

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K
CURRENT REPORT

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

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED) - MARCH 27, 2002

ALLETE, INC.

A Minnesota Corporation
Commission File No. 1-3548
IRS Employer Identification No. 41-0418150
30 West Superior Street
Duluth, Minnesota 55802-2093
Telephone - (218) 279-5000

ITEM 5. OTHER EVENTS.

Reference is made to the 2001 Form 10-K of ALLETE, Inc. (ALLETE or the Company) for background information on the following update. Unless otherwise indicated, cited references are to ALLETE's 2001 Form 10-K.

Ref. Page 11 - Sixth Paragraph

Ref. Page 30 - Third Paragraph

Ref. Form 8-K dated and filed February 28, 2002 - Second Paragraph

On March 27, 2002 ALLETE's wholly owned subsidiary, ALLETE Water Services, Inc. (ALLETE Water), signed a Letter of Understanding (filed as Exhibit 99 to this Form 8-K) with the Florida Governmental Utility Authority (FGUA) in connection with ongoing negotiations for the sale of all or substantially all of Florida Water Services Corporation's (Florida Water) assets. Florida Water is a wholly owned subsidiary of ALLETE Water. The Letter of Understanding was requested by the FGUA for use in meetings planned with representatives of local governments in areas affected by the proposed asset sale.

The Letter of Understanding confirms the following understandings between ALLETE Water and the FGUA:

- (1) ALLETE Water agrees to permit the FGUA to initiate its final due diligence process;
- (2) ALLETE Water agrees to terminate its solicitation of competitive bids from other parties interested in purchasing the stock or assets of Florida Water; and
- (3) provided that a definitive Asset Acquisition Agreement, which is based upon the framework of a term sheet appended to the Letter of Understanding, is finalized prior to May 14, 2002, representatives of ALLETE and the FGUA agree to recommend to their respective boards of directors the approval of an acquisition by the FGUA of the assets of Florida Water.

Neither party is bound by the terms of the Letter of Understanding until such time as a definitive asset acquisition agreement is approved by its respective board of directors and is executed.

A term sheet appended to the Letter of Understanding recites a purchase price of \$520 million which is subject to adjustment based upon variations in interest rates, provided that ALLETE Water may terminate the transaction if the price is reduced to \$490 million or less. If the transaction had closed on March 27, 2002, the interest rate adjustment mechanism would have reduced the price to approximately \$500 million. If the transaction were to close at a price of \$520 million, ALLETE estimates that its net cash proceeds would be about \$275 million.

Certain local governments may commence condemnation proceedings to acquire assets outside the FGUA transaction, or may otherwise attempt to block the FGUA acquisition of assets within their respective jurisdictions. If the City of Marco Island proceeds with its threat to purchase through condemnation proceedings Florida Water assets within its jurisdiction, it is contemplated that the Marco Island system would likely be removed from the FGUA transaction and the FGUA purchase price would be reduced approximately 22 percent. If one or more other local governments commence condemnation in their jurisdictions, ALLETE Water has the option to terminate the FGUA transaction, or to proceed with the transaction as to the remaining systems if a price adjustment can be agreed upon with the FGUA.

The FGUA and ALLETE Water are continuing with negotiation of definitive agreements related to the proposed transaction. Assuming the parties reach timely agreement on the issues remaining to be resolved, the FGUA has stated its intent to hold a public hearing in May 2002 to receive comments on the proposed transaction. The FGUA board would then meet for the purpose of determining whether to authorize execution of a definitive asset acquisition agreement. The parties contemplate closing this transaction by October 2002. The asset purchase agreement will contain conditions permitting each party to terminate the agreement in the event of certain circumstances.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

The following exhibit of ALLETE is filed herewith in accordance with Item 601 of Regulation S-K:

Exhibit
Number

- 99 - Letter of Understanding and Term Sheet, dated March 27, 2002, relating to the Asset Acquisition Agreement between FGUA and Florida Water

SAFE HARBOR STATEMENT
UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, ALLETE is hereby filing cautionary statements identifying important factors that could cause ALLETE's actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) made by or on behalf of ALLETE in this Form 8-K, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "will likely result," "will continue" or similar expressions) are not statements of historical facts and may be forward-looking.

Forward-looking statements involve estimates, assumptions, risks and uncertainties and are qualified in their entirety by reference to, and are accompanied by, the following important factors, which are difficult to predict, contain uncertainties, are beyond the control of ALLETE and may cause actual results or outcomes to differ materially from those contained in forward-looking statements:

- war and acts of terrorism;
- prevailing governmental policies and regulatory actions, including those of the United States Congress, state legislatures, the Federal Energy Regulatory Commission, the Minnesota Public Utilities Commission, the Florida Public Service Commission, the North Carolina Utilities Commission, the Public Service Commission of Wisconsin and various county regulators, about 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) as well as general vehicle-related laws, including vehicle brokerage and auction laws;
- unanticipated impacts of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- population growth rates and demographic patterns;
- the effects of competition, including the competition for retail and wholesale customers, as well as suppliers and purchasers of vehicles;
- pricing and transportation of commodities;
- market demand, including structural market changes;
- changes in tax rates or policies or in rates of inflation;
- unanticipated project delays or changes in project costs;
- unanticipated changes in operating expenses and capital expenditures;
- capital market conditions;
- competition for economic expansion or development opportunities;
- our ability to manage expansion and integrate recent acquisitions; and
- legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

Any forward-looking statement speaks only as of the date on which such statement is made, and ALLETE undertakes 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.

SIGNATURES

Pursuant to the requirements 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.

March 28, 2002

James K. Vizanko

James K. Vizanko
Vice President, Chief Financial Officer
and Treasurer

EXHIBIT INDEX

Exhibit
Number

- 99 - Letter of Understanding and Term Sheet, dated March 27, 2002, relating to the Asset Acquisition Agreement between FGUA and Florida Water

ALLETE Form 8-K dated March 28, 2002

[FGUA Logo]

FLORIDA GOVERNMENTAL UTILITY AUTHORITY

1500 Mahan Drive, Suite 250, Tallahassee, Florida 32308, Ph: (850) 681-3717,
Fax: (850) 224-7206, E-mail: FGUA@FGUA.com

March 27, 2002

Via Facsimile and Overnight Delivery

Donnie R. Crandell, President
ALLETE Water Services, Inc.
1000 Color Place
Apopka, Florida 32703

Re: Florida Governmental Utility Authority / Florida Water Services Corporation

Dear Mr. Crandell:

This letter confirms the following understanding between Florida Water Services Corporation ("Florida Water"), ALLETE Water Services, Inc. and ALLETE, Inc. (collectively, "ALLETE") and the Florida Governmental Utility Authority ("FGUA"):

1. Florida Water shall permit FGUA representatives and experts to immediately initiate the final due diligence process. Promptly upon receipt of this letter signed by you as indicated below, the FGUA shall initiate such due diligence activities.
2. The competitive bid process initiated by Florida Water and ALLETE, with respect to Florida Water stock or assets shall be terminated immediately and no further solicitations or negotiations with third parties shall take place unless and until the FGUA acquisition of Florida Water is terminated by (i) the failure of the FGUA Board of Directors or the ALLETE Board of Directors to approve on or before May 14, 2002 the recommendation referenced in paragraph 3 below, or (ii) if a definitive Asset Acquisition Agreement is signed, either party terminates the Agreement in accordance with its provisions.
3. Provided that a definitive Asset Acquisition Agreement is finalized prior to May 14, 2002, we shall recommend approval to our respective boards of directors the acquisition by the FGUA of the utility system assets of Florida Water within the framework of the term sheet attached hereto.

If the foregoing correctly states our agreements, please sign this letter in the space provided below and return it to me. We look forward to our continued work together.

Nothing in this letter shall be construed by either party as binding on the other unless and until a definitive Asset Acquisition Agreement is approved by the respective boards of directors and signed by both parties.

Sincerely,

/s/ Charles L. Sweat

Charles L. Sweat
Director of Operations

Agreed to and accepted by:

/s/ Donnie R. Crandell

Donnie R. Crandell, President
ALLETE Water Services Corporation

cc: FGUA Board Members

TERM SHEET

ASSET ACQUISITION AGREEMENT
BETWEEN
FLORIDA GOVERNMENTAL UTILITY AUTHORITY
AND
FLORIDA WATER SERVICES CORPORATION

PURCHASE PRICE: \$520 million

INTEREST RATE

ADJUSTMENT:

- The purchase price will be adjusted to reflect the interest rate on the date the bonds are sold (anticipated Closing on October 1, 2002). Florida Water will proceed to Closing if the interest rate increases to a 5.5% rate. If interest rates rise above 5.5% then Florida Water may elect to terminate the agreement.

REVENUE

GUARANTEE:

- To permit the GUA to honor certain commitments made by Florida Water not to raise rates, Florida Water will provide to GUA a revenue guarantee pursuant to which Florida Water guarantees certain levels of revenue for the duration of the commitment period.

DUE DILIGENCE:

- The GUA will perform due diligence and may elect to terminate the agreement as of August 23, 2002 if a material problem affecting the financial condition or operation of any GUA System is identified.

ENVIRONMENTAL

ASSESSMENT:

- Florida Water will cure environmental defects up to \$1 million in the aggregate (maximum of \$250,000 for a single GUA System).
- If the environmental assessments indicate costs to cure in excess of \$1 million in the aggregate or \$250,000 for an individual GUA System then the GUA may terminate the Agreement or elect to continue to Closing.

SURVEYS AND TITLE:

- Florida Water will pay the cost for title insurance and certain surveys.
- Florida Water will apply commercially reasonable efforts to cure material survey and title defects up to an aggregate amount of \$4 million.

CONSTRUCTION

PROJECTS:

- Florida Water will be reimbursed if it invests funds in certain identified projects prior to closing.
- Florida Water will invest a pro rata share of the 2002 capital budget in projects identified in the capital improvement program as may be adjusted with the approval of GUA.
- Florida Water's pro rata share of the program will be determined by the number of calendar days which expire between January 1, 2002 and the closing date.
- The purchase price will be reduced by any deficiency between Florida Water's pro rata share of the 2002 capital improvement program and funds actually invested.
- Florida Water will be reimbursed if it invests more than its pro rata share of the 2002 capital improvement program.

INDEMNIFICATION:

- Florida Water and the GUA will provide mutual indemnification in the event of certain losses associated with breach of the acquisition agreement or representations or warranties therein.

PRE-CLOSING

DEADLINES:

- The GUA will meet certain deadlines prior to closing to facilitate a timely closing.
- Periodic updates on progress will be held between the GUA and Florida Water.
- Florida Water has the option to terminate the Agreement upon failure of the GUA to meet deadlines.

PENDING LITIGATION

- - - - -

AND REGULATORY

- - - - -

MATTERS:

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- Florida Water remains responsible for costs and liabilities associated with litigation and regulatory matters pending at closing.

TERMINATION:

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- The Agreement may be terminated by either party for: breach of a representation or warranty if not cured after 30 days of notice; upon specified changes in the bond market; or in the event the title, survey or environmental curative costs exceed the specified amounts. In the event of termination pursuant to the terms of the Agreement, (other than breach) neither party shall have any obligations or liability to the other.

OPERATIONS

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CONTRACT:

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- GUA will hire contractors to manage and operate the utility system. Florida Water employees to be hired by GUA contractors shall be provided comparable salaries and benefits.

DEVELOPER

- - - - -

OBLIGATIONS:

- - - - -

- GUA will assume obligations under certain developer agreements subject to retention of specific liabilities by Florida Water.