ALLETE INC
Form DEF 14A
March 22, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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 o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	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.

o 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:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS MAY 10, 2011

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 10, 2011, at 10:30 a.m. CDT (doors will open at 9:30 a.m. CDT) for the following purposes:

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

2. To hold an advisory vote on executive compensation;

3. To hold an advisory vote on the frequency of holding an advisory vote on executive compensation;

4. To ratify the appointment of PricewaterhouseCoopers LLP as ALLETE s independent registered public accounting firm for 2011; and

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

Shareholders of record on the books of ALLETE at the close of business on March 11, 2011, 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.

At the direction of the Board of Directors,

Deborah A. Amberg

Senior Vice President, General Counsel, and Secretary

March 22, 2011

Duluth, Minnesota

Important Notice Regarding the Availability of Proxy Materials for the

Shareholder Meeting to be held on May 10, 2011:

The Proxy Statement and 2010 Annual Report on Form 10-K are available at

www.ematerials.com/ale

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ALLETE Proxy Statement

PROXY STATEMENT

ALLETE, Inc.

30 West Superior Street

Duluth, Minnesota 55802

PROXY SOLICITATION AND COSTS

These proxy materials are being delivered to shareholders of ALLETE, Inc. (ALLETE or Company) in connection with the solicitation of proxies by the Company to be voted at the Company s 2011 Annual Meeting of Shareholders. The Annual Meeting will be held at 10:30 a.m. CDT on Tuesday, May 10, 2011, 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 Eagle Rock Proxy Advisors, LLC 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 24, 2011.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Why am I receiving these proxy materials?

You received these materials because you were a shareholder of the Company at the close of business on March 11, 2011 (the Record Date) and are entitled to vote at the Annual Meeting.

Who is entitled to vote at the Annual Meeting?

Holders of the Company s Common Stock at the close of business on the Record Date are entitled to vote at the Annual Meeting. As of the close of business on March 11, 2011, there were 35,901,396 outstanding shares of Common Stock, each entitled to one vote.

What is the purpose of the Annual Meeting?

At the meeting, our shareholders will be asked to:

1. Elect a Board of twelve directors to serve for the ensuing year. The nominees for director are: Kathleen A. Brekken, Kathryn W. Dindo, Heidi J. Eddins, Sidney W. Emery, Jr., James S. Haines, Jr., Alan R. Hodnik, James J. Hoolihan, Madeleine W. Ludlow, Douglas C. Neve, Leonard C. Rodman, Donald J. Shippar, and Bruce W. Stender;

2. Hold an advisory vote on executive compensation;

3. Hold an advisory vote on the frequency of holding an advisory vote on executive compensation;

4. Ratify the appointment of PricewaterhouseCoopers LLP (PricewaterhouseCoopers) as the Company s independent registered accounting firm for 2011; and

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

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The Board is not aware of any other matter to be presented at the Annual Meeting of Shareholders. 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.

How does the Board recommend that I vote?

The Board recommends that you vote FOR the election of all director nominees, FOR approval of the compensation of the Company s Named Executive Officers, for a ONE YEAR frequency of future advisory votes on executive compensation, FOR ratification of PricewaterhouseCoopers as our independent registered public accounting firm for 2011, and in accordance with the discretion of the persons acting under the proxy concerning such other business as may properly be brought before the meeting or any adjournments or postponements thereof.

Unless contrary instructions are provided, all shares of Common Stock represented by valid proxies will be voted in accordance with the Board s recommendations.

How many votes must be present to hold the Annual Meeting?

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, which is required to transact business at the Annual Meeting.

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 with respect to that particular matter. Broker non-votes are not counted for or against any proposal, and are treated as shares not present and not entitled to vote on a particular proposal.

What vote is required to approve each proposal?

Proposal 1: Each director will be elected by a vote of a majority of the votes cast with respect to that director nominee. A majority of the votes cast means that the number of votes cast for the election of a nominee must exceed the number of votes cast against the election of that nominee. Each nominee receiving more votes for his or her election than votes against his or her election will be elected. If you abstain from voting for one or more of the nominees for director, this will have no effect on the election of such director.

Proposal 2: The advisory vote on executive compensation will be decided by an affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote, provided that the total number of shares that affirmatively vote for this proposal represents more than 25 percent of the shares outstanding on the Record Date. An abstention will have the same effect as a vote against this proposal. This is a non-binding, advisory vote; however our Executive Compensation Committee and Board expect to take into account the outcome of the vote when considering future executive compensation decisions.

Proposal 3: The advisory vote on the frequency of executive compensation advisory vote will be decided by the vote of a majority of the shares present in person or represented by proxy and entitled to vote, provided that such majority represents at least 25 percent of the shares outstanding on the Record Date. A vote in favor of one of the choices of frequency, or an abstention, will have the same effect as a vote against the other choices of frequency (or all of the choices of frequency in the event of an abstention). This is a non-binding advisory vote; however, our Executive Compensation Committee and Board expect to take into account the outcome of the vote when considering the frequency of future executive compensation advisory votes.

Proposal 4: The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote will be required to ratify the appointment of PricewaterhouseCoopers as our independent registered public accounting firm for 2011, provided that the total number of shares that affirmatively vote for the proposal represents more than 25 percent of the shares outstanding on the Record Date. An abstention will have the same effect as a vote against this proposal.

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

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How do I vote my shares?

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

- *By Telephone:* Vote using a touch-tone telephone 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 at 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 55164-0945.

Telephone and Internet voting will be available until 12:00 p.m. CDT on May 9, 2011.

If your shares are held in street name, you must vote your shares in the manner prescribed by your brokerage firm, bank or other nominee. Your brokerage firm, bank or other nominee should provide a voting instruction form for you to use in directing it how to vote your shares.

What is the difference between a shareholder of record and a street name holder?

If your shares are registered directly in your name with our transfer agent, Wells Fargo Bank, N.A., you are considered the shareholder of record for those shares. As the shareholder of record, you have the right to vote your shares by proxy directly with the Company (by telephone, online, or by mail) or to vote in person at the Annual Meeting.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of the shares and your shares are said to be held in street name. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote and are also invited to attend the Annual Meeting. If you wish to vote your shares in person at the Annual Meeting, you must bring a legal proxy from your broker, bank or other nominee.

Can my broker vote my shares for me?

Your broker may vote your shares without instruction from you only as to the ratification of our independent registered public accounting firm for 2011 (Proposal 4). As to all other proposals in this Proxy Statement, your broker cannot vote your shares without instructions from you. If you do not instruct your broker to vote your shares as to these proposals, your vote will not be considered in determining the number of votes necessary for approval and will have no effect on the outcome of these proposals.

Can I change my vote after I have voted or can I revoke my proxy?

Yes, if you are a registered shareholder, you can change your vote or revoke your proxy at any time before it is voted at the Annual Meeting, either by signing and returning a proxy card with a later date or by attending the Annual Meeting in person and changing your vote prior to the start of the meeting. If you have voted your shares by telephone or online, you can revoke your prior telephone or online vote by recording a different vote, or by signing and returning a proxy card dated as of a date later than your last telephone or online vote.

If your shares are held in street name, you must contact your broker, bank or other nominee in order to revoke your proxy.

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What if I receive more than one proxy card?

You will receive multiple proxy cards if you hold your shares in more than one account. Please vote all the shares that you own. We encourage you to have all accounts registered in the same name and address (whenever possible). You can accomplish this by contacting ALLETE Shareholder Services at 800-535-3056 or 218-355-3974, or by writing to us at ALLETE, Inc., Attn: Shareholder Services, 30 West Superior Street, Duluth, MN 55802.

I received more than one complete set of proxy materials. Is it possible to eliminate duplicates?

If you hold stock in more than one account or if you are a registered shareholder and you share the same address with another of our registered shareholders, you may request delivery of a single copy of future annual reports and proxy statements at any time by calling ALLETE Shareholder Services at 800-535-3056 or 218-355-3974, 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.

Many brokerage firms and financial institutions 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 or financial institution 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 can I get paper copies of the proxy materials if I received these materials electronically?

If you wish to request paper copies of proxy materials, including a proxy card, you may do so by calling ALLETE Shareholder Services at 800-535-3056 or 218-355-3974.

How can I subscribe to electronic delivery of annual reports and proxy statements?

We are pleased to offer our shareholders the convenience and benefits of receiving proxy statements, annual reports, and other shareholder materials electronically. With your consent, we will no longer send you paper copies of these documents beginning next year. Instead, we would send you an e-mail notification that the shareholder materials have been filed with the Securities and Exchange Commission (SEC) and are available for you to view. The notification would include a link to the Web site on which you could view the materials. We would also provide you with a link to allow you to vote your shares of Common Stock 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.

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 that you provide the Company remains active, unless you choose to cancel your enrollment, which may be done at any time.

Who can answer my questions?

You are welcome to contact our Shareholder Services department with any questions you may have regarding this Proxy Statement:

ALLETE, Inc.

30 West Superior Street

Duluth, Minnesota 55802

Attention: Shareholder Services

Telephone: 800-535-3056 or 218-355-3974

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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 11, 2011, the following shareholders were beneficial owners of more than 5 percent of any class of the Company s voting securities.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Common Stock	BlackRock, Inc.(2) 40 East 52nd Street New York, NY 10022	2,566,241	7.1%
Common Stock	Artisan Partners Holdings LP(3) 875 East Wisconsin Avenue, Suite 800 Milwaukee, WI 53202	1,813,739	5.1%
Common Stock	Wells Fargo Bank, N.A. (Wells Fargo)(4) 401 South Tryon Street NC 1156 Wachovia Center Charlotte, NC 28288	4,020,139	11.2%

(1) As of March 11, 2011.

(2) The information shown in this table for BlackRock, Inc. (i) is derived from information filed with the SEC on February 2, 2011, on Schedule 13G/A; (ii) reflects beneficial ownership as of December 31, 2010; and (iii) includes BlackRock, Inc. and certain of its affiliates.

(3) The information shown in this table for Artisan Partners Holdings LP (i) is derived from information filed with the SEC on February 10, 2011, on Schedule 13G; (ii) reflects beneficial ownership as of December 31, 2010; and (iii) includes Artisan Partners Holdings LP and certain of its affiliates.

(4) Wells Fargo is the beneficial owner in its capacity as Trustee of the ALLETE and Affiliated Companies Retirement Savings and Stock Ownership Plan (RSOP). This information is as of March 11, 2011.

Generally, the shares owned by the RSOP will be voted in accordance with instructions received by Wells Fargo from participants in the RSOP, and shares for which Wells Fargo 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 11, 2011, 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 14. Directors are expected to own 3,000 shares within three years of election. As shown in the table on the next page, all directors have met the share ownership guidelines. Common Stock ownership guidelines applicable to the Named Executive Officers are discussed on page 17. Deferred shares and restricted stock units are included for purposes of determining whether directors and Named Executive Officers are meeting the share ownership guidelines because we believe they accomplish similar objectives as stock ownership, which are (1) encouraging directors and officers to have a stake in the Company, and (2) aligning interests of directors and officers with those of shareholders. The Board reviewed the Named Executive Officers share ownership in July and October 2010, and again in January 2011. As shown in the table on the next page, as of the record date, Mr. Hodnik had increased the number of shares owned and progress was made toward meeting the ownership guideline and the remaining Named Executive Officers have met the share ownership guidelines.

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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 11, 2011(3)	Other(4)	
					Restricted Stock Units	Deferred Shares Under the Director Deferred Stock Plan
Directors and Nominees For Director	Kathleen A. Brekken	3,000	9,080	0		0
	Kathryn W. Dindo	3,000	4,233	0		0
	Heidi J. Eddins	3,000	10,523	0		1,741
	Sidney W. Emery, Jr.	3,000	9,669	0		0
	James S. Haines, Jr.	3,000	1,500	0		3,697
	James J. Hoolihan	3,000	7,529	0		1,741
	Madeleine W. Ludlow	3,000	14,814	0		0
	Douglas C. Neve	3,000	7,985	0		0
	Leonard C. Rodman	3,000	500	0		4,210
	Donald J. Shippar	3,000	40,344	105,992		0
	Bruce W. Stender	3,000	18,993	0		0
Named Executive Officers	Alan R. Hodnik	38,279	7,248	14,641	9,787	
	Mark A. Schober	14,643	23,261	39,897	5,317	
	Deborah A. Amberg	13,695	12,228	27,763	3,844	
	David J. McMillan	12,750	11,136	29,077	3,396	
	Robert J. Adams	5,837	10,152	18,782	2,546	
All directors, nominees for director, and executive officers as a group (18):			162,409	258,449	29,995	11,389

(1) The share amounts in this column for the Named Executive Officers were determined based on 2010 base salaries and the closing share price of $37.98 on March 11, 2011. Mr. Shippar is no longer subject to the Named Executive Officer share ownership guidelines due to his retirement as an officer on April 30, 2010.

(2) The share amounts in this column include: (i) shares as to which voting and investment power is shared with the person s spouse: Mr. Hoolihan 6,929, Mr. Neve 7,485, and Mr. Schober 4,745; (ii) shares held in trust and as to which voting and investment power is shared with the person s spouse as co-trustees: Mr. Shippar 23,544; (iii) shares owned by the person s spouse: Mr. Rodman 500; and (iv) shares held by the person s children: Mr. Hodnik 133 and Mr. Schober 118. The amounts shown in this column exclude amounts shown in the column titled Options Exercisable within 60 days after March 11, 2011. Each director and executive officer owns only a fraction of 1 percent of the Common Stock. All directors and executive officers as a group beneficially own 1.2 percent of the Common Stock.

(3) For purposes of determining total beneficial ownership under SEC regulations, the option amounts in this column should be added to the share amounts shown in the Number of Shares Beneficially Owned column. We segregate these amounts because the Board does not consider options when determining whether an executive officer is meeting the Company share ownership guidelines.

(4) While amounts in the Other column do not represent a right of the holder to receive stock within 60 days, the share amounts are included here because they are included when considering whether a director or executive office is meeting the share ownership guidelines. Under the ALLETE Non-Employee Director Compensation Deferral Plan II (Deferral Plan II), directors are able to defer their stock retainer. Under the terms of the Deferral Plan II, distributions of deferred shares will be made in Common Stock.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (Exchange Act), 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 New York Stock Exchange (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 2010.

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ITEM NO. 1 ELECTION OF DIRECTORS

All shares represented by proxy will be voted, unless authority is withheld, **FOR** the election of the twelve nominees for director named below and on the following pages. 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

KATHLEEN A. BREKKEN, 61, 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. In 2003, Ms. Brekken retired as the President and Chief Executive Officer of Midwest of Cannon Falls, Inc., a company that designs, wholesales, and distributes home accessories and giftware, a position that she held for nearly 20 years. 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.

Ms. Brekken brings experience as the CEO of a Minnesota-based company and in strategic planning, leadership development, and diversified business.

KATHRYN W. DINDO, 61, of Akron, Ohio, has been a Director since 2009 and is a member of the Audit Committee. From 2001 to 2007, Ms. Dindo was the Vice President and Chief Risk Officer of FirstEnergy Corporation (NYSE: FE), a diversified electric company. She is a certified public accountant who was a partner at Ernst & Young and later served as a senior financial executive at Caliber Systems, Inc. (formerly Roadway Services, Inc.) before joining FirstEnergy in 1998. Ms. Dindo is also a director and chair of the audit committee of Bush Brothers & Company and The J.M. Smucker Company (NYSE:SJM). She is also on the Board of Trustees of the University of Akron Foundation.

Ms. Dindo is a financial expert within the meaning of the rules of the SEC and brings experience in electric utility risk management. She has broad public company financial reporting and oversight experience, and a broad business perspective.

HEIDI J. EDDINS, 54, 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 until her retirement in 2008. She now provides transportation-related consulting services.

Ms. Eddins contributes her expertise in corporate governance matters for public companies, her experience in Florida real estate, and strategic planning and diversified business knowledge.

SIDNEY W. EMERY, JR., 64, of Minneapolis, Minnesota, has been a Director since 2007. He is a member of the Executive Compensation Committee. In February 2010, Mr. Emery became the Chief Executive Officer and owner of Supply Chain Services, LLC, a provider of barcode scanning solutions. Mr. Emery also served as the Chairman and Chief Executive Officer of MTS Systems Corporation (NASDAQ: MTSC), a global supplier of mechanical testing systems and industrial position sensors, from 1998 to 2008. He also serves as a director and on the audit committee of Urologix, Inc. (NASDAQ: ULGX), a Minneapolis-based manufacturer of minimally invasive medical products.

Mr. Emery contributes his experience as a public company CEO, knowledge of executive compensation matters, and strategic planning and diversified business experience.

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JAMES S. HAINES, JR., 64, of Lawrence, Kansas, joined the Board in 2009 and is on the Executive Compensation Committee. From 2002 to 2007, he was the Chief Executive Officer and a director of Westar Energy, Inc. (NYSE: WR), the largest electric energy provider in Kansas. He has also served as Chief Executive Officer of El Paso Electric Company. He is a member of the board of Stormont-Vail HealthCare and of the Topeka Community Foundation.

Mr. Haines brings a long career of public utility experience, having served as CEO at two public utilities. He brings expertise in legal and regulatory matters, strategic planning, and executive compensation.

ALAN R. HODNIK, 51, of Hermantown, Minnesota, was named President of the Company in May 2009 and CEO in May 2010. Since joining the Company in 1982, Mr. Hodnik has served as Vice President Generation Operations, Senior Vice President of Minnesota Power Operations, and Chief Operating Officer. As Chief Operating Officer, Mr. Hodnik led transmission, distribution, generation, and engineering for all aspects of the Company. Mr. Hodnik was the elected mayor of the City of Aurora, Minnesota from 1988 to 1997. He is a member of the board of directors for Essentia Health East Region, the Area Partnership for Economic Expansion (APEX), and Polymet Mining Corporation (NYSE-A: PLM; TSX: POM).

Mr. Hodnik has served the Company for 29 years, working in a wide variety of positions of increasing responsibility. He brings utility operations, strategic planning, leadership, and broader organizational development experience, as well as a deep understanding of the region served by the Company.

JAMES J. HOOLIHAN, 58, of Grand Rapids, Minnesota, has been a Director since 2006. He is a member of the Audit Committee and the Corporate Governance and Nominating 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, especially the Grand Rapids area, a position he has held since 2004. 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 currently 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.

Mr. Hoolihan is a long-time community leader in the Company s electric utility service area. He brings his knowledge of the industries and political issues of the service area, and has operated a business serving these industries.

MADELEINE W. LUDLOW, 56, of Cincinnati, Ohio, has been a Director since 2004 and is Chair of the Executive Compensation Committee. From 2009 to January 2011 she was a Principal of Market Capital Partners LLC and from 2005 to 2009 was a Principal of LudlowWard Capital Advisors, LLC, each of which was an Ohio-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. Ms. Ludlow now provides consulting services regarding investments in private equity transactions.

Ms. Ludlow brings a sophisticated financial background and is a financial expert within the meaning of the rules of the SEC. She also has executive experience at a public utility and has worked with entrepreneurial and diversified businesses.

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DOUGLAS C. NEVE, 55, of Chatfield, Minnesota, has been a Director since 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. Mr. Neve now provides financial consulting services. He is a certified public accountant who, prior to February 2005, was a partner with Deloitte & Touche LLP, a public accounting firm. He has also served as a director and chair of the audit committee of Analysts International Corporation (NASDAQ: ANLY) since 2008 and is currently its chairman. Mr. Neve is also a director and the Audit Committee Chair of Tyndale House Publishing, Inc.

Mr. Neve is a financial expert within the meaning of the rules of the SEC, and brings his knowledge of public accounting, corporate reporting, and risk management. His financial background includes experience as an executive for a publicly-traded company.

LEONARD C. RODMAN, 62, of Overland Park, Kansas, has been a Director since 2009 and is a member of the Audit Committee and the Corporate Governance and Nominating Committee. Mr. Rodman has 40 years of experience with Black & Veatch, a major provider of engineering and construction services to the utility/power generation, water, environmental, and telecommunications 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 and the audit committee of the Iowa State University Foundation.

Mr. Rodman has experience serving the electric utility and other regional industries for over 30 years. He brings his leadership experience of a large, internationally-diversified company, and strategic planning.

DONALD J. SHIPPAR, 62, of Superior, Wisconsin, has been a Director since 2004 and has been Chairman of ALLETE since January 2006. Mr. Shippar is the Company s retired CEO, a position he held from 2004 to April 2010. Mr. Shippar joined the Company in 1976 and 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 president of The Association of Edison Illuminating Companies.

Mr. Shippar was employed by the Company for over 30 years. He has significant connections within the electric utility industry, and has expertise in utility operations, leadership development and strategic planning.

BRUCE W. STENDER, 69, 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. In 2007, Mr. Stender stepped down as President and CEO of Duluth-based Labovitz Enterprises, Inc., which owns and manages hotels and commercial real estate. He continues to be the Vice Chair and a Principal of Labovitz Enterprises, Inc. Mr. Stender serves as a trustee of the Blandin Foundation.

Mr. Stender has significant connections to and understanding of the region served by the Company. He brings corporate governance knowledge and varied leadership experience, as well as diversified business experience.

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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 competitive advantage because it provides greater assurance of strategic focus, full compliance with laws and regulations, and alignment with shareholder interests.

In 2010, 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. For example, the Board and its committees undertake an annual self-evaluation process, and non-management directors meet regularly without 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 at least once every two years and to share their experiences and observations with the other directors. The majority of our directors have fulfilled this educational goal. In addition to seminars, Board members attended educational presentations hosted by the Company during 2010 addressing board governance practices.

Corporate Governance Guidelines

The Company s Corporate Governance Guidelines, initially adopted in 2002, were most recently revised in October 2010. 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 2011, the Executive Compensation Committee Charter was last revised in July 2010, and the Corporate Governance and Nominating Committee Charter was last revised in October 2010. Current copies of our Corporate Governance Guidelines and the committee charters are available on the Company s Web site at www.allete.com.

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. These Corporate Governance Guidelines are available on the Company s Web site at www.allete.com. 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;

- 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;

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- 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 five 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 Web site 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.

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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 and Mr. Hodnik, is independent. There were no transactions in 2010 between the Company and any related persons other than directors that would have required Board review.

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 2010, Company purchases from ILCO totaled $727,013.72. These payments represent a relatively small percentage of ILCO s 2010 sales.

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 $10,106.84 in 2010.

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 $1,861,455.20 in 2010. These payments represent less than 0.1 percent of Black & Veatch consolidated gross revenues, which had 2010 revenues in excess of $2.3 billion.

Jack Rajala was a Director of the Company from the beginning of 2010 until the annual meeting on May 11, 2010. Mr. Rajala has a material interest in Rajala Timber (of which he is Secretary, Treasurer, and a director) and Rajala Mill Company (of which Mr. Rajala is President and a director). Collectively these entities received payments totaling $322,100.53 from the Company in 2010 for the purchase of wood and wood chips that were 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 revenue for Mr. Rajala s companies in 2010.

The Corporate Governance Committee reviewed the above-described transactions with Mr. Hoolihan, Mr. Stender, and Mr. Rodman (without their respective participation) and determined that the cumulative totals were well below the Company s and the NYSE s standards for director independence and were also not material to the relevant director or to any person or organization with whom the director has an affiliation. Based on this, the Corporate Governance Committee recommended to the Board and the Board determined that these transactions do not impair the independence of the affected directors.

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

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the SEC s rules); electric utility and/or real estate knowledge and contacts; financing experience; human resource and executive compensation expertise; strategic planning and business development experience; familiarity with the industries located in the Company s service area; and community leadership.

The Company has sought candidates whose diverse experience, backgrounds, and perspectives contribute to fulsome, robust discussion in the boardroom. Board members represent a variety of gender, age, regional, and professional backgrounds.

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.

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. Hoolihan, Mr. Rodman, and Mr. Stender (ex-officio). The Corporate Governance Committee met four times during 2010. 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 Ms. Dindo, Mr. Hoolihan, Mr. Neve (Chair), Mr. Rodman, and Mr. Stender (ex-officio). The Audit Committee held nine meetings in 2010. 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 upon favorable review, recommends approval of the Consolidated Financial Statements.

The current members of the Compensation Committee are Ms. Brekken, Mr. Emery, Mr. Haines, Ms. Ludlow (Chair), and Mr. Stender (ex-officio). The Compensation Committee held six meetings in 2010. 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. All members of the Compensation Committee qualify as independent directors under the rules of the NYSE, non-employee directors under Rule 16b-3 of the Exchange Act, and outside directors under Section 162(m) of the Internal Revenue Code of 1986, as amended (Tax Code).

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 independent directors. Executive sessions of independent directors are regularly scheduled in connection with Board and committee meetings.

During 2010, the Board held seven meetings. All directors attended 75 percent or more of the aggregate number of meetings of the Board and applicable committee meetings in 2010. All directors standing for election are expected to attend the Annual Meeting and all did attend in 2010.

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Board Leadership Structure

At the beginning of 2010, Mr. Shippar served as Chair and Chief Executive Officer, while Mr. Hodnik served as President. Effective May 1, 2010, upon Mr. Shippar s retirement as an officer of the Company, Mr. Hodnik was also named to the position of Chief Executive Officer. After his retirement as an officer, Mr. Shippar continued as a director and Chair of the Board. The Board has determined that maintaining Mr. Shippar as Chair while Mr. Hodnik gains further experience as Chief Executive Officer is the best means of assuring a smooth transition in leadership for the Company.

Mr. Stender serves as Lead Director. The Board believes that a lead director provides important coordination and leadership for the independent directors. As former CEO, Mr. Shippar will not be an independent Chair.

Communications between Shareholders and the Board of Directors

Shareholders and other interested parties who wish to communicate directly with the Board, the non-management 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.

Director Common Stock Ownership Guidelines

The Corporate Governance Committee has determined that directors should have an equity interest in the Company. The Corporate Governance Committee believes that such equity ownership aligns the interest of directors 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 below.

Code of Business Conduct and Ethics

The Company has adopted a written Code of Business Conduct (which includes our 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 Business Conduct is available on our Web site at www.allete.com. Any amendment to or waiver of the Code of Business Conduct will be disclosed on our Web site at www.allete.com promptly following the date of such amendment or waiver.

Board s Oversight of Risk

The Company views risk oversight as a full Board responsibility. During 2010, the Company utilized the enterprise risk management (ERM) process which was implemented in 2009. The Board reviewed the potential events that may affect the Company, the processes identified by management to manage the risks associated with such events, and considered risk exposures in making strategic decisions. The ERM process was discussed with management at Board meetings throughout 2010. Management provides the Board with regular updates of key risk indicators. The Board s focus on effective risk oversight has supported management s establishment of a tone and culture of effective risk management.

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

This Compensation Discussion and Analysis describes our compensation philosophy and policies, including the rationale and processes used to determine the 2010 compensation of our executive officers. The Compensation Committee establishes our compensation philosophy and objectives. Our compensation philosophy and objectives are reflected in the following key design priorities that govern compensation decisions:

- Compensation is linked to performance;
- Compensation elements are balanced;

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- We provide fair and competitive compensation;
- Executive stock ownership is expected;
- We consider corporate tax deductions and accounting rules; and
- The Compensation Committee and the Board exercise independent judgment.

Our compensation program is designed to attract and retain experienced, qualified executive talent, 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 compensation program includes a mix of elements to achieve varying objectives. Elements of compensation include base salary, annual incentives, long-term incentives, retirement benefits, health and welfare benefits, limited perquisites, and severance benefits.

Market compensation data obtained from the Compensation Committee s independent compensation consultants, along with other considerations the Compensation Committee deemed relevant, formed the basis for the Compensation Committee s deliberations and compensation decisions for the executive officers in 2010. The specific design changes and the Compensation Committee s rationale for the changes are described below in the section 2010 Executive Compensation Changes beginning on page 23.

By design, a significant portion of officers compensation is linked to performance. Our Named Executive Officers total compensation in 2010 increased slightly over 2009 because the Company achieved some of its financial targets. Named Executive Officers, excluding Mr. Hodnik and Mr. Shippar, received a 3 percent base salary increase in 2010, which was consistent with the percent increase to other management level and non-management non-union employees, in light of the economic conditions in our region. Named Executive Officers total compensation is reported in column (i) of the Summary Compensation Table on page 26.

Company efforts implementing business strategies in 2009 and 2010, an overall healthier economy and improved power sales to our taconite customers were important variables for helping ALLETE achieve our financial goals in 2010. Company net income of $75.4 million for 2010 (excluding $118 thousand for certain non-operating events for purposes of the annual incentive calculation) was above the threshold annual incentive plan goal of $70.2 million, but it was less than our target annual incentive plan goal of $78.0 million. Our cash flow of $255.2 million (excluding $26.5 million in pension contributions for purposes of the annual incentive calculation) was significantly higher than the target annual incentive goal of $241.2 million. Our overall strategic goal accomplishments were also above threshold and achieved 80 percent of the target. As a result, our Named Executive Officers received an annual incentive payment of 101.2 percent of the target payment for 2010.

During the 2008 2010 three-year performance period, the Company s shareholders realized a total shareholder return (TSR) of 8.3 percent on their investment in Common Stock. ALLETE ranked ninth among its 17 peer companies for the three-year performance period ending December 31, 2010. A ninth place ranking resulted in achievement of the long-term incentive compensation plan target-level performance; therefore, the Named Executive Officers received a payout equal to 100 percent of the long-term incentive target opportunity. Stock options granted from

2004 through 2008 were underwater as of December 31, 2010 (with the closing market price of Common Stock on that date below the stock option exercise prices ranging from $37.76 to $48.65), and these stock options will not provide compensation to the Named Executive Officers unless the stock price increases above the exercise prices. Option exercise prices are shown in the Outstanding Equity Awards at Fiscal Year-End table on page 32.

In January 2011 we took the following actions to better align our compensation plans, practices and policies with our compensation philosophy and objectives as described in the section 2011 Executive Compensation Changes starting on page 24:

- amended our incentive compensation plans and supplemental executive retirement benefit plans to incorporate leading compensation trends, which include:

- We amended the ALLETE Executive Long-Term Incentive Compensation Plan (LTIP) to prohibit share repricing and cash buyouts, and to apply the following vesting provisions to future

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grants of awards subject to time-based vesting: (i) double trigger equity vesting in the event employment is terminated upon a change in control if the acquiror assumes outstanding awards, and (ii) single trigger equity vesting upon a change in control if the acquiror does not assume outstanding awards;

- We amended the Executive Annual Incentive Plan (AIP) to provide that in the event of a Change in Control (as defined in the AIP) any award earned pursuant to the AIP would be prorated;

- We amended the supplemental executive retirement plan(s) to provide that the vested retirement benefits and any unpaid make up benefit, if applicable, would be forfeited in the event a participant engaged in misconduct; and

- We amended the Change in Control Severance Plan (Severance Plan) to eliminate the excise tax gross-up feature and the additional age and service credit for supplemental executive retirement benefits for current and future participants, and to establish a modified severance payment cap.

- adopted a Compensation Recovery Policy which is triggered upon financial restatement (in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act)), error in calculation, or misconduct; and

- eliminated tax gross-ups on perquisites.

To allow greater transparency and better communication with our investors, we have recommended an annual Say-on-Pay vote. We believe our compensation programs are market competitive with mainstream provisions and are appropriately balanced and tied to performance. Our compensation philosophy and objectives and the elements of compensation are discussed in detail in the sections to follow which provide context for the detailed compensation tables and narrative discussions that follow starting on page 26.

Compensation Philosophy and Objectives

Our executive compensation philosophy includes the following core values and fundamental principles:

Compensation is linked to performance. Executive compensation 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 TSR.

Compensation elements are balanced. We use a mix of compensation elements to accomplish varying objectives. Base salary and executive retirement benefits are designed to attract and retain executive talent. Annual incentives focus the 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 22. Severance benefits minimize the risk that our executive officers will depart prior to a change in control and encourage continued dedication and objectivity from the 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 limited basis to facilitate the Named Executive Officers performance of their responsibilities. We believe this mix of compensation elements discourages our executives from taking excessive business risk by (i) having multiple incentive goals, so that there is not undue pressure to achieve one measure of success without considering the impacts on other aspects of the business; and (ii) providing a significant portion of compensation based on Company performance, while still paying a certain amount of fixed compensation and retirement benefits.

We provide fair and competitive compensation. We strive to offer fair and competitive compensation to all employees including Named Executive Officers, taking into consideration market information and advice of independent compensation consultants. We use energy services industry data to establish a range for executive compensation. While comparisons to compensation levels within the energy services industry are helpful in establishing a range for executive compensation, we believe that our executive compensation program also must be internally consistent and equitable in order for the Company to achieve our corporate objectives. In setting

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compensation 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, 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 market median of ALLETE s peer group. When relevant market comparison data is insufficient to establish a range for a specific position, we consider internal equity among the executive officers in order to maintain compensation levels that are consistent with the individual contributions and responsibilities of those executive officers. The process of selecting comparison companies for various purposes is discussed in the section Process for Determining Executive Compensation beginning on page 22. 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 market median of ALLETE s peer group. 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 the Named Executive Officers opportunities under our annual and long-term incentive plans.

Executive stock ownership is expected. We believe ALLETE officers should be ALLETE shareholders to encourage them to think as owners when they balance the risks and rewards involved with particular business decisions. We reinforce this expectation by using Common Stock to fund long-term incentive compensation awards and Company contributions to tax-qualified defined-contribution retirement plans. 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 may, however, sell the Common Stock acquired through these awards and contributions 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 holding 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 and maintain 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

We established the Common Stock ownership guidelines in October 2005. Named Executive Officers appointed or whose position was made subject to these guidelines after October 2005 have seven years from their appointment to meet the guidelines. At least annually, the Board reviews executive officers Common Stock ownership to confirm that the Named Executive Officers have met or are progressing toward the ownership guidelines. Ownership levels as of March 11, 2011, are shown on the table on page 6. All Named Executive Officers have met, or are within the timeline to meet, the Common Stock ownership guidelines.

We consider corporate tax deductions and accounting rules. We generally structure the Named Executive Officers compensation so that all elements of pay are tax deductible by the Company. Section 162(m) of the Tax Code limits to $1 million the amount of compensation that we may deduct in any one year for Mr. Hodnik and certain of the next most-highly-compensated executive officers. That limit does not apply to compensation that qualifies as performance-based compensation within the meaning of Section 162(m). Our AIP provides that if Section 162(m) would otherwise limit the Company s deduction for an AIP award, then the Compensation Committee will defer the nondeductible portion to our supplemental executive retirement plan, which is described on page 21. We believe that stock options and performance shares awarded under the LTIP are fully tax deductible because they meet the performance-based compensation standard of Section 162(m). Our restricted stock units do not qualify as performance-based compensation.

Section 280G of the Tax Code limits the amount that we may deduct for payments in connection with a change in control, commonly referred to as parachute payments. If total payments in connection with a change in control exceed the limits of Section 280G, the Company s deduction is limited and the recipient is subject to an excise tax.

In January 2011, we eliminated the gross-up payments on severance paid in connection with a change in control. These changes are described in the section 2011 Executive Compensation Changes starting on page 24. Prior to that, our severance plan provided that if plan payments to a participant would have exceeded the Section 280G limits, payments to the participant would have been reduced to the maximum amount that could be paid without causing the Company to lose its deduction. If, however, after the reduction a participant would have received less than 85 percent of the amount that otherwise would have been received, plan payments would not have been reduced and the participant would instead have received an additional gross-up payment to make the participant whole for the excise tax. We would not have received a tax deduction for any additional gross-up payment. Because we eliminated the gross-up payments, we substantially reduced the amount of nondeductible payments that we may be required to make.

In addition to considering the Company s tax deduction, we also consider the accounting implications of each compensation element given to the Named Executive Officers; however, because the primary objectives of our compensation programs are tied to performance, we may offer compensation regardless of whether it qualifies for a tax deduction or more favorable accounting treatment whenever it is deemed that such compensation element is in the Company s best interest.

The Compensation Committee and the Board exercise independent judgment. The Compensation Committee and the Board ensure on behalf of shareholders that executive compensation is appropriate and effective. The Compensation Committee and the Board have access to compensation advisors and consultants, but exercise independent judgment in determining executive compensation elements and levels.

Elements of Executive Compensation

Our Named Executive Officers 2010 compensation elements are discussed below and also in the compensation tables and narratives starting on page 26.

Base Salary. Base salary is designed to attract and retain experienced, qualified executive talent.

Annual Incentive Award. The Annual Incentive Plan (AIP) rewards Named Executive Officers for accomplishing annual goals. Annually, the Compensation Committee, in consultation with the CEO, approves performance measures, performance targets, and target award opportunities for the AIP. The Compensation Committee, in consultation with the CEO, also determines to what extent performance targets have been met for the AIP.

Participation in the AIP is limited to certain management-level employees, including each Named Executive Officer, because as position and responsibility increase, a greater percentage of pay is tied to performance. For each Named Executive Officer AIP awards were designed to reward achievement of corporate earnings and cash flow goals, and to reward the accomplishment of strategic initiatives. Strategic goals for 2010 consisted of: (1) the launch of a new wind business venture; (2) implementation of specific moves to reshape our generation supply and customer mix to reduce base load coal capacity, carbon emissions and customer concentration; (3) development of a fully integrated talent development strategy to thoughtfully develop future leaders; and (4) demonstration of continuous improvement of our safety, environmental and customer service values. These performance objectives are further described under Grants of Plan-Based Awards Discussion beginning on page 29. Earnings were selected as a financial measure because it is widely tracked and reported by external financial analysts and used as a measure to evaluate the Company s performance. Cash flow was selected as a financial measure because it is used to evaluate the Company s ability to generate funds from internal operations for capital projects, repayment of debt, and dividend payments. Earnings and cash flow were also selected because both measures can affect the Company s stock price. AIP awards are expressed as a percentage of salary for the Named Executive Officers; 2010 target-level award opportunities were 60 percent of base salary for the CEO and ranged from 30 percent to 45 percent, which was unchanged from last year, for the other Named Executive Officers. The Compensation Committee set the AIP opportunity levels for all Named Executive Officers so that if the Company achieved target goals, the combination of salary and annual incentives for the Named Executive Officer would result in total annual compensation near market median for ALLETE s peer group.

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The Compensation Committee believes that the AIP provides appropriate incentives and does not encourage executives to take excessive business risks because it has multiple goals, provides payment opportunity levels that are market-competitive and includes a cap on the maximum award amount.

Long-Term Incentive Awards. We use long-term incentive compensation to encourage the Named Executive Officers to develop and implement business strategies that grow TSR over time, and to reward executives when TSR goals are achieved. Long-term incentive compensation programs also encourage executives to stay with the Company because they deliver rewards over time and contain forfeiture provisions for certain terminations of employment. The Compensation Committee annually grants the Named Executive Officers long-term incentive awards under the LTIP. Each year, in January, the Compensation Committee approves LTIP awards. The target number of shares is determined by dividing each of the Named Executive Officer s target award opportunity set forth in the table below by the award fair value, which was calculated for 2010 by Mercer Consulting (Mercer), an independent compensation consulting firm. We do not have any plan or program in place to time equity awards to the release of material non-public information. The LTIP was most recently approved by shareholders in May 2005 and the material terms of the LTIP performance goals were re-approved by shareholders in May 2010.

The table below shows the 2010 LTIP target opportunity for each Named Executive Officer. The 2010 LTIP target opportunity for each Named Executive Officer, except for Mr. Shippar and Mr. Hodnik, was allocated 67 percent to performance shares and 33 percent to restricted stock units. Given the responsibility level of the Chief Executive Officer position, the 2010 LTIP target opportunity for Mr. Shippar and Mr. Hodnik was allocated 75 percent to performance shares and 25 percent to restricted stock units, so that a greater percentage of the CEO s compensation was tied to performance. The number of performance shares and RSUs granted to the Named Executive Officers was calculated using a $37.72 fair value for performance shares and $32.68 fair value for RSUs. The performance share value, which was determined by Mercer, reflects the probable outcome of reaching the performance goals, whereas the restricted stock value is based on a December 31, 2009, closing share price.

		Allocation of Long-Term Incentive Plan Target Opportunity	
Name	**Long-Term Incentive Plan Target Opportunity**	**Performance Shares**	**Restricted Stock Units**
Mr. Hodnik*	$380,000	7,220	2,803
Mr. Schober	$150,000	2,664	1,515
Ms. Amberg	$100,000	1,776	1,010
Mr. McMillan	$100,000	1,776	1,010
Mr. Adams	$75,000	1,332	757
Mr. Shippar**	$450,000	8,948	3,442

* Mr. Hodnik was promoted to CEO effective May 1, 2010. His 2010 LTIP incentive opportunity reflects an additional grant that he received in connection with his promotion and increased responsibilities.

** The amounts shown were calculated as of the grant date and assume Mr. Shippar remained in the employ of the Company throughout the applicable performance year. Under the terms of the LTIP, Mr. Shippar s award was prorated as a result of his retirement.

The following are the elements of long-term incentive compensation:

- *Performance Shares*. Performance shares reward executives for strong multi-year performance, measured by TSR relative to a group of peer companies. Relative TSR was selected by the Compensation Committee because it measures the benefit our shareholders realize on their investment in Common Stock compared to investment opportunities available in other similar companies. Rewarding executives for creating shareholder value over the long-term is consistent with our compensation philosophy of linking pay to performance.

- TSR peer groups are based on comparability to the Company in terms of industry and size as measured by market capitalization and stock-trading characteristics (i.e., dividend yield and price-earnings ratio). The Compensation Committee approves the peer group companies prior to the start of each performance

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period. In 2009, the Company changed the TSR peer group to include 27 companies selected from the Edison Electric Institute Stock Index to better align the peer group to ALLETE s current operations which are focused on the electric utility industry. The Company TSR peer group for the 2010 2012 performance period is unchanged from the 2009 2011 performance period. The TSR peer groups used for outstanding LTIP awards are as follows:

Performance Period 2008 2010	Performance Period 2009 2011 and 2010 2012
Avista Corporation	Alliant Energy Corporation
Black Hills Corporation	Avista Corporation
Brookfield Asset Management, Inc.	Black Hills Corporation
CH Energy Group, Inc.	CH Energy Group, Inc.
Consolidated-Tomoka Land Company	Cleco Corporation
Great Plains Energy Incorporated	CMS Energy Corporation
IDACORP, Inc.	DPL Inc.
Integrys Energy Group, Inc.	Great Plains Energy Incorporated
MDU Resources Group, Inc.	Hawaiian Electric Industries, Inc.
Nicor Inc.	IDACORP, Inc.
Otter Tail Corporation	Integrys Energy Group, Inc.
TECO Energy, Inc.	MGE Energy, Inc.
The Empire District Electric Company	Northeast Utilities
The St. Joe Company	NorthWestern Corporation
Vectren Corporation	NSTAR
Wisconsin Energy Corporation	NV Energy, Inc.
	OGE Energy Corp.
	Otter Tail Corporation
	Pinnacle West Capital Corporation
	PNM Resources, Inc.
	Portland General Electric Company
	TECO Energy, Inc.
	The Empire District Electric Company
	UIL Holdings Corporation
	UniSource Energy Corporation
	Vectren Corporation
	Westar Energy, Inc.

- *Restricted Stock Units.* Restricted stock units are used as a retention incentive and to encourage stock ownership. A restricted stock unit entitles the recipient to one share of Common Stock when the unit vests after the period of time specified in the award.

- *Stock Options*. Prior to 2009, the Company granted stock options. Beginning in 2009, the Company began granting restricted stock units instead of stock options to place more emphasis on increased stock ownership and retention.

Benefits

We offer benefits, including retirement benefits, to attract and retain Named Executive Officers; retirement benefits also reward long-term service with the Company. Named Executive Officers are eligible to participate in a range of broad-based employee benefits, including vacation pay, sick pay, disability benefits, an employee stock purchase plan, and both active and post-retirement medical, dental, and group term life insurance. Named Executive Officers are eligible for retirement benefits under the same pension and retirement savings plans available to other eligible employees and under our supplemental executive retirement plan. Retirement benefits are described in more detail below.

Tax-Qualified Retirement Benefits. We provide retirement income benefits to most of our employees, including the Named Executive Officers, from two primary sources a tax-qualified defined contribution retirement savings and stock ownership plan (RSOP) that has features of both an employee stock ownership plan and a 401(k) savings plan, and traditional tax-qualified defined benefit pension plans. Since October 2006, we have emphasized delivering nonunion retirement benefits through the RSOP. Each Named Executive Officer s service through September 30, 2006, is counted for calculating his or her benefit under the pension plan. The present value on December 31, 2010, of each Named Executive Officer s pension benefits is shown in the Pension Benefits table on page 34. The 2010 increase in the pension benefits value for each Named Executive Officer is included in column (g) of the Summary Compensation Table on page 26.

We contribute to the RSOP accounts of each Named Executive Officer, who each may also elect to defer his or her salary within RSOP and Tax Code limits. Our contributions to the Named Executive Officers RSOP accounts include a Company match of elective deferrals up to 4 percent of base salary and annual Company contributions of 8.5 to 11.5 percent of base salary, depending on age. Amounts contributed by the Company under the RSOP to the Named Executive Officers are included in column (h) of the Summary Compensation Table on page 26.

Supplemental Executive Retirement Benefits. We provide supplemental retirement benefits to the Named Executive Officers through non-tax-qualified retirement plans called the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan (SERP I) and the ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II (SERP II). SERP I and SERP II collectively are referred to as the SERP or the SERP Plans. Generally, the SERP Plans are designed to provide retirement benefits to the Named Executive Officers that, in the aggregate, substantially equal the benefits they would have been entitled to receive if the Tax Code did not impose limitations on the types and amounts of compensation that can be included in the benefit calculations under tax-qualified benefit plans. The SERP Plans have three components: a supplemental pension benefit, a supplemental defined contribution benefit, and a deferral account benefit. On December 31, 2004, the Company froze SERP I with respect to all deferrals and vested accrued retirement benefits. Effective January 1, 2005, the Company established SERP II to comply with Section 409A of the Tax Code. SERP II governs all compensation initially deferred and retirement benefits accrued or vested after December 31, 2004. SERP benefits are discussed in more detail on page 38.

Perquisites

The Company provides Named Executive Officers with fringe benefits, or perquisites, but only on a limited basis. Perquisites are tailored to the individual Named Executive Officer, take into account business purpose, and include club memberships, reimbursement for financial and tax planning services, office parking space, approved spousal expenses, and an executive physical. As required by current tax laws, we impute income to the Named Executive Officers to the extent the Company reimburses the executive for certain personal expenses.

The Compensation Committee has reviewed all perquisites, including the tax reimbursement, and determined that perquisites are a very small component of total compensation and continue to be appropriate because they help facilitate the Named Executive Officers performance of their responsibilities.

Effective January 1, 2011, the Compensation Committee eliminated tax gross-ups on perquisites, as described in 2011 Executive Compensation Changes starting on page 24. Prior to 2011, Named Executive Officers received an additional tax reimbursement payment for the imputed income taxes. Perquisites paid in 2010 are included in column (h) of the Summary Compensation Table on page 26.

Employment, Severance, and Change in Control Agreements

We currently have no employment agreements with our Named Executive Officers, all of whom have long tenures with the Company. We have generally promoted senior executives from within our ranks and attracted strong talent.

The ALLETE and Affiliated Companies Change in Control Severance Plan (Severance Plan) provides the Named Executive Officers and other key executives with severance benefits in connection with a change in control of the Company. The Severance Plan is designed to enable and encourage the continued dedication and objectivity of members of the Company s management in the event of a potential change in control. The Severance Plan allows the Named Executive Officers to focus their attention on obtaining the best possible transaction for the shareholders and to independently evaluate all possible transactions without being diverted by concerns regarding the impact various transactions may have on the security of their jobs and benefits.

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The Severance Plan provides Named Executive Officers with specific benefits in the event of an involuntary termination of employment (including resignation by the employee following specified changes in duties, compensation, or benefits that are treated as involuntary terminations) occurring six months before and up to two years after a change in control. The Compensation Committee has determined that requiring two trigger events, both a change in control and termination of employment, is the most effective way to meet the objectives of the Severance Plan. This allows the Named Executive Officers to remain neutral and obtain the best deal for the shareholders and ensures that the Named Executive Officers do not receive benefits unless they are adversely affected by a change in control.

The Severance Plan would provide Named Executive Officers a lump sum severance payment ranging from 1.5 times to 2.5 times their annual compensation based on their position plus a lump sum benefit continuation payment. The terms and benefit levels were established by the Compensation Committee in 2008 after consultation with Hewitt Associates (Hewitt), the Compensation Committee s independent consultant at the time, and a review of benefit levels provided to senior executives in the energy services industry. The Compensation Committee reviews the terms of the Severance Plan and benefit levels annually to ensure they are consistent with our compensation philosophy and objectives described above beginning on page 16. Effective January 19, 2011, the Compensation Committee approved amending the Severance Plan to eliminate the excise tax gross-up feature, to eliminate certain benefit continuation payments, and to establish a modified severance payment cap whereby the severance payment would be reduced to a level below the safe harbor amount provided by Section 280G of the Tax Code if the executive would receive a higher after-tax benefit than if the executive were to pay the applicable excise tax on the full payment amount.

The SERP II includes a change in control provision that accelerates payment of the supplemental pension benefits and the deferral account benefits earned after December 31, 2004, upon a termination of employment in connection with a change in control. There are also change in control features in both the AIP and the LTIP. These change in control features in the AIP, LTIP, and SERP II are designed to prevent Named Executive Officers from substantially losing previously-earned benefits if a change in control were to occur. The potential value of the change in control severance benefits is discussed in the section titled Potential Payments Upon Termination or Change in Control starting on page 39.

Process for Determining Executive Compensation

Role of the Compensation Committee. The Compensation Committee establishes our philosophy, policies, and practices regarding executive compensation and oversees the administration of our executive compensation programs. The Compensation Committee sets the CEO s compensation, which is reviewed and ratified by the Board without participation by the CEO. In setting the CEO s compensation, the Compensation Committee reviews and considers the Corporate Governa