of absence.

6.2 **Non-Elective Deferrals.**

6.2.1 **Annual Make-Up Award.** If the Administrator determines that a Participant's Salary exceeds the Code section 401(a)(17) limit, the Administrator shall automatically credit the Participant's Annual Make-up Award to the Participant's Account.

6.2.2 **162(m) Deferrals.** The Administrator shall automatically credit a Participant's 162(m) Deferrals to the Participant's Account.

6.3 **FICA and Other Taxes.**

For each Plan Year during which a Participant has Deferrals, the Participant's Employer(s) shall, in a manner determined by the Employer(s), withhold the Participant's share of FICA and other required employment or state, local, and foreign taxes on Deferrals from that portion of the Participant's Salary, Bonus, Annual Make-up Award, Severance Pay, Other Award and in the event of a 162(m) Deferral, the Participant's compensation generally, that is not deferred. To the extent permitted by Section 409A, the Administrator may reduce a Participant's Deferrals to the extent necessary to pay FICA and other employment, state, local and foreign taxes.

6.4 **Distributions.**

The Plan provides for distributions in a Specified Year, or upon a Separation from Service, death, Disability, or Unforeseeable Emergency. At the time of a Participant's initial deferral election, a Participant may elect to receive a distribution: (i) with respect to Elective Deferrals, in a Specified Year; and (ii) with respect to all Deferrals, upon the earlier of Separation from Service, death or Disability. In each subsequent Plan year, a Participant may elect to have all or any portion of that year's Elective Deferrals distributed either in a Specified Year, subject to the restrictions in Section 6.4.1, or in accordance with the Participant's prior elections for distributions other than in a Specified Year. Except as otherwise provided in the Plan, a Participant's distribution elections are irrevocable and will govern the Deferrals to which the election relates until the amounts covered by the election are paid in full or until subsequently changed in accordance with Section 6.6. Notwithstanding any elections by a Participant, all distributions are subject to the provisions of Section 6.5.

6.4.1 **Specified Year.** A Participant may elect to receive a distribution of Elective Deferrals in a Specified Year, which may be no earlier than the third Plan Year beginning after the date on which the Participant initially elects to receive a distribution in a Specified Year. Except as otherwise provided in this subsection or in Section 6.6, once a Participant has elected to receive a distribution in a Specified Year, the Participant may not elect to receive a distribution in a different Specified Year. Beginning during the year preceding any Specified Year previously elected by the Participant, the Participant may elect to receive a distribution of Elective Deferrals in a later Specified Year, subject, however, to the restrictions of this subsection. All amounts distributed in a Specified Year will be paid in a single lump sum.

6.4.2 **Separation from Service.** A Participant may elect to receive a distribution commencing either upon a Separation from Service, or during any of the first five years following the year of the Separation from Service. A Participant may elect to receive a distribution in the form of a lump sum, monthly installments over a period of five (5), ten (10), or fifteen (15) years, or a combination of both a lump sum and installments.

6.4.3 **Disability.** A Participant may elect to receive a distribution on account of Disability. Distributions upon Disability will commence on the earlier of the Participant's 65th birthday or the second anniversary of the Disability, unless changed in accordance with Section 6.6. A Participant may elect to receive the distribution in the form of a lump sum, monthly installments over a period of five (5), ten (10), or fifteen (15) years, or a combination of both a lump sum and installments. Notwithstanding any other election by a Participant relating to a distribution upon Disability, if a Participant dies after commencement of a Disability but before the year during which distributions would commence, the Participant's Account shall be distributed in accordance with the Participant's election regarding distributions upon death.

6.4.4 **Death.** A Participant may elect to receive a distribution commencing upon death or during any of the first five years following the year of death. A Participant may elect to receive a distribution in the form of a lump sum, monthly installments over a period of five (5), ten (10), or fifteen (15) years, or a combination of both a lump sum and installments.

6.4.5 **Unforeseeable Emergency.** A Participant may submit a written request for a distribution on account of an Unforeseeable Emergency. Upon approval by the Administrator of a Participant's request, the Participant's Account, or that portion of a Participant's Account deemed necessary by the Administrator to satisfy the Unforeseeable Emergency (determined in a manner consistent with Section 409A) plus amounts necessary to pay taxes reasonably anticipated because of the distribution, will be distributed in a single lump sum.

6.5 **Additional Distribution Rules.**

6.5.1 **Default Time and Form of Distribution.** If a Participant fails timely to elect a time and form of distribution, the Participant's Account will be distributed upon any Separation from Service, including death, in the form of a single lump sum payment.

6.5.2 **Commencement of Distributions.** Except as otherwise provided in this section, if a Participant has elected to receive a distribution commencing upon a Distribution Event, or if a distribution is required upon a Distribution Event, distribution will commence between the date of the Distribution Event and the end of the year in which the Distribution Event occurs. If a Participant has elected, or is required, to receive a distribution commencing upon a Distribution Event, and the Distribution Event occurs on or after October 1 of a Plan Year, the distribution may, to the extent permitted by Section 409A, commence after the Distribution Event and on or before the 15th day of the third calendar month following the Distribution Event, even if after the end of the year during which the Distribution Event occurs; provided, however, the Participant will not be permitted, directly or indirectly, to designate the taxable year of the distribution. If a Participant has elected to receive a distribution commencing during any of the first five years following the year of a Distribution Event, the distribution will commence during the year elected by the Participant. If a Participant has elected to receive a distribution in a Specified Year, the distribution will occur during the Specified Year. Any distribution that complies with this section shall be deemed for all purposes to comply with the Plan requirements regarding the time and form of distributions.

6.5.3 **Installments.** If a Participant elects to receive distributions in monthly installments, the Participant's Account will be paid in substantially equal monthly installments in consecutive years over the period elected by the Participant. Each monthly installment will be paid during the Plan Year in which it is due, commencing as described in Section 6.5.2. During the Plan Year in which distributions commence, the Participant will receive one installment for each calendar month beginning after the date of the Distribution Event, or, if the Participant has elected to receive a distribution commencing during any of the first five years following the year of a Distribution Event, one monthly installment for each calendar month beginning after the anniversary date of the Distribution Event. During the distribution period, the Participant's Account will be credited with interest compounded monthly at a rate of 7.5% per year. Any installment distribution that complies with this section shall be deemed for all purposes to comply with the Plan requirements regarding the time and form of distributions.

6.5.4 **Death After Commencement of Distributions.** Upon the death of a Participant after distributions of the Participant's Account have commenced, the balance of the Participant's Account will be distributed to the Participant's Beneficiary at the same times and in the same forms that the Account would have been distributed to the Participant if the Participant had survived.

6.5.5 **Distributions to Specified Employees.** Notwithstanding anything to the contrary in this Plan, if a Participant becomes entitled to a distribution on account of a Separation from Service and is a Specified Employee on the date of the Separation from Service, distributions shall not commence until the earlier of: (i) the expiration of the six-month period beginning on the date of Participant's Separation from Service, or (ii) the date of Participant's death. Payments to which a Specified Employee would otherwise be entitled during this six-month period shall be accumulated and paid, together with earnings that have accrued during this six-month delay, during the seventh month following the date of the Participant's Separation from Service, or, if earlier, the date of the Participant's death.

6.5.6 **Effect of Change in Control.** Notwithstanding a Participant's elections regarding distributions upon a Separation from Service and a distribution in a Specified Year, if (a) the Participant has a Separation from Service within two years following a Change in Control or (b) a Change in Control occurs within six months after the Participant has a Separation from Service, the Participant shall receive a distribution of the Participant's entire Account in a single lump sum upon the later of the Separation from Service or the Change in Control, whether or not distributions have already commenced.

6.6 **Subsequent Changes in Time and Form of Distributions.**

A Participant may, in accordance with rules, procedures and forms specified from time to time by the Administrator, elect to change the time of commencement or change the form in which the Participant's Account is distributed or both, provided that: (i) the Participant elects at least twelve (12) months prior to the date on which payments are otherwise scheduled to commence; (ii) the new election does not take effect for at least twelve (12) months; and (iii) with respect to changes applicable to distributions in a Specified Year or upon Separation from Service, the distributions must be deferred for at least five (5) years from the date the distributions would otherwise have been paid, or in the case of installment payments, five (5) years from the date the installments were scheduled to commence. For purposes of this section, distributions on account of a Specified Year are considered scheduled to commence on January 1 of the Specified Year and all other distributions are considered to commence on the date of the Distribution Event, or if the Participant has elected a later year for commencement, January 1 of the year elected by the Participant. Any election in accordance with this section to change the time or form or both shall be irrevocable on the date it is filed with the Administrator unless subsequently changed pursuant to this Section.

ARTICLE 7

Accounts and Investments

7.1 **Establishment of Accounts.**

The Company will establish notional accounts for each Participant as the Administrator deems necessary or advisable from time to time. The Company will establish a Participant's Account at the earlier of the time a Participant first elects to defer any amounts into the Account or the time the Company first credits non-elective amounts to the Account. Each Account shall be credited as appropriate with deferrals and earnings with respect to deferrals and debited for distributions from the Account.

7.2 **Timing of Credits to Accounts.**

The Administrator shall credit a Participant's Elective Deferrals to the Participant's Account(s) not later than the end of the calendar year during which the Company would otherwise have paid the amounts to the Participant but for the Participant's deferral election. The Administrator shall credit Non-Elective Deferrals at such times and in such amounts as the Administrator determines.

7.3 **Vesting.**

All Participant Accounts are fully vested at all times.

7.4 **Investments.**

The Administrator may select investment funds to use for measuring notional gains and losses credited or debited to Participant's Accounts. The Administrator will establish, from time to time, rules and procedures for allowing each Participant who has not had a Distribution Event to designate which one or more of the selected investment funds will be used to determine the notional gains and losses credited or debited to the Participant's Accounts prior to commencement of distributions.

7.5 **Valuation Date**.

As of each Valuation Date, each Account will be adjusted to reflect the effect of notional investment gains or losses, additions, distributions, transfers and all other transactions with respect to that Account since the previous Valuation Date.

ARTICLE 8

SERP II Retirement Benefit

8.1 **Eligibility.**

The provisions of Article 8 apply only to Eligible Employees who were eligible for Retirement Benefits on September 30, 2006. Effective October 1, 2006, the Company froze eligibility for Retirement Benefits and individuals who were not Participants on that date are not eligible for Retirement Benefits. Any Participant who was accruing Retirement Benefits on September 30, 2006 or who was eligible to accrue Retirement Benefits on that date because the Participant received an Annual Incentive Award or Other Award and was serving in management salary grades SA – SM, will remain eligible for Retirement Benefits in accordance with this section; provided the Participant remains an Employee of a Related Company.

8.2 **Vesting and Forfeiture**.

Participants will fully vest in the Retirement Benefit upon: (i) Retirement; (ii) becoming Disabled after attaining both age 50 and 10 years of Vesting Service; or (iii) upon attaining age 50 and 10 years of Vesting Service after becoming Disabled. Participants will forfeit unvested Retirement Benefits and prior years of Vesting Service upon Separation from Service or death prior to full vesting.

8.3 **Retirement Benefit**.

The amount of the Retirement Benefit shall equal a single life annuity determined in the manner provided in the Retirement Plans, including any applicable early retirement factors and cost of living adjustments, but using a Participant's Final Average Earnings and years of Credited Service as described in this section.

8.3.1 **Final Average Earnings.** Final Average Earnings include the sum of: (i) the Participant's four highest consecutive Annual Incentive Awards and Other Awards within the "applicable 15-year period," and (ii) the Participant's highest Basic Compensation during any consecutive 48-month period within the "applicable 15-year period" to the extent that Basic Compensation exceeds the limitation on compensation imposed by Code section 401(a)(17). Compensation in excess of the limitation on compensation imposed by Code section 401(a)(17) shall be determined by using the limit in effect on the first day of the 48-month period described in (i) and the next three anniversaries of that date. With respect to a Participant who becomes entitled to a distribution upon Retirement, the "applicable 15-year period" shall be the fifteen (15) years preceding the date of Retirement. With respect to a Participant who becomes entitled to a distribution because of Disability, the "applicable 15-year period" shall be the 15-year period that: (i) ends no earlier than the Participant's Disability and no later than the Participant's sixty-fifth (65^{th}) birthday; and (ii) would result in the greatest Retirement Benefit.

8.3.2 **Years of Credited Service.** A Participant will receive credit for years of Credited Service after September 30, 2006, only to the extent that: (i) the Participant has been continuously employed since that date by a Related Company in management salary grades SA – SM; and (ii) distributions of Retirement Benefits have not commenced.

8.4 **Time and Form of Distributions.**

Subject to the provisions of Section 8.5, a Participant will become entitled to a distribution of vested Retirement Benefits, in the form determined by this section, upon the earlier of: (i) Retirement; (ii) Disability; or (iii) solely with respect to a Participant who vests after becoming Disabled, the earlier of death or attainment of age 65.

8.4.1 **Election of Alternative Forms of Distribution.** A Participant may elect to receive the Retirement Benefit in one of the following forms, each of which shall be actuarially equivalent: (i) monthly installments over a 15-year period, (ii) a monthly life annuity, (iii) a lump sum payment; or (iv) a combination of a lump sum and either (i) or (ii). Actuarially equivalence will be calculated using actuarial factors adopted by the Administrator from time to time. Effective as of December 31, 2008, Participant elections regarding the form of distribution are irrevocable and will remain in effect until the Retirement Benefits are paid in full unless a Participant elects to change the time and form of payment in accordance with Section 8.6.

8.4.2 **Default Form of Payment.** If a Participant fails to elect a form of payment with respect to the Participant's Retirement Benefit before December 31, 2008, the Retirement Benefit will be paid in the form of monthly installments over a 15-year period unless the Participant elects to change the time and form of payment in accordance with Section 8.6.

8.5 **Additional Distribution Rules.**

8.5.1 **Commencement of Distributions.** Distributions on account of a Distribution Event other than Disability will commence between the date of the Distribution Event and the end of the year in which the Distribution Event occurs. If a Distribution Event other than Disability occurs on or after October 1 of a Plan Year, the distribution may, to the extent permitted by Section 409A, commence after the Distribution Event and on or before the 15th day of the third calendar month following the Distribution Event, even if after the end of the year during which the Distribution Event occurs; provided, however, the Participant will not be permitted, directly or indirectly, to designate the taxable year of the distribution. Any distribution that complies with this section shall be deemed for all purposes to comply with the Plan requirements regarding the time and form of distributions.

8.5.2 **Distributions to Specified Employees.** Notwithstanding anything to the contrary in this Plan, if a Participant becomes entitled to a distribution on account of a Retirement and is a Specified Employee on the date of the Retirement, distributions shall not commence until the earlier of: (i) the expiration of the six-month period beginning on the date of Participant's Retirement, or (ii) the date of the Participant's death. Payments to which a Specified Employee would otherwise be entitled during this six-month period shall be accumulated and paid, together with earnings (calculated using the interest rate adopted by the Administrator for determining actuarial equivalence) that have accrued during this six-month delay, during the seventh month following the date of the Participant's Retirement, or, if earlier, the date of the Participant's death.

8.5.3 **Disability.** Unless subsequently changed in accordance with the Plan, distributions on account of Disability will commence on the earlier of the Participant's 65th birthday or the second anniversary of the Disability.

8.5.4 **Annuity Payments and Installments.** If a Participant elects to receive all or a portion of the distributions in monthly installments, that portion to be paid in installments will be paid in substantially equal monthly installments in consecutive months over a 15-year period. If a Participant elects to receive all or a portion of the distributions in the form of a life annuity, that portion to be paid as a life annuity will be paid in monthly installments in consecutive months for the remainder of the Participant's life, in the case of a unmarried Participant, and in the case of a married Participant over the lives of the Participant and the Participant's Eligible Surviving Spouse. Each monthly installment or life annuity payment will be paid during the Plan Year in which it is due, commencing as described in Section 8.5.1. During the Plan Year in which distributions commence, the Participant will receive one installment or life annuity payment for each calendar month beginning after the date of the Distribution Event. If the Participant has elected to be paid in installments, during the distribution period the portion of the Participant's Account to be paid in installments will be credited with interest compounded monthly at the interest rate used by the Administrator to determine actuarial equivalence. Any distribution that complies with this section shall be deemed for all purposes to comply with the Plan requirements regarding the time and form of distributions.

8.5.5 **Death After Commencement of Benefits.** Upon the death of a Participant after distributions of the Participant's Retirement Benefit have commenced, the remainder of the Participant's Retirement Benefit will continue to be distributed to the Participant's Beneficiary at the same time and in the same form as the benefit would have been distributed to the Participant had the Participant survived, except to the extent that the Participant had elected a life annuity: (i) if the Participant has an Eligible Surviving Spouse on the date of death, the surviving spouse will receive 60% of the Participant's life annuity benefit for the remainder of the spouse's life and (ii) if the Participant does not have an Eligible Surviving Spouse, the annuity will cease as of the first day of the month following the month during which the Participant died.

8.5.6 **Effect of Change of Control.** With respect to any Participant whose Retirement Benefit distributions have commenced, or would commence, upon a Separation from Service, if (a) the Participant's Separation from Service occurs within two years following a Change in Control or (b) a Change in Control occurs within six months after the Participant's Separation from Service, then notwithstanding the Participant's elections regarding distributions upon a Separation from Service, the Participant shall receive a distribution of the Participant's entire remaining vested Retirement Benefit in a single lump sum upon the later of the Separation from Service or the Change in Control, whether or not distributions have already commenced. Any Retirement Benefit that does not become payable in a lump sum in accordance with this section will vest, if at all, in accordance with Section 8.2, will become payable in accordance with Section 8.4, and will otherwise remain subject to the provisions of Article 8.

8.6 **Subsequent Changes in Time and Form of Payment.**

A Participant may, in accordance with rules, procedures and forms specified from time to time by the Administrator, elect to change the form in which the Participant's Retirement Benefit is distributed, provided that: (i) the Participant elects at least twelve (12) months prior to the date on which payments are otherwise scheduled to commence; (ii) the new election does not take effect for at least twelve (12) months; and (iii) with respect to changes applicable to distributions upon Retirement or, solely with respect to a Participant who vests after becoming Disabled, distributions upon attaining age 65, distributions must be deferred for at least five years from the date the distributions would otherwise have been paid, or in the case of installment payments or life annuity payments, five years from the date the installments or life annuity payments were scheduled to commence. Any such election shall be irrevocable on the date it is filed with the Administrator unless subsequently changed pursuant to this section. For purposes of this section, distributions are considered to commence on the date of the Distribution Event.

8.7 **FICA and Other Taxes.**

At the time of a Participant's Distribution Event, the Participant's Employer(s) shall, in a manner determined by the Employer(s), calculate the FICA and other required employment or state, local, and foreign taxes due on the lump sum present value, calculated using the factors adopted by the Administrator for determining actuarial equivalence, of the Participant's Retirement Benefit and shall reduce the Participant's Retirement Benefit by the amount of any such taxes payable by the Participant. The amount of the Participant's Retirement Benefit remaining after reduction for any taxes shall be payable in accordance with Sections 8.5 and 8.6.

ARTICLE 9

Payment Acceleration and Delay

9.1 **Permitted Accelerations of Payment.**

Except as otherwise provided herein or permitted by Section 409A, the Plan prohibits the acceleration of the time or schedule of any payment due under the Plan.

9.1.1 **Distribution in the Event of Taxation.** If, for any reason, all or any portion of any benefit provided by the Plan becomes taxable to a Participant because of a violation of Section 409A prior to receipt, the Participant may file a written request with the Administrator for a distribution of that portion of the Plan benefit that has become taxable. Upon the grant of such a request, which grant shall not be unreasonably withheld, the Participant shall receive a distribution equal to the taxable portion of the Plan benefit. If the request is granted, the tax liability distribution shall be paid between the date on which the Participant's request is approved and the end of the Plan Year during which the approval occurred, or if later, the 15th day of the third calendar month following the date on which the Participant's request is approved.

9.1.2 **Compliance with Ethics Laws or Conflicts of Interests Laws.** The Administrator is authorized, in its sole discretion, to accelerate the time or schedule of a payment to the extent necessary to avoid the violation of any applicable federal, state, local, or foreign ethics law or conflicts of interest law as provided in Section 409A.

9.1.3 **Small Accounts.** The Administrator may, in its sole discretion, distribute in a single lump sum the aggregate amounts of Deferrals or Elective Deferrals or both credited to the Participant's Account, along with any related earnings, provided: (i) the distribution results in the payment of the Participant's entire interest in the Account and all Aggregated Plans, and (ii) the total payment does not exceed the applicable dollar limit under Code section 402(g)(1)(B). The Administrator shall notify the Participant in writing if the Administrator exercises its discretion pursuant to this Section.

9.1.4 **Settlement of a Bona Fide Dispute.** The Administrator may, in its sole discretion, accelerate the time or schedule of a distribution as part of a settlement of a bona fide dispute between the Participant and the Employer over the Participant's right to a distribution provided that the distribution relates only to the deferred compensation in dispute and the Employer is not experiencing a downturn in financial health.

9.1.5 **Settlement of Debt.** The Administrator may, in its sole discretion, accelerate the time or schedule of a payment to satisfy an ordinary debt owed by the Participant to the Employer at the time the debt becomes due as provided in Section 409A.

9.2 **Permissible Payment Delays.**

Notwithstanding anything in the Plan to the contrary, to the extent permitted by Section 409A, the Administrator may, in its sole discretion, delay a distribution to a Participant:

9.2.1 If the distribution would jeopardize the Employer's ability to continue as a going concern, provided that the delayed amount is distributed in the first calendar year in which the payment would not have such effect.

9.2.2 If the Company reasonably anticipates that its deduction with respect to a distribution, if paid as scheduled, could be limited or barred by the application of Code section 162(m), provided the delayed amount is distributed in the first calendar year in which the Company reasonably anticipates that the deduction would not be limited or barred by the application of Code section 162(m).

9.2.3 If the distribution would violate Federal securities or other applicable laws, provided that the delayed amount is distributed at the earliest date at which the Administrator reasonably anticipates that the distribution will not cause such violation.

9.2.4 If calculation of the distribution is not administratively practicable due to events beyond the control of the Participant, provided that the delayed amount is distributed in the first calendar year in which the calculation of the distribution is administratively practicable.

9.3 **Suspension Not Allowed.**

If a Participant whose distributions have commenced becomes eligible again to defer compensation as a Participant in any plan subject to Section 409A maintained by a Related Company, distribution of the Participant's Retirement Benefit or Account may not be suspended.

ARTICLE 10

Beneficiary Designation

10.1 **Beneficiary.**

Each Participant shall have the right, in accordance with procedures established from time to time by the Administrator, to designate a Beneficiary(ies) (both primary as well as contingent) to whom Plan benefits shall, if permitted by the Plan, be paid if a Participant dies prior to complete distribution of benefits. Each Beneficiary designation shall be in a written form prescribed by the Administrator, and will be effective only when filed with the Administrator during the Participant's lifetime. Any Beneficiary designation may be changed by a Participant without the consent of the previously named Beneficiary by filing a new Beneficiary designation with the Administrator. The most recent Beneficiary designation received by the Administrator shall control the payment of all benefits under the Plan in the event of the Participant's death.

10.2 **No Beneficiary Designation.**

In the absence of an effective Beneficiary designation, or if all designated Beneficiaries predecease the Participant or die prior to the complete distribution of the Participant's benefits, benefits shall be paid in the following order of precedence: (a) the Participant's surviving spouse; (b) the Participant's children (including adopted children), per stirpes; or (c) the Participant's estate.

ARTICLE 11

Claims Procedures

11.1 **Presentation of Claim.**

Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may file with the Administrator a written claim for a determination with respect to Plan benefits. The claim must state with particularity the determination desired by the Claimant.

11.2 **Notification of Decision.**

The Administrator shall consider a Claimant's claim, and, except as provided below, within 90 days after the claim is received, shall notify the Claimant in writing:

11.2.1 That the claim has been allowed in full; or

11.2.2 That the claim has been denied, in whole or in part, and such notice must set forth in a manner calculated to be understood by the Claimant:

(a) The specific reason(s) for the denial of the claim, or any part of it;

(b) Specific reference(s) to pertinent provisions of the Plan upon which such denial was based;

(c) A description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and

(d) An explanation of the claim review procedures and time limits, including a statement of the Claimant's right to initiate a civil action pursuant to section 502(a) of ERISA following an adverse determination upon review.

11.2.3 If the Administrator determines that an extension of time for processing is required, written notice of the extension shall be furnished to the Claimant prior to termination of the original 90-day period. In no event shall such extension exceed 90 days from the end of such initial period.

11.2.4 In the case of a claim for disability benefits, the Administrator shall notify the Claimant, in accordance with subsection 11.2.2 above, within 45 days after the claim is received. The notification shall advise the Claimant whether the Administrator's denial relied upon any specific rule, guideline, protocol or scientific or clinical judgment.

11.2.5 In the case of a claim for disability benefits, if the Administrator determines that an extension of time for processing is required due to matters beyond the control of the Plan, written notice of the extension shall be furnished to the Claimant prior to termination of the original 45-day period. Such extension shall not exceed 30 days from the end of the initial period. If, prior to the end of the first 30-day extension period, the Administrator determines that, due to matters beyond the control of the Plan, an additional extension of time for processing is required, written notice of a second 30-day extension shall be furnished to the Claimant prior to termination of the first 30-day extension.

11.3 **Review of a Denied Claim.**

Within 90 days after receiving a notice from the Administrator that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file a written request for a review of the denial of the claim and of pertinent documents. The Claimant (or the Claimant's duly authorized representative):

11.3.1 May request reasonable access to, and copies of, all documents, records, and other information relevant to the claim, which shall be provided to Claimant free of charge; and

11.3.2 May submit written comments or other documents.

11.4 **Decision on Review.**

The Administrator shall review all comments or other documents submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Administrator shall render its decision on review promptly, and not later than 60 days after the filing of a written request for review of the denial (or, if other special circumstances require additional time and written notice of such extension and circumstances is given to the Claimant within the initial 60-day period). The Administrator shall notify the Claimant, in language calculated to be understood by the Claimant:

11.4.1 That the claim has been allowed in full; or

11.4.2 That the claim has been denied, in whole or in part, and such notice must set forth:

(a) Specific reasons for the decision;

(b) Specific reference(s) to the pertinent Plan provisions upon which the decision was based;

(c) A statement that Claimant is entitled to reasonable access to, and copies of, all documents, records or other information relevant to the claim upon request and free of charge;

(d) A statement regarding the Claimant's right to initiate an action pursuant to section 502(a) of ERISA; and

(e) Such other matters as the Administrator deems relevant.

11.4.3 In the case of a claim for disability benefits, the notice shall set forth:

(a) Whether the Administrator's denial relied upon any specific rule, guideline, protocol or scientific or clinical judgment; and

(b) The following statement: "You and your Plan may have other voluntary alternative dispute resolution options, such as mediation. One way to find out what may be available is to contact your local U.S. Department of Labor Office and your State insurance regulatory agency."

11.5 **Other Remedies.**

A Claimant's compliance with the foregoing procedures is a mandatory prerequisite to a Claimant's right to pursue any other remedy with respect to any claim relating to this Plan.

ARTICLE 12

Amendment or Termination

The Company hereby reserves the right to amend, modify, or terminate any one or more of the 409A Plans, at any time by action of the Board, with or without prior notice. No amendment or termination shall reduce any Participant's Account or Retirement Benefit without the written consent of the affected Participant. Notwithstanding anything herein to the contrary, to the extent consistent with Section 409A, the Board may terminate the Plan and distribute to each Participant the Participant's Account and the Participant's Retirement Benefit, if any, in a lump sum; provided that all distributions (i) commence no earlier than the date that is twelve (12) months following the termination date (or any earlier date that would comply with Section 409A) and (ii) are completed by the date that is twenty-four (24) months following the termination date (or any later date that would comply with Section 409A). In addition, payments may be accelerated upon termination of any 409A Plan only if, to the extent required under Section 409A, (i) the Company terminates all Aggregated Plans, and (ii) for three years following the date of termination of the 409A Plan, the Company does not adopt any new arrangement that would have been an Aggregated Plan of the terminated 409A Plan.

ARTICLE 13

Miscellaneous Provisions

13.1 **Unsecured General Creditor.**

Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

13.2 **Employer's Liability.**

An Employer's liability for benefits shall be defined only by the Plan. An Employer shall have no obligation to a Participant except as expressly provided in the Plan.

13.3 **Nonassignability.**

Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

13.4 **No Right to Employment.**

Nothing contained in this Plan or any documents relating to the Plan shall: (a) confer on a Participant any right to continue in the employ of a Related Company, (b) constitute any contract or agreement of employment, (c) interfere with the right of a Related Company to terminate the Participant's employment at any time, with or without cause.

13.5 **Incompetency.**

If the Administrator determines that a distribution under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Administrator may direct such distribution to be paid to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Administrator may require proof of majority, competence, capacity, guardianship, or status as a legal representative as it may deem appropriate prior to distribution of a payment. Any distribution shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability for such payment amount.

13.6 **Tax Withholding.**

To the extent required by the law in effect at the time of any distribution, the Participant's Employer shall withhold from any payments to a Participant hereunder any taxes required to be withheld by the federal or any state or local government, in amounts and in a manner to be determined in the sole discretion of the Employer(s).

13.7 **Furnishing Information.**

A Participant or his Beneficiary will cooperate with the Administrator by furnishing any and all information requested by the Administrator and take such other actions as may be requested in order to facilitate the administration of the Plan and the distributions hereunder, including but not limited to taking such physical examinations as the Administrator may deem necessary.

13.8 **Notice.**

Any notice or filing required or permitted under the Plan shall be sufficient if in writing and if (i) hand-delivered or sent by telecopy, (ii) sent by registered or certified mail, or (iii) sent by nationally-recognized overnight courier. Such notice shall be deemed given as of (i) the date of delivery if hand-delivered or sent by telecopy, (ii) as of the date shown on the postmark on the receipt for registration or certification, if delivery is by mail, or (iii) on the first business day after dispatch, if sent by nationally-recognized overnight courier.

13.9 **Gender and Number.**

Except when otherwise indicated by context, words in the masculine gender shall include the feminine and neuter genders, the singular shall include the plural, and the plural shall include the singular.

13.10 **Headings.**

The headings contained in this Plan are for convenience only and will not control or affect the meaning or construction of any of the terms or provisions of this Plan.

13.11 **Applicable Law and Construction.**

The Plan shall be governed by, construed and administered in accordance with the applicable provisions of ERISA, and any other applicable Federal law, including Section 409A, and to the extent not preempted by Federal law, this Plan shall be governed by, construed and administered in accordance with the laws of the State of Minnesota, other than its laws respecting choice of law.

13.12 **Invalid or Unenforceable Provisions.**

If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and the Administrator may elect in its sole discretion to construe such invalid or unenforceable provisions in a manner that conforms to applicable law or as if such provisions, to the extent invalid or unenforceable, had not been included.

13.13 **Successors.**

This Plan shall bind any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, in the same manner and to the same extent that the Company would be obligated under this Plan if no succession had taken place. In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by this Plan, the Company shall require such successor expressly and unconditionally to assume and agree to perform the obligations of the Company and each Employer under this Plan, in the same manner and to the same extent that the Company and each Employer would be required to perform if no such succession had taken place.

APPENDIX A

"162(m) Deferrals" means the portion of a Participant's Annual Incentive Award for a Plan Year that the Company reasonably anticipates is not deductible by the application of Code section 162(m).

"409A Plan" means one of the separate non-qualified deferred compensation arrangements described in Section 2.1.

"Account" means the Company's bookkeeping entry representing a Participant's Deferrals, and such other accounts or sub-accounts as the Administrator deems necessary or appropriate.

"Administrator" means the Employee Benefit Plans Committee appointed by the Board or delegates of the Employee Benefit Plans Committee.

"Aggregated Plans" means, with respect to any 409A Plan, that plan and all other non-qualified deferred compensation plans which must be aggregated with that plan in accordance with the plan aggregation rules of Section 409A.

"Annual Incentive Award" means the annual award received by a Participant under the ALLETE Executive Annual Incentive Plan or any predecessor or successor plan.

"Basic Compensation" shall have the meaning prescribed in Retirement Plan A, but shall be calculated without regard to the limitation on compensation imposed by Code section 401(a)(17).

"Beneficiary" means one or more persons, trusts, estates or other entities, designated in accordance this Plan, that are entitled to receive Plan benefits upon the death of a Participant.

"Board" means the Board of Directors of the Company.

"Bonus" means any incentive compensation, including Annual Incentive Awards, that is payable to the Participant in addition to the Participant's Salary.

"Change in Control" means the earliest of:

(i) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulations section 1.409A-3(i)(5)(v)(B)), acquires ownership of stock of the Company that, together with stock previously held by the acquirer, constitutes more than fifty (50%) percent of the total fair market value or total voting power of Company stock. If any one Person, or more than one Person acting as a group, is considered to own more than fifty (50%) percent of the total fair market value or total voting power of Company stock, the acquisition of additional stock by the same Person or Persons acting as a group does not cause a Change in Control. An increase in the percentage of stock owned by any one Person, or Persons acting as a group, as a result of a transaction in which Company acquires its stock in exchange for property, is treated as an acquisition of stock;

(ii) (b) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulations section 1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by that Person or Persons) ownership of Company stock possessing at least thirty (30%) percent of the total voting power of Company stock;

(iii) (c) the date a majority of the members of the Company's board of directors is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the board of directors prior to the date of appointment or election; or

(iv) (d) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulations section 1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by that Person or Persons) assets from the Company that have a total gross fair market value equal to at least forty (40%) percent of the total gross fair market value of all the Company's assets immediately prior to the acquisition or acquisitions. For this purpose, "gross fair market value" means the value of the corporation's assets, or the value of the assets being disposed of, without regard to any liabilities associated with these assets.

In determining whether a Change in Control occurs, the attribution rules of Code section 318 apply to determine stock ownership. The stock underlying a vested option is treated as owned by the individual who holds the vested option, and the stock underlying an unvested option is not treated as owned by the individual who holds the unvested option. The term "Person" used in this definition means any individual, corporation (including any non-profit corporation), general, limited or limited liability partnership, limited liability company, joint venture, estate, trust, firm, association, organization or other entity or any governmental or quasi-governmental authority, organization, agency or body.

"Claimant" shall have the meaning set forth in Section 11.1.

"Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

"Company" means ALLETE, Inc., a Minnesota Corporation, and any successor to all, or substantially all, of the Company's assets or business.

"Credited Service" shall have the meaning prescribed in the Retirement Plan A.

"Deferrals" means Elective Deferrals and Non-Elective Deferrals.

"Disability" or "Disabled," when used with an initial capital letter, means a physical or mental condition in which the Participant is:

(i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months;

(ii) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under the Employer's accident and health plan;

(iii) determined to be totally disabled by the Social Security Administration; or

(iv) disabled pursuant to an Employer-sponsored disability insurance arrangement provided that the definition of disability applied under such disability insurance program complies with the foregoing definition of Disability.

When the term "disability" (without an initial capital letter) is used in the Plan, it shall have the meaning prescribed in the definition of "Separation from Service."

"Distribution Event" means, with respect to Article 6, a Specified Year, a Separation from Service, death, Disability or the Administrator's determination regarding the occurrence of an Unforeseeable Emergency and, with respect to Article 8, Retirement, Disability or solely with respect to a Participant who vests after becoming Disabled, the earlier of death or attainment of age 65.

"Elective Deferrals" means any portion of a Participant's Salary, Bonus, Severance Pay, Annual Make-up Award or Other Award that a Participant irrevocably elects to defer.

"Eligible Employee" means an Employee in management salary grades SA-SM, who has been notified in writing by the Administrator of eligibility to participate in the Plan.

"Eligible Surviving Spouse" shall have the meaning prescribed in Retirement Plan A.

"Employee" means a person who is a common-law employee of any Related Company.

"Employer(s)" means the Company and any Related Company (now in existence or hereafter formed or acquired) that have been selected by the Administrator to participate in the Plan.

"ERISA" means the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

"IRS" means the Internal Revenue Service.

"Non-Elective Deferrals" means 162(m) Deferrals and the Annual Make-up Award credited to the Account of any Participant whose Salary exceeds the Code section 401(a)(17) limit.

"Other Award" means an award, other than an Annual Incentive Award or Severance Pay, that a Participant may defer at the Administrator's discretion.

"Participant" means any Eligible Employee (i) who has elected to defer amounts under the Plan, (ii) who is eligible to receive a Retirement Benefit or (iii) whose compensation, or a portion thereof, was deferred as a Non-Elective Deferral.

"Plan" means SERP II.

"Plan Year" means a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

"Related Company" means the Company and all persons with whom the Company would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control); provided that in applying Code sections 1563(a)(1), (2), and (3) for purposes of determining a controlled group of corporations under Code section 414(b), the language "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Code sections 1563(a)(1), (2), and (3), and in applying Treasury Regulations section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Code section 414(c), "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Treasury Regulations section 1.414(c)-2.

"Retirement" means Separation from Service, for reasons other than death, on or after attaining both 50 years of age and 10 years of Vesting Service.

"Retirement Benefit" means the benefit payable pursuant to Article 8.

"Retirement Plans" mean the Minnesota Power and Affiliated Companies Retirement Plan A and Minnesota Power and Affiliated Companies Retirement Plan B, as amended from time to time.

"Retirement Savings and Stock Ownership Plan" or "RSOP" means the Minnesota Power and Affiliated Companies Retirement Savings and Stock Ownership Plan, as amended from time to time.

"Salary" means the Participant's earnings during a calendar year, before any reduction pursuant to Code sections 125, 132(f)(4), or 401(k) and this Plan. It does not include overtime compensation, if any, Bonuses, Annual Incentive Awards and Other Awards, expense reimbursements, allowances, commission payments, employer contributions or awards under this Plan or other employee benefit plans, imputed income (whether such imputed income is from vehicle use, life insurance premiums, or any other source) payments made pursuant to the Results Sharing Program, payment of stock options and performance shares under the Long Term Incentive Compensation Plan, and any other payments of a similar nature. In the case of a Participant who is employed jointly by the Company and an affiliated company (as defined in the RSOP), Salary as defined herein shall include amounts received from all such companies.

"Section 409A" means both section 409A of the Code and Treasury Regulations section 1.409A-1 et seq., as they both may be amended from time to time, and other guidance issued by the Treasury Department and Internal Revenue Service thereunder.

"Separation from Service" means that the Participant terminates employment within the meaning of Treasury Regulations section 1.409A-1(h) and other applicable guidance with all Related Companies. Whether a termination of employment has occurred is determined under the facts and circumstances, and a termination of employment shall occur if all Related Companies and the Participant reasonably anticipate that no further services shall be performed after a certain date or that the level of bona fide services the Participant shall perform after such date (as an employee or an independent contractor) shall permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services to the Related Companies if the Participant has been providing services to the Related Companies less than 36 months). A Participant shall not be considered to separate from service during a bona fide leave of absence for less than six (6) months or longer if the Participant retains a right to reemployment with any Related Company by contract or statute. With respect to disability leave, a Participant shall not be considered to separate from service for 29 months unless the Participant otherwise terminates employment or is terminated by all Related Companies. For purposes of determining whether a Separation from Service has occurred on account of a disability, a Participant shall be disabled if the Participant is suffering from any medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties of his position or any substantially similar position, if such impairment can be expected to result in death or can be expected to last for a continuous period of 6 months.

"SERP II" means the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II, as amended from time to time.

"Severance Pay" means the cash payment(s) to a Participant payable in connection with his Separation from Service in accordance with the terms of a severance arrangement that is the subject of bona fide, arm's length negotiations between a Related Company and the Participant at the time of the Separation from Service.

"Specified Year" means a calendar year during which a Participant has elected to receive a distribution of Elective Deferrals.

"Specified Employee" means an Employee who is subject to the six-month delay rule described in Code section 409A(2)(B)(i). The Board shall adopt guidelines for identifying Specified Employees in a manner consistent with Section 409A, and may amend the guidelines from time to time as permitted by Section 409A.

"Unforeseeable Emergency" means an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (i) an illness or accident of the Participant or the Participant's spouse, the Participant's beneficiary, or the Participant's dependent (as defined in Code section 152, without regard to Code sections 152(b)(1), (b)(2), and (d)(1)(B)), (ii) a loss of the Participant's property due to casualty, or (iii) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Administrator.

"Valuation Date" means each day that the U.S. stock markets are open or such other dates as may be set by the Administrator from time to time.

"Vesting Service" shall have the meaning prescribed in the Retirement Plan A. Participants will continue to receive credit for Vesting Service after October 1, 2006. A Disabled Participant will receive credit for Vesting Service on account of any period after the commencement of the Disability during which the Participant is characterized as an active employee on the Related Company's employment records.

IN WITNESS WHEREOF, ALLETE, Inc. has caused these presents to be signed and its corporate seal to be hereunto affixed by its duly authorized officers, effective as of January 1, 2009

ALLETE, Inc.

By: Donald J. Shippar

Donald J. Shippar

Its: Chairman, President and Chief Executive Officer

ATTEST

By: Deborah A. Amberg

Deborah A. Amberg

Its: Senior Vice President, General Counsel and Secretary

AMENDMENT TO
THE ALLETE AND AFFILIATED COMPANIES
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN II

The ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II, effective January 1, 2009, is amended as follows:

1. Effective January 20, 2009, Section 5.1 is amended to read in its entirety as follows:

5.1 **Eligibility.** An Employee who: (i) was a Participant as of September 30, 2006, (ii) has continuously remained an Employee in ALLETE management salary grade SA-SM, and (iii) has continuously participated in the ALLETE Executive Annual Incentive Plan or been eligible to receive a Bonus shall be eligible to receive an Annual Make-up Award. Any other Employee shall be eligible to receive an Annual Make-up Award if the Employee: (i) initially becomes, or again becomes, a Participant after September 30, 2006, (ii) is in ALLETE management salary grade SG-SM, and (iii) participates in the ALLETE Executive Annual Incentive Plan or is eligible to receive a Bonus.

ALLETE, Inc.

By: Donald J. Shippar
Donald J. Shippar
Chairman, President & Chief Executive Officer

ATTEST:

By: Deborah A. Amberg
Deborah A. Amberg
Senior Vice President,
General Counsel & Secretary

ANNEX B
TO
ALLETE
EXECUTIVE LONG TERM INCENTIVE COMPENSATION PLAN
PERFORMANCE SHARE GRANT
Effective 2009
[Eligible Executive Employees]

Financial Measure:
Total Shareholder Return (TSR) computed over the three-year period.

Performance Share Award:
If ALLETE's TSR ranking is 4th or higher among a peer group of 27 companies (superior performance), 200% of the Performance Share Grant will be earned. If ALLETE's TSR performance ranks 14th among the peer group (target performance), 100% of the Grant will be earned. If ALLETE's TSR performance ranks 19th (threshold performance), 50% of the Grant will be earned. If TSR performance is below threshold, no Performance Shares will be earned. Straight-line interpolation will be used to determine earned awards based on the TSR ranking between threshold, target and superior.

TSR Rank	Perf. Level	Payout %
1		200%
2		200%
3		200%
4	Superior	200%
5		190%
6		180%
7		170%
8		160%
9		150%
10		140%
11		130%
12		120%
13		110%
14	Target	100%
15		90%
16		80%
17		70%
18		60%
19	Threshold	50%
20		0%
21		0%
22		0%
23		0%
24		0%
25		0%
26		0%
27		0%
28		0%

ALLETE
EXECUTIVE LONG-TERM INCENTIVE COMPENSATION PLAN
RESTRICTED STOCK UNIT GRANT

Name

In accordance with the terms of ALLETE's Executive Long-Term Incentive Compensation Plan (the "Plan"), as determined by and through the Executive Compensation Committee of ALLETE's Board of Directors, ALLETE hereby grants to you (the "Participant") Restricted Stock Units ("RSU's") as set forth below, payable in the form of ALLETE Common Stock, subject to the terms and conditions set forth in this Grant, including Annex A hereto, and all documents incorporated herein by reference:

Number of Restricted Stock Units:

Date of Grant:

Vesting Period:

This Grant is made in accordance with the Plan, which was approved by ALLETE's shareholders at the 2005 Annual Meeting.

Further terms and conditions of the Grant are set forth in Annex A hereto, which is an integral part of this Grant.

All terms, provisions and conditions set forth in the Plan and not set forth herein are incorporated by reference.

IN WITNESS WHEREOF, ALLETE has caused this Grant to be executed by its Chairman, President and Chief Executive Officer as of the date and year first above written.

ALLETE

By: Donald J. Shippar

Chairman, President and CEO

Attachment: Annex A

ANNEX A
TO
ALLETE EXECUTIVE LONG-TERM INCENTIVE COMPENSATION PLAN
RESTRICTED STOCK UNIT GRANT

The grant of restricted stock units (each , a "RSU") under the ALLETE Executive Long-Term Incentive Compensation Plan (the "Plan"), evidenced by the Grant to which this is annexed, is subject to the following additional terms and conditions:

1. Form and Timing of Payment. Subject to the provisions hereof, each RSU will be paid in the form of one share of ALLETE common stock (each, a "Share"), plus accrued dividend equivalents, which shares will be deposited into an account for the Participant in the ALLETE Invest Direct plan. Except as otherwise provided in sections 3 and 4, below, payment will be made during the period ending sixty days after the end of the vesting period; provided, however, the Participant will not be permitted, directly or indirectly, to designate the taxable year of the distribution. Payment will be subject to withholding Shares equal in value to the Participant's income tax obligation.

2. Dividend Equivalents. The Participant will receive Dividend Equivalents in connection with the RSU's granted. Dividend Equivalents will be calculated and credited to the Participant at the time the underlying RSU's are paid. Dividend Equivalents shall be in the form of additional RSU's, which shall be added to the number of RSU's subject to the grant, and which shall equal the number of Shares (including fractional Shares) that could have been purchased on the dividend payment dates based on the closing price as reported in the consolidated transaction reporting system on that date with cash dividends that would have been paid on the RSU's, if such RSU's were Shares.

3. Payment Upon Retirement, Death or Disability; Forfeiture Upon Other Termination of Employment or Unsatisfactory Job Performance.

3.1 Subject to Section 3.4 below, if during the vesting period the Participant (i) Retires, (ii) dies while employed by ALLETE or any Related Company, or (iii) becomes Disabled, a portion of the unvested RSU's subject to the Grant will vest and be paid to the Participant (or the Participant's beneficiary or estate) during the period ending sixty days after such event; provided, however, the Participant will not be permitted, directly or indirectly, to designate the taxable year of the distribution. Payment pursuant to this Section 3.1 shall be prorated, after giving effect to the accumulation of Dividend Equivalents, based on the number of whole calendar months within the vesting period that had elapsed as of the date of Retirement, death or Disability in relation to the number of calendar months in the vesting period. For purposes of this calculation, the Participant will be credited with a whole month if the Participant was employed on the 15th of the month.

3.2 If during the vesting period or prior to payment of all RSU's the Participant has a Separation from Service for any reason other than those specified in Section 3.1 above, all unvested or unpaid RSU's subject to the Grant will be forfeited on the date of such Separation from Service.

3.3 If during the vesting period or prior to payment of all Shares the Participant is demoted, or if ALLETE determines, in its sole discretion, that the Participant's job performance is unsatisfactory, ALLETE may cancel or amend the Participant's grant relating to any unpaid RSU's, resulting in the forfeiture of some portion or all of the Participant's unpaid RSU's.

3.4 Notwithstanding anything herein to the contrary, if the Participant becomes entitled to a payment of the RSU's by reason of the Participant's Retirement and if the Participant is a Specified Employee on the date of such Retirement, payment shall not be made until the earlier of: (i) the expiration of the six-month period beginning on the date of Participant's Retirement, or (ii) the date of the Participant's death. The payment to which a Specified Employee would otherwise be entitled during this six-month period shall be paid, together with dividend equivalents that have accrued during this six-month delay, during the seventh month following the date of the Participant's Retirement, or, if earlier, the date of the Participant's death.

4. Change in Control. Upon the occurrence of a Change in Control, unless the Committee provides otherwise prior to the Change in Control, outstanding unvested RSU's shall immediately vest and be payable to the Participant during the period ending sixty days after the Change in Control; provided, however, the Participant will not be permitted, directly or indirectly, to designate the taxable year of the distribution. Any payment on account of a Change in Control will be prorated, after giving effect to the accumulation of Dividend Equivalents, based on the number of whole calendar months within the three-year vesting period that had elapsed as of the date of the Change in Control in relation to the number of calendar months in the three-year vesting period. For purposes of this calculation, the Participant will be credited with a whole month if the Participant was employed on the 15th of the month.

5. Ratification of Actions. By receiving the Grant or other benefit under the Plan, the Participant and each person claiming under or through Participant shall be conclusively deemed to have indicated the Participant's acceptance and ratification of, and consent to, any action taken under the Plan or the Grant by ALLETE, the Board, or the Committee.

6. Notices. Any notice hereunder to ALLETE shall be addressed to ALLETE, 30 West Superior Street, Duluth, Minnesota 55802, Attention: Manager - Executive Compensation and Employee Benefits, Human Resources, and any notice hereunder to the Participant shall be directed to the Participant's address as indicated by ALLETE's records, subject to the right of either party to designate at any time hereafter in writing some other address.

7. Governing Law and Severability. To the extent not preempted by the Federal law, the Grant will be governed by and construed in accordance with the laws of the State of Minnesota, without regard to its conflicts of law provisions. In the event any provision of the Grant shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Grant, and the Grant shall be construed and enforced as if the illegal or invalid provision had not been included.

8. Definitions. Capitalized terms not otherwise defined herein shall have the meanings given them in the Plan. The following definitions apply to the Grant and this Annex A:

8.1 "Change in Control" means the earliest of:

(i) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulations section 1.409A-3(i)(5)(v)(B)), acquires ownership of stock of the Company that, together with stock previously held by the acquirer, constitutes more than fifty (50%) percent of the total fair market value or total voting power of Company stock. If any one Person, or more than one Person acting as a group, is considered to own more than fifty (50%) percent of the total fair market value or total voting power of Company stock, the acquisition of additional stock by the same Person or Persons acting as a group does not cause a Change in Control. An increase in the percentage of stock owned by any one Person, or Persons acting as a group, as a result of a transaction in which Company acquires its stock in exchange for property, is treated as an acquisition of stock;

(ii) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulations section 1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by that Person or Persons) ownership of Company stock possessing at least thirty (30%) percent of the total voting power of Company stock;

(iii) the date a majority of the members of the Company's board of directors is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the board of directors prior to the date of appointment or election; or

(iv) the date any one Person, or more than one Person acting as a group (as the term "group" is used in Treasury Regulations section 1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by that Person or Persons) assets from the Company that have a total gross fair market value equal to at least forty (40%) percent of the total gross fair market value of all the Company's assets immediately prior to the acquisition or acquisitions. For this purpose, "gross fair market value" means the value of the corporation's assets, or the value of the assets being disposed of, without regard to any liabilities associated with these assets.

In determining whether a Change in Control occurs, the attribution rules of Code section 318 apply to determine stock ownership. The stock underlying a vested option is treated as owned by the individual who holds the vested option, and the stock underlying an unvested option is not treated as owned by the individual who holds the unvested option. The term "Person" used in this definition means any individual, corporation (including any non-profit corporation), general, limited or limited liability partnership, limited liability company, joint venture, estate, trust, firm, association, organization or other entity or any governmental or quasi-governmental authority, organization, agency or body.

8.2 "Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

8.3 "Disability" or "Disabled" means a physical or mental condition in which the Participant is:

(i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected

to last for a continuous period of not less than twelve (12) months;

(ii) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under the Employer's accident and health plan;

(iii) determined to be totally disabled by the Social Security Administration; or

(iv) disabled pursuant to an Employer-sponsored disability insurance arrangement provided that the definition of disability applied under such disability insurance program complies with the foregoing definition of Disability.

8.4 "Related Company" means the ALLETE, Inc. and all persons with whom the ALLETE, Inc. would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control); provided that in applying Code sections 1563(a)(1), (2), and (3) for purposes of determining a controlled group of corporations under Code section 414(b), the language "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Code sections 1563(a)(1), (2), and (3), and in applying Treasury Regulations section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Code section 414(c), "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Treasury Regulations section 1.414(c)-2.

8.5 "Retirement" means Separation from Service, for reasons other than death or Disability, on or after attaining Normal Retirement Age or Early Retirement Age as defined in the Minnesota Power and Affiliated Companies Retirement Plan A, without regard to whether the Participant is a participant under the Minnesota Power and Affiliated Companies Retirement Plan A.

8.6 "Separation from Service" means that the Participant terminates employment within the meaning of Treasury Regulations section 1.409A-1(h) and other applicable guidance with all Related Companies. Whether a termination of employment has occurred is determined under the facts and circumstances, and a termination of employment shall occur if all Related Companies and the Participant reasonably anticipate that no further services shall be performed after a certain date or that the level of bona fide services the Participant shall perform after such date (as an employee or an independent contractor) shall permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services to the Related Companies if the Participant has been providing services to the Related Companies less than 36 months). A Participant shall not be considered to separate from service during a bona fide leave of absence for less than six (6) months or longer if the Participant retains a right to reemployment with any Related Company by contract or statute. With respect to disability leave, a Participant shall not be considered to separate from service for 29 months unless the Participant otherwise terminates employment or is terminated by all Related Companies.

8.7 "Specified Employee" means a Participant who is subject to the six-month delay rule described in Code section 409A(2)(B)(i), determined in accordance with guidelines adopted by the Board from time to time as permitted by Section 409A of the Code and Treasury Regulations section 1.409A-1 et seq., as they both may be amended from time to time, and other guidance issued by the Treasury Department and Internal Revenue Service thereunder.

ALLETE
NON-EMPLOYEE DIRECTOR COMPENSATION DEFERRAL PLAN II

Effective January 1, 2009

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ALLETE
NON-EMPLOYEE DIRECTOR COMPENSATION DEFERRAL PLAN II

Effective January 1, 2009

ARTICLE 1

Establishment and Purpose

This document includes the terms of the ALLETE Non-Employee Director Compensation Deferral Plan II, the purpose of which is to provide Directors an opportunity to elect to defer Compensation. The Plan is a successor to the ALLETE Director Compensation Deferral Plan (the "Predecessor Plan"). On December 31, 2004, the Company froze the Predecessor Plan, and on January 1, 2005, the Company established the Plan to govern amounts initially deferred after December 31, 2004 and investment earnings thereon. From January 1, 2005 to the effective date hereof, the Company operated and administered the Plan in all material respects in good faith compliance with the applicable requirements of Section 409A, the final and proposed Treasury Regulations, IRS Notice 2005-1, and all other IRS guidance. Effective January 1, 2009, the Company amends and restates the Plan in its entirety to comply with Section 409A. Capitalized terms, unless otherwise defined herein, shall have the meaning provided in Article 12.

ARTICLE 2

Administration

2.1 **Administrator.**

The Executive Compensation Committee of the Board shall administer the Plan. Notwithstanding the foregoing, the Administrator may delegate any of its duties to such other person or persons from time to time as it may designate. Members of the Executive Compensation Committee may participate in the Plan; however, any Director serving on the Executive Compensation Committee shall not vote or act on any matter relating solely to himself or herself.

2.2 **Duties.**

The Administrator has the authority to construe and interpret all provisions of the Plan, to resolve any ambiguities, to adopt rules and practices concerning the administration of the Plan, to make any determinations and calculations necessary or appropriate hereunder, and, to the maximum extent permitted by Section 409A, the authority to remedy any errors, inconsistencies or omissions. The Company shall pay all expenses and liabilities incurred in connection with Plan administration.

2.3 **Agents.**

The Administrator may engage the services of accountants, attorneys, actuaries, investment consultants, and such other professional personnel as are deemed necessary or advisable to assist in fulfilling the Administrator's responsibilities. The Administrator, the Company and the Board may rely upon the advice, opinions or valuations of any such persons.

2.4 **Binding Effect of Decisions.**

The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and

application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan. Neither the Administrator, its delegates, nor the Board shall be personally liable for any good faith action, determination or interpretation with respect to the Plan, and each shall be fully protected by the Company in respect of any such action, determination or interpretation.

2.5 **Company Information.**

To enable the Administrator to perform its duties, the Company shall supply full and timely information to the Administrator on all matters relating to the Compensation, the Directors, the date and circumstances of a Director's Separation from Service, and other pertinent information as the Administrator may reasonably require.

ARTICLE 3

Participation

Directors may participate in the Plan, but only with respect to Plan Years commencing after an individual first becomes a Director. Each Plan Year, the Administrator shall notify Directors of their eligibility to participate in the Plan during the following Plan Year. A Director who is eligible to participate shall become a participant by completing an election form on which the Director elects Deferrals and delivering the completed form to the Company as specified in the Plan. The terms of this Plan shall continue to govern a Director's Account until the Account is paid in full.

ARTICLE 4

Deferrals

4.1 **Annual Deferral Election.**

For each Plan Year, a Director may elect: (i) to defer some or all of the Director's Compensation and (ii) to the extent permitted by this Plan, the time and form of distribution of Deferrals. Elections are effective on a calendar-year basis and become irrevocable no later than the date specified by the Administrator, but in any event before the beginning of the Plan Year to which the elections relate. A Director's election will become effective only if the forms required by the Administrator have been properly completed and signed by the Director, timely delivered to the Administrator, and accepted by the Administrator. A Director who fails to file the election before the required date will be treated as having elected not to defer any amounts for the following Plan Year.

4.2 **Cancellations of Deferral Elections due to Unforeseeable Emergency**.

If a Director experiences an Unforeseeable Emergency during a Plan Year, the Director may submit to the Administrator a written request to cancel Deferrals for the Plan Year to satisfy the Unforeseeable Emergency. If the Administrator either approves the Director's request to cancel Deferrals for the Plan Year, or approves a request for a distribution of prior Deferrals in accordance with Section 6.1.3, then effective as of the date the request is approved the Administrator shall cancel the Director's deferral elections for the

remainder of the Plan Year. A Director whose Deferrals are canceled during a Plan Year in accordance with this section may elect Deferrals for the following Plan Year.

ARTICLE 5

Accounts and Investments

5.1 **Establishment of Accounts.**

The Company will establish notional accounts for each Director as the Administrator deems necessary or advisable from time to time to be consistent with 2.1 and 5.4 below. The Company will establish a Director's Account no later than the date on which the Director first elects to defer any amounts into the Account. Each Account shall be credited as appropriate for Deferrals and earnings with respect to Deferrals and debited for distributions from the Account.

5.2 **Timing of Credits to Accounts.**

The Administrator shall credit a Director's Deferrals to the Director's Account not later than the end of the calendar year during which the Company would otherwise have paid the amounts to the Director but for the Director's deferral election.

5.3 **Vesting.**

All Director Accounts are fully vested at all times.

5.4 **Investments.**

The Administrator may select investment funds to use for measuring notional gains and losses. The Administrator will establish, from time to time, rules and procedures for allowing each Director, who has not had a Separation from Service, to designate which one or more of the selected investment funds will be used to determine the notional gains and losses credited or debited to the Director's Account prior to Separation from Service.

5.5 **Valuation Date.**

As of each Valuation Date, each Account will be adjusted to reflect the effect of notional investment gains or losses, additions, distributions, transfers and all other transactions with respect to that Account since the previous Valuation Date.

ARTICLE 6

Distributions

6.1 Distributions.

The Plan provides for distributions in a Specified Year, upon a Separation from Service or upon an Unforeseeable Emergency. As described in Section 6.1.1, each Plan Year a Director may elect to have all or a portion of the Deferrals for that year distributed in a Specified Year. With respect to amounts not subject to distribution in a Specified Year, the Plan requires distribution upon Separation from Service at a time and in a form elected by the Director, or for Directors who fail to elect, at a time and in a form specified by the Plan. A Director wishing to elect a time and form of distribution upon Separation from Service must submit a distribution election at the time of the Director's initial Deferrals. A Director's distribution elections are irrevocable and will govern the Deferrals to which the election relates until the amounts covered by the election are paid in full or until subsequently changed in accordance with Section 6.3. Notwithstanding any elections by a Director, all distributions are subject to the provisions of Section 6.2.

6.1.1 **Specified Year**. A Director may elect to receive a distribution of Deferrals in a Specified Year, which may be no earlier than the third Plan Year beginning after the date on which the Director initially elects to receive a distribution in a Specified Year. Except as otherwise provided in this subsection or in Section 6.3, once a Director has elected to receive a distribution in a Specified Year, the Director may not elect to receive a distribution in a different Specified Year. Beginning during the year preceding a Specified Year previously elected by the Director, the Director may elect to receive a distribution of Deferrals in a later Specified Year, subject, however, to the restrictions of this subsection. All amounts distributable in a Specified Year will be paid in a single lump sum.

6.1.2 **Separation from Service**. A Director may elect to receive a distribution of Deferrals commencing upon Separation from Service or during any of the first five years following the year of the Separation from Service. A Director may elect to receive the distribution in the form of a lump sum, annual installments over a period of five (5), ten (10), or fifteen (15) years, or a combination of both a lump sum and installments.

6.1.3 **Unforeseeable Emergency**. A Director may submit a written request for a distribution on account of an Unforeseeable Emergency. Upon approval by the Administrator of a Director's request, the Director's Account, or that portion of the Director's Account deemed necessary by the Administrator to satisfy the Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated because of the distribution, will be distributed in a single lump sum in a manner consistent with Section 409A.

6.2 **Additional Distribution Rules.**

6.2.1 **Default Time and Form of Payment.** If a Director fails timely to elect a time and form of payment, the Director's Account will be distributed upon any Separation from Service in the form of a single lump sum payment.

6.2.2 **Rules Applicable to All Distributions.** Except as otherwise provided in this section, if a Director has elected to receive a distribution commencing upon a Distribution Event, or if the distribution is required upon Separation from Service, the distribution will commence between the date of the Distribution Event and the end of the year in which the Distribution Event occurs. If a Director has elected, or is required, to receive a distribution commencing upon a Distribution Event, and the Distribution Event occurs on or after October 1 of a Plan Year, the distribution may, to the extent permitted by Section 409A, commence after the Distribution Event and on or before the 15th day of the third calendar month following the Distribution Event, even if after the end of the year during which the Distribution Event occurs; provided, however, the Director will not be permitted, directly or indirectly, to designate the taxable year of the distribution. If a Director has elected to receive a distribution commencing during any of the first five years following a Separation from Service, the distribution will commence during the year elected by the Director. If a Director has elected to receive a distribution in a Specified Year, the distribution will occur during the Specified Year. Any distribution that complies with this section shall be deemed for all purposes to comply with the Plan requirements regarding the time and form of distributions.

6.2.3 **Installment Payments.** If a Director elects to receive distributions in annual installments, the Director's Account will be paid in substantially equal installments in consecutive years over the period elected by the Director. During the distribution period the Director's Account will be credited with interest compounded monthly at a rate of 7.5% per year. Each annual installment will be paid during the Plan Year in which it is due. Any installment distribution that complies with this section shall be deemed for all purposes to comply with the Plan requirements regarding the time and form of distributions.

6.2.4 **Death After Commencement of Distributions.** Upon the death of a Director after distributions of the Director's Account have commenced, the balance of the Director's Account will be distributed to the Director's Beneficiary at the same times and in the same forms that the Account would have been distributed to the Director if the Director had survived.

6.3 **Subsequent Changes in Time and Form of Payment.**

A Director may, in accordance with rules, procedures and forms specified from time to time by the Administrator, elect to change the time of payment or change the form in which the Director's Account is distributed or both, provided that: (i) the Director elects at least twelve (12) months prior to the date on which payments are otherwise scheduled to commence; (ii) the new election does not take effect for at least twelve (12) months; and (iii) with respect to changes applicable to distributions in a Specified Year or upon Separation from Service, the distributions must be deferred for at least five years from the date the distributions would otherwise have been paid, or in the case of installment payments, five years from the date the installments were scheduled to commence. For purposes of this section, distributions on account of a Specified Year are considered scheduled to commence on January 1 of the Specified Year and distributions on account of a Separation from Service are considered to commence on the date of the Separation from Service, or if the Director has elected to receive a distribution of Deferrals commencing during any of the first five years following the year of the Separation from Service, January 1 of the year elected by the Director. Any such election shall be irrevocable on the date it is filed with the Administrator unless subsequently changed pursuant to this Section.

ARTICLE 7

Payment Acceleration and Delay

7.1 **Permitted Accelerations of Payment.**

Except as otherwise provided herein or permitted by Section 409A, the Plan prohibits the acceleration of the time or schedule of any payment due under the Plan.

Distribution in the Event of Taxation. If, for any reason, all or any portion of any benefit provided by the Plan becomes taxable to a Director because of a violation of Section 409A prior to receipt, the Director may file a written request with the Administrator for a distribution of that portion of the Plan benefit that has become taxable. Upon the grant of such a request, which grant shall not be unreasonably withheld, the Director shall receive a distribution equal to the taxable portion of the plan benefit. If the request is granted, the tax liability distribution shall be paid between the date on which the Director's request is approved and the end of the Plan Year during which the approval occurred, or if later, the 15th day of the third calendar month following the date on which the Director's request is approved.

7.1.1 **Compliance with Ethics Laws or Conflicts of Interests Laws.** The Administrator may, in its sole discretion, accelerate the time or schedule of a payment to the extent necessary to avoid the violation of any applicable Federal, state, local, or foreign ethics law or conflicts of interest law as provided in Treasury Regulations section 1.409A-3(j)(4)(iii)(B).

7.1.2 **Small Accounts.** The Administrator may, in its sole discretion, distribute the Director's Account in a single lump sum provided: (i) the distribution results in the payment of the Director's entire Account and all other account balance plans required to be aggregated with the Director's Account pursuant to Section 409A and (ii) the total distribution does not exceed the applicable dollar limit under Code section 402(g)(1)(B). The Administrator shall notify the Director in writing if the Administrator exercises its discretion pursuant to this Section.

7.1.3 **Settlement of a Bona Fide Dispute.** The Administrator may, in its sole discretion, accelerate the time or schedule of a distribution as part of a settlement of a bona fide dispute between the Director and the Company over a Director's right to a distribution provided that the distribution relates only to the deferred compensation in dispute and the Company is not experiencing a downturn in financial health.

7.2 **Permissible Distribution Delays.**

Notwithstanding anything in the Plan to the contrary, to the extent permitted by Section 409A, the Administrator may, in its sole discretion, delay distribution to a Director:

7.2.1 If the distribution would jeopardize the Company's ability to continue as a going concern, provided that the delayed distribution is distributed in the first calendar year in which the distribution would not have such effect.

7.2.2 If the distribution would violate Federal securities or other applicable laws, provided that the delayed distribution is distributed at the earliest date at which the Administrator reasonably anticipates that the distribution will not cause such violation.

7.2.3 If calculation of the distribution is not administratively practicable due to events beyond the control of the Director, provided that the delayed distribution is paid in the first calendar year in which the calculation of the distribution is administratively practicable.

7.3 **Suspension Not Allowed.**

If a Director whose distributions have commenced becomes eligible again to defer Compensation under any plan maintained by a Related Company, distribution of any remaining amounts in his Account may not be suspended.

ARTICLE 8

Beneficiary Designation

8.1 **Beneficiary.**

Each Director shall have the right, at any time, to designate a Beneficiary(ies) (both primary as well as contingent) to whom a Director's Account shall be paid if a Director dies prior to complete distribution of the Account. Each Beneficiary designation shall be in a written form prescribed by the Administrator, and will be effective only when filed with the Administrator during the Director's lifetime. Any Beneficiary designation may be changed by a Director without the consent of the previously named Beneficiary by filing a new Beneficiary designation with the Administrator. The most recent Beneficiary designation received by the Administrator shall control the distribution of a Director's Account in the event of the Director's death.

8.2 **No Beneficiary Designation.**

In the absence of an effective Beneficiary designation, or if all designated Beneficiaries predecease the Director or die prior to the complete distribution of the Director's Account, the Account shall be paid in the following order of precedence: (a) the Director's surviving spouse; (b) the Director's children (including adopted children), per stirpes; or (c) the Director's estate.

ARTICLE 9

Claims Procedures

Any Director or Beneficiary, or his or her authorized representative, may file a claim for benefits due him or her under the Plan by written request to the Company, setting forth with specificity the facts and events which give rise to the claim. The Company shall promptly respond, consistent with any legal requirements that might apply.

ARTICLE 10

Amendment or Termination

The Company hereby reserves the right to amend, modify, or terminate the Plan at any time by action of the Board, with or without prior notice. No amendment or termination shall reduce any Director's Account without the written consent of the affected Director. Notwithstanding anything herein to the contrary, to the extent consistent with Section 409A, the Board may terminate the Plan and distribute to each Director the amount in his or her Account in a lump sum; provided that all distributions (i) commence no earlier than the date that is twelve (12) months following the termination date (or any earlier date that would comply with Section 409A) and (ii) are completed by the date that is twenty-four (24) months following the

termination date (or any later date that would comply with Section 409A). In addition, distributions may be accelerated upon a Plan termination as provided above only if, to the extent required under Section 409A, (i) all other nonqualified deferred compensation "account balance plans" (within the meaning of Section 409A), in which any Director participates are terminated along with the Plan, and (ii) the Company does not adopt any new nonqualified deferred compensation "account balance plan" (within the meaning of Section 409A), for three years following the date of Plan termination.

ARTICLE 11

Miscellaneous Provisions

11.1 **Unsecured General Creditor.**

Directors and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of the Company. Any and all of the Company's assets shall be, and remain, the general, unpledged unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

11.2 **Trust Fund.**

At its discretion, the Company may establish a Trust, with such trustees as the Company may approve, for the purpose of providing for the distribution of benefits owed under this Plan. The Trust's assets shall be held for distribution of all the Company's general creditors in the event of insolvency or bankruptcy. To the extent any Plan benefits are paid from any such Trust, the Company shall have no further obligations to pay them. If not paid from the Trust, such benefits shall remain the obligation of the Company.

11.3 **Section 409A Compliance.**

All provisions of the Plan shall be interpreted and administered to the extent possible in a manner consistent with Section 409A. To the extent that any provision of the Plan would cause a conflict with the requirements of Section 409A, or would cause the administration of the Plan to fail to satisfy Section 409A, such provision shall be deemed null and void to the extent permitted by applicable law. Nothing herein shall be construed as a guarantee of any particular tax treatment to a Director.

11.4 **Company's Liability.**

The Company's liability for the distribution of benefits shall be defined only by the Plan. The Company shall have no obligation to a Director except as expressly provided in the Plan.

11.5 **Nonassignability.**

Neither a Director nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Director or any other person, be transferable by operation of law in the event of a Director's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

11.6 **No Right to Board Position.**

Nothing in the Plan shall be deemed to create any obligation on the part of the Board to nominate any of its members for reelection by the Company's stockholders, nor confer upon any Director the right to remain a member of the Board for any period of time, or at any particular rate of compensation.

11.7 **Incompetency.**

If the Administrator determines that a distribution under this Plan is to be paid to a minor, to a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Administrator may direct such distribution to be paid to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Administrator may require proof of majority, competence, capacity, guardianship or status as a legal representative, as it may deem appropriate prior to distribution. Any distribution shall be for the account of the Director and the Director's Beneficiary, as the case may be, and shall completely discharge any liability for such amount.

11.8 **Furnishing Information.**

A Director or his Beneficiary will cooperate with the Administrator by furnishing any and all information requested by the Administrator and take such other actions as may be requested in order to facilitate the administration of the Plan and the distributions hereunder.

11.9 **Notice.**

Any notice or filing required or permitted under the Plan shall be sufficient if in writing and if (i) hand-delivered or sent by telecopy, (ii) sent by registered or certified mail, or (iii) sent by nationally-recognized overnight courier. Such notice shall be deemed given as of (i) the date of delivery if hand-delivered or sent by telecopy, (ii) as of the date shown on the postmark on the receipt for registration or certification, if delivery is by mail, or (iii) on the first business day after dispatch, if sent by nationally-recognized overnight courier.

11.10 **Gender and Number.**

Except when otherwise indicated by context, words in the masculine gender shall include the feminine and neuter genders, the singular shall include the plural, and the plural shall include the singular.

11.11 **Headings.**

The headings contained in this Plan are for convenience only and will not control or affect the meaning or construction of any of the terms or provisions of this Plan.

11.12 **Applicable Law and Construction.**

This Plan shall be governed by, construed and administered in accordance with the laws of the State of Minnesota, other than its laws respecting choice of law.

11.13 **Invalid or Unenforceable Provisions.**

If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and the Administrator may elect in its sole discretion to construe such invalid or unenforceable provisions in a manner that conforms to applicable law or as if such provisions, to the extent invalid or unenforceable, had not been included.

11.14 **Successors.**

This Plan shall bind any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of

the Company, in the same manner and to the same extent that the Company would be obligated under this Plan if no succession had taken place. In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by this Plan, the Company shall require such successor expressly and unconditionally to assume and agree to perform the obligations of the Company and each Company under this Plan, in the same manner and to the same extent that the Company and each Company would be required to perform if no such succession had taken place.

ARTICLE 12

Definitions

The following terms shall have the meanings set forth below:

"Account" means the Company's bookkeeping entry representing the Director's Deferrals, and such other accounts or sub-accounts as the Administrator deems necessary or appropriate.

"Administrator" means the Executive Compensation Committee of the Board.

"Beneficiary" means one or more persons, trusts, estates or other entities, designated in accordance with this Plan, that are entitled to receive Plan benefits upon the death of a Director.

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

"Company" means ALLETE, Inc., a Minnesota Corporation, and any successor to all, or substantially all, of the Company's assets or business.

"Compensation" means the cash compensation for services as a Director, excluding perquisites and reimbursements.

"Deferrals" means any portion of a Director's Compensation that a Director elects to defer in accordance with the Plan.

"Director" means a member of the Board who is not an employee of any Related Company.

"Distribution Event" means a Specified Year, a Separation from Service or the Administrator's determination regarding the occurrence of an Unforeseeable Emergency.

"IRS" means the Internal Revenue Service.

"Plan" means the ALLETE Non-Employee Director Compensation Deferral Plan II, as amended from time to time.

"Plan Year" means a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

"Related Company" means the Company and all persons with whom the Company would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control); provided that in applying Code sections 1563(a)(1), (2), and (3) for purposes of determining a controlled group of corporations under Code section 414(b), the language "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Code sections 1563(a)(1), (2), and (3), and in applying Treasury Regulations section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Code section 414(c), "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Treasury Regulations section 1.414(c)-2.

"Section 409A" means section 409A of the Code (and any successor provision), and regulations and other guidance issued by the Treasury Department and Internal Revenue Service thereunder.

"Separation from Service" means that the Director ceases to perform services as a Director and the Company does not then anticipate that the Director will continue to perform services in any capacity for any Related Company.

"Specified Year" means the year specified by a Director as the year in which the Director will receive a distribution payment of all or a portion of his Account. The Specified Year must be at least two years after the year the compensation would have been paid but for the Director's deferral election.

"Trust" means one or more trusts established pursuant to the ALLETE, Inc. Non-Employee Director Compensation Trust Agreement, effective October 11, 2004, between the Company and the trustee named therein, as amended from time to time.

"Unforeseeable Emergency" means an unanticipated emergency that is caused by an event beyond the control of the Director that would result in severe financial hardship to the Director resulting from (i) an illness or accident of the Director or the Director's spouse, the Director's beneficiary, or the Director's dependent (as defined in Code section 152, without regard to Code sections 152(b)(1), (b)(2), and (d)(1)(B)), (ii) a loss of the Director's property due to casualty, or (iii) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Director, all as determined in the sole discretion of the Administrator.

"Valuation Date" means each day that the U.S. stock markets are open or such other dates as may be set by the Administrator from time to time.

IN WITNESS WHEREOF, ALLETE, Inc. has caused these presents to be signed and its corporate seal to be hereunto affixed by its duly authorized officers, effective as of January 1, 2009

ALLETE, Inc.

By: Donald J. Shippar

Donald J. Shippar

Its: Chairman, President and Chief Executive Officer

ATTEST

By: Deborah A. Amberg

Deborah A. Amberg

Its: Senior Vice President, General Counsel and Secretary

ALLETE
Computation of Ratios of Earnings to Fixed Charges (Unaudited)

For the Year Ended December 31	**2008**	**2007**	**2006**	**2005**	**2004**
Millions Except Ratios					
Income from Continuing Operations					
Before Minority Interest and Income Taxes	$126.4	$137.2	$128.2	$19.8	$57.0
Less: Minority Interest *(a)*	–	–	–	–	2.1
Undistributed Income from Less than 50 percent					
Owned Equity Investment	3.8	3.3	2.3	–	–
	122.6	133.9	125.9	19.8	54.9
Fixed Charges					
Interest on Long-Term Debt	25.9	21.2	22.2	23.1	60.3
AFUDC - Debt	1.5	2.0	0.6	0.3	0.7
Other Interest Charges (*b*)	0.4	1.5	2.9	1.1	6.9
Interest Component of All Rentals (*c*)	2.5	1.9	2.0	2.8	3.5
Total Fixed Charges	30.3	26.6	27.7	27.3	71.4
Earnings Before Income Taxes and Fixed Charges	$152.9	$160.5	$153.6	$47.1	$126.3
Ratio of Earnings to Fixed Charges	5.05	6.03	5.55	1.73	1.77

(a) Pre-tax income of subsidiaries that have not incurred fixed charges.
(b) Includes interest expense relating to the adoption of FIN 48 – "Accounting for Uncertainty in Income Taxes."
(c) Represents interest portion of rents estimated at 33 1/3 percent.

SUBSIDIARIES OF THE REGISTRANT
(As of December 31, 2008)
(Reported Under Item 601 of Regulation S-K)

Name	State or Country of Organization
ALLETE, Inc. *(d.b.a. ALLETE; Minnesota Power; Minnesota Power, Inc.;*	Minnesota
Minnesota Power & Light Company; MPEX; MPEX A Division of Minnesota Power)	
ALLETE Automotive Services, LLC	Minnesota
ALLETE Capital II	Delaware
ALLETE Capital III	Delaware
ALLETE Properties, LLC *(d.b.a. ALLETE Properties)*	Minnesota
ALLETE Carolinas, LLC	Delaware
ALLETE Commercial, LLC	Florida
Cape Coral Holdings, Inc.	Florida
Cape Properties, Inc.	Florida
Lehigh Acquisition Corporation	Delaware
Florida Landmark Communities, Inc.	Florida
Cliffside Properties, Inc.	California
Enterprise Lehigh, Inc.	Florida
Lehigh Corporation	Florida
Lehigh Land & Investment, Inc.	Florida
Palm Coast Holdings, Inc.	Florida
Port Orange Holdings, LLC	Florida
Interlachen Lakes Estates, Inc.	Florida
SRC of Florida, Inc.	Florida
Sundowner Properties, Inc.	Pennsylvania
Palm Coast Forest, LLC	Florida
Palm Coast Land, LLC	Florida
Tomoka Holdings, LLC	Florida
ALLETE Water Services, Inc.	Minnesota
Florida Water Services Corporation	Florida
Auto Replacement Property, LLC	Indiana
Energy Replacement Property, LLC	Minnesota
Georgia Water Services Corporation	Georgia
Energy Land, Incorporated	Wisconsin
Lakeview Financial Corporation I	Minnesota
Lakeview Financial Corporation II	Minnesota
Logistics Coal, LLC	Minnesota
Minnesota Power Enterprises, Inc.	Minnesota
BNI Coal, Ltd.	North Dakota
MP Affiliate Resources, Inc.	Minnesota
Rainy River Energy Corporation	Minnesota
Rainy River Energy Corporation - Wisconsin	Wisconsin
Synertec, Incorporated	Minnesota
Upper Minnesota Properties, Inc.	Minnesota
Upper Minnesota Properties - Development, Inc.	Minnesota
Upper Minnesota Properties - Irving, Inc.	Minnesota
Upper Minnesota Properties - Meadowlands, Inc.	Minnesota
Meadowlands Affordable Housing Limited Partnership	Minnesota
MP Investments, Inc.	Delaware
RendField Land Company, Inc.	Minnesota
Superior Water, Light and Power Company	Wisconsin

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-150681, 333-02109, 333-41882, 333-57104, 333-147965) and Form S-8 (Nos. 333-16445, 333-16463, 333-82901, 333-91348, 333-105225, 333-124455) of ALLETE, Inc. of our report dated February 13, 2009, relating to the consolidated financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota

February 13, 2009

Consent of General Counsel

The statements of law and legal conclusions under “Item 1. Business” in ALLETE’s Annual Report on Form 10-K for the year ended December 31, 2008, have been reviewed by me and are set forth therein in reliance upon my opinion as an expert.

I hereby consent to the incorporation by reference of such statements of law and legal conclusions in Registration Statement Nos. 333-150681, 333-02109, 333-41882, 333-57104 and 333-147965 on Form S-3, and Registration Statement Nos. 333-16445, 333-16463, 333-82901, 333-91348, 333-105225 and 333-24455 on Form S-8.

Deborah A. Amberg

Deborah A. Amberg

Duluth, Minnesota

February 13, 2009

Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Donald J. Shippar, of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2008, of ALLETE;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2009 Donald J. Shippar

Donald J. Shippar
Chairman, President and Chief Executive Officer

Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark A. Schober, of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2008, of ALLETE;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2009 Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

Section 1350 Certification of Periodic Report
By the Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, each of the undersigned officers of ALLETE, Inc. (ALLETE), does hereby certify that:

1. The Annual Report on Form 10-K of ALLETE for the fiscal year ended December 31, 2008, (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ALLETE.

Date: February 13, 2009 Donald J. Shippar

Donald J. Shippar
President and Chief Executive Officer

Date: February 13, 2009 Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability pursuant to that section. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that ALLETE specifically incorporates it by reference.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to ALLETE and will be retained by ALLETE and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99

ALLETE 2008 10-K

For Release: February 13, 2009
Contact: Tim Thorp
218-723-3953
tthorp@allete.com

NEWS

ALLETE, Inc. reports 2008 earnings of $2.82 per share

ALLETE, Inc. (NYSE: ALE) today reported 2008 earnings of $2.82 per share, compared with 2007 earnings of $3.08. Net income for 2008 was $82.5 million on operating revenue of $801 million, versus 2007 net income of $87.6 million and operating revenue of $841.7 million.

“ALLETE achieved 2008 earnings within the guidance range we projected at the end of 2007,” said Don Shippar, ALLETE’s Chairman, President and Chief Executive Officer. “We’re pleased to have met our financial expectations despite the difficult economic environment.”

The **Regulated Operations** segment recorded net income of $67.9 million during the year. The company received additional revenue from a wholesale electric rate increase and from interim retail rates now under review by the Minnesota Public Utilities Commission. ALLETE also recorded higher income from its investment in the American Transmission Company due to a higher investment balance.

Electric sales to other power suppliers declined in 2008 due to the expiration of two sales contracts. The company also incurred higher operations and maintenance expense, depreciation, and interest expense during the year.

The **Investments and Other** segment recorded net income of $14.6 million in 2008 as harsh real estate market conditions in Florida persisted throughout the year. ALLETE recorded a gain on the sale of securities in the first quarter and a tax benefit in the third quarter of 2008.

In the fourth quarter of 2008, ALLETE earned 78 cents per share – one cent more than the corresponding period in 2007. Net income was $23.5 million on operating revenue of $196.1 million in 2008. ALLETE recorded net income of $22.2 million on operating revenue of $212.3 million during the fourth quarter of 2007.

“The current economic climate presents a challenge to us and to our customers,” Shippar said. The company will respond to the current economic downturn by managing costs and capital expenditures and by remarketing available power, he said.

Although the company expects little, if any, earnings from its ALLETE Properties investments in 2009, Shippar said he anticipated increased income from its investment in ATC. The company expects to meet the 2009 guidance ALLETE issued on December 5, 2008 – earnings of between $2.10 and $2.35 per share, from net income ranging from $67 million to $75 million.

ALLETE’s corporate headquarters are located in Duluth, Minnesota. ALLETE provides energy services in the upper Midwest and has real estate holdings in Florida. More information about the company is available on ALLETE’s Web site at www.allete.com.

The statements contained in this release and statements that ALLETE may make orally in connection with this release 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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ALLETE, Inc.

Consolidated Statement of Income
For the Periods Ended December 31, 2008 and 2007
Millions Except Per Share Amounts

	Quarter Ended		Year to Date	
	2008	**2007**	**2008**	**2007**
Operating Revenue	$196.1	$212.3	$801.0	$841.7
Operating Expenses				
Fuel and Purchased Power	63.3	85.2	305.6	347.6
Operating and Maintenance	76.6	81.0	318.1	313.9
Depreciation	16.4	12.7	55.5	48.5
Total Operating Expenses	156.3	178.9	679.2	710.0
Operating Income from Continuing Operations	39.8	33.4	121.8	131.7
Other Income (Expense)				
Interest Expense	(6.8)	(5.5)	(26.3)	(22.6)
Equity Earnings in ATC	4.1	3.3	15.3	12.6
Other	1.7	3.6	15.6	15.5
Total Other Income (Expense)	(1.0)	1.4	4.6	5.5
Income from Continuing Operations Before Minority				
Interest and Income Taxes	38.8	34.8	126.4	137.2
Income Tax Expense	15.1	12.3	43.4	47.7
Minority Interest	0.2	0.3	0.5	1.9
Net Income	$23.5	$22.2	$82.5	$87.6
Average Shares of Common Stock				
Basic	30.1	28.6	29.2	28.3
Diluted	30.2	28.7	29.3	28.4
Basic Earnings Per Share of Common Stock	$0.78	$0.78	$2.82	$3.09
Diluted Earnings Per Share of Common Stock	$0.78	$0.77	$2.82	$3.08
Dividends Per Share of Common Stock	$0.43	$0.41	$1.72	$1.64

Consolidated Balance Sheet
Millions

	Dec. 31, 2008	**Dec. 31, 2007**		**Dec. 31, 2008**	**Dec. 31, 2007**
Assets			**Liabilities and Shareholders' Equity**		
Cash and Short-Term Investments	$102.0	$46.4	Current Liabilities	$150.7	$137.1
Other Current Assets	150.3	168.1	Long-Term Debt	588.3	410.9
Property, Plant and Equipment	1,387.3	1,104.5	Other Liabilities	568.7	353.6
Investment in ATC	76.9	65.7	Shareholders' Equity	827.1	742.6
Investments	136.9	148.1			
Other	281.4	111.4			
Total Assets	$2,134.8	$1,644.2	**Total Liabilities and Shareholders' Equity**	$2,134.8	$1,644.2

	Quarter Ended December 31,		Year to Date December 31,	
ALLETE, Inc.	**2008**	**2007**	**2008**	**2007**
Income (Loss)				
Millions				
Regulated Operations	$21.4	$18.9	$67.9	$62.4
Investments and Other	2.1	3.3	14.6	25.2
Net Income	$23.5	$22.2	$82.5	$87.6
Diluted Earnings Per Share	$0.78	$0.77	$2.82	$3.08
Statistical Data				
Corporate				
Common Stock				
High	$44.63	$46.48	$49.00	$51.30
Low	$28.28	$38.17	$28.28	$38.17
Close	$32.27	$39.58	$32.27	$39.58
Book Value	$25.37	$24.11	$25.37	$24.11
Kilowatt-hours Sold				
Millions				
Regulated Utility				
Retail and Municipals				
Residential	318.2	309.0	1,172.1	1,141.1
Commercial	343.9	339.5	1,371.6	1,373.1
Municipals	259.1	256.2	1,001.6	1,007.5
Industrial	1,725.7	1,838.3	7,191.9	7,053.5
Other	20.9	22.0	82.9	84.8
Total Retail and Municipal	2,667.8	2,765.0	10,820.1	10,660.0
Other Power Suppliers	556.3	548.5	1,800.3	2,157.3
Total Regulated Utility	3,224.1	3,313.5	12,620.4	12,817.3
Non-regulated Energy Operations	48.1	64.2	217.0	248.4
Total Kilowatt-hours Sold	3,272.2	3,377.7	12,837.4	13,065.7
Real Estate				
Town Center Development Project				
Non-residential Square Footage Sold	–	65,583	–	540,059
Residential Units	–	–	–	130
Palm Coast Park Development Project				
Non-residential Square Footage Sold	–	–	–	40,000
Residential Units	–	200	–	606
Other Land				
Acres Sold	167	33	219	483