

ALLETE INC  
Form DEF 14A  
March 24, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

SCHEDULE 14A INFORMATION

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

(Amendment No. )

Filed by the Registrant  [X]

Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to § 240.14a-12

ALLETE, Inc.

(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] 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 12, 2009

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

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

1. To elect a Board of eleven directors to serve for the ensuing year;
2. To ratify the appointment of PricewaterhouseCoopers LLP as ALLETE's independent registered public accounting firm for 2009;
3. To amend Article III of ALLETE's Amended and Restated Articles of Incorporation to increase the amount of authorized capital stock and common stock;
4. To delete Article V of ALLETE's Amended and Restated Articles of Incorporation to remove the names and places of residence of the Board of Directors named therein; and
5. To transact such other business as may properly come before the meeting or any adjournments thereof.

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

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

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

By order of the Board of Directors,

Deborah A. Amberg

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

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



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PROXY STATEMENT

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

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GENERAL INFORMATION

Proxy Solicitation

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

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

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

Purpose of the Meeting

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

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

Shareholders Entitled to Vote



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

Shareholders of Record; Beneficial Owners

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

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

#### Quorum; Required Votes

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

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

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

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

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

#### How to Vote

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

- By Telephone: Vote by calling 800-560-1965 and following the instructions on your proxy card or, if you received these materials electronically, the instructions in the e-mail message that you received notifying you of the availability of these materials. If you vote by phone, do not return your proxy card.
- Online: You may vote online [www.ematerials.com/ale](http://www.ematerials.com/ale). Follow the instructions on your proxy card or, if you received these materials electronically, the instructions in the e-mail message notifying you of the availability of these materials. If you vote online, do not return your proxy card.
- By Mail: Complete, sign, and date each proxy card that you received and return it in the prepaid envelope provided to ALLETE, Inc., c/o Shareowner Services, P.O. Box 64873, St. Paul, MN 55164-0873.

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

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

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

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## Revocation of Proxies

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

## Delivery of Proxy Materials to Households

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

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

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

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

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

## How to Enroll for Electronic Delivery of Future Proxy Materials

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

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

1. Log onto the Internet at [www.allete.com](http://www.allete.com).
2. Click on "Investors."

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

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

## OWNERSHIP OF ALLETE COMMON STOCK

### Securities Owned by Certain Beneficial Owners

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

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

1As of March 13, 2009.

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

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

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

### Securities Owned by Directors and Management

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

beginning on page 13. In July 2008, the Board determined that the Named Executive Officers had increased the number of shares owned and progress was being made toward meeting the ownership guidelines based on then-current share price.

## SECURITIES OWNED BY DIRECTORS AND MANAGEMENT

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

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

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

## Section 16(a) Beneficial Ownership Reporting Compliance

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





ITEM NO. 1—ELECTION OF DIRECTORS

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

Nominees for Director  
[PHOTO OMITTED]

KATHLEEN A. BREKKEN, 59, of Cannon Falls, Minnesota, has been a Director since 2006. She is a member of the Executive Compensation Committee and the Corporate Governance and Nominating Committee. Ms. Brekken is the retired President and Chief Executive Officer of Midwest of Cannon Falls, Inc., a company that designs, wholesales, and distributes home accessories and giftware. She previously served on the ALLETE Board of Directors from 1997 to 2003. Ms. Brekken is a board member of the Cannon Falls Medical Center—Mayo Health System.

[PHOTO OMITTED]

HEIDI J. EDDINS, 52, of St. Augustine, Florida, has been a Director since 2004. She is Chair of the Corporate Governance and Nominating Committee. Ms. Eddins is the former Executive Vice President, Secretary and General Counsel of Florida East Coast Railway, LLC, a railway company that is a successor to Florida East Coast Industries, Inc.’s transportation business. Ms. Eddins joined Florida East Coast Industries, Inc. in 1999 and was responsible for all legal and governmental affairs of the corporation in addition to managing a variety of real estate transactions. Ms. Eddins also serves as a director of the Flagler Hospital Foundation.

[PHOTO OMITTED]

SIDNEY W. EMERY, JR., 62, of Minneapolis, Minnesota, has been a Director since 2007. He is a member of the Executive Compensation Committee. Mr. Emery is the former Chief Executive Officer of MTS Systems Corporation (NASDAQ: MTSC), a global supplier of mechanical testing systems and industrial position sensors. He also serves as a director of Urologix, Inc., a Minneapolis-based manufacturer of minimally invasive medical products, and on the Board of Governors of the University of St. Thomas School of Engineering in St. Paul, Minnesota.

[PHOTO OMITTED]

JAMES J. HOOLIHAN, 56, of Grand Rapids, Minnesota, has been a Director since 2006. He is a member of the Audit Committee. Mr. Hoolihan is the President and Chief Executive Officer of the Blandin Foundation, a private, philanthropic foundation whose mission is to strengthen communities in rural Minnesota. From 1981 to 2004, Mr. Hoolihan was the President of Industrial Lubricant Company, which provides industrial supplies and services to logging, railroad, taconite, and coal mining industries. He serves as the Chairman of the Board of Directors of Industrial Lubricant Company. Mr. Hoolihan served as the elected Mayor of the City of Grand Rapids from 1990 to 1995.

[PHOTO OMITTED]

MADELEINE W. LUDLOW, 54, of Cincinnati, Ohio, has been a Director since 2004. She is Chair of the Executive Compensation

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

Nominees for Director  
[PHOTO OMITTED]

GEORGE L. MAYER, 64, of Essex, Connecticut, has been a Director since 1996. He is a member of the Audit Committee and the Corporate Governance and Nominating Committee. Mr. Mayer is the founder and President of Manhattan Realty Group, a real estate investment and management company. Mr. Mayer is also a director of Schwaab, Inc., one of the nation's largest manufacturers of rubber stamps and associated products.

[PHOTO OMITTED]

DOUGLAS C. NEVE, 53, of Eden Prairie, Minnesota, has been a Director since July 2007. He is Chair of the Audit Committee. Mr. Neve is the former Executive Vice President and Chief Financial Officer of Minneapolis-based Ceridian Corp., a multinational human resources company, where he worked from February 2005 until March 2007. Prior to February 2005 he was an audit partner with Deloitte & Touche LLP, a public accounting firm. He also is a board member of Analysts International Corporation (NASDAQ: ANLY) and of Tyndale House Publishers, Inc.

[PHOTO OMITTED]

JACK I. RAJALA, 69, of Grand Rapids, Minnesota, has been a Director since 1985. He is a member of the Executive Compensation Committee and the Corporate Governance and Nominating Committee. Mr. Rajala is the Chairman and Chief Executive Officer of Rajala Companies, and Director and President of Rajala Mill Company, both of which manufacture and trade lumber. Mr. Rajala also serves as Chairman and Chief Executive Officer of Boundary Company, a forestland investment company.

[PHOTO OMITTED]

LEONARD C. RODMAN, 60, of Overland Park, Kansas, is a first-time nominee for Director. Mr. Rodman has over 35 years of experience with Black & Veatch, a major provider of engineering services to the utility/power generation, water and environmental industries. Since 1998, Mr. Rodman has been the President and Chief Executive Officer of Black & Veatch and in 2000 he was also named its Chairman. Mr. Rodman currently serves on the Board of the United Way of Greater Kansas City and of the Iowa State University Foundation. Mr. Rodman was identified as a director nominee with the assistance of a search firm.

[PHOTO OMITTED]

DONALD J. SHIPPAR, 60, of Superior, Wisconsin, has been a Director since 2004 and has been Chairman of ALLETE since January 2006. Mr. Shippar was named President and Chief Executive Officer of ALLETE in 2004. Since joining the Company in 1976, Mr. Shippar has served as Vice President of Transmission and Distribution, Senior Vice President for Customer Service and Delivery, Chief Operating Officer of Minnesota Power, and President of Minnesota Power. Mr. Shippar also serves as a trustee of the College of St. Scholastica in Duluth, Minnesota.

[PHOTO OMITTED]

BRUCE W. STENDER, 67, of Duluth, Minnesota, has been a Director since 1995. Mr. Stender, as Lead Director, is an ex-officio member of each Board committee. Mr. Stender served as Chairman of ALLETE from September 2004 to January 2006. He is Vice Chair of Duluth-based Labovitz Enterprises, Inc., which owns and manages

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

## CORPORATE GOVERNANCE

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

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

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

### Corporate Governance Guidelines

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

### Director Independence Standards

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

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

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

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

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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 5 percent shareholders, as well as immediate family members and any entity controlled by or in which these individuals have a substantial financial interest. A copy of the policy is available on our website at [www.allete.com](http://www.allete.com).

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



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

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

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

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

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

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

#### Director Nominations

The Corporate Governance Committee recommends director candidates to the Board and will consider for such recommendations director candidates proposed by management, other Directors, search firms, and shareholders. All

director candidates will be evaluated based on the criteria identified below, regardless of the identity of the individual or the entity or person who proposed the director candidate. A shareholder who wishes to propose a candidate may provide the candidate's name and a detailed background of the candidate's qualifications to the Corporate Governance and Nominating Committee, c/o the Secretary of ALLETE, 30 West Superior Street, Duluth, MN 55802-2093.

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

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

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

#### Committee Membership, Meetings, and Functions

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

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

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

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

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

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

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

#### Communications Between Shareholders and the Board of Directors

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

#### Common Stock Ownership Guidelines

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

#### Code of Ethics

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

## COMPENSATION DISCUSSION AND ANALYSIS

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

### Compensation Philosophy and Objectives

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

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

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

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

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



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

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

We established the Common Stock ownership guidelines in October 2005. Named Executive Officers subject to the ownership guidelines who held their current positions as of October 2005 have until October 2010 to meet the guidelines; Named Executive Officers appointed after October 2005 have seven years from their appointment to meet the guidelines. Annually, the Board reviews executive officers' Common Stock ownership to confirm that the Named Executive Officers are progressing toward the ownership guidelines. In July 2008, the Board determined that the Named Executive Officers had increased the number of shares owned and were progressing towards meeting the ownership guidelines based on the then-current share price. However, executive officers' Common Stock ownership value as a multiple of salary decreased compared to a year ago due to recent declines in our share price. Ownership levels as of March 13, 2009, are shown on the table on page 5.

We also 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 Internal Revenue Code of 1986, as amended (Tax Code), limits to \$1 million the amount of compensation that we may deduct in any one year for Mr. Shippar 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 Executive Annual Incentive Plan (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 17. We believe that stock options and performance shares awarded under the ALLETE Executive Long-Term Incentive Compensation Plan (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 of control, commonly referred to as "parachute payments." If total payments in connection with a change of control exceed the limits of Section 280G, the Company's deduction is limited and the recipient is subject to an excise tax. Our severance plan provides that if plan payments to a participant would exceed the Section 280G limits, payments to the participant will be reduced to the maximum amount that can be paid without causing the Company to lose its deduction. If, however, after the reduction a participant would receive less than 85 percent of the amount that otherwise would have been received, plan payments will not be reduced and the participant will instead receive an additional gross-up payment to make the participant whole for the excise tax.

We also consider the accounting implications of each compensation element given to 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 we deem that compensation to be 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 types and levels.

#### Elements of Executive Compensation

**Overview.** Named Executive Officers receive total compensation consisting of base salary, annual incentives, long-term incentives, retirement benefits, health and welfare benefits, and perquisites. The process for determining executive compensation is described beginning on page 19. Named Executive Officers' 2008 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 leaders.

**Annual Incentive Awards.** Annual incentives reward Named Executive Officers for accomplishing annual goals. We have two annual incentive plans—the Results Sharing program and the AIP. Annually, the Compensation Committee, in consultation with Mr. Shippar, approves performance measures, performance targets, and target award opportunities for both plans. The Compensation Committee, in consultation with Mr. Shippar, also determines to what extent performance targets have been met for both plans.

- **Results Sharing.** Named Executive Officers, except Ms. Holquist, participate in the Results Sharing program. Results Sharing, a broad-based profit-sharing program open to virtually all of our employees, is designed to motivate all employees to achieve corporate earnings goals and operational performance goals related to safety, reliability and environmental protection. The 2008 Results Sharing program provided a target-level opportunity equal to 5 percent of base pay.
- **Annual Incentive Plan.** 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, except Ms. Holquist, AIP awards were designed to reward achievement of corporate earnings and cash flow goals, and to reward the accomplishment of strategic initiatives as further described under "Grants of Plan-Based Awards Discussion" beginning on page 29. Earnings was selected 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 impact the Company's stock price. AIP awards are expressed as a percentage of salary for Named Executive Officers, except Ms. Holquist; in 2008 target-level award opportunities ranged from 30 percent to 50 percent of salary.

Ms. Holquist's AIP award was designed to create an incentive for her to lead the effort to secure entitlements for existing real estate assets, to oversee orderly and profitable sales of real estate assets, and to position ALLETE Properties for future growth. Her target-level award is expressed as a percentage of revenue from land sales and net income from real estate operations.

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 the midpoint of the salary ranges established using comparative benchmarking data.

Long-Term Incentive Awards. We use long-term incentive compensation to encourage Named Executive Officers to develop and implement business strategies that grow total shareholder return (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. The Compensation Committee approves LTIP awards in January each year, effective as of the first business day in February to allow for the orderly administration, communication, and reporting of the awards. 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 amended and approved by shareholders in May 2005.

For 2008, the aggregate target value of the LTIP award to Named Executive Officers ranged from \$100,000 to \$450,000. LTIP awards granted in 2008 to each Named Executive Officer, except Ms. Holquist, consisted of nonqualified stock options with a ten-year term and three-year vesting period, and performance shares with a three-year performance period. Generally, the Compensation Committee allocates the target value of the LTIP awards evenly between stock options and performance shares; the target value of Mr. Shippar's LTIP award, however, is more heavily weighted toward performance shares given his position and higher Common Stock ownership requirement. The target value of Ms. Holquist's LTIP award is comprised of restricted stock units and a long-term cash award that vests over three years. Her cash award is designed to reward her for achieving goals specific to the Company's real estate business; both forms of long-term compensation encourage her retention, which is important given the cyclical nature of the real estate market. The table below shows the face value of the LTIP target opportunity for each Named Executive Officer and the allocation of this opportunity between stock options, performance shares, restricted stock units and cash awards. Each long-term incentive compensation element is described below following the table.

Name	Long-Term Incentive Target Opportunity	Allocation of Long-Term Incentive Target Opportunity (as a % of Total Opportunity)			
		Stock Options	Performance Shares	Restricted Stock Units	Cash Awards
Mr. Shippar	\$450,000	40%	60%	–	–
Mr. Schober	\$150,000	50%	50%	–	–
Ms. Amberg	\$100,000	50%	50%	–	–
Ms. Welty	\$100,000	50%	50%	–	–
Ms. Holquist	\$191,000	–	–	50%	50%

- **Stock Options.** Stock options reward Named Executive Officers for increases in the price of Common Stock over the long term and encourage Named Executive Officers to remain with the Company.
- **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.

Mr. Shippar recommends the TSR peer group based on comparability to the Company in terms of size (i.e., market capitalization and enterprise value), industry, and stock-trading characteristics (i.e., dividend yield, price-earnings ratio, and market--to-book value). The Compensation Committee approves the peer group companies prior to the start of each performance period. The TSR peer group used for 2008 LTIP awards is as follows:

Avista Corporation	MDU Resources Group, Inc.
Black Hills Corporation	Nicor Inc.
Brookfield Asset Management Inc.	Otter Tail Corporation
CH Energy Group, Inc.	TECO Energy, Inc.
Consolidated-Tomoka Land Company	The Empire District Electric Company
Great Plains Energy Incorporated	The St. Joe Company
IDACORP, Inc.	Vectren Corporation
Integrus Energy Group, Inc.	Wisconsin Energy Corporation

- **Restricted Stock Units.** Restricted stock units are used as a retention incentive. A restricted stock unit entitles the recipient to one share of Common Stock after a lapse of time specified in the award.
- **Long-Term Incentive Cash Award.** Long-term incentive cash rewards Ms. Holquist for achieving her AIP goals and, because the amount earned vests over three years, encourages her 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 nonunion pension plan. The present value on December 31, 2008 of each Named Executive Officer’s pension benefits is shown in the Pension Benefits Table on page 34. The 2008 increase in the pension benefits value for each Named Executive Officer is included in column (h) of the Summary Compensation Table on page 26.

We contribute to the RSOP accounts of the Named Executive Officers, who each may also elect to defer his or her salary and/or Results Sharing awards 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 Company contributions of 7.5 to 11.5 percent, dependent on age. Amounts contributed by the Company under the RSOP to the Named Executive Officers are included in column (i) 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 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 starting on page 34.

#### Perquisites

The Company provides Named Executive Officers with fringe benefits, or perquisites, but only on a modest basis. The Compensation Committee has reviewed these fringe benefits and determined that the perquisites provided to the Named Executive Officers are reasonable and in line with other energy services companies. However, in response to worsening economic conditions, in early 2009 Mr. Shippar recommended, and the Compensation Committee approved, the elimination of car allowances for all executive officers. Perquisites paid in 2008 are included in column (i) 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 with ties to our area of operations. On February 13, 2008, the Board of Directors approved the ALLETE and Affiliated Companies Change In Control Severance Plan (Severance Plan), which provides the Named Executive Officers and other key executives with severance benefits in connection with a change in control of the Company. The Company implemented the Severance Plan 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. In the event of a potential change in control of the Company, the Severance Plan allows the Named Executive Officers to focus their attention on obtaining the best possible transaction for the shareholders and to make an independent evaluation of all possible transactions without being diverted by concerns regarding the impact various transactions may have on the security of their jobs and benefits.

Under the Severance Plan, Named Executive Officers are entitled to receive 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. We think 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—to allow the Named Executive Officers to remain neutral and obtain the best deal for the shareholders.

In 2008, the Board of Directors also approved an amendment to SERP II that accelerates payment of the supplemental pension benefits and the deferral account benefits earned after 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 of the AIP, LTIP, and SERP II are designed to prevent substantial loss of benefits to Named Executive Officers if a change in control were to occur. The potential value of change in control severance benefits are 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 compensation philosophy and policies regarding executive compensation, and oversees the administration of our executive compensation programs. The Compensation Committee sets Mr. Shippar's compensation, which is reviewed and ratified by the Board without participation by Mr. Shippar. In setting Mr. Shippar's compensation, the Compensation Committee reviews and considers the Corporate Governance Committee's annual evaluation of Mr. Shippar's performance, which, among other things, assesses his performance relative to specific annual objectives established by the Board. The Compensation Committee also reviews "benchmarking" data, comparing Mr. Shippar's compensation to the compensation of senior executives at other companies. Benchmarking data is adjusted to account for the Company's size as measured by revenue and provides a broader market context for the Compensation Committee's deliberations and decisions. The Compensation Committee also reviews and approves Mr. Shippar's recommendations regarding the components and amounts of the compensation of the other Named Executive Officers.

The Compensation Committee retained Hewitt Associates (Hewitt) to provide custom survey data comparing total compensation (base pay, target-level annual incentives, and target-level long-term incentives) for Mr. Shippar's position in general industry and energy services industry companies. The Compensation Committee also directed Hewitt to provide compensation data from the proxy statements of a peer group of companies. In 2007 and early 2008, the Compensation Committee reviewed the benchmarking analysis directly with Hewitt and reached the conclusions that are described below, under "Compensation Committee's 2007 Executive Compensation Study."

In January of each year, the Compensation Committee, in consultation with Mr. Shippar, sets annual performance goals for the AIP and the Results Sharing program. At the same time, the Compensation Committee establishes performance goals in connection with the LTIP. Specifically, the Compensation Committee sets multi-year total shareholder return objectives relative to a designated peer group in connection with performance shares and sets the terms for stock options, restricted stock units, and long-term cash awards, such as award dates, vesting periods, expiration dates and forfeiture provisions.

**Role of Management.** For all other Named Executive Officers, Mr. Shippar recommends compensation levels to the Compensation Committee for approval. Recommendations are based on each Named Executive Officer's experience and responsibility level, on Mr. Shippar's assessment of her or his performance, and on the executive compensation studies described below. Management also recommends to the Compensation Committee financial and non-financial goals, tied to our strategy under the Company's incentive compensation plans.

**Compensation Committee's 2007 Executive Compensation Study.** The Compensation Committee directed Hewitt to perform a comprehensive review of substantially all executive compensation elements to assist the Compensation Committee in evaluating whether then-current target-level compensation and pay elements were consistent with our compensation philosophy. Hewitt analyzed aggregate compensation, meaning base pay, annual incentives, and long-term incentives, of our five most-highly compensated executive officers—namely, Mr. Shippar, Mr. Schober, Ms. Amberg, Ms. Welty, and Ms. Holquist—as compared to the five most-highly compensated executive officers among a 15-company peer group. The study used substantially the same peer group as was used to measure our performance under the LTIP and the companies were selected by the Compensation Committee based on comparability to ALLETE in terms of size (i.e., market capitalization and enterprise value), industry, and stock-trading characteristics (i.e., dividend yield, price-earnings ratio, and market-to-book value). The companies in the peer group were as follows:

Avista Corporation	Nicor Inc.
Black Hills Corporation	Otter Tail Corporation
CH Energy Group, Inc.	TECO Energy, Inc.
Consolidated-Tomoka Land Company	The Empire District Electric Company
Great Plains Energy Incorporated	The St. Joe Company
IDACORP, Inc.	Vectren Corporation
Integrus Energy Group, Inc.	Wisconsin Energy Corporation
MDU Resources Group, Inc.	

The study also included Hewitt's custom survey data comparing total compensation (base pay, target-level annual incentives, and target-level long-term incentives) to general industry and energy services industry companies.<sup>1</sup>

<sup>1</sup>The Hewitt peer group consisted of: AGL Resources, Inc.; Allegheny Energy, Inc.; Ameren Corporation; American Electric Power, Inc.; Aquila, Inc.; Black Hills Corporation; CenterPoint Energy, Inc.; Cinergy Corp.; Cleco Corporation; CMS Energy Corporation; DTE Energy Company; Duquesne Light Holdings, Inc.; Dynegy Inc.; E.ON U.S. LLC; Edison International; El Paso Electric Company; Entergy Corporation; Ferrellgas Partners, L.P.; FirstEnergy Corp.; FPL Group, Inc.; IDACORP, Inc.; Kansas City Power & Light Company; Kinder Morgan, Inc.; Midwest Independent Transmission System Operator, Inc.; Mirant Corporation; New York Power Authority; NiSource Inc.; PacificCorp; Pepco Holdings, Inc.; PG&E Corporation; Pinnacle West Capital Corporation; PNM Resources, Inc.; Portland General Electric Company; PPL Corporation; Prisma Energy International Services LLC; Progress Energy, Inc.; Puget Sound Energy, Inc.; Questar Corporation; Reliant Energy, Inc.; SCANA Corporation; Sempra Energy; SUEZ Energy North America, Inc.; Tennessee Valley Authority; TransAlta Corporation; TransCanada Energy USA Inc.; TXU Corp.; WGL Holdings, Inc.; WPS Resources Corporation; and Xcel Energy Inc.

The Hewitt Associates study also looked at key design elements of our AIP and LTIP including financial performance measures, performance requirements to earn threshold, target, and maximum awards, and the mix of long-term incentive awards. In addition, the study compared the value of the accumulated payment obligations of the Company to the Named Executive Officers under our tax-qualified and non-tax-qualified executive retirement plans; the then-current value of unexercised stock options, performance share awards, unvested restricted stock units, long-term incentive cash, and Common Stock owned by each Named Executive Officer; and the value of potential change in control severance benefits. Upon review, the Compensation Committee determined that the energy services industry data was the most relevant reference for evaluating the Named Executive Officers' compensation levels, except for Ms. Holquist, whose compensation was compared to real estate industry market data as described below.

The 2007 Hewitt study indicated that base salaries for the Named Executive Officers were near the 50th percentile of the energy services company benchmarks and the results of the study supported modest annual market adjustments of base salaries for 2008. The study also indicated that target-level annual incentive opportunities for the Named Executive Officers fell near the 50th percentile of energy services company benchmarks, except for Mr. Shippar whose target-level annual incentive opportunity was below the 50th percentile of the energy services company benchmarks. The grant-date value of long-term incentive compensation for the Named Executive Officers was well below the 50th percentile of the energy services company benchmarks. When these elements of compensation were considered in total, the Named Executive Officers' target-level compensation generally fell below the 50th percentile of the energy services company benchmarks. These percentiles were determined by adjusting the market data to account for the Company's size based on revenue.

The 2007 Hewitt study indicated that the key design elements of the AIP and LTIP were appropriate, but that our net income and TSR targets are higher than the targets used by our peer group. Upon review of the study, accumulated retirement benefits were determined by the Compensation Committee to be fair and appropriate. Hewitt concluded and the Compensation Committee agreed that potential payments to the Named Executive Officers upon termination

of their employment in connection with a change in control of the Company, and the potential value of outstanding long-term incentive awards granted through the LTIP, were substantially below the benefit values provided by the companies in the peer group.



Management-Directed 2007 Real Estate Executive Compensation Study. Unlike other Named Executive Officers, Ms. Holquist focuses exclusively on leading ALLETE Properties, LLC. Ms. Holquist's compensation program is tied directly to ALLETE Properties' business strategy. CEL & Associates, Inc. is a real estate business consultant hired by management to advise the Company on executive compensation practices of the real estate industry. In early 2007, the consultant prepared a study comparing Ms. Holquist's compensation—namely base pay, annual incentives, and long-term incentives—with the compensation of comparable executive-level positions at a 12-company peer group. The companies were selected by CEL & Associates, Inc., based on comparability to ALLETE Properties, LLC in terms of industry, geographic location, and size as measured by net income and revenue. In several instances operating division-level leadership was a more appropriate position match for Ms. Holquist, due to the size of the overall company. The companies in the peer group were as follows:

American Land Lease, Inc.	Ram Realty Services
Biltmore Farms, LLC	Regency Centers
Bonita Bay Group	The United Properties, Inc.
Brookfield Homes Corporation	Watson Land Company
Carlson Real Estate Company	Woodlands Operating Company
Opus Corporation	ZOM, Inc.

The CEL & Associates, Inc. study concluded that Ms. Holquist's base pay was near the 50th percentile, her annual bonus earned in 2006 was above the 50th percentile, and her long-term incentive compensation target opportunity was below the 50th percentile. When elements of compensation were considered in total, Ms. Holquist's actual compensation was near the 50th percentile.

Both compensation benchmarking studies, along with other considerations the Compensation Committee deemed relevant, such as executive experience, tenure, and performance, formed the basis for Mr. Shippar's recommendations, the Compensation Committee's deliberations, and compensation decisions for the Named Executive Officers for 2008.

2008 Executive Compensation Design Changes. Based on the 2007 reviews, the Compensation Committee determined that the Named Executive Officers' compensation included appropriate elements, but that the total compensation opportunity for 2008 was low compared to market competitive levels. The Compensation Committee's analysis of the executive compensation studies identified opportunities for executive compensation policy changes to better align our executive compensation programs with our compensation philosophy and objectives described above beginning on page 13.

In early 2008, the Compensation Committee increased Mr. Shippar's 2008 target AIP opportunity from 40 percent of base salary to 50 percent. In addition, the Compensation Committee awarded Mr. Shippar a discretionary bonus of 1,000 shares of ALLETE Common Stock. The value of this bonus was approximately equal to the difference between the AIP award Mr. Shippar earned for 2007 and the award he would have earned if his AIP target annual incentive opportunity had been 50 percent of base salary. Named Executive Officers received annual market-adjustment salary increases, ranging from 3.9 percent to 4.7 percent, effective June 1, 2008.

The Committee also decided to place more emphasis on long-term performance, increased stock ownership, and executive retention—three factors the Compensation Committee believes better align the Named Executive Officer's compensation with shareholders' interests. To accomplish those objectives, the Compensation Committee directed the Company to take the following actions in early 2008:

- The Company increased the 2008 LTIP target award opportunity for each Named Executive Officer to provide a fair compensation opportunity while at the same time placing more emphasis on pay for performance, increased stock ownership, internal equity and retention. Despite increasing the 2008 LTIP target award opportunities, they remain below the market-competitive levels indicated in the benchmarking studies. The table below shows the specific changes that were implemented.

	Long-Term Incentive Target Opportunities	
	2007	2008
Mr. Shippar	\$365,500	\$450,000
Mr. Schober	\$98,900	\$150,000
Ms. Amberg	\$84,000	\$100,000
Ms. Welty	\$78,300	\$100,000
Ms. Holquist	\$182,900	\$191,000

- For performance periods beginning after 2007, the Company lowered the performance requirement to earn a threshold-level and target-level performance share award under the LTIP as measured by the Company's TSR relative to the 2008 16-company peer group. A participant will now earn a target-level award if the Company's TSR, measured over a three-year performance period, ranks ninth among the peer group (formerly seventh); and a threshold-level award is earned if the Company's three-year TSR ranks twelfth among the peer group (formerly tenth).
- The Company implemented the Severance Plan and amended SERP II (both as discussed above starting on page 18).

2008 Executive Compensation Study. In late 2008, the Compensation Committee directed Hewitt to perform another comprehensive review of substantially all executive compensation elements to assist the Compensation Committee in evaluating whether then-current target-level compensation and pay elements were consistent with our compensation philosophy and to provide context for the Compensation Committee's 2009 compensation deliberations and decisions, and Mr. Shippar's recommendations for the other executive officers. Hewitt analyzed aggregate compensation, meaning base pay, annual incentives, and long-term incentives, of our executive officers—as compared to the five most-highly compensated executive officers at each company in a 21-company peer group. The study used the same 16-company peer group as was used to measure our 2008 performance under the LTIP plus five additional diversified electric utilities, which were added to the peer group to better align the peer group with our current operations. All of the companies were selected by the Compensation Committee based on comparability to ALLETE in terms of size (i.e., market capitalization and enterprise value), industry, and stock-trading characteristics (i.e., dividend yield, price-earnings ratio, and market-to-book value). The companies in the 2008 peer group were as follows:

Avista Corporation	Nicor Inc.
Black Hills Corporation	OGE Energy Corp.
Brookfield Asset Management Inc.	Otter Tail Corporation
CH Energy Group, Inc.	PNM Resources, Inc.
Consolidated-Tomoka Land Company	TECO Energy, Inc.
DPL Inc.	The Empire District Electric Company
Great Plains Energy Incorporated	The St. Joe Company
Hawaiian Electric Industries, Inc.	UIL Holdings Corporation
IDACORP, Inc.	Vectren Corporation
Integrus Energy Group, Inc.	Wisconsin Energy Corporation
MDU Resources Group, Inc.	



The study also included Hewitt's custom survey data comparing total compensation (base pay, target-level annual incentives, and target-level long-term incentives) to energy services industry companies.<sup>2</sup>

<sup>2</sup>The Hewitt peer group consisted of: AEI Services LLC; AGL Resources, Inc.; Allegheny Energy, Inc.; Ameren Corporation; American Electric Power, Inc.; Aquila, Inc.; Black Hills Corporation; CenterPoint Energy, Inc.; Cleco Corporation; CMS Energy Corporation; Constellation Energy Group, Inc.; Dominion Resources, Inc.; DTE Energy Company; Duke Energy Corporation; Dynegy Inc.; Edison International; El Paso Electric Company; Energy Future Holdings Corp.; Entergy Corporation; FirstEnergy Corp.; FPL Group, Inc.; IDACORP, Inc.; Kansas City Power & Light Company; Kinder Morgan, Inc.; Mirant Corporation; NiSource Inc.; Pepco Holdings, Inc.; PG&E Corporation; Pinnacle West Capital Corporation; PNM Resources, Inc.; Portland General Electric Company; PPL Corporation; Progress Energy, Inc.; Puget Sound Energy, Inc.; Questar Corporation; Reliant Energy, Inc.; SCANA Corporation; Sempra Energy; Southern Company; WGL Holdings, Inc.; WPS Resources Corporation; and Xcel Energy Inc.

In addition, the study compared the value of the accumulated payment obligations of the Company to the executive officers under our tax-qualified and non-tax-qualified executive retirement plans; the then-current value of unexercised stock options, performance share awards, unvested restricted stock units, long-term incentive cash, and Common Stock owned by each executive officer; and the value of potential change in control severance benefits.

Upon review, the Compensation Committee determined that a blend of the 21-company peer group data and the energy services industry data was the most relevant market value benchmark for evaluating the executive officers' compensation levels.

The study indicated that base salaries for the executive officers were near the 50th percentile of the blended market value benchmark. The study also indicated that target-level annual incentive opportunities for the executive officers fell below the 50th percentile of the blended market value benchmark. The grant-date value of long-term incentive compensation for the executive officers was well below the 50th percentile of the blended market value benchmark. When these elements of compensation were considered in total, the executive officers' target-level compensation generally fell below the 50th percentile of the blended market value benchmark. These percentiles were determined by adjusting the market data to account for the Company's size based on revenue.

The Compensation Committee determined that the potential payments to executive officers upon termination of their employment in connection with a change in control of the Company were substantially below the values provided by the companies in the peer group, but were fair and appropriate. The Compensation Committee also determined that the accumulated retirement benefits were fair and appropriate. Hewitt concluded and the Compensation Committee agreed that the potential value of outstanding LTIP awards were substantially below the comparative values of the peer companies.

This market data, along with other considerations the Compensation Committee deemed relevant, such as regional and national economic conditions, and executive experience, tenure, and performance, formed the basis for the Compensation Committee's deliberations and compensation decisions for the executive officers in early 2009.

**2009 Executive Compensation Design Changes.** Based on the review in late 2008, the Compensation Committee determined that the executive officers' compensation included appropriate elements, but that the AIP and LTIP target award opportunities for each executive officer were low compared to market competitive levels. In early 2009, the Compensation Committee directed the Company to increase AIP target award opportunities for each executive officer by 5 percent of salary.

Although LTIP target award opportunities for each executive officer fell well below the blended market value benchmark, Mr. Shippar recommended no increases to the 2009 LTIP target award opportunities because of economic conditions. Mr. Shippar also recommended no annual market-adjustment salary increases for executive officers and

other management-level employees who participate in the AIP and the elimination of all car allowances as cost saving measures. The Compensation Committee approved these recommendations.

The Compensation Committee's analysis of the executive compensation study did, however, identify opportunities to better align our AIP and LTIP design with our compensation philosophy and objectives described above beginning on page 13. To accomplish those objectives, the Compensation Committee directed the Company to take the following actions in early 2009:

- The Company changed the AIP design to place more emphasis on pay-for-performance. The change requires the achievement of at least threshold net income performance in order to realize any portion of the AIP target opportunity that is contingent on achieving the AIP strategic goals.
- The Company changed the mix of long-term incentive awards granted to executive officers in 2009 under the LTIP. Restricted stock units were granted instead of stock options to place more emphasis on increased stock ownership and retention. Each restricted stock unit entitles the executive officer to one share of Common Stock after three years from the award date. Dividend equivalents accrue during the vesting period and are paid in shares of Common Stock. Executive officers must remain employed by the Company at the time the restricted stock units and accrued dividend equivalents vest to receive the full award of Common Stock. The restricted stock units will vest immediately on a prorated basis upon retirement, disability, death, or a change in control of the Company.
- The Company allocated a greater proportion of the target value LTIP awards to performance shares to maintain a strong emphasis on pay-for-performance. The target value of the 2009 LTIP awards for all executive officers, except for Mr. Shippar, were allocated 67 percent to performance shares and 33 percent to restricted stock units. The target value of Mr. Shippar's 2009 LTIP award was allocated 75 percent to performance shares and 25 percent to restricted stock units given the responsibility level of his position.
- The Company changed the group of companies used to measure TSR performance under the LTIP to place more emphasis on long-term performance relative to the electric utility industry. Relative TSR performance is used to determine the number of performance shares earned under the LTIP. The peer group approved for the performance periods beginning after 2008 is comprised of 27 companies selected from the Edison Electric Institute Stock Index based on comparability to the Company in terms of size as measured by market capitalization and payment of a dividend. These changes better align the peer group to our current operations.

The changes to the peer group that were implemented are as follows:

TSR Peer Groups	
Performance Period 2009–2011	Performance Periods 2006–2008, 2007–2009, and 2008–2010
Alliant Energy Corporation	Avista Corporation
Avista Corporation	Black Hills Corporation
Black Hills Corporation	Brookfield Asset Management, Inc.
CH Energy Group, Inc.	CH Energy Group, Inc.
Cleco Corporation	Consolidated-Tomoka Land Company
CMS Energy Corporation	Great Plains Energy Incorporated
DPL Inc.	IDACORP, Inc.
Great Plains Energy Incorporated	Integrus Energy Group, Inc.
Hawaiian Electric Industries, Inc.	MDU Resources Group, Inc.
IDACORP, Inc.	Nicor Inc.
Integrus Energy Group, Inc.	Otter Tail Corporation
MGE Energy, Inc.	TECO Energy, Inc.
NorthWestern Corporation	The Empire District Electric Company
NSTAR	The St. Joe Company
NV Energy, Inc.	Vectren Corporation
OGE Energy Corp.	Wisconsin Energy Corporation
Otter Tail Corporation	
Pinnacle West Capital Corporation	
PNM Resources, Inc.	
Portland General Electric Company	
Puget Energy, Inc.	
TECO Energy, Inc.	
The Empire District Electric Company	
UIL Holdings Corporation	
UniSource Energy Corporation	
Vectren Corporation	
Westar Energy, Inc.	

#### EXECUTIVE COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based upon such review and the related discussions, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in the Proxy Statement to be delivered to Company shareholders.

March 24, 2009

Executive Compensation Committee

Madeleine W. Ludlow, Chair  
 Kathleen A. Brekken  
 Sidney W. Emery, Jr.

Jack I. Rajala  
Bruce W. Stender, ex-officio

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## COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

## SUMMARY COMPENSATION TABLE 2008

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name and Principal Position	Year	Salary	Bonus	Stock Awards 1	Option Awards 2	Non-Equity Incentive Plan 3	Change in Pension Value And Nonqualified Deferred	All Other Compensation 5	Total
							Earnings 4		
Donald J. Shippar Chairman, President, and Chief Executive Officer	2008	\$553,827	\$0	\$318,618	\$131,359	\$407,550	\$689,641	\$121,061	\$2,222,056
	2007	\$526,577	\$0	\$289,914	\$155,869	\$176,033	\$528,777	\$118,697	\$1,795,867
	2006	\$499,616	\$0	\$198,893	\$147,464	\$260,893	\$789,804	\$130,749	\$2,027,419
Mark A. Schober Senior Vice President and Chief Financial Officer	2008	\$272,085	\$0	\$74,535	\$54,734	\$144,331	\$164,692	\$65,005	\$775,382
	2007	\$258,562	\$0	\$51,732	\$53,057	\$77,068	\$87,381	\$62,624	\$590,424
	2006	\$225,970	\$0	\$41,158	\$38,104	\$105,626	\$86,648	\$56,187	\$553,693
Deborah A. Amberg Senior Vice President, General Counsel, and Secretary	2008	\$254,785	\$0	\$60,811	\$41,755	\$117,526	\$43,029	\$53,534	\$571,440
	2007	\$243,339	\$0	\$48,220	\$37,289	\$63,522	\$17,504	\$55,023	\$464,897
	2006	\$233,643	\$0	\$32,209	\$23,260	\$94,447	\$34,703	\$47,268	\$465,530
Claudia Scott Welty Senior Vice President and Chief Administrative Officer	2008	\$236,058	\$0	\$57,942	\$36,488	\$108,843	\$139,739	\$65,191	\$644,261
	2007	\$226,108	\$0	\$48,007	\$42,021	\$58,915	\$69,218	\$55,872	\$500,141
	2006	\$215,223	\$0	\$42,228	\$39,618	\$87,895	\$135,783	\$54,911	\$575,658
Laura A. Holquist President of ALLETE Properties, LLC	2008	\$253,777	\$0	\$86,102	\$0	\$76,400	\$74,781	\$61,724	\$552,784
	2007	\$242,754	\$0	\$62,133	\$9,800	\$249,948	\$26,032	\$66,586	\$657,253
	2006	\$233,508	\$0	\$59,160	\$13,236	\$325,248	\$69,678	\$54,852	\$755,682

<sup>1</sup>The amounts shown in column (e) relate to performance share opportunities for all Named Executive Officers and to restricted stock unit opportunities for Ms. Holquist. The disclosures reflect the dollar amounts the Company recognized as compensation expense for financial statement reporting purposes for the fiscal years ended December 31, 2008, December 31, 2007, and December 31, 2006 in accordance with Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123R). SFAS 123R requires the Company to

estimate forfeitures when stock awards are granted and to reduce its estimated compensation expense accordingly. The Summary Compensation Table was prepared assuming none of the stock awards will be forfeited. The assumptions used to calculate these amounts are disclosed in Note 15 to the Company's Consolidated Financial Statements included in the Annual Report. The Company recognizes expense for performance shares over the three-year performance period of each award granted; the cost of restricted stock units is also spread over the three-year vesting period. Therefore, the amount shown in column (e) for each Named Executive Officer reflects the sum of one-third of the expense associated with each of his or her performance share awards outstanding as of December 31, 2008, December 31, 2007, and December 31, 2006; the amount shown for Ms. Holquist includes 30 percent of the expense on each of the first and second years of the award and 40 percent of the expense on the third year of the award associated with her outstanding restricted stock unit awards outstanding as of December 31, 2008, December 31, 2007 and December 31, 2006. The values shown for stock awards are theoretical, since the value a Named Executive Officer actually earns will depend on the extent to which his or her LTIP goals are achieved and on the market price of our Common Stock. The 2007 amount shown in column (e) for Mr. Shippar also reflects the amount the Company recognized as compensation expense for financial statement reporting purposes in accordance with SFAS 123R for a discretionary stock bonus of 1,000 shares of Common Stock earned in 2007 and valued at the February 13, 2008 closing price of \$37.77.

<sup>2</sup>The amounts shown in column (f) reflect the dollar amounts the Company recognized as compensation expense for financial statement reporting purposes for the fiscal year ended December 31, 2008, December 31, 2007 and December 31, 2006 in accordance with SFAS 123R. SFAS 123R requires the Company to estimate forfeitures when option awards are granted and to reduce estimated compensation expense accordingly. The Summary Compensation Table was prepared assuming none of the option awards will be forfeited. The assumptions used to calculate these amounts are disclosed in Note 15 to the Company's Consolidated Financial Statements included in the Annual Report. The amount shown for all Named Executive Officers, except Ms. Amberg and Ms. Holquist, who are not retirement-eligible under the Company's retirement plans, represents the full grant-date fair value of the stock option award in the year of grant because the stock options fully vest upon retirement. The amount shown for Ms. Amberg and Ms. Holquist reflects the sum of one-third of the grant-date fair value of the stock option awards outstanding as of December 31, 2008, December 31, 2007, and December 31, 2006. The values shown for stock options are theoretical, since the value a Named Executive Officer actually realizes will depend on the extent to which the Common Stock's market value exceeds the exercise price when the stock options are exercised.

3The amounts shown in column (g) for 2008 are comprised of the following:

	Annual Incentive Plan*	Results Sharing Program **	Long-Term Incentive Plan
Donald J. Shippar	\$378,840	\$28,710	–
Mark A. Schober	\$130,226	\$14,105	–
Deborah A. Amberg	\$104,316	\$13,210	–
Claudia Scott Welty	\$96,604	\$12,239	–
Laura A. Holquist	\$0	–	\$76,400

\*The amounts shown include amounts that were earned, as well as amounts that were deferred at the election of the Named Executive Officer. By program design, a portion of Mr. Shippar's AIP award was contributed to his SERP II deferral account.

\*\*The amounts shown include amounts that were earned, as well as amounts that were deferred at the election of the Named Executive Officer. By program design, a portion of Results Sharing awards were paid in the form of Company contributions to the Named Executive Officers' RSOP accounts and SERP II deferral accounts.

4The amounts in column (h) for 2008 are comprised of the following:

	Aggregate Change in Actuarial Present Value of Accumulated Defined Benefit Pensions During Year	Above-Market Interest on Deferred Compensation*
Donald J. Shippar	\$688,758	\$883
Mark A. Schober	\$164,305	\$387
Deborah A. Amberg	\$43,029	\$0
Claudia Scott Welty	\$139,739	\$0
Laura A. Holquist	\$74,781	\$0

\*Above-market interest was calculated using a 5.83 percent rate of return, which exceeds 120 percent of the applicable federal long-term rate of 4.45 percent.

5The amounts in column (i) for 2008 are comprised of the following:

Perquisites and Other	Tax	Contributions to the RSOP and	Contributions to the Supplemental
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	Personal Benefits *	Reimbursements **	Flexible Benefit Plan	Executive Retirement Plan II
Donald J. Shippar	\$27,128	\$9,379	\$45,452	\$39,102
Mark A. Schober	\$17,423	\$2,631	\$36,649	\$8,302
Deborah A. Amberg	\$15,349	\$890	\$31,625	\$5,670
Claudia Scott Welty	\$16,300	\$1,248	\$43,333	\$4,310
Laura A. Holquist	\$14,216	\$0	\$34,270	\$13,238

\*Amounts paid in 2008 include: (1) car allowances: Mr. Shippar—\$18,268, Mr. Schober—\$14,179, Ms. Amberg—\$14,179, Ms. Welty—\$14,179, Ms. Holquist—\$13,716; (2) meal and entertainment expenses for Named Executive Officer's spouse paid by the Company: Mr. Shippar—\$4,329; and (3) costs associated with an annual executive physical for Mr. Shippar—\$3,163. Amounts also include reimbursement for financial and tax planning services (up to \$1,500 annually), an office parking space, and club memberships having a primary business purpose (but which may also allow Named Executive Officers personal use of the facilities or services). The value assigned to each perquisite given to a Named Executive Officer is based on the aggregate incremental cost to the Company associated with the fringe benefit. The amounts reflect the full, actual cost of the fringe benefit in all cases, except for spouses' travel and entertainment expenses. The aggregate cost to the Company for spousal travel, meals, and entertainment was calculated as the full actual cost of each benefit in excess of the amount the Company would have paid had the Named Executive Officer been traveling or eating without his or her spouse. In early 2009, the Compensation Committee eliminated all car allowances.

\*\*The tax reimbursements relate to imputed income from spousal travel, executive physicals, and the other above-described perquisites.

GRANTS OF PLAN-BASED AWARDS 2008

The following Grants of Plan-Based Awards Table shows the range of each Named Executive Officer's annual and long-term incentive award opportunities granted for the fiscal year ended December 31, 2008. The narrative following the table describes the terms of each incentive award opportunity.

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	
Name and Award Type 1	Grant Date	Date of Compensation Committee Action	Estimated Future Payouts Under Non-Equity Incentive Plan Awards 2	Threshold	Target	Maximum	Estimated Future Payouts Under Equity Incentive Plan Awards	Threshold	Target	Maximum	All Other Stock Awards: Number of Shares of Stock	All Other Option Awards: Exercise Price of Option Awards	Grant Date Fair Value of Base Stock and Option Awards
				(#)	(#)	(#)		(#)	(#)	(#)	3	(#)	4
Donald J. Shippar	1/22/08	1/22/08	\$16,468										
Results Sharing AIP	1/22/08	1/22/08											
Stock Options Performance Shares	2/01/08	1/22/08											