SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

/X/ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended SEPTEMBER 30, 2001

or

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

Commission File No. 1-3548

ALLETE, INC.

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

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Common Stock, no par value,
83,200,947 shares outstanding
as of September 30, 2001

INDEX

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
2000 Form 10-K	ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 2000
ACE	ACE Limited
ADESA	ADESA Corporation
AFC	Automotive Finance Corporation
ALLETE	ALLETE, Inc.
ALLETE Water Services	ALLETE Water Services, Inc.
Capital Re	Capital Re Corporation
CIP	Conservation Improvement Programs
Cleveland-Cliffs	Cleveland-Cliffs Inc.
Company	ALLETE, Inc. and its subsidiaries
ComSearch	ComSearch, Inc.
Dicks Creek	Dicks Creek Wastewater Utility
EBITDAL	Earnings Before Interest, Taxes, Depreciation, Amortization and Lease Expense
Enventis	Enventis, Inc.
EPS	Earnings Per Share
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
Heater	Heater Utilities, Inc.
LTV	LTV Steel Mining Company
MPUC	Minnesota Public Utilities Commission
MW	Megawatt
NCUC	North Carolina Utilities Commission
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standard No.
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company

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, we are hereby filing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements (as that term is defined in the Private Securities Litigation Reform Act of 1995) made by or on behalf of ALLETE in this quarterly report on Form 10-Q, 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," "predicts," "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 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 our control and may cause actual results 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 FERC, the MPUC, the FPSC, the NCUC, the PSCW and various county regulators, about allowed rates of return, 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);
- 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;
- competition for retail and wholesale customers;
- pricing and transportation of commodities;
- market demand, including structural market changes;
- changes in tax rates or policies or in rates of inflation;
- changes in project costs;
- unanticipated changes in operating expenses and capital expenditures;
- capital market conditions;
- competition for new energy and other development opportunities; 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 that 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 those factors, nor can it assess the impact of each of those 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.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions

	SEPTEMBER 30, 2001 Unaudited	DECEMBER 31, 2000 Audited
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 206.8	$ 219.3
Trading Securities	165.9	90.8
Accounts Receivable (Less Allowance of $13.4 and $11.7)	455.9	265.7
Inventories	30.9	26.4
Prepayments and Other	139.2	128.8
Total Current Assets	998.7	731.0
Property, Plant and Equipment	1,536.5	1,479.7
Investments	122.3	116.4
Goodwill	498.3	472.8
Other Assets	121.6	114.1
TOTAL ASSETS	$3,277.4	$2,914.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 378.3	$ 269.1
Accrued Taxes, Interest and Dividends	48.2	52.3
Notes Payable	180.8	274.2
Long-Term Debt Due Within One Year	12.1	15.8
Other	98.1	95.6
Total Current Liabilities	717.5	707.0
Long-Term Debt	1,066.1	952.3
Accumulated Deferred Income Taxes	123.6	125.1
Other Liabilities	170.0	153.8
Total Liabilities	2,077.2	1,938.2
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary ALLETE Capital I Which Holds Solely Company Junior Subordinated Debentures	75.0	75.0
STOCKHOLDERS' EQUITY		
Common Stock Without Par Value, 130.0 Shares Authorized 83.2 and 74.7 Shares Outstanding	756.1	576.9
Unearned ESOP Shares	(53.1)	(55.7)
Accumulated Other Comprehensive Loss	(16.0)	(4.2)
Retained Earnings	438.2	383.8
Total Stockholders' Equity	1,125.2	900.8
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,277.4	$2,914.0

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF INCOME
Millions Except Per Share Amounts - Unaudited

	QUARTER ENDED SEPTEMBER 30, 2001	QUARTER ENDED SEPTEMBER 30, 2000	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000
OPERATING REVENUE				
Energy Services	$168.0	$ 146.1	$ 475.3	$426.6
Automotive Services	212.5	137.4	644.4	386.6
Water Services	31.0	30.2	91.9	89.9
Investments	8.7	9.8	64.6	70.0
Total Operating Revenue	420.2	323.5	1,276.2	973.1
OPERATING EXPENSES				
Fuel and Purchased Power	60.2	60.1	179.4	166.7
Operations	280.3	198.3	845.5	600.7
Interest Expense	22.3	15.7	65.7	47.2
Total Operating Expenses	362.8	274.1	1,090.6	814.6
OPERATING INCOME BEFORE ACE	57.4	49.4	185.6	158.5
INCOME FROM DISPOSITION OF INVESTMENT IN ACE	-	-	-	48.0
OPERATING INCOME	57.4	49.4	185.6	206.5
DISTRIBUTIONS ON REDEEMABLE PREFERRED SECURITIES OF ALLETE CAPITAL I	1.5	1.5	4.5	4.5
INCOME TAX EXPENSE	18.1	12.9	67.9	72.4
NET INCOME	$ 37.8	$ 35.0	$ 113.2	$129.6
AVERAGE SHARES OF COMMON STOCK				
Basic	79.0	70.0	74.6	69.6
Diluted	79.8	70.4	75.3	69.8
EARNINGS PER SHARE OF COMMON STOCK				
Basic	$0.48	$0.50	$1.52	$1.85
Diluted	$0.47	$0.50	$1.50	$1.84
DIVIDENDS PER SHARE OF COMMON STOCK	$0.2675	$0.2675	$0.8025	$0.8025

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	NINE MONTHS ENDED SEPTEMBER 30, 2001	2000
OPERATING ACTIVITIES		
Net Income	$ 113.2	$ 129.6
Gain from Disposition of Investment in ACE	-	(48.0)
Depreciation and Amortization	76.6	63.2
Deferred Income Taxes	4.3	(16.3)
Changes In Operating Assets and Liabilities		
Trading Securities	(75.1)	75.4
Accounts Receivable	(190.2)	(89.9)
Inventories	(4.5)	(4.2)
Accounts Payable	109.2	143.4
Other Current Assets and Liabilities	(16.1)	(58.5)
Other - Net	21.0	18.3
Cash From Operating Activities	38.4	213.0
INVESTING ACTIVITIES		
Proceeds from Sale of Investments	2.6	144.6
Additions to Investments	(10.8)	(37.4)
Additions to Property, Plant and Equipment	(108.4)	(94.0)
Acquisitions - Net of Cash Acquired	(71.5)	(189.4)
Other - Net	13.3	10.7
Cash For Investing Activities	(174.8)	(165.5)
FINANCING ACTIVITIES		
Issuance of Common Stock	175.3	18.4
Issuance of Long-Term Debt	125.0	51.6
Changes in Notes Payable - Net	(93.4)	111.2
Reductions of Long-Term Debt	(14.9)	(53.8)
Redemption of Preferred Stock	-	(31.5)
Dividends on Preferred and Common Stock	(58.8)	(56.2)
Cash From Financing Activities	133.2	39.7
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(9.3)	(6.0)
CHANGE IN CASH AND CASH EQUIVALENTS	(12.5)	81.2
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	219.3	101.5
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 206.8	$ 182.7
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Period For		
Interest - Net of Capitalized	$67.5	$44.7
Income Taxes	$49.3	$83.0

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with our 2000 Form 10-K. In our opinion all adjustments necessary for a fair statement of the results for the interim periods have been included. The results of operations for an interim period may not give a true indication of results for the year.

NOTE 1. BUSINESS SEGMENTS

Millions

	Consolidated	Energy Services	Automotive Services	Water Services	Investments	Corporate Charges
FOR THE QUARTER ENDED SEPTEMBER 30, 2001						
Operating Revenue	$420.2	$168.0	$212.5	$31.0	$8.7	-
Operation and Other Expense	306.2	122.0	156.5	17.6	5.4	$ 4.7
Depreciation and Amortization Expense	25.7	11.4	10.5	3.8	-	-
Lease Expense	8.6	0.7	7.0	0.9	-	-
Interest Expense	22.3	5.0	8.7	2.6	-	6.0
Operating Income (Loss)	57.4	28.9	29.8	6.1	3.3	(10.7)
Distributions on Redeemable Preferred Securities of Subsidiary	1.5	0.6	-	-	-	0.9
Income Tax Expense (Benefit)	18.1	11.1	9.7	2.3	1.3	(6.3)
Net Income (Loss)	$ 37.8	$ 17.2	$ 20.1	$ 3.8	$2.0	$(5.3)
EBITDAL	$114.0	$46.0	$56.0	$13.4	$3.3	$(4.7)
FOR THE QUARTER ENDED SEPTEMBER 30, 2000						
Operating Revenue	$323.5	$146.1	$137.4	$30.2	$9.8	-
Operation and Other Expense	229.4	109.7	94.3	17.2	4.0	$ 4.2
Depreciation and Amortization Expense	21.8	11.3	6.8	3.5	0.1	0.1
Lease Expense	7.2	0.6	6.0	0.6	-	-
Interest Expense	15.7	5.2	5.4	2.7	-	2.4
Operating Income (Loss)	49.4	19.3	24.9	6.2	5.7	(6.7)
Distributions on Redeemable Preferred Securities of Subsidiary	1.5	0.6	-	-	-	0.9
Income Tax Expense (Benefit)	12.9	7.3	9.5	2.4	0.7	(7.0)
Net Income (Loss)	$ 35.0	$ 11.4	$ 15.4	$ 3.8	$5.0	$(0.6)
EBITDAL	$94.1	$36.4	$43.1	$13.0	$5.8	$(4.2)

Included $38.0 million of Canadian operating revenue in 2001 ($33.9 million in 2000).

NOTE 1. BUSINESS SEGMENTS CONTINUED

Millions

	Consolidated	Energy Services	Automotive Services	Water Services	Investments	Corporate Charges
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001						
Operating Revenue	$1,276.2	$475.3	$644.4	$91.9	$64.6	-
Operation and Other Expense	923.3	358.2	470.2	53.5	23.9	$ 17.5
Depreciation and Amortization Expense	76.6	34.4	30.6	11.3	0.1	0.2
Lease Expense	25.0	2.1	20.9	2.0	-	-
Interest Expense	65.7	15.2	29.3	7.9	-	13.3
Operating Income (Loss)	185.6	65.4	93.4	17.2	40.6	(31.0)
Distributions on Redeemable Preferred Securities of Subsidiary	4.5	1.8	-	-	-	2.7
Income Tax Expense (Benefit)	67.9	25.0	35.5	6.6	15.8	(15.0)
Net Income (Loss)	$ 113.2	$ 38.6	$ 57.9	$10.6	$24.8	$(18.7)
EBITDAL	$352.9	$117.1	$174.2	$38.4	$40.7	$(17.5)
Total Assets	$3,277.4	$992.9	$1,631.3	$350.0	$303.0	$0.2
Property, Plant and Equipment	$1,536.5	$799.0	$459.4	$278.1	-	-
Accumulated Depreciation and Amortization	$1,044.8	$694.9	$120.8	$226.8	$2.3	-
Capital Expenditures	$108.4	$43.0	$43.0	$22.4	-	-
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000						
Operating Revenue	$973.1	$426.6	$386.6	$89.9	$70.0	-
Operation and Other Expense	684.6	321.4	269.5	52.8	29.0	$ 11.9
Depreciation and Amortization Expense	63.2	34.4	17.3	11.0	0.2	0.3
Lease Expense	19.6	2.1	16.0	1.5	-	-
Interest Expense	47.2	15.7	13.1	7.8	-	10.6
Operating Income (Loss) Before ACE	158.5	53.0	70.7	16.8	40.8	(22.8)
Income from Disposition of ACE	48.0	-	-	-	48.0	-
Operating Income (Loss)	206.5	53.0	70.7	16.8	88.8	(22.8)
Distributions on Redeemable Preferred Securities of Subsidiary	4.5	1.5	-	-	-	3.0
Income Tax Expense (Benefit)	72.4	20.1	28.7	6.5	31.7	(14.6)
Net Income (Loss)	$129.6	$ 31.4	$ 42.0	$10.3	$57.1	$(11.2)
EBITDAL	$288.5	$105.2	$117.1	$37.1	$41.0	$(11.9)
Total Assets	$2,596.4	$879.7	$1,101.5	$325.0	$289.8	$0.4
Property, Plant and Equipment	$1,327.3	$773.7	$291.3	$262.3	-	-
Accumulated Depreciation and Amortization	$948.9	$660.3	$78.3	$208.3	$2.0	-
Capital Expenditures	$94.0	$34.9	$40.3	$18.8	-	-

Included $111.0 million of Canadian operating revenue in 2001 ($77.2 million in 2000).
Included $203.6 million of Canadian assets in 2001 ($184.2 million in 2000).

NOTE 2. ACQUISITIONS AND DIVESTITURES

ADESA AUCTION FACILITIES. On January 18, 2001 we acquired all of the outstanding stock of ComSearch in exchange for ALLETE common stock and paid cash to purchase all of the assets of Auto Placement Center (now ADESA Impact) in transactions with an aggregate value of $62.4 million. ADESA Impact was accounted for using the purchase method. ADESA Impact financial results have been included in our consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality. ComSearch was accounted for as a pooling of interests with financial results included in our consolidated financial statements since January 18, 2001. Consolidated financial results for prior periods have not been restated due to immateriality. ADESA Impact is a provider of "total loss" vehicle recovery services with 12 auction facilities in the United States. ComSearch provides Internet-based parts location and insurance adjustment audit services nationwide.

On May 1, 2001 ADESA purchased the assets of the I-44 Auto Auction in Tulsa, Oklahoma. The transaction was accounted for using the purchase method. Financial results have been included in our consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality. The I-44 Auto Auction, which is located on 75 acres, was renamed ADESA Tulsa and offers six auction lanes, storage for over 3,000 vehicles and a five-bay reconditioning and detail facility.

DICKS CREEK. In February 2001 ALLETE Water Services finalized the December 2000 purchase of the assets of Dicks Creek, a wastewater utility located near Atlanta, Georgia, for $6.6 million plus a commitment to pay the seller a fee for residential connections. The commitment requires the payment of a minimum of $400,000 annually beginning December 31, 2001 for four years or until cumulative payments reach $2 million, whichever occurs first. The transaction was accounted for using the purchase method. Financial results have been included in our consolidated financial statements since February 2001. Pro forma financial results have not been presented due to immateriality.

ENVENTIS. On July 31, 2001 we acquired Enventis, a data network systems provider headquartered in the Minneapolis-St. Paul area. In connection with this acquisition, we issued 310,878 shares of our common stock. Enventis was accounted for as a pooling of interests with financial results included in our consolidated financial statements since July 31, 2001. Consolidated financial results for prior periods have not been restated due to immateriality.

DISPOSAL OF WATER PLANT ASSETS. Effective August 24, 2001 the City of New Smyrna Beach (City) assumed control of the water and wastewater facilities in the Sugar Mill Country Club service area following a successful condemnation action filed with the Circuit Court for Volusia County, Florida (Circuit Court). The facilities serve approximately 600 customers. In October 2001 a $2.9 million deposit was disbursed to Florida Water in accordance with a Circuit Court order. Settlement negotiations to determine the final purchase price are currently underway between Florida Water and the City.

NOTE 3. INVESTMENT IN ACE

In May 2000 we recorded a $30.4 million, or $0.44 per share, after-tax gain on the sale of the 4.7 million shares of ACE that we received in December 1999 when Capital Re merged with ACE. At the time of the merger we owned 7.3 million shares, or 20 percent, of Capital Re.

NOTE 4. LONG-TERM DEBT

On February 21, 2001 ALLETE issued $125 million of 7.80% Senior Notes, due February 15, 2008. Proceeds were used to repay a portion of ALLETE's short-term borrowings incurred for the acquisition of vehicle auction facilities purchased in 2000 and early 2001, and for general corporate purposes.

NOTE 5. COMMON STOCK

During the quarter ended June 30, 2001, we issued and sold 6.6 million shares of common stock at $23.68 per share in an underwritten public offering. Net proceeds of $150 million were used to repay a portion of our short-term borrowings and invested in our securities portfolio.

NOTE 6. INCOME TAX EXPENSE

	QUARTER ENDED SEPTEMBER 30, 2001	QUARTER ENDED SEPTEMBER 30, 2000	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000
Millions				
Current Tax Expense				
Federal	$16.0	$15.1	$54.2	$ 77.8
Foreign	1.0	0.7	2.2	1.8
State	2.6	0.6	7.2	9.1
	19.6	16.4	63.6	88.7
Deferred Tax Expense (Benefit)				
Federal	(1.5)	(2.2)	3.6	(12.8)
Foreign	(0.1)	(0.2)	(0.5)	(0.5)
State	0.6	(0.5)	2.3	(1.8)
	(1.0)	(2.9)	5.4	(15.1)
Deferred Tax Credits	(0.5)	(0.6)	(1.1)	(1.2)
Total Income Tax Expense	$18.1	$12.9	$67.9	$ 72.4

NOTE 7. 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.

RECONCILIATION OF BASIC AND DILUTED EARNINGS PER SHARE

Millions Except Per Share Amounts	QUARTER ENDED SEPTEMBER 30, 2001			NINE MONTHS ENDED SEPTEMBER 30, 2001		
	Basic EPS	Dilutive Securities	Diluted EPS	Basic EPS	Dilutive Securities	Diluted EPS
Net Income	$37.8	-	$37.8	$113.2	-	$113.2
Common Shares	79.0	0.8	79.8	74.6	0.7	75.3
Per Share	$0.48	-	$0.47	$1.52	-	$1.50

	NINE MONTHS ENDED SEPTEMBER 30, 2000		
	Basic EPS	Dilutive Securities	Diluted EPS
Net Income	$129.6	-	$129.6
Less: Dividends on Preferred Stock	0.9	-	0.9
	$128.7	-	$128.7
Common Shares	69.6	0.2	69.8
Per Share	$1.85	-	$1.84

We paid dividends on preferred stock of $0.1 million for the quarter ended September 30, 2000. There was no difference between basic and diluted earnings per share for the quarter ended September 30, 2000.

NOTE 8. TOTAL COMPREHENSIVE INCOME

For the quarter ended September 30, 2001 total comprehensive income was $22.2 million ($31.8 million for the quarter ended September 30, 2000). For the nine months ended September 30, 2001 total comprehensive income was $101.4 million ($123.5 million for the nine months ended September 30, 2000). Total comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale, changes in the fair value of an interest rate swap and foreign currency translation adjustments.

NOTE 9. NEW ACCOUNTING STANDARD

In July 2001 the FASB issued SFAS 142, "Goodwill and Other Intangible Assets." SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill will cease January 1, 2002, the date we expect to adopt this standard. We have $536 million of goodwill as of September 30, 2001 and after-tax goodwill amortization expense of approximately $8 million for the nine months ended September 30, 2001. Annual after-tax goodwill amortization expense is expected to be approximately $11 million in 2001. We do not believe we have any goodwill impairment at this time.

NOTE 10. SQUARE BUTTE POWER PURCHASE CONTRACT

Minnesota Power, our electric utility business, 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-megawatt coal-fired generating unit (Unit) near Center, North Dakota. The Unit is adjacent to a generating unit owned by Minnkota Power Cooperative, Inc. (Minnkota), a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota serves as the operator of the Unit and also purchases power from Square Butte.

Minnesota Power is entitled to approximately 71 percent of the Unit's output under the Agreement. After 2005 and upon compliance with a two-year advance notice requirement, Minnkota has the option to reduce Minnesota Power's entitlement by 5 percent annually, to a minimum of 50 percent. 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 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. At September 30, 2001 Square Butte had total debt outstanding of $314.6 million. Total annual debt service for Square Butte is expected to be approximately $36 million in each of the years 2001 through 2003 and $23 million in both 2004 and 2005. Variable operating costs include the price of coal purchased from BNI Coal, Ltd., our subsidiary, under a long-term contract. Minnesota Power's payments to Square Butte are approved as purchased power expense for ratemaking purposes by both the MPUC and FERC.

NOTE 11. SUBSEQUENT EVENT

In October 2001 we executed an asset purchase agreement with LTV and Cleveland-Cliffs to acquire certain non-mining properties from LTV for $75 million. The non-mining properties include LTV's 225 MW electric generating facility and existing coal pile at Taconite Harbor, a sixty-mile transmission line, railroad trackage rights, and approximately 30,000 acres of forest and recreation land in northeast Minnesota. The transaction is expected to close during the fourth quarter.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ALLETE has operations in four business segments: (1) ENERGY SERVICES, which include electric and gas services, coal mining and telecommunications; (2) AUTOMOTIVE SERVICES, which include a network of vehicle auctions, an automobile dealer finance company, and several subsidiaries that are integral parts of the vehicle redistribution business; (3) WATER SERVICES, which include water and wastewater services; and (4) INVESTMENTS, which include real estate operations, investments in emerging technologies related to the electric utility industry and a securities portfolio. Corporate charges represent general corporate expenses, including interest, not specifically related to any one business segment.

CONSOLIDATED OVERVIEW

Each of our operating segments continued to produce solid financial results during the first nine months of 2001, reflecting the success of ALLETE's growth initiatives. The terrorist attacks of September 11, 2001 and their aftermath have negatively impacted quarterly results for Automotive Services and our securities portfolio. However, performance from Energy Services and our real estate operations remained strong. For the quarter ended September 30, 2001 net income increased 8 percent over the same period in 2000. Earnings per share for the quarter ended September 30, 2001 decreased 6 percent compared to the same period in 2000. For the nine months ended September 30, 2001, excluding the ACE transaction (see net income discussion below), net income was up 14 percent and earnings per share were up 7 percent over the same period in 2000. The 2001 earnings per share calculation was impacted by the second quarter common stock issuance.

	QUARTER ENDED SEPTEMBER 30, 2001	QUARTER ENDED SEPTEMBER 30, 2000	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000
Millions Except Per Share Amounts				
OPERATING REVENUE				
Energy Services	$168.0	$146.1	$ 475.3	$426.6
Automotive Services	212.5	137.4	644.4	386.6
Water Services	31.0	30.2	91.9	89.9
Investments	8.7	9.8	64.6	70.0
	$420.2	$323.5	$1,276.2	$973.1
OPERATING EXPENSES				
Energy Services	$139.1	$126.8	$ 409.9	$373.6
Automotive Services	182.7	112.5	551.0	315.9
Water Services	24.9	24.0	74.7	73.1
Investments	5.4	4.1	24.0	29.2
Corporate Charges	10.7	6.7	31.0	22.8
	$362.8	$274.1	$1,090.6	$814.6
NET INCOME				
Energy Services	$17.2	$ 11.4	$ 38.6	$ 31.4
Automotive Services	20.1	15.4	57.9	42.0
Water Services	3.8	3.8	10.6	10.3
Investments	2.0	5.0	24.8	26.7
Corporate Charges	(5.3)	(0.6)	(18.7)	(11.2)
	37.8	35.0	113.2	99.2
ACE Transaction	-	-	-	30.4
	$37.8	$ 35.0	$113.2	$129.6
DILUTED AVERAGE SHARES OF COMMON STOCK	79.8	70.4	75.3	69.8
DILUTED EARNINGS PER SHARE OF COMMON STOCK				
Before ACE Transaction	$0.47	$0.50	$1.50	$1.40
ACE Transaction	-	-	-	0.44
	$0.47	$0.50	$1.50	$1.84

Including the $30.4 million gain associated with the ACE transaction, net income from Investments was $57.1 million for the nine months ended September 30, 2000. (See Note 3.)

NET INCOME

The following net income discussion summarizes significant events for the nine months ended September 30, 2001.

ENERGY SERVICES' net income was higher in 2001 reflecting more profitable wholesale marketing and trading activities due to warmer weather, additional power available to sell from a recent 240 MW power purchase agreement and overall market conditions. Net income also reflected partial recovery of 1998 CIP lost margins, decreased sales to industrial customers and additional costs incurred as a result of a severe ice storm and planned maintenance outages.

AUTOMOTIVE SERVICES reported a 38 percent increase in net income in 2001 due to significant acquisitions made in 2000 and early 2001 and increased financing activity at AFC's loan production offices. EBITDAL for ADESA's 28 same-store auction facilities was up 9 percent for the nine months ended September 30, 2001 (13 percent for the quarter ended September 30, 2001). Increased costs and reduced sales volumes because of inclement weather in early 2001 hampered financial results, as did the events of September 11. For the third quarter of 2001 we estimated that the impact of the events of September 11 resulted in a $3.5 million decrease to net income. A drop in conversion rates, the percentage of vehicles sold from those that were run through auction lanes, was primarily due to a decline in dealer attendance caused by the disruption in air travel and wholesale prices that were further depressed following the events of September 11. Sellers have been reluctant to accept lower wholesale prices. The conversion rate was 58 percent for the quarter ended September 30, 2001 (60 percent for the same period in 2000) and 61 percent for the nine months ended September 30, 2001 (62 percent for the same period in 2000). Costs of assimilating the 28 vehicle auction facilities acquired or opened in 2000 also impacted 2001 results.

WATER SERVICES' net income was slightly higher in 2001 reflecting customer growth, gains related to the disposal of certain assets and an October 2000 rate increase implemented by Heater. Above-average rainfall in Florida and North Carolina during the second and third quarters, and conservation efforts in Florida negatively impacted net income in 2001.

INVESTMENTS reported lower net income in 2001 primarily due to losses incurred by our securities portfolio as a result of the economic fallout from the events of September 11. These losses were subsequently recovered in October 2001. For the nine months ended September 30, our securities portfolio earned an after-tax annualized return of 4.52 percent in 2001 (7.00 percent in 2000) on a lower average balance in 2001. During 2000 we reduced the size of our securities portfolio to partially fund significant acquisitions made by Automotive Services. Income from our emerging technology funds was also lower in 2001 as a result of fewer sales of these investments. Our real estate operations reported stronger sales in 2001, including its largest sale ever.

CORPORATE CHARGES reflected increased interest expense and additional expenses for incentive compensation accruals and severance packages. In 2000 we reflected the reversal of previously recorded tax accruals related to various federal and state tax issues.

ACE TRANSACTION. In May 2000 we recorded a $30.4 million, or $0.44 per share, after-tax gain on the sale of the 4.7 million shares of ACE that we received in December 1999 when Capital Re merged with ACE.

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 2001 AND 2000

OPERATING REVENUE

ENERGY SERVICES' operating revenue was up $21.9 million, or 15 percent, in 2001. Wholesale power marketing and trading activities were higher due to warmer weather and additional power available to sell. Retail megawatthour sales were down 8 percent because of temporary shutdowns and reduced production by taconite customers. Operating revenue from retail sales, however, was up due to additional demand revenue from large power customers who converted a portion of their interruptible power to firm power and fuel clause recoveries for higher purchased power and gas prices. Operating revenue also included $2.8 million of 1998 CIP lost margins and Enventis operations. Enventis was acquired in July 2001 and accounted for as a pooling of interests.

Revenue from electric sales to taconite customers accounted for 9 percent of consolidated operating revenue in 2001 (13 percent in 2000). Electric sales to paper and pulp mills accounted for 4 percent of consolidated operating revenue in 2001 (5 percent in 2000). Sales to other power suppliers accounted for 8 percent of consolidated operating revenue in 2001 (7 percent in 2000).

AUTOMOTIVE SERVICES' operating revenue was up $75.1 million, or 55 percent, in 2001 primarily due to significant acquisitions made in 2000 and early 2001. At ADESA auction facilities 463,000 vehicles were sold in 2001 (337,000 in 2000), an increase of 37 percent. Financial results for 2001 included three months of operations from 9 auction facilities acquired in 2000 and results from acquisitions made in early 2001. Sales volumes in 2001 were negatively impacted by the events of September 11 as dealer attendance and already depressed wholesale prices both dropped suddenly during the last half of September. Operating revenue from AFC was higher in 2001 reflecting a 13 percent increase in vehicles financed through existing loan production offices. AFC financed approximately 223,000 vehicles in 2001 (198,000 in 2000). AFC had 82 loan production offices at September 30, 2001 (86 at September 30, 2000).

WATER SERVICES' operating revenue was up $0.8 million, or 3 percent, in 2001 due to gains from the disposal of certain assets, a 4 percent increase in customers and an October 2000 rate increase implemented by Heater. A 6 percent decrease in consumption was primarily attributable to above-average rainfall in Florida and North Carolina, and conservation efforts in Florida. Operating revenue in 2000 included regulatory relief granted by Florida's Hillsborough Board of County Commissioners.

INVESTMENTS' operating revenue was down $1.1 million, or 11 percent, in 2001 primarily because turbulence in the financial markets after the events of September 11 had a negative impact on our securities portfolio. This decrease was partially offset by two large sales from our real estate operations which contributed $4.5 million to operating revenue.

OPERATING EXPENSES

ENERGY SERVICES' operating expenses were up $12.3 million, or 10 percent, in 2001 primarily due to the inclusion of Enventis operations. Operating expenses also increased in 2001 due to higher plant maintenance expenses.

AUTOMOTIVE SERVICES' operating expenses were up $70.2 million, or 62 percent, in 2001 primarily due to significant acquisitions made in 2000 and early 2001. Expenses in 2001 included increased direct costs associated with processing vehicles multiple times that did not sell as a result of the events of September 11 which caused low auction attendance and further depressed wholesale prices. Integration costs, additional amortization of goodwill and additional interest expense related to debt issued in late 2000 to finance acquisitions also increased 2001 expenses.

WATER SERVICES' operating expenses were up $0.9 million, or 4 percent, in 2001 due to customer growth and the inclusion of water and wastewater systems acquired in December 2000.

INVESTMENTS' operating expenses were up $1.3 million, or 32 percent, in 2001 as a result of higher sales by our real estate operations.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

OPERATING REVENUE

ENERGY SERVICES' operating revenue was up $48.7 million, or 11 percent, in 2001. Wholesale power marketing and trading activities were higher due to warmer weather and additional power available to sell. Retail megawatthour sales were down 6 percent because of temporary shutdowns and reduced production by taconite customers. Operating revenue from retail sales, however, was up due to additional demand revenue from large power customers who converted a portion of their interruptible power to firm power and fuel clause recoveries for higher purchased power and gas prices. Operating revenue also included $2.8 million of 1998 CIP lost margins and Enventis operations.

Revenue from electric sales to taconite customers accounted for 9 percent of consolidated operating revenue in 2001 (13 percent in 2000). Electric sales to paper and pulp mills accounted for 4 percent of consolidated operating revenue in 2001 (5 percent in 2000). Sales to other power suppliers accounted for 6 percent of consolidated operating revenue in both 2001 and 2000.

AUTOMOTIVE SERVICES' operating revenue was up $257.8 million, or 67 percent, in 2001 primarily due to significant acquisitions made in 2000 and early 2001. At ADESA auction facilities 1,456,000 vehicles were sold in 2001 (940,000 in 2000), an increase of 55 percent. Financial results for 2001 included nine months of operations from 28 auction facilities acquired or opened primarily in the second half of 2000 and results from acquisitions made in January and May 2001. Sales volumes in 2001 were negatively impacted by the events of September 11 as dealer attendance and already depressed wholesale prices both dropped suddenly during the last half of September. Also, inclement weather earlier in the year resulted in both low attendance at and canceled auctions. Operating revenue from AFC was higher in 2001 reflecting a 14 percent increase in vehicles financed through existing loan production offices. AFC financed approximately 676,000 vehicles in 2001 (595,000 in 2000). AFC had 82 loan production offices at September 30, 2001 (86 at September 30, 2000).

WATER SERVICES' operating revenue was up $2.0 million, or 2 percent, in 2001 due to gains from the disposal of certain assets, a 4 percent increase in customers and an October 2000 rate increase implemented by Heater. Above-average rainfall in Florida and North Carolina, and conservation efforts in Florida negatively impacted revenue in 2001. Operating revenue in 2000 included regulatory relief granted by Florida's Hillsborough Board of County Commissioners.

INVESTMENTS' operating revenue was down $5.4 million, or 8 percent, in 2001 primarily because turbulence in the financial markets after the events of September 11 had a negative impact on our securities portfolio. In addition, our securities portfolio had a lower average balance in 2001. The decrease in revenue was also attributed to $4.9 million less from our emerging technology investments as a result of fewer sales of these investments in 2001. Our real estate operations reported stronger sales at all locations in 2001. Six large real estate sales in 2001 contributed $37.5 million to revenue and included our largest single real estate transaction to date. In 2000 seven large real estate sales contributed $31.9 million to revenue.

OPERATING EXPENSES

ENERGY SERVICES' operating expenses were up $36.3 million, or 10 percent, in 2001 because of higher prices paid for purchased power and purchased gas, and the inclusion of Enventis operations. Operating expenses also increased in 2001 due to higher plant maintenance expenses and additional costs incurred as a result of a severe ice storm.

AUTOMOTIVE SERVICES' operating expenses were up $235.1 million, or 74 percent, in 2001 primarily due to significant acquisitions made in 2000 and early 2001. Expenses in 2001 included increased direct costs associated with processing vehicles multiple times that did not sell as a result of the events of September 11 which caused low auction attendance and further depressed wholesale prices. Operating expenses in 2001 also included integration costs, additional amortization of goodwill, additional interest expense related to debt issued in late 2000 to finance acquisitions, higher utility expense and more labor costs incurred as a result of inclement weather in early 2001.

WATER SERVICES' operating expenses were up $1.6 million, or 2 percent, in 2001 due to customer growth and the inclusion of water and wastewater systems acquired in 2000.

INVESTMENTS' operating expenses were down $5.2 million, or 18 percent, in 2001 due to reduced expenses associated with sales by our real estate operations.

OUTLOOK

CORPORATE. In late August 2001 we began a process of systematically evaluating our businesses to determine the strategic value of our assets and explore ways to unlock that value. The potential sale of our Water Services businesses is one result of this process. (See Water Services below.) We are focusing on our core competencies, which include Automotive and Energy Services businesses, in an effort to provide more clarity for investors. We will disclose further development of this plan in early 2002.

The events that affected the United States since September 11 have had a negative impact on our financial results for Automotive Services and our securities portfolio. In light of continued economic uncertainty, we are revising our EPS growth projection for 2001 from 12 percent to between 6 percent and 8 percent over 2000.

Our plan for 2002 will be a part of the strategy development. At this time we expect EPS growth from operations to exceed 2001 EPS growth.

ENERGY SERVICES. The economic health of the taconite industry continues to be adversely impacted by cheap foreign steel imports. With the closure of LTV in January 2001 and various temporary shutdowns at other Minnesota taconite facilities, the current taconite production level for 2001 is now estimated to be approximately 35 million tons. In October 2001 we executed an agreement with LTV and Cleveland-Cliffs to acquire LTV's 225 MW generating facility and other non-mining assets for $75 million. One of the three 75 MW units in this facility is expected to be on-line in January 2002. Our power purchase agreement with Lakefield Junction for 240 MW which began in June 2001, extends to April 2003 and declines to 80 MW from May 2003 to April 2004. It provides additional power to sell in the wholesale market. We recently initiated the permitting process for a 160 MW peaking plant in Superior, Wisconsin and a 225 MW energy facility at Blandin Paper in Grand Rapids, Minnesota. Overall, we believe Energy Services is well positioned for future growth opportunities.

AUTOMOTIVE SERVICES acquisitions made during 2000 and early 2001, and continued growth of AFC's vehicle finance business, contributed significantly to net income for the first nine months of 2001. Even with the events of September 11, we continue to expect that Automotive Services' 2001 net income contribution will be about 40 percent over last year. We also expect that EBITDAL from same-store ADESA auction facilities will increase 10 percent to 15 percent.

In 2001, industry-wide sales of used vehicles at auction have been down due to pricing pressure in the used vehicle market. The pricing pressure is partially caused by aggressive incentives currently offered by vehicle manufacturers on new vehicles. We continue to believe that used vehicle sales within the auto auction industry will rise at a rate of 2 percent to 4 percent annually over the next several years.

WATER SERVICES. Even though Florida and North Carolina had above-average rainfall during the second and third quarters of 2001 and water use restrictions remain in effect, Water Services' 2001 financial results are still on target due to customer growth in both Florida and North Carolina.

In September 2001 we announced that discussions with the Florida Governmental Utility Authority (Authority) are underway regarding the possible purchase by the Authority of all of the water, wastewater and water reuse assets of Florida Water. We entered into an agreement giving the Authority the exclusive opportunity through December 21, 2001 to review a potential transaction. We will be examining alternative strategies for redeployment of the proceeds if the sale occurs.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITIES

During the first nine months of 2001 cash flow from operations reflected strong operating results and continued focus on working capital management. The decrease in cash flow from operations in 2001 was primarily attributable to changes in trading securities. In 2001 additional trading securities were purchased with a portion of the proceeds from our second quarter common stock issuance (see Securities below), while in 2000 trading securities were sold to partially fund the acquisition of Auction Finance Group, Inc. Cash flow from operations was also affected by a number of factors representative of normal operations.

WORKING CAPITAL. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. Our securities investments can be liquidated to provide funds for reinvestment in existing businesses or acquisition of new businesses. Approximately 5.5 million original issue shares of our common stock are available for issuance through INVEST DIRECT, our direct stock purchase and dividend reinvestment plan.

A substantial amount of ADESA's working capital is generated internally from payments for services provided. However, ADESA has arrangements to use proceeds from the sale of commercial paper issued by ALLETE to meet short-term working capital requirements arising from the timing of payment obligations to vehicle sellers and the availability of funds from vehicle purchasers. During the sales process, ADESA does not typically take title to vehicles.

AFC also has arrangements to use proceeds from the sale of commercial paper issued by ALLETE to meet its operational requirements. AFC offers short-term on-site financing for dealers to purchase vehicles at auctions in exchange for a security interest in those vehicles. The financing is provided through the earlier of the date the dealer sells the vehicle or a general borrowing term of 30 to 45 days.

AFC sells certain finance receivables on a revolving basis to a wholly owned, unconsolidated, qualified special purpose subsidiary. This subsidiary in turn sells, on a revolving basis, an undivided interest in eligible finance receivables, up to a maximum at any one time outstanding of $300 million, to third party purchasers under an agreement that expires at the end of 2002. At September 30, 2001 AFC had sold $403.1 million of finance receivables to the special purpose subsidiary ($335.7 million at December 31, 2000). Third party purchasers had purchased an undivided interest in finance receivables of $283.0 million from this subsidiary at September 30, 2001 ($239 million at December 31, 2000). Unsold finance receivables and unfinanced receivables held by the special purpose subsidiary are recorded by AFC as residual interest at fair value. Fair value is based upon estimates of future cash flows, using assumptions that market participants would use to value such instruments, including estimates of anticipated credit losses over the life of the receivables sold without application of a discount rate due to the short-term nature of the receivables sold. The fair value of AFC's residual interest was $116.9 million at September 30, 2001 ($106.2 million at December 31, 2000). Proceeds from the sale of the receivables were used to repay borrowings from ALLETE and fund vehicle inventory purchases for AFC's customers.

Significant changes in accounts receivable and accounts payable balances at September 30, 2001 compared to December 31, 2000 were due to increased sales and financing activity at Automotive Services. Typically auction volumes are down during the winter months and in December because of the holidays. As a result, both ADESA and AFC had higher receivables and higher payables at September 30, 2001.

ACQUISITIONS. In January 2001 we acquired all of the outstanding stock of ComSearch in exchange for ALLETE common stock and paid cash to purchase all of the assets of Auto Placement Center (now ADESA Impact) in transactions with an aggregate value of $62.4 million. ADESA Impact was funded with internally generated funds and short-term debt which was refinanced with long-term debt. (See Securities below.) ADESA Impact is a provider of "total loss" vehicle recovery services with 12 auction facilities in the United States. ComSearch provides Internet-based parts location and insurance adjustment audit services nationwide. Both ADESA Impact and ComSearch are based in Rhode Island.

In February 2001 ALLETE Water Services completed the purchase of the assets of Dicks Creek, a wastewater utility located near Atlanta, Georgia, for $6.6 million plus a commitment to pay the seller a fee for future residential connections. The commitment requires payment of a minimum of $400,000 annually beginning December 31, 2001 for four years or until cumulative payments reach $2 million, whichever occurs first. The transaction was funded with internally generated funds.

In May 2001 ADESA purchased the assets of the I-44 Auto Auction in Tulsa, Oklahoma. The I-44 Auto Auction, which is located on 75 acres, was renamed ADESA Tulsa and offers six auction lanes, storage for over 3,000 vehicles and a five-bay reconditioning and detail facility. The transaction was funded with internally generated funds.

In July 2001 we acquired Enventis, a data network systems provider headquartered in the Minneapolis- St. Paul area. In connection with this acquisition, we issued 310,878 shares of our common stock. This transaction complements our existing infrastructure and fiber optics network in Minnesota and Wisconsin, and helps position our telecommunications business as one of the leading integrated data service providers in the Upper Midwest.

In October 2001 we executed an asset purchase agreement with LTV and Cleveland-Cliffs to acquire certain non-mining properties from LTV for $75 million. The non-mining properties include LTV's 225 MW electric generating facility and existing coal pile at Taconite Harbor, a sixty-mile transmission line, railroad trackage rights, and approximately 30,000 acres of forest and recreation land in northeast Minnesota. The transaction is expected to close during the fourth quarter.

SECURITIES. In February 2001 we issued $125 million of 7.80% Senior Notes, due February 15, 2008. Proceeds were used to repay a portion of ALLETE's short-term bank borrowings incurred for the acquisition of vehicle auction facilities in 2000 and early 2001 and for general corporate purposes.

In March 2001 ALLETE, ALLETE Capital II and ALLETE Capital III, jointly filed a registration statement with the SEC pursuant to Rule 415 under the Securities Act of 1933. The registration statement, which has been declared effective by the SEC, relates to the possible issuance, from time to time when market conditions and the needs of ALLETE warrant, of an aggregate amount of $500 million of securities which may include ALLETE common stock, first mortgage bonds, and other debt securities and ALLETE Capital II and ALLETE Capital III preferred trust securities, of which approximately $387 million remains available to be issued. ALLETE also previously filed a registration statement, which has been declared effective by the SEC, relating to the possible issuance, from time to time when market conditions and the needs of ALLETE warrant, of $25 million of first mortgage bonds and other debt securities. We may sell all or a portion of the remaining 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 thereunder.

On May 30, 2001 we issued and sold in an underwritten public offering 6.5 million shares of common stock at $23.68 per share. In addition, an over-allotment option for 100,000 shares at $23.68 per share was exercised by the underwriters and sold on June 7, 2001. Total net proceeds of $150 million were used to repay a portion of our short-term borrowings with the remainder invested in short-term instruments. The increase in the number of shares of our common stock outstanding as of September 30, 2001 had an immaterial impact on earnings per share for the 2001 periods.

INVESTMENTS. As companies included in our emerging technology investments are sold, we may recognize a gain or loss. In the second half of 2000, several of the private companies included in our emerging technology investments went public by completing initial public offerings. Typically, investors in a private company are not permitted to sell stock in the company for a period of 180 days following the company's initial public offering. Other restrictions on sale may also apply and certain shares are held indirectly by us through our investments in independent investment funds. Since going public, the market value of these companies has experienced significant volatility, particularly following the events of September 11. Our investment in the companies that have gone public has a cost basis of approximately $12 million. The aggregate market value of our investment in these companies at September 30, 2001 was $14 million.

Our emerging technology investments provide us with access to developing technologies before their commercial debut, as well as potential financial returns and diversification opportunities. We view these investments as a source of capital for redeployment in existing businesses.

CAPITAL REQUIREMENTS

Consolidated capital expenditures for the nine months ended September 30, 2001 totaled $108.4 million ($94.0 million in 2000). Expenditures for 2001 included $43.0 million for Energy Services, $43.0 million for Automotive Services and $22.4 million for Water Services. Internally generated funds and the issuance of long-term debt were the primary sources of funding for these expenditures.

NEW ACCOUNTING STANDARDS

In July 2001 the FASB issued SFAS 141, 142 and 143. SFAS 141, "Business Combinations" requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling of interests method of accounting will be prohibited. We do not have any pending acquisitions that will be impacted by this new rule.

SFAS 142, "Goodwill and Other Intangible Assets" changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill will cease January 1, 2002, the date we expect to adopt this standard. We have $536 million of goodwill as of September 30, 2001 and after-tax goodwill amortization expense of approximately $8 million for the nine months ended September 30, 2001. Annual after-tax goodwill amortization expense is expected to be approximately $11 million in 2001. We do not believe we have any goodwill impairment at this time.

SFAS 143, "Accounting for Asset Retirement Obligations" requires the recognition of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the carrying amount of the related long-lived asset is correspondingly increased. Over time, the liability is accreted to its present value and the related capitalized charge is depreciated over the useful life of the asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. We are currently reviewing the impact of SFAS 143 on the Company.

In August 2001 the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses accounting and reporting for the impairment or disposal of long-lived assets, including the disposal of a segment of business. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. We are currently reviewing the impact of SFAS 144 on the Company.

READERS ARE CAUTIONED THAT FORWARD-LOOKING STATEMENTS INCLUDING THOSE CONTAINED ABOVE, 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 3 OF THIS FORM 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our securities portfolio has exposure to both price and interest rate risk. Investments held principally for near-term sale are classified as trading securities and recorded at fair value. Trading securities consist primarily of the common stock of publicly traded companies. In strategies designed to hedge overall market risks, we also sell common stock short. Investments held for an indefinite period of time are classified as available-for-sale securities and also recorded at fair value. Available-for-sale securities consist of our direct investments in emerging technology companies and securities in a grantor trust established to fund certain employee benefits.

SEPTEMBER 30, 2001	FAIR VALUE
Millions	
Trading Securities Portfolio	$165.9
Available-For-Sale Securities Portfolio	$16.9

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

Reference is made to our 2000 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to our 2000 Form 10-K.

Ref. Page 24. - Insert after Second Paragraph

On August 9, 2001 Minnesota Power announced plans to build a 160 MW natural gas-fired electric generating facility near Superior, Wisconsin, to help meet the region's energy needs during times of peak electrical demand. The construction cost is estimated to be between $70 million and $80 million with completion in late 2003 contingent on the timely receipt of approvals and permits.

Ref. Page 25. - Fourth Paragraph

On August 16, 2001 Minnesota Power and Blandin Paper Company (Blandin Paper), a subsidiary of UPM-Kymmene of Helsinki, Finland, proposed building a state-of-the-art 225 MW energy facility adjacent to Blandin Paper in Grand Rapids, Minnesota, through a partnering arrangement. A new company, Rapids Power LLC, was created to own the facility. Through a subsidiary we own 71.5 percent of Rapids Power LLC and Blandin Paper Company, a subsidiary of UPM-Kymmene, owns 28.5 percent. The project, which is expected to cost more than $200 million, is contingent on timely receipt of necessary federal and state approvals and permits. Construction could begin in the fall of 2002 and is slated for completion in mid-2005.

Ref. Page 26 - Third Full Paragraph
Ref. Form 8-K dated and filed May 18, 2001
Ref. Form 8-K dated and filed October 10, 2001

On October 23, 2001 the U.S. Bankruptcy Court approved the Asset Purchase Agreement Rainy River Energy Corporation - Taconite Harbor, a wholly owned subsidiary of the Company, and Cleveland-Cliffs have executed with LTV. We expect the transaction to close in the fourth quarter of 2001.

Ref. Page 28. - Ninth Full Paragraph

Effective September 12, 2001 the PSCW approved a 12.25 percent return on common equity and a 1.1 percent average increase in retail utility rates for SWL&P customers. This average increase is comprised of a 3.4 percent decrease in electric rates, a 1.5 percent increase in gas rates and a 24.5 percent increase in water rates. The water increase is designed to recover the cost of replacing an aging well system. SWL&P originally requested an average increase in retail utility rates of 1.8 percent which was later increased to 2.5 percent.

Ref. Page 28. - Tenth Paragraph

On August 17, 2001 the PSCW unanimously agreed that construction of the 250-mile Wausau-to-Duluth electric transmission line is necessary. On October 23, 2001 the PSCW issued its written order that outlines the details and route specifics of the line. Minnesota Power and Wisconsin Public Service Corporation will proceed with the joint project and begin the engineering and geographical surveys that need to be completed before 2002 when construction is expected to begin.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10 Retirement Agreement dated August 28, 2001 between ALLETE and Edwin L. Russell.

(b) Reports on Form 8-K.

Report on Form 8-K filed August 29, 2001 with respect to Item 5. Other Information.
Report on Form 8-K filed September 24, 2001 with respect to Item 5. Other Information.
Report on Form 8-K filed October 10, 2001 with respect to Item 5. Other Information.
Report on Form 8-K filed October 18, 2001 with respect to Item 7. Financial Statements and Exhibits.

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.

October 26, 2001

James K. Vizanko

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

October 26, 2001

Mark A. Schober

Mark A. Schober
Vice President and Controller

EXHIBIT INDEX

Exhibit Number	
10	Retirement Agreement dated August 28, 2001 between ALLETE and Edwin L. Russell.

Exhibit 10

ORIGINAL
COPY

RETIREMENT AGREEMENT

THIS AGREEMENT is made and entered into as of August 28, 2001, between ALLETE, INC. (f/k/a/ Minnesota Power, Inc.), a Minnesota corporation (the "Company"), and EDWIN L. RUSSELL ("Russell").

RECITALS

A. Russell has been employed as Chairman, President and Chief Executive Officer of the Company and, pursuant to the terms of this Agreement, resigns from these and all other positions with the Company, effective as of August 28, 2001, and as an employee of the Company, effective as of August 31, 2001.

B. This Agreement sets forth the complete understanding between Russell and the Company regarding the commitments and obligations arising out of the termination of their employment relationship.

NOW, THEREFORE, in consideration of the mutual obligations incurred and benefits obtained hereunder, the sufficiency of which are admitted, the Company and Russell agree as follows:

AGREEMENT

1. RESIGNATION. Effective as of August 28, 2001, Russell resigns from (a) his positions as Chairman, President and Chief Executive Officer of the Company, (b) his membership on the Company's Board of Directors, (c) any and all other positions held by Russell with the Company, except as an employee, or any of its subsidiaries or affiliates or any of the Boards of Directors thereof, and (d) any positions as fiduciary or trustee of any Company benefit plan. Effective as of midnight on August 31, 2001 ("Separation Date"), Russell resigns his sole remaining position as an employee of the Company. Russell has, on the date hereof, confirmed his resignation from such positions by submitting a letter of resignation to the Company substantially in the form attached as EXHIBIT A to this Agreement. Notwithstanding Russell's continued status as an employee through midnight August 31, 2001, Russell shall not take or perform any actions in such capacity and shall remain an employee solely for purposes of receiving through such date his base compensation, vacation accrual, and continued benefit plan accruals.

2. BENEFITS. In consideration for the release of claims set forth below and other obligations under this Agreement, the Company has made or agrees to make or provide the following benefits to Russell:

(a) SALARY. On or before September 7, 2001, the Company shall deliver to Russell $215,333, which amount is equal to the base salary he would have earned from September 1, 2001 to December 31, 2001 if he would have continued in the employ of the Company. In addition, on January 2, 2002, the Company shall deliver to Russell $509,066, which amount represents 8/12ths of the bonus payment made to Russell in 2000. Russell shall not be entitled to any other salary or bonus payment with respect to 2001 or any portion thereof or any prior or subsequent period.

(b) STOCK OPTION TERMS. The parties acknowledge that Russell holds the following unexercised non-qualified stock options granted under the Company's Executive Long-Term Incentive Plan:

DATE OF GRANT		OPTIONS OUTSTANDING AS OF 8/28/2001
January 2, 1998		20,304
December 31, 1998		19,696
January 4, 1999		40,000
June 1, 1999		15,890
July 1, 1999		19,297 (replacement options)
July 1, 1999		19,054 (replacement options)
January 3, 2000		87,466
January 2, 2001		55,064
	Total	276,771

Contingent upon Russell's execution of this Agreement, the Company, through the Compensation Committee of its Board of Directors, has approved (1) the amendment of those Company stock options previously granted to Russell, as described above, to provide that the term of each shall expire on August 31, 2004, the third anniversary of Russell's resignation, (2) the amendment of the January 3, 2000 option to accelerate the vesting of 43,733 unvested options to August 31, 2001, and (3) the amendment of the January 2, 2001 option to accelerate the vesting of 27,532 unvested options to August 31, 2001, and that as a result of these actions an aggregate of 249,239 options shall be vested and exercisable through the close of business on August 31, 2004.

Russell's exercise of all or any portion of the 249,239 vested options shall be governed exclusively by the respective stock option agreement and the Executive Long-Term Incentive Compensation Plan, except that there shall be no reload feature with respect to any of such 249,239 options whenever exercised, including any options exercised prior to termination of employment status on August 31, 2001. All unvested options are forfeited and, in the event Russell has not exercised the 249,239 vested options by August 31, 2004, such vested options shall also be forfeited. Russell acknowledges that all vested options are non-qualified stock options so that, upon exercise of his stock options, he will recognize (and be taxed as) ordinary income for the excess of the then fair market value of the stock acquired upon exercise of the option over the purchase price for the stock acquired.

(c) PERFORMANCE SHARES. On account of the 1,813 performance shares awarded to Russell under the Executive Long-Term Incentive Compensation Plan for the performance period from January 1, 1998 through December 31, 1999, Russell shall be entitled to receive an amount in cash equal to the remaining 25% of the award (representing 1,813 shares) based upon the Company's actual results against target over the full performance period, payable on January 2, 2002. Russell shall not be entitled to any performance shares with respect to the 2000-01 performance period or any portion thereof or any subsequent period.

(d) SERP. Russell shall receive a lump sum distribution of his account balance in the Minnesota Power and Affiliated Companies Supplemental Executive Retirement Plan, which amount shall be determined as of the close of business on the Separation Date and payable to Russell within thirty (30) days thereafter. The parties acknowledge that a portion of such account balance shall be distributed to Russell in shares of the Company's common stock, which shares have been reserved in accordance with the terms of the Company's Executive Long-Term Incentive Compensation Plan. Russell may elect to satisfy the withholding requirements related to the distribution of such shares, by requesting in writing that the Company withhold a portion of those shares having a fair market value on the date of issuance equal to his withholding obligations.

(e) ESOP. Russell is a participant in the Minnesota Power and Affiliated Companies Employee Stock Ownership Plan and Trust ("ESOP Plan"). Russell acknowledges that no further contributions will be made to the ESOP Plan by the Company after the date of this Agreement. Russell will be entitled to begin receiving benefits from his ESOP Plan account or to roll-over the amount in his account at the times and under the terms and conditions set forth in the ESOP Plan.

(f) DEFINED RETIREMENT BENEFIT. The parties acknowledge that Russell has a vested benefit under the Minnesota Power and Affiliated Companies Employees Retirement Plan A ("Defined Retirement Plan"). Upon attaining the age of 65, Russell shall be entitled to begin receiving a monthly benefit based on his years of credited service to the date of this Agreement in accordance with the terms and conditions set forth in the Defined Retirement Plan.

(g) SUPPLEMENTAL RETIREMENT PLAN. Russell is a participant in the Minnesota Power and Affiliated Companies Supplemental Retirement Plan ("SRP Plan"). Russell acknowledges that no further contributions will be made to the SRP Plan by the Company after the Separation Date. Russell will be entitled to begin receiving benefits from his SRP Plan account or to roll-over the amount in his account at the times and under the terms and conditions set forth in the SRP Plan.

(h) MEDICAL REIMBURSEMENT ACCOUNT. The parties acknowledge that Russell has made a $4,000 medical reimbursement election for calendar year 2001 under the Company's Medical Reimbursement Plan. Russell shall be entitled to receive reimbursement of up to $4,000 for medical claims and expenses incurred prior to January 1, 2002, subject to Russell's submission of appropriate documentation on or prior to the close of business on April 30, 2002.

(i) MEDICAL, DENTAL, LIFE INSURANCE BENEFITS. The Company shall maintain, at its expense, family coverage under the medical, dental and life insurance plans in which Russell was a participant as of the Separation Date and will pay the COBRA premiums for those benefits to be continued until the expiration of the 18-month period following the Separation Date, PROVIDED, HOWEVER, that to the extent that the Company may modify or terminate the medical, dental or life insurance coverage provided to its executive-level employees generally, the Company may likewise modify or terminate the coverage provided to Russell. Following the expiration of the 18-month period, Russell may procure and maintain, at his expense, private family insurance coverage for similar benefits and the

Company will reimburse Russell up to a maximum of $12,000 per year for the cost of such coverage. Notwithstanding the foregoing, all insurance benefits to be provided under this Section 2(i) shall terminate when Russell becomes a participant under another group insurance plan through a new employer or Russell reaches the age of 65, whichever occurs first. Russell agrees to notify the Company when he begins participation in another group plan.

(j) VACATION PAY. Within ten (10) days after the date of this Agreement, the Company shall deliver to Russell a lump-sum payment in respect of Russell's accrued, unused vacation days as of August 31, 2001.

(k) SPLIT DOLLAR INSURANCE. The parties acknowledge and agree that, effective as of the date hereof, the Split Dollar Insurance Agreement, the related Compensation Agreement and the transactions contemplated thereby are terminated without any further liability by one party to the other. Effective the date of this Agreement, the Company shall be the sole and exclusive owner of such split-dollar life insurance policy, including all rights to continue the insurance or receive any cash values. Russell represents that he has not and will not modify, alter or take any action to receive any benefits under such Split Dollar Insurance, including receiving or using any cash value or other policy right to reduce the amount to be received by the Company as a result of its payment of the premiums on such policy. Russell agrees to execute, or cause to be executed, appropriate assignments to effect the transfer to the Company of all policy rights under such split-dollar life insurance policy, including the cash value of $684,271.00.

(l) TRANSFER OF AUTOMOBILE. The Company agrees to transfer to Russell by September 17, 2001 the ownership of the Cadillac automobile that Russell has used. Russell shall be responsible for all insurance and maintenance costs associated with the automobile. Russell acknowledges that the transfer of ownership of the automobile will constitute income to him and that he is responsible for the payment of any federal income tax and any other taxes due upon transfer.

(m) OUTPLACEMENT. The Company agrees to pay up to Twenty-Five Thousand Dollars ($25,000) for outplacement and other professional services provided to Russell, subject to the submission of appropriate documentation from the service provider(s).

(n) BUSINESS EXPENSES. The Company shall reimburse Russell for all business expenses incurred in the ordinary of business by Russell on or before the date hereof, but not submitted for reimbursement at such date, to the extent reimbursable under the Company's normal expense reimbursement policies and procedures and submitted for payment on or before October 1, 2001.

(o) TAX GROSS-UP. The Company agrees to pay Russell that amount which is necessary to reimburse him on an after-tax basis for any imputed income associated with the use of the Company's aircraft on the basis consistent with past practice.

(p) OFFICE SPACE. The Company shall, upon submission of appropriate documentation, pay up to $2,000 monthly to maintain office space and part-time executive secretarial support for Russell through May 31, 2002, at a location selected by Russell that is acceptable to the Company.

3. WITHHOLDING. All amounts payable by the Company to Russell under Section 2 above shall be reduced for any applicable withholding taxes

4. OTHER BENEFITS. Except as expressly provided in this Agreement, Russell will not be eligible to participate in any of the Company's employee benefit plans after the date of this Agreement. Russell acknowledges that the designation of this agreement as a Retirement Agreement shall not be deemed to constitute a "retirement" for purposes of any plan, policy or benefit of the Company since Russell has not attained the requisite number of years of service or age to qualify for retirement benefits.

5. FULL COMPENSATION. Russell acknowledges and agrees that the payments that will be made to Russell or for his benefit and the extension of the time within which to exercise his vested stock options provided for under this Agreement will compensate him for and extinguish any and all of his claims arising out of his employment and other positions with the Company and the termination of his employment and other positions with the Company, including but not limited to all of his claims for any type of legal or equitable relief under any agreement, policy, plan, handbook or procedure of the Company applicable to Russell in any capacity. Nothing in this Agreement shall affect Russell's right to unpaid salary or benefits under the applicable plans through the August 31 Separation Date.

6. MUTUAL GENERAL RELEASES. Except with respect to the parties' respective rights and obligations under this Agreement, each of Russell and the Company, and their respective representatives, successors and assigns, agrees to release and forever discharge one another and their respective affiliates, subsidiaries, predecessors, successors, related entities, insurers and the current and former officers, directors, shareholders, employees, attorneys, agents and trustees or administrators of any benefit plan of each of the foregoing (any and all of which are referred to as "Releasees") generally from any and all charges, complaints, claims, promises, agreements, causes of actions, damages, and debts of any nature whatsoever, known or unknown (collectively "Claims"), which either party have, claim to have, ever had, or ever claimed to have had against Releasees up through the date of execution of this Agreement, including but not limited to any Claims under the common law or any statute.

7. REPRESENTATIONS AND COVENANTS BY RUSSELL.

(a) NO PENDING CLAIMS. Russell hereby represents, with the knowledge and intent that the Company will rely upon such representations in entering into this Agreement, that he has not filed any action, complaint, charge, grievance or arbitration against the Company or any of its successors, assigns, subsidiaries, affiliates, directors, officers, employees, attorneys, agents and trustees or administrators of any Company plan.

(b) COVENANT NOT TO SUE. Russell covenants that neither he, nor any of his respective heirs, representatives, successors or assigns, will commence, prosecute or cause to be commenced or prosecuted against the Company or any of its successors, assigns, subsidiaries, affiliates, directors, officers, employees, attorneys, agents and trustees or administrators of any Company plan any action or other proceeding based upon any claims, demands, causes of action, obligations, damages or liabilities which are to be released by this Agreement, nor will Russell seek to challenge the validity of this Agreement, except that this covenant not to sue does not affect Russell's future right to enforce in a court of competent jurisdiction the terms of this Agreement.

(c) RECORDS, DOCUMENTS, PROPERTY. Upon his execution of this Agreement, Russell will promptly return to the Company (i) all its records, correspondence, computer tapes and disks, and documents in his possession at the time he signs this Agreement, and (ii) all property of the Company, including corporate credit cards and keys, in his possession at the time he signs this Agreement. Russell hereby represents that he has returned, or, within 15 calendar days after the date of this Agreement, will return to the Company all of its property in his possession or under his control, including, without limitation, keys, badges, computer disks, financial information, reports, other documents and copies of same. Russell understands that these representations are material, and the Company is relying on these representations in entering into this Agreement.

8. CONFIDENTIAL INFORMATION.

(a) DEFINITION. Russell recognizes that by virtue of his employment with the Company, Russell has acquired certain non-public information with respect to the Company and its operations (the "Confidential Information"). Russell recognizes and acknowledges that the Confidential Information constitutes valuable, special and unique assets of the Company, access to and knowledge of which were essential to the performance of Russell's duties during his employment.

(b) NON-DISCLOSURE. Russell agrees to hold the Confidential Information in trust and confidence. Russell agrees not to (i) directly or indirectly make use of the Confidential Information, (ii) reveal any Confidential Information to any other party, or (iii) divulge or use any Confidential Information for any purpose other than for the benefit of the Company, except and to the extent Russell may be required to disclose by lawful order or process of a court (in which event Russell will provide reasonable advance notice of such disclosure to the Company and will cooperate with the Company's efforts to obtain protective treatment for such information).

9. NON-DISPARAGEMENT. Except to enforce the parties rights in accordance with Section 12 of this Agreement, each party further agrees that it or he will not, and the Company agrees that its officers and directors shall not disparage, criticize, or make negative comments about the other or its or his officers, directors, employees, suppliers or customers and will not do anything to harm the other or its or his business or to interfere with the other's relations with its or his employees, suppliers or customers. Notwithstanding the foregoing, the parties agree that any statements made that are consistent with the press release issued by the Company on the date hereof shall not violate their respective obligations under this Section 9 of the Agreement. A copy of the press release is attached as Exhibit B to this Agreement.

10. ASSISTANCE WITH CLAIMS INVOLVING OR BY THE COMPANY. In consideration of the consideration provided to Russell under Section 2 above, Russell agrees that, at anytime hereafter, he will make himself reasonably available to the Company (consistent with any obligations Russell may have to any future employer or business in which he engages) for consultation (including

appearance as a witness for the Company) regarding the Company's past operations or any pending or future lawsuits involving or by the Company or its affiliates where Russell has or may have knowledge of the underlying facts. Russell shall be reimbursed by the Company for reasonable travel expenses incurred in providing such assistance. In addition, Russell will not voluntarily aid, assist, or cooperate with any actual or potential claimants or plaintiffs or their attorneys or agents in any claims or lawsuits proposed to be asserted, pending or commenced on the date hereof or in the future against the Company or its affiliates; PROVIDED, HOWEVER, that nothing in this Agreement will be construed to prevent Russell from testifying at an administrative hearing, a deposition, or in court in response to a lawful subpoena in any litigation or proceeding involving the Company.

11. INDEMNIFICATION. Russell will be entitled, as a former employee or officer or director of the Company, to the same rights as are afforded to senior executive officers or directors of the Company now or in the future, to indemnification and advancement of expenses provided in the charter documents of the Company, or under applicable law, and to coverage and a legal defense under any applicable general liability and/or directors' and officers' liability insurance policies maintained by the Company.

12. ARBITRATION.

(a) NOTICE AND SELECTION OF ARBITRATOR. The parties agree that any dispute arising under this Agreement, other than an action at law or in equity by the Company to seek damages for or to seek injunctive relief against Russell for a violation of any provision of Sections 7 and 8, shall be submitted to arbitration before a disinterested arbitrator. Arbitration shall be commenced by service on the other party to the dispute by a written request for arbitration, containing a brief description of the matter at issue and the names and addresses of three arbitrators acceptable to the petitioner. The other party shall within thirty (30) days following receipt of such notice either select one of the proposed arbitrators or provide the names and addresses of three other arbitrators acceptable to the proposing party. If the parties are unable to agree to the selection of an arbitrator, the arbitrator shall be chosen impartially by the American Arbitration Association. The arbitration shall take place in Minneapolis, Minnesota if initiated by Russell and, if initiated by the Company in Chicago, Illinois.

(b) RULES OF PROCEEDING. Arbitration proceedings shall be conducted under the commercial rules then prevailing of the American Arbitration Association. The arbitrator shall not be bound to any formal rules of evidence or procedure, and may consider such matters as a reasonable business person would take into account in decision-making.

(c) DECISION FINAL AND BINDING. The decision of the arbitrator shall be final and binding on the parties, and may be entered and enforced in any court of competent jurisdiction.

(d) EXPENSES. The expenses of the arbitrator and other arbitration expenses shall be paid by the party who does not prevail in whole or significant part (the "prevailing party"). Attorney fees, witness fees and other expenses incurred by the prevailing party in preparing for or presenting that party's case in the arbitration are "arbitration expenses" for purposes of this Section 12(d). The decision of the arbitrator shall include a determination as to the party which is the prevailing party and the arbitration expenses to be paid by the non-prevailing party.

13. ADVICE TO CONSULT WITH AN ATTORNEY. Russell understands and acknowledges that he is being advised by the Company to consult with an attorney prior to signing this Agreement. Russell represents that he has consulted with an attorney to the extent that he thinks appropriate. Russell has not relied on any explanations, statements or promises made by the Company or its agents or attorneys other than as set forth in this Agreement.

14. CONFIDENTIALITY.

(a) TERMS OF AGREEMENT. Russell and the Company agree that neither of them shall reveal or publicize the existence of this Agreement or its terms, except under compulsion of law and as required under the rules and regulations of the Securities and Exchange Commission ("SEC"). Russell acknowledges that a copy of this Agreement will be filed as an exhibit to a filing made by the Company with the SEC and that a description of compensation paid or to be paid to him under this Agreement will be included in the Company's proxy statement. Notwithstanding the provisions of this Section 14(a), the parties may discuss the existence and terms of this Agreement with their respective attorneys, accountants and financial advisors to the extent necessary to obtain counsel and advice therefrom. Russell may also discuss the existence and terms of this Agreement with his spouse.

(b) EMPLOYMENT REFERENCES. In the event a prospective employer contacts the Company for an employment reference with respect to Russell, the Company shall not provide any information relating to Russell or his employment history or performance with the Company except through such persons as Russell may from time to time designate in writing to the Company.

15. COSTS. Except as provided in Sections 2(m) and 12(d) of this Agreement, each party shall bear its own costs and expenses incurred in connection with the negotiation of this Agreement and the preparation of this Agreement.

16. NO ADMISSION. Russell agrees that neither this Agreement nor the furnishing of the consideration for this Agreement shall be deemed or construed at any time for any purpose as an admission by the Company of any liability or unlawful conduct of any kind.

17. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement and understanding between the Company and Russell concerning Russell's separation from the Company, and supersedes and replaces any and all prior agreements and understandings concerning Russell's relationship with the Company and his compensation by the Company.

18. SEVERABILITY. In the event any one or more of the provisions of this Agreement becomes or is declared by a court or other tribunal of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

19. VOLUNTARY EXECUTION OF AGREEMENT. This Agreement is executed voluntarily and without any duress or undue influence on the part or behalf of the parties hereto, with the full intent

of releasing all claims, except the rights of the Company and Russell under this Agreement. The parties represent that they have read this Agreement, they understand the terms and consequences of this Agreement and of the releases it contains, and they are fully aware of the legal and binding effect of this Agreement.

20. GOVERNING LAW. This Agreement will be construed and interpreted in accordance with the laws of the State of Minnesota.

21. BINDING EFFECT. This Agreement is binding upon and inures to the benefit of the parties hereto and their respective personal representatives, estates, heirs, successors or assigns.

22. COUNTERPARTS. This Agreement may be executed simultaneously in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the respective parties hereto have executed this Agreement on the day and year written below their respective signatures to this Agreement.

ALLETE, INC.

By: /s/David G. Gartzke
David G. Gartzke, President

Dated as of August 28, 2001

/s/Edwin L. Russell
Edwin L. Russell

Dated as of August 28, 2001

EXHIBIT A

Board of Directors
ALLETE, Inc.
30 West Superior Street
Duluth, MN 55802

Ladies and Gentlemen:

Pursuant to Section 1 of my Retirement Agreement with ALLETE, Inc. (the "Company") dated August 28, 2001, I hereby submit my resignation, effective August 28, 2001, from my position as Chairman, President and Chief Executive Officer of the Company, from my membership on the Company's Board of Directors, from any and all other positions held by me with the Company, except as an employee, or any of its subsidiaries or affiliates and any positions as fiduciary or trustee of any Company benefit plan. I hereby submit my resignation from my sole remaining position as an employee of the Company, effective at midnight on August 31, 2001.

Sincerely,

Edwin L. Russell

EXHIBIT B

PRESS RELEASE

ALLETE ANNOUNCES NEW LEADERSHIP
David G. Gartzke to Succeed Edwin L. Russell as President

DULUTH, MINN - AUGUST XX, 2001 - ALLETE, Inc. (NYSE:ALE) today announced that David G. Gartzke, the company's senior vice president of finance and chief financial officer, has been named president and elected to ALLETE's board of directors. Gartzke succeeds Edwin L. Russell, who is stepping down as ALLETE's president, CEO and chairman. He has held those positions since 1996.

"It has been a great opportunity to bring ALLETE to this strong plateau," said Russell. "I have been thinking about transition over the summer and with the Company in excellent shape and with a talented management team in place, now is a good time to do it. After six years it's Dave Gartzke's turn at bat and I wish him every success in his new role and responsibilities. We have worked closely together and I know his skills and insight will serve ALLETE well."

"I am honored and excited to lead this company and eager to build on ALLETE's record of strong growth, diversification and stability," Gartzke said. "Above all, I am committed to finding new ways to maximize shareholder value by closely evaluating the strategic value of the company's assets, including ways to reposition those assets."

"We want to thank Ed for how the Company has been successfully transformed into a multi-services business and welcome David in his new role," said Nick Smith, chairman of the executive committee of ALLETE's board of directors. "We are confident that David's intimate understanding and his proven strategic creativity, vision and leadership, will help further build a company whose assets are fully valued by Wall Street.

ALLETE will conduct a conference call at 9 a.m. eastern standard time August 2X, 2001. To access the call...

ABOUT ALLETE

ALLETE, Inc., is a multi-services company with corporate headquarters in Duluth, Minnesota. ALLETE holdings include the second largest wholesale automobile auction network in North America; the leading provider of independent auto dealer inventory financing; the largest investor-owned water utilities in Florida and North Carolina; significant real estate holdings in Florida and a low-cost electric utility that serves some of the largest industrial customers in the United States.

SAFE HARBOR STATEMENT UNDER THE SECURITIES REFORM ACT OF 1995

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 risk and uncertainties and investors are directed to the risk discussed in the documents filed by ALLETE with the Securities and Exchange Commission.