ALLETE INC
Form DEF 14A
March 24, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:
[ ] Preliminary Proxy Statement
[ ] Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to § 240.14a-12

ALLETE, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS—MAY 12, 2009

ALLETE, Inc.
30 West Superior Street
Duluth, Minnesota 55802

The Annual Meeting of Shareholders of ALLETE, Inc. will be held in the Lake Superior Ballroom of the Duluth Entertainment Convention Center, 350 Harbor Drive, Duluth, Minnesota, on Tuesday, May 12, 2009 at 10:30 a.m. CDT for the following purposes:

1. To elect a Board of eleven directors to serve for the ensuing year;

2. To ratify the appointment of PricewaterhouseCoopers LLP as ALLETE's independent registered public accounting firm for 2009;

3. To amend Article III of ALLETE's Amended and Restated Articles of Incorporation to increase the amount of authorized capital stock and common stock;

4. To delete Article V of ALLETE's Amended and Restated Articles of Incorporation to remove the names and places of residence of the Board of Directors named therein; and

5. To transact such other business as may properly come before the meeting or any adjournments thereof.

Shareholders of record on the books of ALLETE at the close of business on March 13, 2009 are entitled to notice of and to vote at the Annual Meeting.

All shareholders are invited and encouraged to attend the Annual Meeting in person. The holders of a majority of the shares entitled to vote at the meeting must be present in person or by proxy to constitute a quorum.

Your early response will facilitate an efficient tally of your votes. To vote your shares online or by a toll-free telephone call, please follow the instructions on your Proxy Card, or if you received these materials electronically, follow the instructions in the e-mail message notifying you of the availability of these materials. To vote by mail, please sign, date, and return your Proxy Card in the envelope provided.

By order of the Board of Directors,

Deborah A. Amberg

Deborah A. Amberg
Senior Vice President, General Counsel, and Secretary
March 24, 2009
Duluth, Minnesota

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on May 12, 2009: the Company's Proxy Statement, Annual Report on Form 10-K, and Profile are available at www.ematerials.com/ale.

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PROXY STATEMENT

ALLETE, Inc.
30 West Superior Street
Duluth, Minnesota 55802

GENERAL INFORMATION

Proxy Solicitation

These proxy materials are being delivered to shareholders of ALLETE, Inc. (ALLETE or Company) in connection with the solicitation of proxies by the Board of Directors to be voted at the Company's 2009 Annual Meeting of Shareholders. The Annual Meeting will be held at 10:30 a.m. CDT on Tuesday, May 12, 2009 in the Lake Superior Ballroom at the Duluth Entertainment Convention Center, Duluth, Minnesota.

We expect to solicit proxies primarily by mail. We will also solicit proxies by e-mail from the majority of our employee shareholders as well as from shareholders who previously requested to receive proxy materials electronically. We have retained Georgeson Inc. to assist in the solicitation of proxies. Directors or Company officers, other employees, or retirees also may solicit proxies in person or by telephone at a nominal cost. Brokers, and other custodians, nominees, and fiduciaries will be asked to solicit proxies or authorizations from beneficial owners and will be reimbursed for their reasonable expenses. The total fees we expect to pay in connection with the solicitation of proxies are approximately $10,000 plus expenses. The cost of soliciting proxies will be paid by the Company.

This Notice of Annual Meeting, Proxy Statement, form of proxy, and voting instructions were first sent to shareholders on or about March 30, 2009.

Purpose of the Meeting

The purpose of the Annual Meeting is to elect a Board of eleven directors to serve for the ensuing year, to ratify the appointment of PricewaterhouseCoopers LLP (PricewaterhouseCoopers) as the Company's independent registered public accounting firm for 2009, to increase the amount of capital stock and Common Stock (as defined below) authorized for issuance, to remove the names and places of residence of the Board of Directors named therein from our Amended and Restated Articles of Incorporation and to transact such other business as may properly come before the meeting.

The Board is not aware of any matter to be presented at the Annual Meeting of Shareholders other than those set forth in the accompanying notice. If any other matters properly come before the meeting, all shares represented by valid proxies will be voted in accordance with the judgment of the appointed proxies.

Shareholders Entitled to Vote

Each share of common stock of the Company, without par value (Common Stock), of record on the books of the Company at the close of business on March 13, 2009 is entitled to notice of and to vote at the Annual Meeting of Shareholders. As of March 13, 2009, there were 32,702,963 outstanding shares of Common Stock, each entitled to one vote.

Shareholders of Record; Beneficial Owners

If shares of Common Stock are registered directly in a person’s name with our transfer agent, Wells Fargo Bank, N.A., that person is considered the “shareholder of record” with respect to those shares and these proxy materials have been sent directly to such person by the Company.

If a person holds shares of Common Stock in a brokerage account or through a bank or other holder of record, that person is considered the “beneficial owner” of shares held in "street name." These proxy materials have been forwarded to the beneficial owners by the broker, bank, or other entity that is considered the shareholder of record with respect to those shares. A beneficial owner has the right to direct the broker, bank, or other shareholder of record on how to vote the beneficially owned shares.

Quorum; Required Votes

The holders of a majority of the shares of Common Stock entitled to vote at the meeting must be present in person or represented by proxy to constitute a quorum.

The affirmative vote of a majority of the shares of Common Stock entitled to vote at the Annual Meeting is required for the election of each director. The affirmative vote of a majority of the shares of Common Stock present at the Annual Meeting and entitled to vote is required for approval of other items described in the Proxy Statement to be acted upon by shareholders.

Abstentions are included in the number of shares present and voting, and have the same effect as votes against a particular proposal.

Broker non-votes are not counted for or against any proposal, but are treated as present for purposes of determining a quorum. A “broker non-vote” occurs when a broker submits a proxy card for shares to the Company but does not indicate a vote on a particular matter because the broker has not received timely voting instructions from the beneficial owner of the shares and the broker does not have the authority to vote on the matter without such instructions. Under the rules of the New York Stock Exchange (NYSE), a broker may vote shares on Items Nos. 1 and 2, and on other routine matters in the absence of timely voting instructions from the beneficial owner.

An automated system administered by Wells Fargo Shareowners Services will tabulate the votes.

How to Vote

Shareholders of record may vote their shares by proxy using any of the following methods:

- By Telephone: Vote by calling 800-560-1965 and following the instructions on your proxy card or, if you received these materials electronically, the instructions in the e-mail message that you received notifying you of the availability of these materials. If you vote by phone, do not return your proxy card.

- Online: You may vote online www.ematerials.com/ale. Follow the instructions on your proxy card or, if you received these materials electronically, the instructions in the e-mail message notifying you of the availability of these materials. If you vote online, do not return your proxy card.

- By Mail: Complete, sign, and date each proxy card that you received and return it in the prepaid envelope provided to ALLETE, Inc., c/o Shareowner Services, P.O. Box 64873, St. Paul, MN 55164-0873.

Telephone and Internet voting will be available until 12:00 p.m. CDT on May 11, 2009.

If you received these materials electronically, you did not receive a proxy card. If you wish to request paper copies of these materials, including a proxy card, you may do so by calling ALLETE Shareholder Services at 800-535-3056 or 218-723-3974.

Unless contrary instructions are provided, all shares of Common Stock represented by valid proxies will be voted "FOR" the election of all nominees for director named herein, "FOR" ratification of the appointment of PricewaterhouseCoopers as the Company's independent registered public accounting firm for 2009, "FOR" amending Article III of the Company's Amended and Restated Articles of Incorporation to increase the amount of authorized capital stock and Common Stock, and "FOR" deleting Article V of the Company's Amended and Restated Articles of Incorporation to remove the names and places of residence of the Board of Directors named therein.

Revocation of Proxies

A proxy may be revoked at any time before it is voted by giving written notice of revocation to ALLETE, Inc., Shareholder Services, 30 West Superior Street, Duluth, MN 55802-2093, or by delivering a proxy bearing a later date using any of the voting methods described above.

Delivery of Proxy Materials to Households

Only one copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 as amended (Annual Report), filed with the United States Securities and Exchange Commission (SEC) and one Proxy Statement for the 2009 Annual Meeting will be delivered to an address where two or more shareholders reside, if those shareholders previously consented to such delivery, unless we have received contrary instructions from a shareholder at the address. A separate Proxy Card will be delivered to each shareholder at the shared address who has not elected to receive proxy materials electronically.

If you are a shareholder who lives at a shared address and would like additional copies of the Annual Report, this Proxy Statement, or any future annual reports or proxy statements, contact ALLETE Shareholder Services, 30 West Superior Street, Duluth, MN 55802-2093, telephone number 800-535-3056 or 218-723-3974, and copies will be mailed to you promptly.

If you share the same address with another of our shareholders and you currently receive multiple copies of annual reports or proxy statements, you may request delivery of a single copy of future annual reports or proxy statements at any time by calling ALLETE Shareholder Services at 800-535-3056 or 218-723-3974, or by writing to our transfer agent, Wells Fargo Bank, N.A., Shareowner Services, Attn: Householding, P.O. Box 64854, St. Paul, MN 55164-0854.

If you did not receive the Annual Report, which includes the Company's audited Consolidated Financial Statements, please notify ALLETE Shareholder Services, 30 West Superior Street, Duluth, MN 55802-2093, telephone number 800-535-3056 or 218-723-3974, and a copy will be sent to you promptly.

Many brokerage firms and other shareholders of record have procedures for the delivery of single copies of company documents to households with multiple beneficial shareholders. If your family has one or more "street name" accounts under which you beneficially own shares of Common Stock, please contact your broker, financial institution, or other shareholder of record directly if you require additional copies of this Proxy Statement or the Annual Report, or if you have other questions or directions concerning your "street name" account.

How to Enroll for Electronic Delivery of Future Proxy Materials

We are pleased to offer our shareholders the convenience and benefits of viewing proxy statements, annual reports, and other shareholder materials online. With your consent, we can stop sending you paper copies of these documents. Instead, beginning next year we would send you an e-mail notification that the shareholder materials have been filed with the SEC and are available for you to view. The notification would include a link to the website on which you could view the materials. We would also provide you with a link to allow you to vote your Common Stock shares online.

To enroll for electronic receipt of shareholder materials, follow these easy directions:

1. Log onto the Internet at www.allete.com.
2. Click on "Investors."

3. Click on “Shareholder Services.”
4. Click on “Proxy Electronic Delivery.”
5. Follow the prompts to submit your electronic consent.

The website for viewing shareholder materials will be available on a 24-hours-a-day, 7-days-a-week basis. You will receive an e-mail confirmation of your enrollment. Your enrollment will remain in effect for as long as you remain a shareholder and the e-mail account you provide the Company remains active. However, you may choose to cancel your enrollment at any time.

OWNERSHIP OF ALLETE COMMON STOCK

Securities Owned by Certain Beneficial Owners

Company records and other information available from outside sources, including information filed with the SEC, indicate that, as of March 13, 2009, the following shareholders were beneficial owners of more than 5 percent of any class of the Company's voting securities.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Owner	Percent of Class 1
Common Stock	Barclays Global Investors NA 2 400 Howard Street San Francisco, CA 94105	1,780,546	5.4%
Common Stock	Wachovia Bank, N.A. (Wachovia) 3 NC 1156 Wachovia Center 401 South Tryon Street Charlotte, NC 28288	4,570,237	14.0%

1As of March 13, 2009.

2The information shown in this table for Barclays Global Investors NA (i) is derived from information filed with the SEC on February 5, 2009 on Schedule 13G; and (ii) includes Barclays Global Investors NA and certain of its affiliates.

3Wachovia is the beneficial owner in its capacity as Trustee of the Minnesota Power and Affiliated Companies Retirement Savings and Stock Ownership Plan (RSOP). This information is as of March 13, 2009.

Generally, the shares owned by the RSOP will be voted in accordance with instructions received by Wachovia from participants in the RSOP, and shares for which Wachovia does not receive instructions from RSOP participants will be voted proportionately with the instructions it does receive.

Securities Owned by Directors and Management

The following table presents the shares of Common Stock beneficially owned as of March 13, 2009 by Directors, nominees for Director, executive officers named in the Summary Compensation Table that appears subsequently in this Proxy Statement, and all Directors, nominees for Director, and executive officers of the Company as a group. Unless otherwise indicated, the persons shown have sole voting and investment power over the shares listed. Common Stock ownership guidelines applicable to Directors are discussed on page 12. Directors are expected to own 3,000 shares within three years of election—the following directors have served less than three years: Ms. Brekken, Mr. Emery, Mr. Hoolihan, and Mr. Neve. As a nominee for Director, Mr. Rodman is expected to own 500 shares before his election. Common Stock ownership guidelines applicable to the Named Executive Officers are discussed beginning on page 13. In July 2008, the Board determined that the Named Executive Officers had increased the number of shares owned and progress was being made toward meeting the ownership guidelines based on then-current share price.

SECURITIES OWNED BY DIRECTORS AND MANAGEMENT

	Name of Beneficial Owner	Company Share Ownership Guidelines 1	Number of Shares Beneficially Owned 2	Options Exercisable within 60 days after March 13, 2009
Directors and Nominees for Director	Kathleen A. Brekken	3,000	5,141	0
	Heidi J. Eddins	3,000	7,408	0
	Sidney W. Emery, Jr.	3,000	4,916	0
	James J. Hoolihan	3,000	4,616	0
	Madeleine W. Ludlow	3,000	9,599	0
	George L. Mayer	3,000	24,464	0
	Douglas C. Neve	3,000	3,449	0
	Roger D. Peirce	–	4,802	0
	Jack I. Rajala	3,000	14,165	3,879
	Leonard C. Rodman	500	500	0
	Bruce W. Stender	3,000	15,054	0
Named Executive Officers	Donald J. Shippar	89,219	33,388	84,775
	Mark A. Schober	21,916	18,135	28,535
	Deborah A. Amberg	20,522	7,949	21,151
	Claudia Scott Welty	19,014	15,461	30,433
	Laura A. Holquist	10,221	13,890	8,224
All Directors, Nominees for Director, and executive officers as a group (19):		–	198,512	207,427

1The amounts in this column for the Named Executive Officers were determined based on 2008 base salaries and the closing share price of $24.83 on March 13, 2009.

2Includes: (i) shares as to which voting and investment power is shared with the person's spouse: Mr. Hoolihan—3,952, Mr. Neve—2,902, Mr. Schober—4,462, and Ms. Welty—6,971; (ii) shares owned by the person's spouse: Ms. Holquist—1 and Mr. Rodman—500; and (iii) shares held by the person's children: Mr. Schober—118. Each Director and executive officer owns only a fraction of 1 percent of the Common Stock, and all Directors and executive officers as a group also own less than 1 percent of the Common Stock.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Directors, executive officers, and persons who beneficially own more than 10 percent of a registered class of the Company's equity securities, to file reports of initial ownership of Common Stock and other equity securities and subsequent changes in that ownership with the SEC and the NYSE. Based on a review of such reports and the written representations of our Directors and executive officers, the Company believes that all such filing requirements were met during 2008, except that two late reports were filed on behalf of Ms. Holquist, each covering one transaction whereby shares of Common Stock otherwise payable to her upon the vesting of restricted stock units were withheld by the Company to satisfy the tax withholding obligations associated with the vesting event. The transactions covered by the late reports occurred in February 2007 and February 2008.

ITEM NO. 1—ELECTION OF DIRECTORS

All shares represented by the proxy will be voted, unless authority is withheld, "FOR" the election of the eleven nominees for Director named below and on the following page. Directors are elected to serve until the next annual election of Directors and until a successor is elected and qualified, or until a Director's earlier resignation or removal. If any nominee should become unavailable, which is not anticipated, the Board may provide by resolution for a lesser number of Directors, or designate substitute nominees, who would receive the votes represented by proxies.

Nominees for Director

[PHOTO OMITTED]	KATHLEEN A. BREKKEN, 59, of Cannon Falls, Minnesota, has been a Director since 2006. She is a member of the Executive Compensation Committee and the Corporate Governance and Nominating Committee. Ms. Brekken is the retired President and Chief Executive Officer of Midwest of Cannon Falls, Inc., a company that designs, wholesales, and distributes home accessories and giftware. She previously served on the ALLETE Board of Directors from 1997 to 2003. Ms. Brekken is a board member of the Cannon Falls Medical Center—Mayo Health System.
[PHOTO OMITTED]	HEIDI J. EDDINS, 52, of St. Augustine, Florida, has been a Director since 2004. She is Chair of the Corporate Governance and Nominating Committee. Ms. Eddins is the former Executive Vice President, Secretary and General Counsel of Florida East Coast Railway, LLC, a railway company that is a successor to Florida East Coast Industries, Inc.'s transportation business. Ms. Eddins joined Florida East Coast Industries, Inc. in 1999 and was responsible for all legal and governmental affairs of the corporation in addition to managing a variety of real estate transactions. Ms. Eddins also serves as a director of the Flagler Hospital Foundation.
[PHOTO OMITTED]	SIDNEY W. EMERY, JR., 62, of Minneapolis, Minnesota, has been a Director since 2007. He is a member of the Executive Compensation Committee. Mr. Emery is the former Chief Executive Officer of MTS Systems Corporation (NASDAQ: MTSC), a global supplier of mechanical testing systems and industrial position sensors. He also serves as a director of Urologix, Inc., a Minneapolis-based manufacturer of minimally invasive medical products, and on the Board of Governors of the University of St. Thomas School of Engineering in St. Paul, Minnesota.
[PHOTO OMITTED]	JAMES J. HOOLIHAN, 56, of Grand Rapids, Minnesota, has been a Director since 2006. He is a member of the Audit Committee. Mr. Hoolihan is the President and Chief Executive Officer of the Blandin Foundation, a private, philanthropic foundation whose mission is to strengthen communities in rural Minnesota. From 1981 to 2004, Mr. Hoolihan was the President of Industrial Lubricant Company, which provides industrial supplies and services to logging, railroad, taconite, and coal mining industries. He serves as the Chairman of the Board of Directors of Industrial Lubricant Company. Mr. Hoolihan served as the elected Mayor of the City of Grand Rapids from 1990 to 1995.
[PHOTO OMITTED]	MADELEINE W. LUDLOW, 54, of Cincinnati, Ohio, has been a Director since 2004. She is Chair of the Executive Compensation

Committee. Since January 2005, Ms. Ludlow has been a Principal of LudlowWard Capital Advisors, LLC, a Cincinnati-based investment banking firm serving middle market companies. She was the Chairman, Chief Executive Officer, and President of Cadence Network, Inc., a web-based provider of utility expense management services from 2000 to 2004. Ms. Ludlow was formerly the Vice President and Chief Financial Officer of Cinergy Corp. She has also served as a trustee of the Darden Graduate School of Business Administration at the University of Virginia.

Nominees for Director

[PHOTO OMITTED]	GEORGE L. MAYER, 64, of Essex, Connecticut, has been a Director since 1996. He is a member of the Audit Committee and the Corporate Governance and Nominating Committee. Mr. Mayer is the founder and President of Manhattan Realty Group, a real estate investment and management company. Mr. Mayer is also a director of Schwaab, Inc., one of the nation's largest manufacturers of rubber stamps and associated products.
[PHOTO OMITTED]	DOUGLAS C. NEVE, 53, of Eden Prairie, Minnesota, has been a Director since July 2007. He is Chair of the Audit Committee. Mr. Neve is the former Executive Vice President and Chief Financial Officer of Minneapolis-based Ceridian Corp., a multinational human resources company, where he worked from February 2005 until March 2007. Prior to February 2005 he was an audit partner with Deloitte & Touche LLP, a public accounting firm. He also is a board member of Analysts International Corporation (NASDAQ: ANLY) and of Tyndale House Publishers, Inc.
[PHOTO OMITTED]	JACK I. RAJALA, 69, of Grand Rapids, Minnesota, has been a Director since 1985. He is a member of the Executive Compensation Committee and the Corporate Governance and Nominating Committee. Mr. Rajala is the Chairman and Chief Executive Officer of Rajala Companies, and Director and President of Rajala Mill Company, both of which manufacture and trade lumber. Mr. Rajala also serves as Chairman and Chief Executive Officer of Boundary Company, a forestland investment company.
[PHOTO OMITTED]	LEONARD C. RODMAN, 60, of Overland Park, Kansas, is a first-time nominee for Director. Mr. Rodman has over 35 years of experience with Black & Veatch, a major provider of engineering services to the utility/power generation, water and environmental industries. Since 1998, Mr. Rodman has been the President and Chief Executive Officer of Black & Veatch and in 2000 he was also named its Chairman. Mr. Rodman currently serves on the Board of the United Way of Greater Kansas City and of the Iowa State University Foundation. Mr. Rodman was identified as a director nominee with the assistance of a search firm.
[PHOTO OMITTED]	DONALD J. SHIPPAR, 60, of Superior, Wisconsin, has been a Director since 2004 and has been Chairman of ALLETE since January 2006. Mr. Shippar was named President and Chief Executive Officer of ALLETE in 2004. Since joining the Company in 1976, Mr. Shippar has served as Vice President of Transmission and Distribution, Senior Vice President for Customer Service and Delivery, Chief Operating Officer of Minnesota Power, and President of Minnesota Power. Mr. Shippar also serves as a trustee of the College of St. Scholastica in Duluth, Minnesota.
[PHOTO OMITTED]	BRUCE W. STENDER, 67, of Duluth, Minnesota, has been a Director since 1995. Mr. Stender, as Lead Director, is an ex-officio member of each Board committee. Mr. Stender served as Chairman of ALLETE from September 2004 to January 2006. He is Vice Chair of Duluth-based Labovitz Enterprises, Inc., which owns and manages

hotels and commercial real estate. Mr. Stender serves as a trustee of the Blandin Foundation and as member of the Chancellor’s Advisory Committee for the University of Minnesota-Duluth.

CORPORATE GOVERNANCE

Corporate governance refers to the internal policies and practices by which the Company is operated and controlled on behalf of its shareholders. Sound corporate governance starts with a strong, independent Board that is accountable to the Company and its shareholders. The role of the Board is to effectively govern the affairs of the Company for the benefit of its shareholders, and to the extent appropriate under Minnesota law, other constituencies, including the Company's employees, customers, suppliers, and the communities in which ALLETE does business. The Company views good corporate governance as a source of competitive advantage, because the Company's ultimate goal is to best focus and direct its resources.

In 2008, the Board and its committees reviewed and enhanced established corporate governance practices. This ensures that the Board and its committees have the necessary authority and practices in place to review and evaluate the Company's business operations, as needed, and to make decisions that are independent of the Company's management. As examples, the Board and its committees undertake an annual self-evaluation process, meet regularly without members of management present, have direct access to and meet individually with members of management, and retain their own advisors as they deem appropriate.

In an effort to further develop the Board, Directors are asked to attend an independent educational seminar each year and to share their experiences and observations with the other Directors. In addition to seminars, Board members attended educational presentations hosted by the Company during 2008 addressing regulatory process and ratemaking. In 2009, the Company provided an educational presentation to the Board about emissions allowances and their markets.

Corporate Governance Guidelines

The Company's Corporate Governance Guidelines, initially adopted in 2002, were revised in October 2008. The Corporate Governance Guidelines address the Board's roles and responsibilities, Board selection and composition policies, Board operating policies, Board committee responsibilities, Director compensation, Director stock ownership, and other matters. Each committee of the Board also has a charter pursuant to which it operates. The Audit Committee Charter was last revised in January 2008, the Executive Compensation Committee Charter was last revised in July 2008, and the Corporate Governance and Nominating Committee Charter was last revised in October 2008. Current copies of our Corporate Governance Guidelines and the committee charters are available on the Company's website at www.allete.com. Shareholders may request free printed copies of these documents from ALLETE Shareholder Services, by mail addressed to 30 West Superior Street, Duluth, MN 55802-2093, or by calling 800-535-3056 or 218-723-3974.

Director Independence Standards

The Board has adopted independence standards into the Company's Corporate Governance Guidelines that are consistent with the director independence standards of the NYSE. An "independent" Director has no material relationship with the Company (either directly or as a partner, shareholder, or officer of an organization that has a relationship with the Company). The Board has adopted certain categorical standards to assist in determining each Director's independence. The Board considers a "material relationship" with the Company to exist where:

- the Director is or has been employed by the Company within the last three years;

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a member of the Director’s immediate family is or has been employed by the Company as an executive officer within the last three years;

- the Director is an employee or a partner, or the Director’s immediate family member is a partner, of the Company’s current independent registered public accounting firm; or an immediate family member is an employee of the Company’s current independent registered public accounting firm and personally works on the Company’s audit; or the Director or an immediate family member was within the last three years an employee or partner of the Company’s current independent registered public accounting firm and personally worked on the Company's audit within that time;

- the Director or a member of the Director’s immediate family is or has been employed within the last three years as an executive officer of any business organization for which any of the Company’s executive officers concurrently serves or served as a member of that business organization’s compensation committee;

- the Director has received in any of the last three years more than $120,000 in direct compensation from the Company (other than Director and committee fees, pension, and other deferred compensation);

- a member of the Director’s immediate family has received in any 12-month period within the last three years more than $120,000 in direct compensation from the Company;

- the Director is a current employee, or a member of the Director’s immediate family is a current executive officer, of any business organization that has made payments to the Company, or received payments from the Company, for property or services in any of the last three fiscal years in an amount that exceeds the greater of $1,000,000 or 2 percent of the other company’s consolidated gross revenue;

- the Director has been an employee within the last three years, or a member of the Director’s immediate family has been an executive officer within the last three years, of any business organization to which the Company was indebted at any time within the last three years in an aggregate amount in excess of 5 percent of the Company’s total assets;

- the Director or a member of the Director’s immediate family has served within the last three years as an executive officer or a general partner of an entity that has received an investment from the Company or any of its subsidiaries which exceeds the greater of $1,000,000 or 2 percent of such entity’s total invested capital in any of the last three years; or

- the Director or a member of the Director’s immediate family has been an executive officer of a foundation, university, non-profit trust or other charitable organization within the last three years for which contributions from the Company accounted for more than the greater of $250,000 or 2 percent of such organization’s consolidated gross revenue in any of the last three years.

Related Person Transactions and Director Independence Determinations

The Board has adopted a policy to review transactions between the Company and related persons. Related persons include Directors, Director nominees, executive officers, and 5 percent shareholders, as well as immediate family members and any entity controlled by or in which these individuals have a substantial financial interest. A copy of the policy is available on our website at www.allete.com.

The Related Person Transaction Policy applies to a financial transaction, arrangement, or a series of similar transactions or arrangements of $25,000 or more. These transactions generally require advance approval by the Corporate Governance and Nominating Committee (Corporate Governance Committee). If a new situation arises where advance approval is not practical, it is discussed with the Chair of the Corporate Governance Committee, and an appropriate course of action may include subsequent ratification by the Corporate Governance Committee.

The Corporate Governance Committee considers factors it deems relevant in determining whether to approve a transaction, including but not limited to the following: whether the terms are comparable to those that could be obtained in an arm's-length transaction with an unrelated third party; whether there are business reasons to enter into the transaction; whether the transaction could impair the independence of a Director; and whether the transaction would present an improper conflict of interest, taking into account the size of the transaction, the overall financial position of the related person, the direct or indirect relationship of the related person, and the ongoing nature of any proposed relationships. The Corporate Governance Committee will also periodically review and assess relationships to ensure ongoing fairness to the Company. Any member of the Corporate Governance Committee who has an interest in a transaction will abstain from voting, but may participate in the discussion if invited to do so by the Chair of the Corporate Governance Committee.

The Corporate Governance Committee examined all transactions between Directors and the Company and determined that each such transaction was small relative to the Director's business and that the Director was not directly involved in such transaction. The Board reviewed the Corporate Governance Committee's determination in light of the Company's independence standards and the NYSE's corporate governance rules and concluded that each Director, except Mr. Shippar, is "independent."

Specifically, the Corporate Governance Committee considered that Mr. Hoolihan has an ownership interest in Industrial Lubricant Company (ILCO), which provides lubricant products to one of the Company's generating facilities and to one of the Company's wholly owned subsidiaries, BNI Coal, Ltd. During 2008, Company purchases from ILCO totaled $567,414.02. After discussion, the Corporate Governance Committee recommended to the Board that these relationships with the Company are not material to Mr. Hoolihan, or to any person or organization with whom he has an affiliation. Based on this, the Board determined that these relationships do not impair Mr. Hoolihan's independence.

The Corporate Governance Committee considered the sales of wood and wood chips to the Company by companies in which Mr. Rajala has a material interest. These companies, Rajala Timber (of which Mr. Rajala is Secretary, Treasurer, and a director) and Rajala Mill Company (of which Mr. Rajala is President and a director), received payments totaling $319,550.25 from the Company in 2008 for the purchase of wood and wood chips that are used as fuel at the Company's Rapids Energy Center. The purchases were made through a competitive bid process and represented a modest amount of the revenue for Mr. Rajala's companies in 2008. Based on the recommendation of the Corporate Governance Committee, without Mr. Rajala's participation, the Board determined that these transactions do not impair Mr. Rajala's independence.

The Corporate Governance Committee also considered the payments by the Company to the Holiday Inn in Duluth, Minnesota, in which Mr. Stender has an indirect ownership interest. The Company made payments to the hotel for lodging, food, and meeting expenses totaling $30,537.91 in 2008. The Corporate Governance Committee, without Mr. Stender's participation, concluded that the payments were in the ordinary course of business and relatively small. Based on this, the Board determined that these transactions do not affect Mr. Stender's independence.

Mr. Rodman is the President, Chairman, and Chief Executive Officer of and has an ownership interest in Black & Veatch. The Company purchased engineering and related services from Black & Veatch totaling $862,537.48 in 2008. The Corporate Governance Committee considered these payments and determined that they are not material to Mr. Rodman or Black & Veatch. Based on the recommendation of the Corporate Governance Committee, the Board determined that these payments will not impair Mr. Rodman's independence if elected to the Board.

Director Nominations

The Corporate Governance Committee recommends director candidates to the Board and will consider for such recommendations director candidates proposed by management, other Directors, search firms, and shareholders. All director candidates will be evaluated based on the criteria identified below, regardless of the identity of the individual or the entity or person who proposed the director candidate. A shareholder who wishes to propose a candidate may provide the candidate's name and a detailed background of the candidate's qualifications to the Corporate Governance and Nominating Committee, c/o the Secretary of ALLETE, 30 West Superior Street, Duluth, MN 55802-2093.

In selecting director nominees, the Board considers factors it deems appropriate. The Board may engage a search firm to assist in identifying, evaluating, and conducting due diligence on potential director nominees. Factors will include integrity, achievements, judgment, intelligence, personal character, the interplay of the candidate's relevant experience with the experience of other Board members, the willingness of the candidate to devote adequate time to Board duties and the likelihood that he or she will be willing and able to serve on the Board for a sustained period. The Corporate Governance Committee will consider the candidate's independence, in accordance with the Corporate Governance Guidelines, and the rules of the NYSE and SEC. In connection with the selection, due consideration will be given to the Board's overall balance of diversity of perspectives, backgrounds, and experiences. Experience, knowledge, and skills to be represented on the Board include, among other considerations, financial expertise (including an "audit committee financial expert" within the meaning of the SEC's rules), electric utility and/or real estate knowledge and contacts, financing experience, strategic planning, business development, and community leadership.

The Corporate Governance Committee will review all candidates, and before any contact is made with a potential candidate, will notify the Board of its intent to do so, will provide the candidate's name and background information to the Board, and will allow time for Directors to comment. The Corporate Governance Committee will screen, personally interview, and recommend candidates to the Board. A majority of the Corporate Governance Committee members will interview any candidate before recommending that candidate to the Board. The recommendations of the Corporate Governance Committee will be timed so as to allow interested Board members an opportunity to interview the candidate prior to the nomination of the candidate.

In 2008, the Company paid a third-party search firm a fee to identify, evaluate, or assist in identifying or evaluating potential nominees for Director, including Mr. Rodman.

Committee Membership, Meetings, and Functions

The Board has three standing committees: the Corporate Governance Committee, the Audit Committee, and the Executive Compensation Committee (Compensation Committee).

The current members of the Corporate Governance Committee are Ms. Brekken, Ms. Eddins (Chair), Mr. Mayer, Mr. Rajala, and Mr. Stender (ex-officio). The Corporate Governance Committee met four times during 2008. The Corporate Governance Committee provides recommendations to the Board with respect to Board organization, membership, function, committee structure and membership, succession planning for executive management, and the application of corporate governance principles. The Corporate Governance Committee also performs the functions of a director nominating committee, leads the Board's annual evaluation of the Chief Executive Officer, and is authorized to exercise the authority of the Board in the intervals between meetings.

The current members of the Audit Committee are Mr. Hoolihan, Mr. Mayer, Mr. Neve (Chair), and Mr. Stender (ex-officio). Until his retirement from the Board in May 2008, Roger D. Peirce served as Chair of this committee. The Audit Committee held eight meetings in 2008. The Audit Committee recommends the selection of an independent registered public accounting firm, reviews the independence and performance of the independent registered public accounting firm, reviews and evaluates ALLETE's accounting policies, reviews periodic financial reports to be provided to the public, and reviews, and upon favorable review, recommends approval of the Consolidated Financial Statements.

The current members of the Compensation Committee are Ms. Brekken, Mr. Emery, Ms. Ludlow (Chair), Mr. Rajala, and Mr. Stender (ex-officio). The Compensation Committee held six meetings in 2008. The Compensation Committee establishes compensation and benefit arrangements for ALLETE's executive officers and other key executives that are intended to be equitable, competitive in the marketplace, and consistent with the Company's executive compensation philosophy.

Mr. Stender, as Lead Director, is an ex-officio member of all committees. It is anticipated that committee chairs will rotate among Directors in the future. The Board recognizes that the practice of chair rotation provides development for the Directors and allows a variety of perspectives in leadership positions.

Mr. Stender presides over all executive sessions of the nonmanagement Directors. Executive sessions of nonmanagement Directors are regularly scheduled in connection with Board and committee meetings.

During 2008, the Board held six meetings. All Directors standing for re-election attended 75 percent or more of the aggregate number of meetings of the Board and applicable committee meetings in 2008. All Directors standing for election are expected to attend the Annual Meeting and all except Mr. Emery, who was out of the country, did attend in 2008.

Communications Between Shareholders and the Board of Directors

Shareholders and other interested parties who wish to communicate directly with the Board, the nonmanagement Directors, or a particular Director, may do so by addressing the Lead Director, c/o the Secretary of ALLETE, 30 West Superior Street, Duluth, MN 55802-2093.

Common Stock Ownership Guidelines

The Corporate Governance Committee has determined that Directors and executive officers whose primary job responsibilities affect all business units of the Company and Presidents of a major affiliated company should have a significant equity interest in the Company. The Corporate Governance Committee believes that such equity ownership aligns the interest of Directors and certain executive management with the interests of the Company's shareholders. Accordingly, the Board has adopted Common Stock ownership guidelines. Directors are expected to own at least 500 shares of Common Stock prior to their election to the Board and to own at least 3,000 shares of Common Stock within three years after election. The Common Stock ownership guidelines applicable to Named Executive Officers are discussed in the Compensation Discussion and Analysis section beginning on page 13.

Code of Ethics

The Company has adopted a written Code of Ethics that applies to Directors and all Company employees, including ALLETE's chief executive officer, chief financial officer and controller. A copy of the Company's Code of Ethics is available on our website at www.allete.com and printed copies are available upon written request to ALLETE Shareholder Services, 30 West Superior Street, Duluth, MN 55802-2093. Any amendment to or waiver of the Code of Ethics will be disclosed on our website at www.allete.com promptly following the date of such amendment or waiver.

COMPENSATION DISCUSSION AND ANALYSIS

This discussion is meant to help you understand how we compensate the Named Executive Officers. This look at our compensation goals, policies, and practices provides context for the detailed compensation tables and narrative discussions that follow starting on page 26.

Compensation Philosophy and Objectives

Our executive compensation program is designed to attract and retain quality people, and to reward Named Executive Officers for designing and implementing business strategies that we believe will result in increased shareholder value over the long term. Our core values and fundamental principles relating to executive compensation include the following:

Pay is linked to performance. Executive pay is linked to Company performance. We reward Named Executive Officers for achieving annual goals tied to ALLETE's business strategy. Long-term incentives promote a stable, experienced executive management team and reward growth in total shareholder return.

Compensation elements are balanced. We use a mix of compensation elements to accomplish varying objectives. Base pay and executive retirement benefits are designed to attract and retain executive talent. Annual incentives focus Named Executive Officers on achieving strong annual performance. Long-term incentives encourage executives to enhance our long-term success and profitability and also provide incentive to remain employed with the Company. Allocation between annual and long-term compensation opportunities is based on market comparison data, as further described in the section "Process for Determining Executive Compensation" beginning on page 19. Severance benefits encourage continued dedication and objectivity from Named Executive Officers when evaluating transactions that could result in the loss of employment in connection with a change in control of the Company. We provide perquisites, but only on a modest basis to facilitate the Named Executive Officers' performance of their responsibilities.

We provide fair and competitive pay. We strive to offer fair and competitive compensation to Named Executive Officers. We use data, emphasizing energy services and real estate industry data, to establish a range for executive compensation. In setting pay levels, we consider the individual's experience in the position, past performance, job responsibilities, and equity within the executive management group. For a Named Executive Officer with sufficient experience to fully perform the duties of his or her position, we generally set compensation levels so that when target performance is achieved under each of the Company's incentive compensation plans, total compensation is near the midpoint of the pay range established using market comparison data. The process of how comparison companies are selected for various purposes is discussed in the section, "Process for Determining Executive Compensation" beginning on page 19. Consistent with our pay-for-performance philosophy, Named Executive Officers can earn higher compensation if actual performance exceeds target performance goals. Conversely, total compensation to Named Executive Officers in any year in which the Company does not meet target performance goals will generally fall below the midpoint in comparison to other companies. Total compensation generally increases as position and responsibility increase, but at the same time, a greater percentage of total compensation is tied to performance—and is therefore at risk—as position and responsibility increase. This is reflected in the differences between Named Executive Officers' opportunities under our annual and long-term incentive plans.

Executive stock ownership is expected. We believe all executive officers of ALLETE and executive officers who hold the position of President of a major affiliated company of ALLETE should be ALLETE shareholders. We reinforce this expectation by using Common Stock to fund long-term incentive compensation awards and Company contributions to its tax-qualified defined-contribution retirement plan.

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All Named Executive Officers are expected to hold Common Stock acquired through these awards and contributions so long as they hold their executive positions. A Named Executive Officer, however, may sell Common Stock to the extent that he or she owns Common Stock that is more than 120 percent of the expected ownership amount. We do not apply this policy to Common Stock acquired through stock option exercises because we believe that the Named Executive Officers should be able to access a portion of their long-term incentive compensation and to diversify their investments. Named Executive Officers are expected to attain Common Stock ownership in accordance with the following guidelines:

Position	Stock Ownership Value as a Multiple of Salary
Chief Executive Officer	4X
ALLETE Senior Vice President	2X
ALLETE Vice President	1X
President of Major Affiliate	1X

We established the Common Stock ownership guidelines in October 2005. Named Executive Officers subject to the ownership guidelines who held their current positions as of October 2005 have until October 2010 to meet the guidelines; Named Executive Officers appointed after October 2005 have seven years from their appointment to meet the guidelines. Annually, the Board reviews executive officers' Common Stock ownership to confirm that the Named Executive Officers are progressing toward the ownership guidelines. In July 2008, the Board determined that the Named Executive Officers had increased the number of shares owned and were progressing towards meeting the ownership guidelines based on the then-current share price. However, execu