

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended SEPTEMBER 30, 1998

or

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

Commission File No. 1-3548

MINNESOTA POWER, INC.  
A Minnesota Corporation  
IRS Employer Identification No. 41-0418150  
30 West Superior Street  
Duluth, Minnesota 55802  
Telephone - (218) 722-2641

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months and (2) has been subject to such filing  
requirements for the past 90 days.

Yes  No   
--- ---

Common Stock, no par value,  
36,062,521 shares outstanding  
as of October 31, 1998

MINNESOTA POWER, INC.

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## DEFINITIONS

The following abbreviations or acronyms are used in the text.

Abbreviation or Acronym	Term
1997 Form 10-K	Minnesota Power's Annual Report on Form 10-K for the Year Ended December 31, 1997
ADESA	ADESA Corporation
AFC	Automotive Finance Corporation
Boswell	Boswell Energy Center
Common Stock Company	Minnesota Power, Inc.'s common stock Minnesota Power, Inc. and its subsidiaries
DRIP	Dividend Reinvestment and Stock Purchase Plan
ESOP	Employee Stock Ownership Plan
FERC	Federal Energy Regulatory Commission
Heater	Heater Utilities, Inc.
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
kwh	Kilowatthour(s)
MAPP	Mid-Continent Area Power Pool
Minnesota Power	Minnesota Power, Inc. and its subsidiaries
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
NCUC	North Carolina Utilities Commission
Palm Coast	Palm Coast Holdings, Inc.
PSCW	Public Service Commission of Wisconsin
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company

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

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (Reform Act), the Company is hereby filing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Reform Act) made by or on behalf of the Company in this quarterly report on Form 10-Q, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "anticipates", "believes", "estimates", "expects", "intends", "plans", "predicts", "projects", "will likely result", "will continue", or similar expressions) are not statements of historical facts and may be forward-looking.

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

- prevailing governmental policies and regulatory actions, including those of the FERC, the MPUC, the FPSC, the NCUC and the PSCW, with respect to allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power and other capital investments, and present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs);
- economic and geographic factors including political and economic risks;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- population growth rates and demographic patterns;
- competition for retail and wholesale customers;
- Year 2000 issues;
  - delays or changes in costs of Year 2000 compliance;
  - failure of major suppliers, customers or others with whom the Company does business to resolve their own Year 2000 issues on a timely basis;
- pricing and transportation of commodities;
- market demand, including structural market changes;
- changes in tax rates or policies or in rates of inflation;
- changes in project costs;
- unanticipated changes in operating expenses and capital expenditures;
- capital market conditions;
- competition for new energy development opportunities; and
- legal and administrative proceedings (whether civil or criminal) and settlements that influence the business and profitability of the Company.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

MINNESOTA POWER  
CONSOLIDATED BALANCE SHEET  
Millions

	SEPTEMBER 30, 1998 Unaudited	DECEMBER 31, 1997 Audited
<b>ASSETS</b>		
<b>PLANT AND INVESTMENTS</b>		
Electric operations	\$ 771.6	\$ 783.5
Water services	321.9	322.2
Automotive services	181.9	167.1
Investments	264.0	252.9
Total plant and investments	1,539.4	1,525.7
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	116.8	41.8
Trading securities	137.0	123.5
Accounts receivable (less allowance of \$18.2 and \$12.6)	249.7	158.5
Fuel, material and supplies	23.8	25.0
Prepayments and other	22.8	19.9
Total current assets	550.1	368.7
<b>OTHER ASSETS</b>		
Goodwill	171.8	158.9
Deferred regulatory charges	59.9	64.4
Other	50.1	54.6
Total other assets	281.8	277.9
<b>TOTAL ASSETS</b>	<b>\$ 2,371.3</b>	<b>\$2,172.3</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION</b>		
Common stock without par value, 130.0 shares authorized; 36.0 and 33.6 shares outstanding	\$ 520.4	\$ 416.0
Unearned ESOP shares	(63.4)	(65.9)
Net unrealized gain on securities investments	7.4	5.5
Foreign currency translation adjustment	(5.6)	(0.8)
Retained earnings	314.0	296.1
Total common stock equity	772.8	650.9
Cumulative preferred stock	11.5	11.5
Redeemable serial preferred stock	20.0	20.0
Company obligated mandatorily redeemable preferred securities of subsidiary MP&L Capital I which holds solely Company Junior Subordinated Debentures	75.0	75.0
Long-term debt	678.2	685.4
Total capitalization	1,557.5	1,442.8
<b>CURRENT LIABILITIES</b>		
Accounts payable	200.7	78.7
Accrued taxes, interest and dividends	66.8	67.3
Notes payable	82.5	129.1
Long-term debt due within one year	4.4	4.7
Other	55.9	45.3
Total current liabilities	410.3	325.1
<b>OTHER LIABILITIES</b>		
Accumulated deferred income taxes	152.2	151.3
Contributions in aid of construction	106.6	102.6
Deferred regulatory credits	58.0	60.7
Other	86.7	89.8
Total other liabilities	403.5	404.4
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 2,371.3</b>	<b>\$2,172.3</b>

The accompanying notes are an integral part of these statements.

MINNESOTA POWER  
CONSOLIDATED STATEMENT OF INCOME  
Millions Except Per Share Amounts - Unaudited

	QUARTER ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
-----				
OPERATING REVENUE AND INCOME				
Electric operations	\$ 147.2	\$ 140.3	\$ 422.0	\$ 401.4
Water services	24.2	21.9	70.0	65.0
Automotive services	83.9	65.4	245.4	190.3
Investments	11.0	18.6	44.8	42.0
	-----	-----	-----	-----
Total operating revenue and income	266.3	246.2	782.2	698.7
	-----	-----	-----	-----
OPERATING EXPENSES				
Fuel and purchased power	54.6	51.7	158.1	141.7
Operations	155.5	141.6	468.4	418.8
Interest expense	15.1	15.9	50.5	49.3
	-----	-----	-----	-----
Total operating expenses	225.2	209.2	677.0	609.8
	-----	-----	-----	-----
INCOME FROM EQUITY INVESTMENTS	3.8	3.3	11.7	10.6
	-----	-----	-----	-----
OPERATING INCOME	44.9	40.3	116.9	99.5
DISTRIBUTIONS ON REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY	1.5	1.5	4.5	4.5
INCOME TAX EXPENSE	17.6	15.6	45.3	37.0
	-----	-----	-----	-----
NET INCOME	25.8	23.2	67.1	58.0
DIVIDENDS ON PREFERRED STOCK	0.5	0.5	1.4	1.4
	-----	-----	-----	-----
EARNINGS AVAILABLE FOR COMMON STOCK	\$ 25.3	\$ 22.7	\$ 65.7	\$ 56.6
	=====	=====	=====	=====
AVERAGE SHARES OF COMMON STOCK	32.0	30.8	31.5	30.5
BASIC AND DILUTED EARNINGS PER SHARE OF COMMON STOCK	\$0.79	\$0.73	\$2.08	\$1.85
DIVIDENDS PER SHARE OF COMMON STOCK	\$0.51	\$0.51	\$1.53	\$1.53

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The accompanying notes are an integral part of this statement.

MINNESOTA POWER  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Millions - Unaudited

NINE MONTHS ENDED  
SEPTEMBER 30,  
1998                      1997

-----  
OPERATING ACTIVITIES

Net income	\$ 67.1	\$ 58.0
Income from equity investments - net of dividends received	(11.2)	(10.2)
Depreciation and amortization	56.0	53.1
Deferred income taxes	(1.0)	0.9
Deferred investment tax credits	(1.2)	(1.4)
Pre-tax gain on sale of property	(0.6)	(4.4)
Changes in operating assets and liabilities		
Trading securities	(13.5)	(27.4)
Notes and accounts receivable	(91.2)	(54.9)
Fuel, material and supplies	1.2	(3.1)
Accounts payable	122.0	50.9
Other current assets and liabilities	7.1	(1.0)
Other - net	8.4	7.3
	-----	-----
Cash from operating activities	143.1	67.8
	-----	-----

INVESTING ACTIVITIES

Proceeds from sale of investments in securities	32.8	40.3
Proceeds from sale of property	1.4	6.4
Additions to investments	(32.2)	(42.9)
Additions to plant	(51.3)	(47.7)
Acquisition of subsidiaries - net of cash acquired	(23.8)	-
Other - net	5.5	14.7
	-----	-----
Cash for investing activities	(67.6)	(29.2)
	-----	-----

FINANCING ACTIVITIES

Issuance of common stock	102.8	14.9
Issuance of long-term debt	9.1	145.7
Changes in notes payable - net	(46.6)	35.2
Reductions of long-term debt	(16.6)	(155.6)
Dividends on preferred and common stock	(49.2)	(47.9)
	-----	-----
Cash for financing activities	(0.5)	(7.7)
	-----	-----

CHANGE IN CASH AND CASH EQUIVALENTS	75.0	30.9
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	41.8	40.1
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 116.8	\$ 71.0
	=====	=====

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for		
Interest - net of capitalized	\$ 55.8	\$ 48.6
Income taxes	\$ 41.4	\$ 20.8

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The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with the Company's 1997 Form 10-K. In the opinion of the Company, all adjustments necessary for a fair statement of the results for the interim periods have been included. The results of operations for an interim period may not give a true indication of results for the year.

NOTE 1. BUSINESS SEGMENTS  
Millions

	Consolidated	Electric Operations	Water Services	Automotive Services	Investments		Corporate Charges
					Portfolio & Reinsurance	Real Estate	
-----							
For the Quarter Ended September 30, 1998							
Operating revenue and income	\$ 266.3	\$147.2	\$24.2	\$83.9	\$ 5.5	\$ 5.3	\$ 0.2
Operation and other expense	191.3	103.0	15.3	64.8	1.1	3.7	3.4
Depreciation and amortization expense	18.8	11.8	3.0	4.0	-	-	-
Interest expense	15.1	5.5	2.6	2.4	-	-	4.6
Income from equity investments	3.8	-	-	-	3.8	-	-
	-----	-----	-----	-----	-----	-----	-----
Operating income (loss)	44.9	26.9	3.3	12.7	8.2	1.6	(7.8)
Distributions on redeemable preferred securities of subsidiary	1.5	0.4	-	-	-	-	1.1
Income tax expense (benefit)	17.6	10.5	1.3	6.0	2.9	0.7	(3.8)
	-----	-----	-----	-----	-----	-----	-----
Net income (loss)	\$ 25.8	\$ 16.0	\$ 2.0	\$ 6.7	\$ 5.3	\$ 0.9	\$(5.1)
	=====	=====	=====	=====	=====	=====	=====
For the Quarter Ended September 30, 1997							
Operating revenue and income	\$ 246.2	\$140.3	\$21.9	\$65.4	\$ 5.1	\$13.4	\$ 0.1
Operation and other expense	176.0	100.8	13.6	50.9	0.5	6.6	3.6
Depreciation and amortization expense	17.3	11.2	2.5	3.4	-	0.1	0.1
Interest expense	15.9	5.3	2.9	2.4	-	0.2	5.1
Income from equity investments	3.3	-	-	-	3.3	-	-
	-----	-----	-----	-----	-----	-----	-----
Operating income (loss)	40.3	23.0	2.9	8.7	7.9	6.5	(8.7)
Distributions on redeemable preferred securities of subsidiary	1.5	0.4	-	-	-	-	1.1
Income tax expense (benefit)	15.6	9.0	1.0	4.5	2.8	2.9	(4.6)
	-----	-----	-----	-----	-----	-----	-----
Net income (loss)	\$ 23.2	\$ 13.6	\$ 1.9	\$ 4.2	\$ 5.1	\$ 3.6	\$(5.2)
	=====	=====	=====	=====	=====	=====	=====

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Includes \$0.2 million of minority interest in 1998 (\$0.9 million in 1997).



NOTE 1. BUSINESS SEGMENTS (CONTINUED)  
Millions

	Consolidated	Electric Operations	Water Services	Automotive Services	Investments		Corporate Charges
					Portfolio & Reinsurance	Real Estate	
For the Nine Months Ended September 30, 1998							
Operating revenue and income	\$ 782.2	\$422.0	\$ 70.0	\$ 245.4	\$ 18.7	\$26.0	\$ 0.1
Operation and other expense	570.5	311.0	44.7	186.8	2.7	15.5	9.8
Depreciation and amortization expense	56.0	35.5	8.7	11.5	-	0.1	0.2
Interest expense	50.5	16.6	7.7	7.2	-	-	19.0
Income from equity investments	11.7	-	-	-	11.7	-	-
Operating income (loss)	116.9	58.9	8.9	39.9	27.7	10.4	(28.9)
Distributions on redeemable preferred securities of subsidiary	4.5	1.3	-	-	-	-	3.2
Income tax expense (benefit)	45.3	22.4	3.4	19.3	11.3	4.7	(15.8)
Net income (loss)	\$ 67.1	\$ 35.2	\$ 5.5	\$ 20.6	\$ 16.4	\$ 5.7	\$(16.3)
Total assets	\$ 2,371.3	\$975.6	\$391.8	\$ 631.0	\$ 298.1	\$74.3	\$ 0.5
Accumulated depreciation	\$ 744.3	\$593.0	\$133.0	\$ 18.3	-	-	-
Accumulated amortization	\$ 21.1	-	-	\$ 19.6	-	\$ 1.5	-
Construction work in progress	\$ 51.5	\$ 16.2	\$ 15.5	\$ 19.8	-	-	-
For the Nine Months Ended September 30, 1997							
Operating revenue and income	\$ 698.7	\$401.4	\$ 65.0	\$ 190.3	\$ 14.3	\$27.7	\$ -
Operation and other expense	507.4	292.3	40.9	148.1	1.5	16.4	8.2
Depreciation and amortization expense	53.1	33.6	8.9	10.3	-	0.1	0.2
Interest expense	49.3	16.0	8.3	7.4	-	0.8	16.8
Income from equity investments	10.6	-	-	-	10.6	-	-
Operating income (loss)	99.5	59.5	6.9	24.5	23.4	10.4	(25.2)
Distributions on redeemable preferred securities of subsidiary	4.5	1.2	-	-	-	-	3.3
Income tax expense (benefit)	37.0	22.5	2.3	12.9	8.2	4.6	(13.5)
Net income (loss)	\$ 58.0	\$ 35.8	\$ 4.6	\$ 11.6	\$ 15.2	\$ 5.8	\$(15.0)
Total assets	\$ 2,265.6	\$998.4	\$376.5	\$ 522.5	\$ 301.8	\$65.8	\$ 0.6
Accumulated depreciation	\$ 700.5	\$560.4	\$129.6	\$ 10.5	-	-	-
Accumulated amortization	\$ 14.0	-	-	\$ 12.8	-	\$ 1.2	-
Construction work in progress	\$ 35.7	\$ 13.4	\$ 15.1	\$ 7.2	-	-	-

Includes \$1.4 million of minority interest in 1998 and in 1997.

Florida Water 1991 Rate Case Refunds. In 1995 the Florida First District Court of Appeals (Court of Appeals) reversed a 1993 FPSC order establishing uniform rates for most of Florida Water's service areas. With "uniform rates," all customers in each uniform rate area pay the same rates for water and wastewater services. In response to the Court of Appeals' order, in August 1996 the FPSC ordered Florida Water to issue refunds to those customers who paid more since October 1993 under uniform rates than they would have paid under stand-alone rates. This order did not permit a balancing surcharge to customers who paid less under uniform rates. Florida Water appealed, and the Court of Appeals ruled in June 1997 that the FPSC could not order refunds without balancing surcharges. In response to the Court of Appeals' ruling, the FPSC issued an order on January 26, 1998 that did not require refunds. Florida Water's potential refund liability at that time was about \$12.5 million, which included interest, to customers who paid more under uniform rates.

In the same January 26, 1998 order, the FPSC required Florida Water to refund \$2.5 million, the amount paid by customers in the Spring Hill service area from January 1996 through June 1997 under uniform rates which exceeded the amount these customers would have paid under a modified stand-alone rate structure. No balancing surcharge was permitted. The FPSC ordered this refund because Spring Hill customers continued to pay uniform rates after other customers began paying modified stand-alone rates effective January 1996 pursuant to the FPSC's interim rate order in Florida Water's 1995 Rate Case (see "Florida Water 1995 Rate Case" below). The FPSC did not include Spring Hill in this interim rate order because Hernando County had assumed jurisdiction over Spring Hill's rates. In June 1997 Florida Water reached an agreement with Hernando County to revert prospectively to stand-alone rates for Spring Hill customers.

Customer groups which paid more under uniform rates have appealed the FPSC's January 26, 1998 order, arguing that they are entitled to a refund because the FPSC had no authority to order uniform rates. The Company has appealed the \$2.5 million refund order. Initial briefs were filed by all parties on May 22, 1998. Upon issuance of the June 10, 1998 opinion of the Court of Appeals with respect to Florida Water's 1995 Rate Case (see next paragraph) in which the court reversed its previous ruling that the FPSC was without authority to order uniform rates, other customer groups supporting the FPSC's January 1998 order filed a motion with the Court of Appeals seeking dismissal of the appeal by customer groups seeking refunds. Customers seeking refunds have filed amended briefs on September 14, 1998. No provision for refund has been recorded. The Company is unable to predict the timing or outcome of the appeals process.

Florida Water 1995 Rate Case. Florida Water requested an \$18.1 million rate increase in June 1995 for all water and wastewater customers of Florida Water regulated by the FPSC. In October 1996 the FPSC issued its final order approving an \$11.1 million annual increase. In November 1996 Florida Water filed with the Court of Appeals an appeal of the FPSC's final order seeking judicial review of issues relating to the amount of investment in utility facilities recoverable in rates from current customers. Other parties to the rate case also filed appeals. In the course of the appeals process, on its own initiative the FPSC reconsidered an issue in its initial decision and, in June 1997, allowed Florida Water to resume collecting approximately \$1 million, on an annual basis, in new customer fees. On June 10, 1998 the Court of Appeals ruled in Florida Water's favor on all material issues appealed by Florida Water and remanded the matter back to the FPSC for action consistent with the Court's order. The Court of Appeals also overturned its decision in Florida Water's 1991 Rate Case which had required a "functional relationship" between service areas as a precondition to implementation of uniform rates. The Court of Appeals denied a rehearing request filed by parties opposed to the Court of Appeals' reversal of its previous decision regarding uniform rates. The Company is unable to predict the timing or outcome of these proceedings.

Hillsborough County Rates. In July 1997 Florida Water filed with the Hillsborough County Utilities Department a request for an annual interim revenue increase of \$0.8 million and a final increase of \$0.9 million from customers within Hillsborough County. Interim rates became effective in August 1997. Hearings have concluded. The Hillsborough Board of County Commissioners (BOCC) approved 100 percent of the increases requested for two of the Hillsborough County facilities (approximately \$0.2 million). With respect to the third Hillsborough County facility, the BOCC voted on August 6, 1998 to

NOTE 2. REGULATORY MATTERS (CONTINUED)

grant the Company the water rate increase requested (additional revenue of approximately \$0.1 million), but denied any wastewater rate increase (approximately \$0.6 million). The BOCC also voted to require the Company to refund interim wastewater rates to customers with interest. The Company filed a complaint and a request for review with the Circuit Court in Hillsborough County on September 28, 1998. The Company is challenging the wastewater rate denial and refund on several grounds, including mistake of fact, violation of due process, unlawful ex parte communications, and other violations of the law. No provision for refund has been recorded. The Company is unable to predict the outcome of this case.

NOTE 3. TOTAL COMPREHENSIVE INCOME

For the quarter ended September 30, 1998 total comprehensive income was \$25.0 million (\$25.3 million for the quarter ended September 30, 1997). For the nine months ended September 30, 1998 total comprehensive income was \$64.2 million (\$60.7 million for the nine months ended September 30, 1997). Total comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale, and foreign currency translation adjustments.

NOTE 4. INCOME TAX EXPENSE

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	1998	1997	1998	1997
-----				
Millions				
Current tax				
Federal	\$ 14.7	\$ 13.0	\$ 35.1	\$29.2
Foreign	1.2	1.2	3.8	2.6
State	3.7	2.4	8.6	5.7
	-----	-----	-----	-----
	19.6	16.6	47.5	37.5
	-----	-----	-----	-----
Deferred tax				
Federal	(0.7)	(0.1)	0.5	1.9
State	(0.7)	(0.4)	(1.5)	(1.0)
	-----	-----	-----	-----
	(1.4)	(0.5)	(1.0)	0.9
	-----	-----	-----	-----
Deferred tax credits	(0.6)	(0.5)	(1.2)	(1.4)
	-----	-----	-----	-----
Total income tax expense	\$ 17.6	\$ 15.6	\$ 45.3	\$37.0
	-----	-----	-----	-----

NOTE 5. ACQUISITIONS

ADESA acquired the assets of Greater Lansing Auto Auction in Lansing, Michigan and I-55 Auto Auction in St. Louis, Missouri on April 30, 1998, and Ark-La-Tex Auto Auction in Shreveport, Louisiana on May 27, 1998 for a combined purchase price of \$23.8 million. The acquisitions were accounted for using the purchase method and resulted in goodwill of \$16.3 million which will be amortized over a 40 year period. Financial results for these three auctions have been included in the Company's consolidated financial statements since the dates of acquisition. Pro forma financial results have not been presented due to immateriality. The Company used internally generated funds and issued commercial paper to acquire these assets. ADESA now owns and operates 28 vehicle auction facilities.

NOTE 6. SQUARE BUTTE PURCHASED POWER CONTRACT

The Company has had a power purchase agreement with Square Butte since 1977. Square Butte, a North Dakota cooperative corporation, owns a 455 MW coal-fired generating unit (Unit) near Center, North Dakota. The Unit is adjacent to a generating unit owned by Minnkota Power Cooperative, Inc. (Minnkota), a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota serves as operator of the Unit and also purchases power from Square Butte.

In May 1998 the Company and Square Butte entered into a new power purchase agreement (1998 Agreement), replacing the 1977 agreement. The Company extended by 20 years, through January 1, 2027, its access to Square Butte's low-cost electricity and eliminated its unconditional obligation to pay all of Square Butte's costs if not paid by Square Butte when due. The 1998 Agreement was reached in conjunction with termination of Square Butte's previous leveraged lease financing arrangement and refinancing of associated debt.

Similar to the 1977 agreement, the Company is initially entitled to approximately 71 percent of the Unit's output under the 1998 Agreement. After 2005 and upon compliance with a two-year advance notice requirement, Minnkota has the option to reduce the Company's entitlement by 5 percent annually, to a minimum of 50 percent.

Under the 1998 Agreement, the Company is obligated to pay its pro rata share of Square Butte's costs based upon Unit output entitlement. The Company's payment obligation is suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. The Company's obligation under the 1977 agreement was absolute and unconditional whether or not any power was delivered. Square Butte's fixed costs consist primarily of debt service. At September 30, 1998 Square Butte had total debt outstanding of \$343.4 million. Total annual debt service for Square Butte is expected to be approximately \$36 million in 1999 through 2002 and \$23 million in 2003. Variable operating costs include the price of coal purchased from BNI Coal, a subsidiary of Minnesota Power, under a long-term contract. The Company's payments to Square Butte are approved as purchased power expenses for ratemaking purposes by both the MPUC and FERC.

NOTE 7. COMMON STOCK

On September 24, 1998 the Company issued and sold in an underwritten public offering 2.0 million shares of new common stock at \$43.75 per share. In addition, an over-allotment option for 93,000 shares at \$43.75 per share was exercised by the underwriters on October 9, 1998. Total net proceeds were approximately \$89 million.

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

MINNESOTA POWER is a broadly diversified service company with operations in four business segments: (1) Electric Operations, which include electric and gas services, and coal mining; (2) Water Services, which include water and wastewater services; (3) Automotive Services, which include a network of vehicle auctions, a finance company and an auto transport company; and (4) Investments, which include a securities portfolio, a 21 percent equity investment in a specialty insurance and reinsurance company, and real estate operations. Corporate Charges represent general corporate expenses, including interest, not specifically allocated to any one business segment.

CONSOLIDATED OVERVIEW

Earnings per share of common stock were \$0.79 for the quarter ended September 30, 1998 (\$0.73 for the quarter ended September 30, 1997) and \$2.08 for the nine months ended September 30, 1998 (\$1.85 for the nine months ended September 30, 1997).

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	1998	1997	1998	1997
----- Millions -----				
Net Income				
Electric Operations	\$ 16.0	\$ 13.6	\$ 35.2	\$ 35.8
Water Services	2.0	1.9	5.5	4.6
Automotive Services	6.7	4.2	20.6	11.6
Investments	6.2	8.7	22.1	21.0
Corporate Charges	(5.1)	(5.2)	(16.3)	(15.0)
	-----	-----	-----	-----
	\$ 25.8	\$ 23.2	\$ 67.1	\$ 58.0
	=====	=====	=====	=====
-----				
Basic and Diluted				
Earnings Per Share of				
Common Stock	\$ 0.79	\$0.73	\$2.08	\$1.85
Average Shares of Common				
Stock - Millions	32.0	30.8	31.5	30.5
-----				

The following summarizes significant events that led to the 11.2 percent and 15.7 percent increase in net income (8.2 percent and 12.4 percent increase in earnings per share) for the quarter and nine months ended September 30, 1998, respectively.

- Electric Operations. Net income from Electric Operations reflected strong sales to other power suppliers and marketers at higher margins during the quarter and nine months ended September 30, 1998. The scheduled maintenance on generation plants in the second quarter positioned the Company to meet anticipated strong electric demand during the rest of 1998. In 1997 the Company recorded gains from the sale of certain land and other property.
- Water Services. Net income from Water Services was higher in 1998 due primarily to customer growth, increased consumption and operating efficiencies. Increased sales of water resulting from drought conditions in Florida during the second and third quarters of 1998 helped to offset lower sales in the first quarter of 1998 because of record rainfall.
- Automotive Services. The significant increase in net income from Automotive Services was driven by more vehicle sales, and the expansion and maturing of recently opened loan production offices in the floorplan financing business. The Company has added three new auction facilities and 30 loan production offices in 1998.
- Investments. The increase in net income from Investments for the nine months ended September 30, 1998 was attributable to dividend income received from a venture capital investment. Net income from real estate operations was lower in the third quarter of 1998 because several large bulk land sales were recorded in the third quarter of 1997.

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 1998 AND 1997.

ELECTRIC OPERATIONS. Operating revenue and income from Electric Operations were \$6.9 million higher in 1998, even though kilowatthour sales remained at similar levels. This increase was primarily attributable to a higher average sales price for bulk power sold to other power suppliers and marketers, and more revenue from fuel clause and conservation improvement program adjustments. Bulk sale prices were higher partially because of storms and hot weather in the Midwest. Revenue related to the fuel clause adjustment increased in 1998 to provide for the recovery of the cost of replacement power needed during scheduled outages at Square Butte and Boswell in the second quarter of 1998, and also for the reduction in hydro generation due to dry winter and spring conditions. Demand revenue from large power customers was lower in 1998 as a result of successful renegotiation of contracts which extended the terms of the contracts, but in turn reduced the demand charge component. Operating revenue and income in 1998 included \$1.7 million more from recovery of lost margins attributable to sales that did not occur due to implementation of state mandated conservation improvement programs and in 1997 included a \$0.9 million pre-tax gain from the sale of rights to microwave frequencies in accordance with a federal mandate. Total operating expenses were \$3.0 million higher in 1998 due to a \$2.9 million increase in fuel and purchased power expense. Fuel expense was about \$1.1 million higher because of more steam generation and purchased power expense increased \$1.8 million because of higher prices in the market.

Revenue from electric sales to taconite customers accounted for 30 percent of electric operating revenue and income in 1998 (29 percent in 1997). Electric sales to paper and pulp mills accounted for 11 percent of electric operating revenue and income in both 1998 and 1997. Sales to other power suppliers and marketers accounted for 18 percent of electric operating revenue and income in 1998 and 15 percent in 1997.

WATER SERVICES. Operating revenue and income from Water Services were \$2.3 million higher in 1998 due to increased water sales and more revenue from non-regulated water subsidiaries. Consumption, which was up 25 percent in 1998, reflected a September 1997 acquisition of a water utility in North Carolina and drought conditions in Florida. Total operating expenses were \$1.9 million higher in 1998 due to additional costs related to the expansion of non-regulated water subsidiaries.

AUTOMOTIVE SERVICES. Operating revenue and income from Automotive Services were \$18.5 million higher in 1998 due to a 14 percent increase in vehicle sales, and the expansion and maturing of AFC's floorplan financing business. At ADESA auction facilities 232,000 vehicles were sold in 1998 (203,000 in 1997). ADESA had 28 auction facilities at September 30, 1998 (24 at September 30, 1997). AFC had 84 loan production offices at September 30, 1998 (54 at September 30, 1997). Total operating expenses were up \$14.5 million due to expenses associated with increased vehicle sales and the expansion of the floorplan financing business.

INVESTMENTS.

- SECURITIES PORTFOLIO AND REINSURANCE. Operating revenue and income were \$0.4 million higher in 1998 due to improved performance by the securities portfolio. Income from equity investments included \$3.9 million in 1998 (\$3.3 million in 1997) from the Company's investment in Capital Re. Together, the Company's securities portfolio and its equity investment in Capital Re earned an annualized after-tax return of 7.7 percent in 1998 (7.1 percent in 1997).
- REAL ESTATE OPERATIONS. Operating revenue and income from Real Estate Operations were \$8.1 million lower in 1998 because in 1997 several large bulk land sales were recorded. Total operating expenses (excluding minority interest) were \$2.5 million lower in 1998 because more selling expenses were incurred in 1997.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997.

ELECTRIC OPERATIONS. Operating revenue and income from Electric Operations were \$20.6 million higher in 1998, even though kilowatthour sales remained at similar levels. This increase primarily was attributable to a higher average sales price for bulk power sold to other power suppliers and marketers, and more revenue from fuel clause and conservation improvement program adjustments. Bulk sale prices were higher partially because of storms and hot weather in the Midwest. Revenue related to the fuel clause adjustment increased in 1998 to provide for the recovery of the cost of replacement power needed during scheduled outages at Square Butte and Boswell in the second quarter of 1998, and also for the reduction in hydro generation due to dry winter and spring conditions. Demand revenue from large power customers was lower in 1998 as a result of successful renegotiation of contracts which extended the term, but in turn reduced the demand charge component. Revenue from residential and gas customers was lower in 1998 because of the unusually mild winter and warm spring. Operating revenue and income in 1997 included \$4.3 million in pre-tax gains from the sale of rights to microwave frequencies in accordance with a federal mandate and the sale of property along the St. Louis River to ensure the preservation of wilderness lands. Total operating expenses were \$21.2 million higher in 1998 due to a \$16.4 million increase in fuel and purchased power expense and a \$4.2 million increase in operations expense. Fuel expense was about \$2.9 million higher because of more steam generation. Purchased power expense increased \$13.5 million because of higher prices in the market, more sales to other power suppliers, and less hydro generation. Operations expense in 1998 reflected increased costs for scheduled outages at Boswell, consulting services and the amortization of deferred charges related to conservation improvement programs. Expenses in 1998 also reflected a reduction in employee pension and early retirement expenses, and less property taxes due to the reform of the Minnesota property tax system.

Revenue from electric sales to taconite customers accounted for 31 percent of electric operating revenue and income in both 1998 and 1997. Electric sales to paper and pulp mills accounted for 11 percent of electric operating revenue and income in 1998 (12 percent in 1997). Sales to other power suppliers and marketers accounted for 16 percent of electric operating revenue and income in 1998 (12 percent in 1997).

WATER SERVICES. Operating revenue and income from Water Services were \$5.0 million higher in 1998 due to increased water sales and more revenue from non-regulated water subsidiaries. Consumption, which was up 11 percent in 1998, reflected a September 1997 acquisition of a water utility in North Carolina. Increased sales of water resulting from drought conditions in Florida during the second and third quarters of 1998 helped to offset lower sales in the first quarter of 1998 because of record rainfall. Total operating expenses were \$3.0 million higher in 1998 because of additional costs related to the expansion of non-regulated water subsidiaries.

AUTOMOTIVE SERVICES. Operating revenue and income from Automotive Services were \$55.1 million higher in 1998 due to a 15 percent increase in vehicle sales, and the expansion and maturing of AFC's floorplan financing business. At ADESA auction facilities 682,000 vehicles were sold in 1998 (594,000 in 1997). ADESA had 28 auction facilities at September 30, 1998 (24 at September 30, 1997). AFC had 84 loan production offices at September 30, 1998 (54 at September 30, 1997). In 1997 operating revenue and income included a gain from the sale of an auction facility. Total operating expenses were up \$39.7 million due to expenses associated with increased vehicle sales and the expansion of the floorplan financing business. Income tax expense was \$6.4 million higher in 1998 because of increased operating income.

INVESTMENTS.

- SECURITIES PORTFOLIO AND REINSURANCE. Operating revenue and income were \$4.4 million higher in 1998 due to \$3.9 million of dividend income received from a venture capital investment. Income from equity investments included \$11.9 million in 1998 (\$10.6 million in 1997) from the Company's investment in Capital Re. Together, the Company's securities portfolio and its equity investment in Capital Re earned an annualized after-tax return of 7.4 percent in 1998 (8.1 percent in 1997). Income tax expense was \$3.1 million higher in 1998 because of increased operating income.

- REAL ESTATE OPERATIONS. Operating revenue and income from Real Estate Operations were \$1.7 million lower in 1998 because in September 1997 several large bulk land sales were recorded. Operating revenue and income in 1998 reflected four large sales at Palm Coast and the sale of a partnership interest in a development at Lehigh. Combined, the five sales contributed \$11.5 million to revenue in 1998. Total operating expenses (excluding minority interest) were \$1.7 million lower in 1998.

#### LIQUIDITY AND FINANCIAL POSITION

CASH FLOW ACTIVITIES. Cash flow from operations improved during the nine months ended September 30, 1998 due to the continued focus on the management of working capital throughout the Company. Cash from operating activities was also affected by a number of factors representative of normal operations.

Working capital, if and when needed, generally is provided by the sale of commercial paper. In addition, securities investments can be liquidated to provide funds for reinvestment in existing businesses or acquisition of new businesses, and approximately 4 million original issue shares of Common Stock are available for issuance through the DRIP.

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

AFC also uses proceeds from the sale of commercial paper issued by the Company to meet its operational requirements. AFC offers short-term on-site financing for dealers to purchase vehicles at auctions in exchange for a security interest in those vehicles. The financing is provided through the earlier of the date the dealer sells the vehicle or a general borrowing term of 30 - 45 days. At September 30, 1998 AFC had sold \$149.0 million (\$124.0 million at December 31, 1997) of receivables on a revolving basis to a third party purchaser. Under an agreement, the purchaser agrees to purchase up to \$225.0 million of receivables on a revolving basis. Proceeds from the sale of the receivables are used to repay borrowings from the Company and fund vehicle inventory purchases for AFC's customers.

Significant changes in accounts receivable, accounts payable and notes payable balances at September 30, 1998 compared to December 31, 1997 were due to increased sales activity by Automotive Services. Typically auction volumes are down during the winter months and in December because of the holidays. As a result, both ADESA and AFC had lower receivables and fewer payables at year end.

Effective May 8, 1998 AFC executed an Administration Agreement with ADT Automotive, Inc. (ADT) which has led to an arrangement whereby AFC is providing floorplan financing services at 26 ADT auctions.

In May 1998 the Company filed a shelf registration statement with the Securities and Exchange Commission (SEC) pursuant to Rule 415 under the Securities Act of 1933 with respect to 3.0 million original issue shares of Common Stock. On September 24, 1998 the Company issued and sold in an underwritten public offering 2.0 million of these shares at \$43.75 per share. In addition, an over-allotment option for 93,000 shares at \$43.75 per share was exercised by the underwriters on October 9, 1998. Total net proceeds of approximately \$89 million will be used to repay outstanding commercial paper, to fund acquisitions and for other general corporate purposes, including capital expenditures. Net proceeds not immediately used for the above purposes will be invested in the Company's securities portfolio. The Company may sell the remaining shares registered in May 1998 if warranted by market conditions and the Company's capital requirements. The offer and sale of such shares shall be made only by means of a prospectus. The increase in the number of shares of Common Stock outstanding as of September 30, 1998 had an immaterial impact on earnings per share for the 1998 periods.



ADESA acquired the assets of Greater Lansing Auto Auction in Lansing, Michigan and I-55 Auto Auction in St. Louis, Missouri on April 30, 1998, and Ark-La-Tex Auto Auction in Shreveport, Louisiana on May 27, 1998 for a combined purchase price of \$23.8 million. The Company used internally generated funds and issued commercial paper to acquire these assets.

**CAPITAL REQUIREMENTS.** Consolidated capital expenditures for the nine months ended September 30, 1998 totaled \$51.3 million (\$47.7 million in 1997). Expenditures for 1998 included \$24.6 million for Electric Operations, \$10.4 million for Water Services and \$16.3 million for Automotive Services. Internally generated funds were the primary source for funding these expenditures. Total capital expenditures are expected to be \$90 million for 1998.

**YEAR 2000.** The Year 2000 issue relates to computer systems that recognize the year in a date field using only the last two digits. Unless corrected, the Year 2000 may be interpreted as 1900, causing errors or shutdowns in computer systems which may, in turn, disrupt operations.

**State of Readiness.** The Company has been addressing the Year 2000 issue for five years. In the ordinary course of business, it has replaced, or is in the process of replacing, many of its major computer systems with new systems that have been designed to be Year 2000 compliant. These updated systems handle critical aspects of the Company's operations, including energy management and generation control for Electric Operations, and customer information and financial management Company-wide.

Each of the business segments has its own Year 2000 plan, which has been reviewed and is being monitored by a corporate-level Year 2000 Risk Assessment Team. The Company's plan for Year 2000 readiness involves four phases: inventory, evaluation, remediation and contingency planning. Testing is an ongoing and integral part of the evaluation, remediation and contingency planning phases.

- **Inventory.** Each business segment has performed an extensive inventory of its information technology systems and other systems that use embedded microprocessors (collectively, "Systems"). The business processes supported by each System have been prioritized based on the degree of impact business operations would encounter if the System were disrupted.

The inventory phase also includes identifying third parties with whom the Company has material relationships. The degree to which each business segment depends on third party support varies. Water Services, Automotive Services and Real Estate Operations have identified minimal risk in most areas. Where a third party is critical to a business process, efforts to obtain Year 2000 compliance information to identify the degree of risk exposure the business may encounter have been initiated. Electric Operations is working with its large power customers to share Year 2000 information and determine their readiness. In addition, Electric Operations is working with its fuel and transportation providers in an effort to ensure adequate supplies of fuel.

The electric industry is unique in its reliance on the integrity of the power pool grid to support and maintain reliable, efficient operations. Preparation for the Year 2000 by Electric Operations is linked to the Year 2000 compliance efforts of other utilities as well as to those of its major customers whose loads support the integrity of the power pool grid. Electric Operations is coordinating its Year 2000 efforts with the plans established by the North American Electric Reliability Council under the direction of the U.S. Department of Energy and is also working with the MAPP Year 2000 Task Force and a utility industry consortium to obtain and share utility-specific Year 2000 compliance information.

The internal inventory phase was substantially completed in June 1998. Regular contact with third parties with whom the Company has material relationships will continue throughout 1999.

- **Evaluation.** This phase involves computer program code review and testing, vendor contacts, System testing, and fully-integrated System testing where practical. The objective of this phase is to develop and update the remediation plan. Some Systems, upon inspection, are determined to be non-compliant and are immediately placed on the remediation schedule. Some Systems require testing to determine compliance status. The evaluation phase is expected to be substantially completed by June 30, 1999. The Company estimates that as of November 6, 1998 the evaluation phase is approximately 45 percent complete.

- Remediation. In this phase each System is either fixed, replaced or removed. Critical Systems fixed or replaced will be tested again for Year 2000 compliance. Remediation is expected to be substantially complete by June 30, 1999. The Company estimates that as of November 6, 1998 the remediation phase is approximately 15 percent complete.
- Contingency Planning. Each business segment is currently developing contingency plans designed to continue critical processes in the event the Company experiences Year 2000 disruptions despite remediation and testing. Plans under development include establishment of internal communications and securing adequate onsite supplies of critical materials. Contingency plans also will be tested. Contingency plans are expected to be developed by June 30, 1999.

Costs. In the ordinary course of business over the last five years, the Company has replaced major business and operating computer systems. These systems should require minimal remediation efforts because of their recent implementation. Formal Year 2000 readiness plans were established in March 1998. Since that time, the Company has incurred approximately \$0.6 million in expenses primarily for labor associated with inventory, evaluation and remediation efforts. The Company estimates its cost to prepare for the Year 2000 will be \$6 million to \$10 million over the next two years, the majority of which will be incurred in 1999. Funds to address Year 2000 issues have been provided for in the Company's existing budgets. Most of these costs will be incurred for existing personnel assigned to Year 2000 projects or capitalized. To date no critical projects have been deferred because of Year 2000 issues. The Company does not anticipate that its costs associated with Year 2000 readiness will materially impact the Company's earnings in any year.

Risks. Based upon information to date, the Company believes that, in the most reasonably likely worst-case scenario, Year 2000 issues could result in abnormal operating conditions, such as short-term interruption of generation, transmission and distribution functions within Electric Operations, as well as Company-wide loss of system monitoring and control functions, and loss of voice communications. These conditions, along with power outages due to possible instability of the regional electric transmission grid, could result in temporary interruption of service to customers. The Company does not believe the overall impact of this scenario will have a material impact on its financial condition or operations.

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Readers are cautioned that forward-looking statements including those contained above, should be read in conjunction with the Company's disclosures under the heading: "SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995" located in the preface of this Form 10-Q.

NEW ACCOUNTING STANDARD. In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), effective for fiscal years beginning after June 15, 1999. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset the related results on the hedged item. SFAS 133 is not expected to have a material impact on the Company upon adoption.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

Reference is made to the Company's 1997 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to the Company's 1997 Form 10-K.

Ref. Page 2. - Electric Sales - Last Partial Paragraph

The record level of steel imports into the United States is adversely affecting the domestic steel industry. If the trend continues, lower demand for steel produced in the United States will likely have an adverse effect on the taconite producers and the economy as a whole in northern Minnesota. Representatives of the United States steel industry have asserted that the imports are unfair and illegal, and have filed anti-dumping trade suits with the U.S. Department of Commerce. The Company is unable to predict the eventual impact of this issue on the Company's Electric Operations.

Ref. Page 3. - Large Power Customer Contracts - Last Paragraph

Ref. Form 10-Q for the quarter ended June 30, 1998, Page 15. - First Paragraph

As of November 1, 1998 the minimum annual revenue the Company would collect under contracts with these large power customers, assuming no electric energy use by these customers, is estimated to be \$109.2, \$85.0, \$71.2, \$67.8 and \$57.4 million during the years 1998, 1999, 2000, 2001 and 2002, respectively. Based on past experiences and projected operating levels, the Company believes revenue from these large power customers will be substantially in excess of the minimum contract amounts.

Six of the seven taconite producers in Minnesota have collective bargaining agreements with the United Steel Workers of America. These agreements expire in August 1999. The Company is unable to predict whether or not any labor disputes will arise in the course of union negotiations and, if such disputes occur, the impact thereof on the Company's Electric Operations.

Ref. Page 11. - Table - National Pollutant Discharge Elimination System Permits

Ref. Form 10-Q for the quarter ended March 31, 1998, Page 10. - Third Paragraph

Ref. Form 10-Q for the quarter ended June 30, 1998, Page 15. - Fourth Paragraph

A renewal application permit for the Boswell Energy Center was submitted to the Minnesota Pollution Control Agency (MPCA) on June 27, 1997. A new permit is expected to be issued in the fourth quarter of 1998.

A renewal application permit for the Laskin Energy Center was submitted to the MPCA on March 30, 1998. The permit is expected to be issued in the fourth quarter of 1998.

Ref. Page 13. - Regulatory Issues - Florida Public Service Commission - Hillsborough County Rates

In July 1997 Florida Water filed with the Hillsborough County Utilities Department a request for an annual interim revenue increase of \$0.8 million and a final increase of \$0.9 million from customers within Hillsborough County. Interim rates became effective in August 1997. Hearings have concluded. The Hillsborough Board of County Commissioners (BOCC) approved 100 percent of the increases requested for two of the Hillsborough County facilities (approximately \$0.2 million). With respect to the third Hillsborough County facility, the BOCC voted on August 6, 1998 to grant the Company the water rate increase requested (additional revenue of approximately \$0.1 million), but denied any wastewater rate increase (approximately \$0.6 million). The BOCC also voted to require the Company to refund interim wastewater rates to customers with interest. The Company filed a complaint and a request for review with the Circuit Court in Hillsborough County on September 28, 1998. The Company is challenging the wastewater rate denial and refund on several grounds, including mistake of fact, violation of due process, unlawful ex parte communications, and other violations of the law. No provision for refund has been recorded. The Company is unable to predict the outcome of this case.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

27 Financial Data Schedule

99 Underwriting Agreement, dated September 24, 1998, by and among the Company and the several underwriters represented by PaineWebber Incorporated, Robert W. Baird & Co. Incorporated and Janney Montgomery Scott Inc., with respect to the issuance and sale of 2,093,000 shares of Common Stock.

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Minnesota Power, Inc.

-----  
(Registrant)

November 6, 1998

D. G. Gartzke

-----  
D. G. Gartzke  
Senior Vice President - Finance  
and Chief Financial Officer

November 6, 1998

Mark A. Schober

-----  
Mark A. Schober  
Controller

EXHIBIT INDEX

Exhibit Number

- 27 Financial Data Schedule
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2,000,000 Shares

MINNESOTA POWER, INC.

Common Stock

UNDERWRITING AGREEMENT

September 24, 1998  
New York, New York

PaineWebber Incorporated  
Robert W. Baird & Co. Incorporated  
Janney Montgomery Scott Inc.  
As Representatives of the several Underwriters  
c/o PaineWebber Incorporated  
1285 Avenue of the Americas  
New York, New York 10019

Dear Sirs:

Minnesota Power, Inc. (the "Company") proposes to issue and sell to you and to the other underwriters named in Schedule 1 hereto (each an "Underwriter and, collectively, the "Underwriters"), for whom you are acting as representatives (the "Representatives"), an aggregate of 2,000,000 shares of the Company's Common Stock, without par value (the "Common Stock"), and the preferred share purchase rights attached thereto (the "Rights") (collectively referred to as "Firm Shares"). The Company has also agreed to grant to the Underwriters an option (the "Option") to purchase up to an additional 300,000 shares of Common Stock and the attached Rights (collectively referred to as the "Option Shares") on the terms and for the purposes set forth in Section 1(b). The Firm Shares and the Option Shares are collectively referred to as the "Shares."

The initial public offering price per share for the Shares and the purchase price per share for the Shares to be paid by the several Underwriters shall be agreed upon by the Company and the Representatives, acting on behalf of the several Underwriters, and such agreement shall be set forth in a separate written instrument substantially in the form of Annex A hereto (the "Price Determination Agreement"). The Price Determination Agreement may take the form of an exchange of any standard form of written telecommunication among the Company and the Representatives and shall specify such applicable information as is indicated in Annex A hereto. The offering of the Shares shall be governed by this Agreement, as supplemented by the Price Determination Agreement. From and after the date of the execution and delivery of the Price Determination Agreement, this Agreement shall be deemed to incorporate, and, unless the context otherwise indicates, all references

contained herein to "this Agreement" and the phrase "herein" shall be deemed to include the Price Determination Agreement.

The Company confirms as follows its agreements with the Representatives and the several other Underwriters.

#### 1. Agreement to Sell and Purchase.

(a) The Company agrees to issue and sell to each Underwriter, and each Underwriter, severally and not jointly, agrees to purchase from the Company at the purchase price per share for the Firm Shares to be agreed upon by the Representatives and the Company and set forth in the Price Determination Agreement, the number of Firm Shares set forth opposite the name of such Underwriter in Schedule 1 thereto, plus such additional number of Firm Shares such Underwriter may become obligated to purchase pursuant to Section 10 hereof. The obligations of the Underwriters under this Agreement are several and not joint. The obligations of the Company and the Underwriters under this Agreement are undertaken on the basis of the representations and are subject to the conditions of this Agreement.

(b) Subject to all the terms and conditions in this Agreement, the Company grants the Option to the Underwriters, severally and not jointly, to purchase up to 300,000 Option Shares from the Company at the same price per share as the Underwriters shall pay for the Firm Shares. The Option may be exercised only to cover over-allotments in the sale of the Firm Shares by the several Underwriters and may be exercised in whole or in part at any time (but not more than once), upon written or telegraphic notice (the "Option Share Notice") by the Representatives to the Company on or before the 30th day after the date of this Agreement setting forth the aggregate number of Option Shares to be purchased and the time and date for such purchase (the "Option Closing Date"), which Option Closing Date may be the same as the Closing Date (as defined in Section 2) but in no event shall the Option Closing Date be earlier than the Closing Date nor later than five business days after the giving of the Option Shares Notice. On the Option Closing Date, the Company shall issue and sell to the several Underwriters the number of Option Shares set forth in the Option Shares Notice, and each Underwriter shall purchase such percentage of the Option Shares as is equal to the percentage of Firm Shares that such Underwriter is purchasing, as adjusted by the Representatives in such manner as they deem advisable to avoid fractional shares.

(c) The initial public offering price per share for the Firm Shares and the purchase price per share for the Firm Shares to be paid by the several Underwriters shall be agreed upon and set forth in the Price Determination Agreement, which shall be dated the date hereof.

2. Payment and Delivery. Delivery of the Firm Shares shall be made to the Representatives in New York, New York, against payment of the purchase price by wire transfer of immediately available funds to an account designated in writing by the Company to the Underwriters at least one business day prior to the Closing Date (as hereinafter defined). Such payment shall be made at 10:00 a.m., New York City time, on September 30, 1998 or at such time on such other date



as may be agreed upon by the Company and the Representatives (such date is hereinafter referred to as the "Closing Date").

To the extent that the Option is exercised, delivery of the Option Shares against payment by the Underwriters (in the manner specified above) shall take place in the manner specified above for the Closing Date at the time and date (which may be the Closing Date) specified in the Option Shares Notice.

3. Registration Statement and Prospectus; Public Offering. The Company has filed with the Securities and Exchange Commission (the "Commission"), pursuant to provisions of the Securities Act of 1933 (the "Act") and the published rules and regulations adopted by the Commission thereunder (the "Rules and Regulations"), a registration statement (No. 333-52161) on Form S-3, relating to the registration of 3,000,000 shares of the Company's Common Stock, without par value. Such registration statement was declared effective on May 18, 1998. The term "preliminary prospectus" as used herein means any preliminary prospectus as contemplated by Rule 430 of the Rules and Regulations included at any time as a part of such registration statement. Copies of such registration statement and any amendments thereto and of each preliminary prospectus included as part of such registration statement have been delivered to the Representatives. Such registration statement, as it may be amended to the date of this Agreement, including financial statements and all exhibits, and the prospectus, as supplemented by a final prospectus supplement relating to the Shares proposed to be filed electronically pursuant to Rule 424 are hereinafter respectively referred to as the "Registration Statement" and the "Prospectus." Any reference herein to the Registration Statement, any preliminary prospectus, preliminary prospectus supplement or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 of the Act (the "Incorporated Documents") which were filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on or before the Effective Date or the date of such preliminary prospectus or the Prospectus, as the case may be. Any reference herein to the terms "amend," "amendment" or "supplement" with respect to the Registration Statement, any preliminary prospectus or the Prospectus shall be deemed to refer to and include the filing of any document under the Exchange Act after the Effective Date, or the date of any preliminary prospectus or the Prospectus, as the case may be, and incorporated in such document by reference if such filing is made prior to the Closing Date. Any reference herein to the term "Effective Date" shall be deemed to refer to the later of the time and date the Registration Statement was declared effective or the time and date of the filing of the Company's most recent Annual Report on Form 10-K if such filing is made prior to the Closing Date.

The Company understands that the Underwriters propose to make a public offering of the Firm Shares, as described in the Prospectus, as soon after the date of the Price Determination Agreement as the Underwriters deem advisable. The Company confirms that the Underwriters and dealers have been authorized to distribute each preliminary prospectus, if any, and preliminary prospectus supplement and are authorized to distribute the Prospectus and any amendments or supplements to it.

4. Representations of the Company. The Company represents to the Underwriters as follows:

(a) The Company meets the requirements for use of Form S-3 under the Act.

(b) On the Effective Date, and at the Closing Date, the Registration Statement and, at the date of the filing of the Prospectus, and at the Closing Date, and, if later, the Option Closing Date, the Prospectus, as each may be amended or supplemented, fully complied or will fully comply in all material respects with the applicable provisions of the Act and the Rules and Regulations, or pursuant to the Rules and Regulations shall be deemed to comply therewith. On the Effective Date and Closing Date and, if later, the Option Closing Date, the Registration Statement, as it may be amended or supplemented, did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. On the date of filing of the Prospectus and the Closing Date, and, if later, the Option Closing Date, the Prospectus, as it may be amended or supplemented, will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. On the date of filing of the Prospectus and the Closing Date, and, if later, the Option Closing Date, the Incorporated Documents did or will fully comply in all material respects with the applicable provisions of the Exchange Act and the rules and regulations of the Commission under the Exchange Act (the "Exchange Act Rules and Regulations"), and, when read together with the Prospectus, as it may be amended or supplemented, will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. The foregoing representations do not apply to statements or omissions made in reliance on and in conformity with information relating to any Underwriter furnished in writing to the Company by the Representatives expressly for use in the Registration Statement or the Prospectus, as they may be amended or supplemented. For all purposes of this Agreement, the amounts of the selling concession and reallowance set forth in the Prospectus and the statements contained in the first paragraph on page S-2 and under the caption "Underwriting" on page S-5 of any preliminary prospectus supplement and the Prospectus regarding stabilization and other transactions constitute the only information relating to any Underwriter furnished in writing to the Company by the Representatives specifically for inclusion in any preliminary prospectus, any preliminary prospectus supplement, the Registration Statement or the Prospectus.

(c) The Company and its Material Subsidiaries (as defined below) have good and sufficient title to all real material property and good and sufficient title to all material personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially interfere with the use made and proposed to be made of such property by the Company and its Material Subsidiaries; and any material real property and buildings held under lease by the Company and its Material Subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not materially interfere with the use made and proposed to be made of

such property and buildings by the Company and its Material Subsidiaries (as used in this Agreement, the term "Material Subsidiary" means a significant subsidiary under Rule 1-02(w) of Regulation S-X of the Commission).

(d) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of Minnesota, with power and authority (corporate and other) to own its properties and conduct its business as described in the Prospectus, and there is no jurisdiction wherein the character of the properties owned or held under lease by the Company or the nature of the business transacted by the Company would expose the Company to any material liability or disability by reason of the failure to qualify the Company as a foreign corporation in any such jurisdiction; and each Material Subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation, and there is no jurisdiction wherein the character of the properties owned or held under lease by any Material Subsidiary or the nature of the business transacted by such Material Subsidiary would expose such Material Subsidiary to any material liability or disability by reason of the failure to qualify such Material Subsidiary as a foreign corporation in any such jurisdiction.

(e) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, as they may be amended or supplemented, there has not been any material adverse change, or any development involving, so far as the Company can now reasonably foresee, a prospective material adverse change, in the management, business, properties, financial condition or results of operations of the Company and its subsidiaries taken as a whole, and there has not been any transaction entered into by the Company or its Material Subsidiaries, other than transactions in the ordinary course of business and transactions set forth in or contemplated by the Registration Statement and the Prospectus, as they may be amended or supplemented, which is material to the Company and its subsidiaries, taken as a whole. The Company and its Material Subsidiaries have no contingent obligation which is not disclosed in the Registration Statement and the Prospectus, as they may be amended or supplemented, which is material to the Company and its subsidiaries, taken as a whole.

(f) Any Incorporated Documents filed and incorporated by reference prior to the Closing Date will, when they are filed with the Commission, conform in all material respects with the requirements of the Exchange Act and the Exchange Act Rules and Regulations.

(g) The Company has full corporate power and authority to enter into this Agreement. This Agreement has been duly authorized, executed and delivered by the Company and is a valid and binding agreement of the Company enforceable against it in accordance with its terms.

(h) The performance of this Agreement and the consummation of the transactions contemplated hereby and the application of the net proceeds from the offering and sale of the Shares to be sold by the Company in the manner set forth in the Prospectus under "Use of Proceeds" will not result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of the Company or any of its Material Subsidiaries pursuant to the terms or provisions

of, or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give any other party a right to terminate any of its obligations under, or result in the acceleration of any obligation under, the certificate of incorporation or by-laws of the Company or any of its Material Subsidiaries, any material contract or other agreement to which the Company or any of its Material Subsidiaries is a party or by which the Company or any of its Material Subsidiaries or any of its properties is bound or affected, or violate or conflict in any material respect with any material judgment, ruling, decree, order, statute, rule or regulation of any court or other governmental agency or body applicable to the business or properties of the Company or any of its Material Subsidiaries.

(i) The outstanding shares of Common Stock have been, and the Shares to be issued and sold by the Company upon such issuance will be, duly authorized, validly issued, fully paid and nonassessable and will not be subject to any preemptive or similar right; and the Rights will be validly issued.

(j) The description of the Common Stock in the Registration Statement and the Prospectus, as they may be amended or supplemented, is, and at the Closing Date and, if later, the Option Closing Date, will be, complete and accurate in all material respects. Except for shares issuable under the Company's Automatic Dividend Reinvestment and Stock Purchase Plan, the Minnesota Power and Affiliated Companies Employee Stock Purchase Plan or any compensation plan disclosed in the Company's Proxy Statement with respect to the Company's 1998 Annual Meeting of Shareholders (collectively referred to as the "Stock Purchase and Compensation Plans"), the Company does not have outstanding, and at the Closing Date and, if later, the Option Closing Date, will not have outstanding, any options to purchase, or any rights or warrants to subscribe for, or any securities or obligations convertible into, or any contracts or commitments to issue or sell, any shares of Common Stock, any shares of capital stock of any subsidiary or any such warrants, convertible securities or obligations.

(k) The Company has filed a Petition for Certification of Capital Structure with the Minnesota Public Utilities Commission ("Minnesota Commission") pursuant to the Minnesota Public Utilities Act with respect to the issuance and sale by the Company of the Shares. The Minnesota Commission has entered an authorizing order approving the capital structure including the issuance and sale of the Shares. Apart from such authorizing order of the Minnesota Commission, no consent, approval, authorization or order of, or any filing or declaration with, any court or governmental agency or body is required for the consummation by the Company of the transactions on its part herein contemplated, except such as have been obtained under the Act or the Rules and Regulations and such as may be required under state securities or "Blue Sky" laws or the by-laws and rules of the National Association of Securities Dealers, Inc. (the "NASD") in connection with the purchase and distribution by the Underwriters of the Shares to be sold by the Company.

(l) The Company is duly registered as a transfer agent within the meaning of the Exchange Act with respect to the Common Stock and is in compliance with the Exchange Act Rules and Regulations with respect to its activities as transfer agent.

(m) Neither the Company nor any of its directors, officers or controlling persons has taken, directly or indirectly, any action intended, or which might reasonably be expected, to cause or result, under the Act or otherwise, in, or which has constituted, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares.

(n) No holder of securities of the Company has rights to the registration of any securities of the Company because of the filing of the Registration Statement.

(o) The Company is not, and after giving effect to the offering and sale of the Shares will not be, an "investment company" or an entity "controlled" by an "investment company", as such terms are defined in the Investment Company Act of 1940, as amended.

(p) Except as set forth in the Registration Statement and the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its Material Subsidiaries is a party or to which any property of the Company or any of its Material Subsidiaries is subject, which, if determined adversely to the Company or any of its Material Subsidiaries would in the Company's reasonable judgment individually or in the aggregate have a material adverse effect on the management, business, properties, financial condition or results of operations of the Company and its subsidiaries taken as a whole; and, to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

(q) Except as set forth in the Registration Statement and the Prospectus, the Company and its Material Subsidiaries (i) are in substantial compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or imposing liability or standards of conduct concerning any Hazardous Material (as hereinafter defined) ("Environmental Laws"), (ii) have received all material permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in substantial compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, individually or in the aggregate have a material adverse effect on the management, business, properties, financial condition or results of operations of the Company and its subsidiaries taken as a whole. The term "Hazardous Material" means (A) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, (B) any "hazardous waste" as defined by the Resource Conservation and Recovery Act, as amended, (C) any petroleum or petroleum product, (D) any polychlorinated biphenyl and (E) any pollutant or contaminant or hazardous, dangerous, or toxic chemical, material, waste or substance regulated under or within the meaning of any other Environmental Law.

5. Agreements of the Company.

(a) The Company will not file any amendment or supplement to the Registration Statement or the Prospectus unless a copy has first been submitted to the Representatives a reasonable time before its filing and the Representatives have not reasonably objected to it in writing within a reasonable time after receiving the copy.

(b) The Company will promptly advise the Representatives (i) of the initiation or threatening of any proceedings for, or receipt by the Company of any notice with respect to, the suspension of the qualification of the Shares for sale in any jurisdiction or the issuance of any order by the Commission suspending the effectiveness of the Registration Statement and (ii) of receipt by the Company or any representative or attorney of the Company of any other communication from the Commission relating to the Company, the Registration Statement, any preliminary prospectus, preliminary prospectus supplement or the Prospectus or to the transactions contemplated by this Agreement. The Company will make every reasonable effort to prevent the issuance of an order suspending the effectiveness of the Registration Statement and, if any such order is issued, to obtain its lifting as soon as possible.

(c) The Company will furnish to the Representatives without charge one signed copy of the Registration Statement and of any amendments thereto (including all exhibits filed with any such document) and as many conformed copies of the Registration Statement as each of the Representatives may reasonably request.

(d) During such period as a prospectus is required by law to be delivered by the Underwriters or a dealer, the Company will deliver, without charge, to the Underwriters and to dealers, at such office or offices as the Representatives may designate, as many copies of the Prospectus as each of the Representatives may reasonably request, and, during such period after the Effective Date if any event occurs as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements in it, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, not misleading in any material respect, or if during such period it is necessary to amend or supplement the Prospectus to comply with the Act or Rules and Regulations, the Company will promptly prepare, submit to the Representatives, file, subject to Section 5(a), with the Commission and deliver, without charge, to each of the Underwriters and to dealers (whose names and addresses the Representatives will furnish to the Company) to whom Shares may have been sold by the Underwriters, and to other dealers on request, amendments or supplements to the Prospectus so that the statements in the Prospectus, as so amended or supplemented, will not, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, be misleading in any material respect and will comply with the Act and the Rules and Regulations. Delivery by the Underwriters of any such amendments or supplements to the Prospectus will not constitute a waiver of any of the conditions in Section 6 of the Underwriting Agreement.

(e) The Company will make generally available to the Company's security holders, as soon as practicable but in no event later than the last day of the 15th full calendar month following the calendar quarter in which the Effective Date falls, an earnings statement satisfying the provisions of Section 11(a) of the Act and Rule 158 of the Rules and Regulations.

(f) The Company will take such actions as the Representatives reasonably designate in order to qualify the Shares for offer and sale under the securities or "Blue Sky" laws of such jurisdictions as the Representatives reasonably designate.

(g) The Company will pay, or reimburse if paid by the Representatives, whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, all costs and expenses incident to the performance of the obligations of the Company under this Agreement, including costs and expenses relating to (i) the preparation, printing and filing of the Registration Statement and exhibits thereto, each preliminary prospectus, each preliminary prospectus supplement, the Prospectus, all amendments and supplements to the Registration Statement and the Prospectus, (ii) the preparation and delivery of certificates representing the Shares, (iii) the registration or qualification of the Shares for offer and sale under the securities or "Blue Sky" laws of the jurisdictions referred to in Section 5(f) and the determination of the legality of the Shares for investment, including the reasonable fees and disbursements of counsel for the Underwriters (not to exceed \$10,000) in that connection, and the preparation and printing of preliminary and supplemental "Blue Sky" memoranda and legal investment memoranda, (iv), the furnishing (including costs of shipping and mailing) to the Underwriters and to dealers of copies of the Registration Statement, each preliminary prospectus, the Prospectus, and all amendments or supplements to the Prospectus, and of the other documents required by this Section 5 to be so furnished, (v) all transfer taxes, if any, with respect to the sale and delivery of the Shares by the Company to the Underwriters, (vi) the listing of the Shares on the New York Stock Exchange, (vii) any filings required to be made by the Underwriters with the NASD, including the reasonable fees and disbursements of counsel for the Underwriters in that connection, and (viii) the transfer agent for the Shares.

(h) During the period of two years commencing on the Effective Date, the Company will furnish to each Underwriter who may so request copies of such financial statements and other periodic and special reports as the Company may from time to time distribute generally to the holders of any class of its capital stock, and will furnish to the Representatives and each Underwriter who may so request a copy of each annual or other report it will be required to file with the Commission.

(i) The Company will not at any time, directly or indirectly, take any action intended, or which might reasonably be expected, to cause or result in, or which will constitute, stabilization of the price of the shares of Common Stock to facilitate the sale or resale of any of the Shares.

(j) Unless otherwise agreed to in writing by the Company and the Underwriters, the Company will not for a period of 30 days after the commencement of the public offering of the Shares sell or otherwise dispose of any shares of Common Stock, rights to acquire shares of Common Stock or securities convertible into shares of Common Stock other than to the Underwriters pursuant to this Agreement and other than in connection with the Stock Purchase and Compensation Plans.

6. Conditions of the Underwriters' Obligation. The obligation of each Underwriter to purchase the Shares is subject to the accuracy, on the date of this Agreement and on the Closing Date and, with respect to the Option Shares, is subject to the accuracy on the date of this Agreement and on the Option Closing Date, of the representations of the Company in this Agreement, to the accuracy and completeness of all statements made by the Company or any of its officers in any certificate delivered to the Representatives or their counsel pursuant to this Agreement, to performance by the Company of its obligations under this Agreement and to each of the following additional conditions:

(a) All filings required by Rule 424 of the Rules and Regulations must have been made.

(b) No stop order suspending the effectiveness of the Registration Statement may be in effect and no proceedings for such purpose may be pending before or threatened by the Commission and any requests for additional information on the part of the Commission (to be included in the Registration Statement or the Prospectus or otherwise) must have been complied with and after the date hereof no amendment or supplement to the Registration Statement or the Prospectus shall have been filed unless a copy thereof was first submitted to the Representatives a reasonable time before its filing and the Representatives did not reasonably object thereto in writing within a reasonable time after receiving the copy.

(c) Since the respective dates as of which such information is given in the Registration Statement and the Prospectus, as they may be amended or supplemented, (i) there must not have been any material change in the capital stock or long-term debt of the Company and its subsidiaries, taken as a whole, (ii) since the most recent dates as of which information is given in the Registration Statement or the Prospectus, there shall not have been any material adverse change, or any development involving, so far as the Company can now reasonably foresee, a prospective material adverse change, in the management, business, properties, financial condition or results of operations of the Company and its subsidiaries, considered as a whole, whether or not in the ordinary course of business and, since such dates there shall not have been any material transaction entered into by the Company, other than transactions in the ordinary course of business and transactions contemplated in the Registration Statement or the Prospectus, and (iii) there must not have occurred any event that makes untrue or incorrect in any material respect any statement or information contained in the Prospectus or that is not reflected in the Prospectus but should be reflected in it in order to make the statements or information in it not misleading in any material respect; and in the judgment of the Representatives, any such development referred to in clause (i), (ii) or (iii) makes



it impracticable to consummate the sale and delivery of the Shares by the Underwriters at the initial public offering price.

(d) The Representatives must receive on the Closing Date and, with respect to the Option Shares, on the Option Closing Date, a certificate, dated such date, of the chief executive officer, the chief operating officer or the chief financial officer of the Company certifying that (i) the signer has carefully examined the Registration Statement and the Prospectus (including any Incorporated Documents) and this Agreement, (ii) the representations of the Company in this Agreement are accurate on and as of the date of the certificate, (iii) since the most recent dates as of which information is given in the Registration Statement or the Prospectus, there shall not have been any material adverse change, or any development involving, so far as the Company can now reasonably foresee, a prospective material adverse change, in the management, business, properties, financial condition or results of operations of the Company and its subsidiaries, considered as a whole, whether or not in the ordinary course of business and, since such dates there shall not have been any material transaction entered into by the Company, other than transactions in the ordinary course of business and transactions contemplated in the Registration Statement or the Prospectus, (iv) to the knowledge of such officer, no order suspending the effectiveness of the Registration Statement or prohibiting the sale of the Shares has been issued and no proceedings for such purpose are pending before or threatened by the Commission, (v) there has been no document required to be filed under the Exchange Act and the Exchange Act Rules and Regulations that upon such filing would be deemed to be an Incorporated Document that has not been so filed, and (vi) the Company has performed all agreements that this Agreement requires it to perform by the Closing Date.

(e) The Representatives must receive on the Closing Date and, with respect to the Option Shares, the Option Closing Date, opinions dated the Closing Date substantially in the form of Annex B-1 and B-2 to this Agreement from Thelen Reid & Priest LLP, counsel to the Company, and Philip R. Halverson, Esq., general counsel of the Company, respectively.

(f) The Representatives must receive on the Closing Date from Morrison Cohen Singer & Weinstein, LLP, their counsel, an opinion dated the Closing Date and, with respect to the Option Shares, the Option Closing Date, with respect to the Company, the Shares, the Registration Statement, the Prospectus, this Agreement and the form and sufficiency of all proceedings taken in connection with the sale and delivery of the Shares. Such opinion and proceedings will be satisfactory in all respects to the Representatives. The Company must have furnished to such counsel such documents as they may reasonably request for the purpose of enabling them to render such opinion.

(g) On the date hereof and on the Closing Date and, with respect to the Option Shares, the Option Closing Date, PricewaterhouseCoopers LLP (the "Accountants") must furnish to the Representatives a letter, addressed to the Representatives and in form and substance reasonably satisfactory to the Representatives, confirming that they are independent accountants with respect to the Company as required by the Act and the Rules and Regulations and with respect to the

financial and other statistical and numerical information contained in the Registration Statement or incorporated by reference therein.

(h) Prior to the Closing Date, the Shares must be duly authorized for listing by the New York Stock Exchange upon official notice of issuance.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement will comply with this Agreement only if they are in form and scope satisfactory to counsel for the Representatives.

#### 7. Indemnification.

(a) The Company shall indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter, and each person, if any, who controls each Underwriter, within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities, joint or several (including, as and when incurred, any investigative, legal or other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted) to which they, or any of them, may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities arise out of or are based on any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, preliminary prospectus supplement, the Registration Statement or the Prospectus or any amendment or supplement to the Registration Statement or the Prospectus (including any Incorporated Document), or the omission or alleged omission to state in it a material fact required to be stated in it or necessary to make the statements in it not misleading; provided, however, that the Company shall not be liable to the extent that such loss, claim, damage, or liability arises from the sale of the Shares in the public offering to any person by an Underwriter and (i) is based on an untrue statement or omission or alleged untrue statement or omission made in reliance on and in conformity with information furnished in writing to the Company by or on behalf of such Underwriter expressly for use in the Registration Statement, any preliminary prospectus or preliminary prospectus supplement or the Prospectus, as set forth in the last sentence of Section 4(b), or (ii) results solely from one or more untrue statements of material facts contained in, or the omission of one or more material facts from any preliminary prospectus or preliminary prospectus supplement or the Prospectus, which untrue statement or omission was corrected in the Prospectus (as then amended or supplemented) if the Underwriters sold Shares to the person alleging such loss, claim, liability, expense or damage without sending or giving, at or prior to the written confirmation of such sale, a copy of the corrected Prospectus (as then amended or supplemented) if the Company had previously furnished copies thereof to the Representatives within a reasonable amount of time prior to such sale or such confirmation, and the Representatives failed to send or give the corrected Prospectus (as then amended or supplemented), if required by law to have so sent or given it and if sent or given would have been a complete defense with respect to such untrue statement or omission against the person asserting such loss, claim, liability, expense

or damage. This indemnity agreement shall be in addition to any liability that the Company might otherwise have.

(b) Each Underwriter shall indemnify and hold harmless the Company, its officers and directors and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, to the same extent as the foregoing indemnity from the Company to each Underwriter, but only insofar as losses, claims, damages or liabilities arise from the sale of the Shares in the public offering to any person by an Underwriter and are based on any untrue statement or omission or alleged untrue statement or omission made in or in reliance on and in conformity with information furnished in writing to the Company by or on behalf of such Underwriter expressly for use in the Registration Statement, any preliminary prospectus or preliminary prospectus supplement or the Prospectus, as set forth in the last sentence of Section 4(b). This indemnity agreement shall be in addition to any liability that each Underwriters might otherwise have.

(c) Any party that proposes to assert the right to be indemnified under this Section 7 shall, promptly after receipt of notice of commencement of any action against such party in respect of which a claim is to be made against an indemnifying party or parties under this Section 7, notify in writing each such indemnifying party of the commencement of such action, enclosing a copy of all papers served, but the omission so to notify such indemnifying party shall not relieve it from any liability that it may have to any indemnified party otherwise than under this Section 7. If any such action is brought against any indemnified party and it notifies the indemnifying party of its commencement, the indemnifying party shall be entitled to participate in, and, to the extent that it elects by delivering written notice to the indemnified party promptly after receiving notice of the commencement of the action from the indemnified party, jointly with any other indemnifying party similarly notified, to assume the defense of the action, with counsel reasonably satisfactory to the indemnified party, and, after notice from the indemnifying party to the indemnified party of its election to assume the defense, the indemnifying party shall not be liable to the indemnified party for any legal or other expenses except as provided below and except for the reasonable costs of investigation subsequently incurred by the indemnified party in connection with the defense. The indemnified party shall have the right to employ its counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of counsel by the indemnified party has been authorized in writing by the indemnifying party, (ii) the indemnified party has reasonably concluded (based on advice of counsel) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, (iii) a conflict or potential conflict exists (based on advice of counsel to the indemnified party) between the indemnified party and the indemnifying party (in which case the indemnifying party shall not have the right to direct the defense of such action on behalf of the indemnified party) or (iv) the indemnifying party has not in fact employed counsel to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the fees and expenses of counsel shall be at the expense of the indemnifying party or parties. It is understood that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the

reasonable fees, disbursements and other charges of more than one separate counsel admitted to practice in such jurisdiction at any one time for all such indemnified party or parties. All such fees, disbursements and other charges will be reimbursed by the indemnifying party promptly as they are incurred. An indemnifying party will not be liable for any settlement of any action or claim effected without its written consent (which consent will not be unreasonably withheld). No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to, or an admission of, fault, culpability or a failure to act, by or on behalf of any indemnified party.

8. Contribution. In order to provide for just and equitable contribution in the circumstances in which the indemnification provided for under the foregoing provisions of Section 7 is applicable in accordance with its terms but for any reason is held to be unavailable from the Company or the Underwriters, the Company and the Underwriters shall contribute to the amount paid or payable as a result of losses, claims, liabilities, expenses and damages (including any investigative, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted) to which the Company and any one or more of the Underwriters may be subject in such proportion as shall be appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other, the relative fault of the Company, on the one hand, and the Underwriters, on the other, with respect to the statements or omissions which resulted in such loss, claim, liability, expense or damage, or action in respect thereof, as well as any other relevant equitable considerations with respect to such offering. Such relative benefits shall be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters in each case as set forth in the table on the cover page of the Prospectus. Such relative fault shall be determined by reference, among other things, to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by or on behalf of the Representatives on behalf of the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8 were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, liability, expense or damage, or action in respect thereof, referred to above in this Section 8 shall be deemed to include, for purpose of this Section 8, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8, no Underwriter shall be required to contribute any amount in excess of the underwriting discounts received by it, except that insofar as losses, claims, damages and liabilities arise from the

sale of the Shares in the public offering to any person by an Underwriter and are based on any untrue statement or omission or alleged untrue statement or omission made in or in reliance on and in conformity with information furnished in writing to the Company by or on behalf of such Underwriter expressly for use in the Registration Statement, any preliminary prospectus or preliminary prospectus supplement or the Prospectus, as set forth in the last sentence of Section 4(b), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute as provided in this Section 8 are several in proportion to their respective underwriting obligations and not joint. For purposes of this Section 8, any person who controls a party to this Agreement within the meaning of the Act will have the same rights to contribution as that party, and each officer of the Company who signed the Registration Statement will have the same rights to contribution as the Company, subject in each case to the provisions hereof. Any party entitled to contribution, promptly after receipt of notice of commencement of any action against such party in respect of which a claim for contribution may be made under this Section 8, will notify any such party or parties from whom contribution may be sought, but the omission so to notify will not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have under this Section 8. No party will be liable for contribution with respect to any action or claim settled without its written consent (which consent will not be unreasonably withheld).

9. Termination. The obligations of the several Underwriters under this Agreement may be terminated at any time on or before the Closing Date (or, with respect to the Option Shares, on or before the Option Closing Date) by notice to the Company from the Representatives, without liability on the part of any Underwriter to the Company, if, subsequent to the date of this Agreement and prior to delivery and payment for the Shares (or the Option Shares), as the case may be, (a) in the judgment of the Representatives, (i) trading in any of the equity securities of the Company shall have been suspended by the Commission, by an exchange that lists the Shares or by the Nasdaq Stock Market, (ii) trading in securities generally on the New York Stock Exchange shall have been suspended or limited or minimum or maximum prices shall have been generally established on such exchange, or additional material governmental restrictions, not in force on the date of this Agreement, shall have been imposed upon trading in securities generally by such exchange or by order of the Commission or any court or other governmental authority, (iii) a general banking moratorium shall have been declared by either Federal or New York State authorities or (iv) any outbreak or material escalation of hostilities or declaration by the United States of a national emergency or war or other calamity or crisis shall have occurred, the effect of any of which is such as to make it, in the judgment of the Representatives, impracticable to proceed with the public offering of the Shares the Shares on the terms and in the manner contemplated by the Prospectus, or (b) any of the conditions specified in Section 6 have not been fulfilled when and as required by this Agreement.

If this Agreement shall be terminated pursuant to Section 10 hereof, the Company shall not then be under any liability to any Underwriter except as provided in Sections 5(g), 7 and 8 hereof; but, if because of any failure or refusal on the part of the Company to comply with the terms of this Agreement or because any of the conditions in Section 6 are not satisfied, the Shares are not delivered by or on behalf of the Company as provided herein, the Company will reimburse the Underwriters through the Representatives for all out-of-pocket expenses, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Shares, but the Company shall then be under no further liability to any Underwriter except as provided in Sections 5(g), 7 and 8 hereof.

10. Substitution of Underwriters. If one or more of the Underwriters shall, for any reason permitted hereunder, cancel its obligation to purchase hereunder and to take up and pay for the Firm Shares to be purchased by such one or more Underwriters, the Company shall immediately notify the remaining Underwriters, and the remaining Underwriters shall have the right, within 24 hours of receipt of such notice, either to take up and pay for (in such proportion as may be agreed upon among them) or to substitute another underwriter or underwriters, satisfactory to the Company, to take up and pay for the number of Firm Shares that such one or more Underwriters did not purchase. If one or more Underwriters shall, for any reason other than a reason permitted hereunder, fail to take up and pay for the Firm Shares to be purchased by such one or more Underwriters, the Company shall immediately notify the remaining Underwriters, and the remaining Underwriters shall be obligated to take up and pay for (in addition to the respective number of Firm Shares set forth opposite their respective names in Schedule 1), the number of Firm Shares that such defaulting Underwriter or Underwriters failed to take up and pay for, up to a number thereof equal to, in the case of each such remaining Underwriter, ten percent (10%) of the number of Firm Shares set forth opposite the name of such remaining Underwriter in Schedule 1, and such remaining Underwriters shall have the right, within 24 hours of receipt of such notice, either to take up and pay for (in such proportion as may be agreed upon among them), or to substitute another underwriter or underwriters, satisfactory to the Company, to take up and pay for, the remaining number of the Firm Shares that the defaulting Underwriter or Underwriters agreed but failed to purchase. If any unpurchased Firm Shares still remain, then the Company or the Underwriters shall be entitled to an additional period of 24 hours within which to procure another party or parties, who are members of the NASD (or if not members of the NASD, who are not eligible for membership in the NASD and who agree (i) to make no sales within the United States, its territories or its possessions or to persons who are citizens thereof or residents therein and (ii) in making sales to comply with the NASD's Rules of Fair Practice) and satisfactory to the Company, to purchase or agree to purchase such unpurchased Firm Shares on the terms herein set forth. In any such case, either the remaining Underwriters or the Company shall have the right to postpone the Closing Date for a period not to exceed seven full business days from the date agreed upon in accordance with this Section 10, in order that the necessary changes in the Registration Statement and Prospectus and any other documents and arrangements may be effected. If the Underwriters and the Company shall fail to procure a satisfactory party or parties as above provided to purchase or agree to purchase such unpurchased Firm Shares, then the Company may either (i) require the remaining Underwriters to purchase the number of Firm Shares that they are obligated to purchase hereunder (but no more than

such number of Firm Shares) or (ii) terminate this Agreement by giving prompt notice to the Underwriters. In the event that neither the remaining Underwriters nor the Company has arranged for the purchase of such unpurchased Firm Shares by another party or parties as above provided and the Company has not elected to require the remaining Underwriters to purchase the number of Firm Shares that they are obligated to purchase hereunder, then this Agreement shall terminate without any liability on the part of any such Underwriter or the Company for the purchase or sale of any Shares under this Agreement. Any action taken pursuant to this Section 10 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriters under this Agreement.

11. Miscellaneous. The reimbursement, indemnification and contribution agreements in Sections 5, 7, 8 and 9 and the representations and agreements of the Company and the Underwriters in this Agreement will remain in full force and effect regardless of any termination of this Agreement, any investigation made by or on behalf of the Underwriters, the Company, or any controlling person and delivery and acceptance of and payment for the Shares.

This Agreement is for the benefit of the several Underwriters, the Company, and their successors and assigns, and, to the extent expressed in this Agreement, for the benefit of persons controlling the several Underwriters or the Company, directors and officers of the Company and directors, officers, employees and agents of the several Underwriters, and their respective successors and assigns, and no other persons, partnership, association or corporation will acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" does not include any purchaser of Shares from any of the Underwriters merely because of such purchase.

All notices and communications under this Agreement shall be in writing and mailed or delivered, by messenger, facsimile transmission or otherwise, if to the Underwriters, to the Representatives at the offices of PaineWebber Incorporated at c/o PaineWebber Incorporated, 1285 Avenue of the Americas, New York, NY 10019, Attention: Corporate Finance Department, and if to the Company, at 30 West Superior Street, Duluth, Minnesota 55802, Attention: Chief Financial Officer. Any such notice or communication shall take effect upon receipt thereof.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE CONFLICT OF LAWS PRINCIPLES OF SUCH STATE.

This Agreement may be signed in two or more counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

This Agreement may not be amended or otherwise modified or any provision hereof waived except by an instrument in writing signed by the Underwriters and the Company.

Please confirm that the foregoing correctly sets forth the agreement between us.

Very truly yours,

MINNESOTA POWER, INC.

By: /s/ Philip R. Halverson

-----  
Name: Philip R. Halverson  
Title: VP, General Counsel  
& Secretary

Confirmed as of the date first above mentioned:

PAINWEBBER INCORPORATED  
ROBERT W. BAIRD & CO. INCORPORATED  
JANNEY MONTGOMERY SCOTT INC.  
Acting on behalf of themselves  
and as the Representatives  
of the other several Underwriters

By: PAINWEBBER INCORPORATED

By: /s/ Donald F. Herklotz

-----  
Name: Donald F. Herklotz  
Title: Managing Director

ROBERT W. BAIRD & CO. INCORPORATED

By: /s/ Dennis S. Pordon

-----  
Name: Dennis S. Pordon  
Title: Senior VP

JANNEY MONTGOMERY SCOTT INC.

By: /s/ William L. Rulon-Miller

-----  
Name: William L. Rulon-Miller  
Title: Senior Vice President

UNDERWRITING AGREEMENT SIGNATURE PAGE



SCHEDULE 1  
UNDERWRITERS

Name of Underwriter -----	Number of Firm Shares to be Purchased -----
PaineWebber Incorporated	
Robert W. Baird & Co. Incorporated	
Janney Montgomery Scott Inc.	
ABN AMRO Incorporated	
A.G. Edwards & Son, Inc.	
Dain Rauscher Wessels A Division of Dain Rauscher Incorporated	
EVEREN Securities, Inc.	
John G. Kinnard & Company, Inc.	
Piper Jaffray Inc.	
Total	----- 2,000,000 =====

FORM OF PRICE DETERMINATION AGREEMENT

September \_\_, 1998

PaineWebber Incorporated  
Robert W. Baird & Co. Incorporated  
Janney Montgomery Scott Inc.  
As Representatives of the several Underwriters  
c/o PaineWebber Incorporated  
1285 Avenue of the Americas  
New York, New York 10019

Dear Sirs:

Reference is made to the Underwriting Agreement, dated September \_\_, 1998 (the "Underwriting Agreement"), among Minnesota Power, Inc. (the "Company") and the several Underwriters named in Schedule 1 hereto and thereto (collectively, the "Underwriters") for whom PaineWebber Incorporated, Robert W. Baird & Co., Incorporated and Janney Montgomery Scott Inc. are acting as representatives (the "Representatives"). The Underwriting Agreement provides for the purchase by the several Underwriters from the Company subject to the terms and conditions set forth therein, of an aggregate of 2,000,000 shares of the Company's Common Stock, without par value ("Common Stock"), and the preferred share purchase rights attached thereto (the "Rights") (collectively referred to as the "Firm Shares"). Subject to the terms and conditions set forth in the Underwriting Agreement, the Company has also granted to the Underwriters an option (the "Option") to purchase up to an additional 300,000 shares of Common Stock and the Rights attached thereto (collectively referred to as the "Option Shares"). This Agreement is the Price Determination Agreement referred to in the Underwriting Agreement.

Pursuant to Section 1 of the Underwriting Agreement, the undersigned agrees with the Representatives as follows:

1. The initial public offering price per share for the Firm Shares and, if the Option is exercised, the Option Shares, shall be \$[\_\_\_\_\_].

2. The purchase price per share for the Firm Shares and, if the Option is exercised, the Option Shares to be paid to the Company by the several Underwriters shall be

\$[\_\_\_\_\_], representing an amount equal to the initial public offering price set forth above, less an underwriting discount and commission of \$[\_\_\_\_\_] per share.

The Company represents and warrants to each of the Underwriters that the representations and warranties of the Company set forth in Section 4 of the Underwriting Agreement are accurate as though expressly made at and as of the date hereof.

As contemplated by the Underwriting Agreement, attached as Schedule 1 is a completed list of the several Underwriters, which shall be a part of this Agreement and the Underwriting Agreement.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE CONFLICT OF LAWS PRINCIPLES OF SUCH STATE.

If the foregoing is in accordance with your understanding of the agreement among the Underwriters and the Company, please sign and return to the Company a counterpart hereof, whereupon this instrument along with all counterparts and together with the Underwriting Agreement shall be a binding agreement among the Underwriters and the Company in accordance with its terms and the terms of the Underwriting Agreement.

Very truly yours,

MINNESOTA POWER, INC.

By: \_\_\_\_\_  
Name:  
Title:

Confirmed as of the date  
first above mentioned:

PAINWEBBER INCORPORATED  
ROBERT W. BAIRD & CO. INCORPORATED  
JANNEY MONTGOMERY SCOTT INC.  
Acting on behalf of themselves  
and as the Representatives  
of the other several Underwriters

By: PAINWEBBER INCORPORATED

By: \_\_\_\_\_  
Name:  
Title:

ROBERT W. BAIRD & CO. INCORPORATED

By: \_\_\_\_\_  
Name:  
Title:

JANNEY MONTGOMERY SCOTT INC.

By: \_\_\_\_\_  
Name:  
Title:

SCHEDULE 1  
UNDERWRITERS

Name of Underwriter -----	Number of Firm Shares to be Purchased -----
PaineWebber Incorporated	
Robert W. Baird & Co. Incorporated	
Janney Montgomery Scott Inc.	
ABN AMRO Incorporated	
A.G. Edwards & Son, Inc.	
Dain Rauscher Wessels A Division of Dain Rauscher Incorporated	
EVEREN Securities, Inc.	
John G. Kinnard & Company, Inc.	
Piper Jaffray Inc.	
Total	----- 2,000,000 =====

FORM OF OPINION OF THELEN REID & PRIEST LLP

September \_\_, 1998

PaineWebber Incorporated  
Robert W. Baird & Co. Incorporated  
Janney Montgomery Scott Inc.  
As Representatives of the several Underwriters  
c/o PaineWebber Incorporated  
1285 Avenue of the Americas  
New York, New York 10019

Dear Sirs:

Reference is made to the sale by Minnesota Power, Inc. (the "Company") of an aggregate of 2,000,000 shares of its Common Stock, without par value (the "Common Stock"), and the preferred share purchase rights attached thereto (the "Rights") (the Common Stock and the Rights being collectively referred to as the "Shares"). We advise you that we have acted as counsel to the Company in connection with such issuance and sale and have participated in the preparation of (a) Registration Statement No. 333-52161, as filed by the Company with the Securities and Exchange Commission for the registration of the Shares under the Securities Act of 1933, as amended (the "Act") (such registration statement, as amended at the Effective Date (as such term is defined in the Agreement referred to below), being hereinafter referred to as the "Registration Statement"); (b) the prospectus constituting part of the Registration Statement, as amended and supplemented by a prospectus supplement dated September \_\_, 1998, relating to the Shares (such prospectus, as so amended and supplemented, being hereinafter referred to as the "Prospectus"); and (c) the Underwriting Agreement dated September \_\_, 1998, between the Company and you (the "Agreement"). All references in this opinion to the Agreement shall include the Price Determination Agreement referred to therein. In addition, we have reviewed the petition filed by the Company with the Minnesota Public Utilities Commission seeking authorization to issue the Shares, and the order issued by said Commission in response to said petition.

We have reviewed all corporate proceedings taken by the Company in respect of the issuance and sale of the Shares.

Upon the basis of our familiarity with these transactions, we are of the opinion that:

1. The Shares when paid for by the Underwriters in accordance with the terms of the Agreement will be, duly authorized, validly issued, fully paid and non-assessable and will not be subject to any preemptive or similar right; and the Rights will be validly issued.

2. An authorizing order has been issued by the Minnesota Public Utilities Commission certifying the Company's capital structure and authorizing the issuance and sale of the Shares, and, to the best of our knowledge, said order is still in full force and effect; and no further approval, authorization, consent or order of any public board or body (other than in connection or in compliance with the provisions of the securities or "Blue Sky" laws of any jurisdiction) is legally required for the authorization of the issuance and sale of the Shares.

3. The Registration Statement and the Prospectus (except as to the financial statements, statement of income and other financial or statistical data contained therein, upon which we do not pass) comply as to form in all material respects with the requirements of the Act and the applicable instructions, rules and regulations of the Securities and Exchange Commission thereunder; the Registration Statement has become, and at the date hereof the Registration Statement is, effective under the Act, and, to the best of our knowledge, no proceedings for a stop order with respect thereto are pending or threatened under Section 8 of the Act.

4. The statements set forth in the Prospectus under the captions "Description of Common Stock" and "Description of Preferred Share Purchase Rights," insofar as they purport to constitute a summary of the securities, documents and instruments therein described, are accurate and fairly present the information contained therein in all material respects.

5. The Agreement has been duly and validly authorized, executed and delivered by the Company and is a valid and legally binding obligation of the Company.

6. The Company is not an "investment company" or an entity "controlled" by an "investment company", as such terms are defined in the Investment Company Act of 1940, as amended.

In passing upon the forms of the Registration Statement and the Prospectus, we necessarily assume the correctness and completeness of the statements made or included therein by the Company and take no responsibility therefor, except insofar as such statements relate to us and as set forth in the Prospectus under the heading "Legal Opinions" and in paragraph 4 above. In the course of the preparation by the Company of the Registration Statement and the Prospectus, we have had conferences with certain of its officers and representatives, with other counsel for the Company and with PricewaterhouseCoopers LLP, the independent certified public accountants who examined certain of the Company's financial statements incorporated by reference in the Registration Statement. Our examination of the Registration Statement and the Prospectus, and our discussions in the above-mentioned conferences did not disclose to us any information which gives us reason to believe that, at the Effective Date, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the

statements therein not misleading or that the Prospectus at the time it was filed electronically with the Commission pursuant to Rule 424, and the Prospectus, as amended or supplemented at the date hereof, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. We do not express any opinion or belief as to the financial statements, statement of income or other financial or statistical data contained in the Registration Statement or in the Prospectus.

We are members of the New York Bar and do not hold ourselves out as experts on the laws of Minnesota. As to all matters of Minnesota law (and as to the incorporation of the Company, titles to property and franchises, upon which we do not pass), we have relied with your consent upon the opinion of even date herewith addressed to you by Philip R. Halverson, Esq., Vice President, General Counsel and Corporate Secretary for the Company.

Very truly yours,

THELEN REID & PRIEST LLP



FORM OF OPINION OF  
PHILIP R. HALVERSON, ESQ.  
VICE PRESIDENT, GENERAL COUNSEL  
AND CORPORATE SECRETARY OF  
MINNESOTA POWER, INC.

September \_\_, 1998

PaineWebber Incorporated  
Robert W. Baird & Co. Incorporated  
Janney Montgomery Scott Inc.  
As Representatives of the several Underwriters  
c/o PaineWebber Incorporated  
1285 Avenue of the Americas  
New York, New York 10019

Dear Sirs:

Reference is made to the sale by Minnesota Power, Inc. (the "Company") of an aggregate of 2,000,000 shares of its Common Stock, without par value (the "Common Stock"), and the preferred share purchase rights attached thereto (the "Rights") (the Common Stock and the Rights being collectively referred to as the "Shares"). I advise you that I have acted as counsel to the Company in connection with such issuance and sale and have participated in the preparation of (a) Registration Statement No. 333-52161, as filed by the Company with the Securities and Exchange Commission for the registration of the Shares under the Securities Act of 1933, as amended (the "Act") (such registration statement, as amended at the Effective Date (as such term is defined in the Agreement referred to below), being hereinafter referred to as the "Registration Statement"); (b) the prospectus constituting part of the Registration Statement, as amended and supplemented by a prospectus supplement dated September \_\_, 1998, relating to the Shares (such prospectus, as so amended and supplemented, being hereinafter referred to as the "Prospectus"); and (c) the Underwriting Agreement dated September \_\_, 1998, between the Company and you (the "Agreement"). All references in this opinion to the Agreement shall include the Price Determination Agreement referred to therein. In addition, I have reviewed the petition filed by the Company with the Minnesota Public Utilities Commission seeking authorization to issue the Shares, and the order issued by said Commission in response to said petition.

I have reviewed all corporate proceedings taken by the Company in respect of the issuance and sale of the Shares.

Upon the basis of my familiarity with these transactions and with the Company's properties and affairs generally, I am of the opinion that:

1. The Shares, when paid for by the Underwriters in accordance with the terms of the Agreement, will be duly authorized, validly issued, fully paid and non-assessable and will not be subject to any preemptive or similar right; and the Rights will be validly issued. Except for shares issuable under the Company's Automatic Dividend Reinvestment and Stock Purchase Plan, the Minnesota Power and Affiliated Companies Employee Stock Purchase Plan or any compensation plan disclosed in the Company's Proxy Statement with respect to the Company's 1998 Annual Meeting of Shareholders, to the best of my knowledge, there is no commitment or arrangement to issue, and there are no outstanding options, warrants or other rights calling for the issuance of, any share of capital stock of the Company or any subsidiary to any person or any security or other instrument that by its terms is convertible into, exercisable for or exchangeable for capital stock of the Company.

2. An authorizing order has been issued by the Minnesota Public Utilities Commission certifying the Company's capital structure and authorizing the issuance and sale of the Shares, and, to the best of my knowledge, said order is still in full force and effect; and no further approval, authorization, consent or order of any public board or body (other than in connection or in compliance with the provisions of the securities or "Blue Sky" laws of any jurisdiction) is legally required for the authorization of the issuance and sale of the Shares.

3. The Registration Statement and the Prospectus (except as to the financial statements, statement of income and other financial or statistical data contained therein, upon which I do not pass) comply as to form in all material respects with the requirements of the Act and the applicable instructions, rules and regulations of the Securities and Exchange Commission thereunder; the Registration Statement has become, and at the date hereof the Registration Statement is, effective under the Act, and, to the best of my knowledge, no proceedings for a stop order with respect thereto are pending or threatened under Section 8 of the Act.

4. The statements set forth in the Prospectus under the captions "Description of Common Stock" and "Description of Preferred Share Purchase Rights," insofar as they purport to constitute a summary of the securities, documents and instruments therein described, are accurate and fairly present the information contained therein in all material respects.

7. To the best of my knowledge, except as disclosed in the Registration Statement or the Prospectus, no person or entity has the right to require the registration under the Act of shares of Common Stock or other securities of the Company by reason of the filing or effectiveness of the Registration Statement.

5. The Company has full corporate power and authority to enter into this Agreement. The Agreement has been duly and validly authorized, executed and delivered by the Company and is a valid and legally binding obligation of the Company.

6. The Company is a validly organized and existing corporation under the laws of the State of Minnesota and is duly qualified to do business, and is doing business, in that State.

7. The Company is a public utility corporation duly authorized by its Articles of Incorporation to conduct the business which it is now conducting as set forth in the Prospectus and the Company holds valid and subsisting franchises, licenses and permits authorizing it to carry on the utility business in which it is engaged.

8. Each Material Subsidiary of the Company is a validly organized and existing corporation under the laws of the State of its incorporation and is duly qualified to do business, and is doing business, in such State and in each other State in which the failure to qualify as a foreign corporation would be material to the Company and its subsidiaries, taken as a whole.

9. Other than as stated in the Registration Statement and the Prospectus there are no pending legal proceedings to which the Company or any Material Subsidiary is a party or of which property of the Company or any Material Subsidiary is the subject, which depart from the ordinary routine litigation incident to the kind of business conducted by the Company or any such Material Subsidiary, and which is material to the Company and its subsidiaries, taken as a whole, and, to the best of my knowledge, no such proceedings are known to be contemplated by governmental authorities.

10. The portions of the answers to the items of the Registration Statement and the portions of the information contained in the Prospectus, which are stated therein to have been made on my authority as General Counsel of the Company, have been reviewed by me and, as to matters of law and legal conclusions, are correct.

11. Neither the issue and sale by the Company of the Shares as contemplated by the Agreement nor the consummation by the Company of the other transactions contemplated by the Agreement conflicts with, or results in a breach of, the charter or by-laws of the Company or any Material Subsidiary or any agreement or instrument known to me to which the Company or any Material Subsidiary is a party or by which the Company or any Material Subsidiary is bound, any law or regulation or, so far as is known to me, any order or regulation of any court, governmental instrumentality or arbitrator.

12. To the best of my knowledge, the Company is not currently in breach of, or in default under, any material written agreement or instrument to which it is a party or by which it or its property is bound or affected, and which breach or default is material to the Company and its subsidiaries, taken as a whole.

In passing upon the forms of the Registration Statement and the Prospectus, I necessarily assume the correctness and completeness of the statements made or included therein by the Company and take no responsibility therefor, except insofar as such statements relate to me and as set forth in the Prospectus under the headings "Experts" and "Legal Opinions" and in paragraphs 4 and 10 above. In the course of the preparation by the Company of the Registration Statement and the Prospectus, I had conferences with certain of its officers and representatives, with other counsel for the Company and with PricewaterhouseCoopers LLP, the independent certified public accountants who examined certain of the Company's financial statements incorporated by reference in the Registration Statement. My examination of the Registration Statement and the Prospectus, and my discussions in the above-mentioned conferences did not disclose to me any information which gives me reason to believe that, at the Effective Date, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus at the time it was filed electronically with the Commission pursuant to Rule 424, and the Prospectus, as amended or supplemented at the date hereof, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. I do not express any opinion or belief as to the financial statements, statement of income or other financial or statistical data included in the Registration Statement or in the Prospectus.

Very truly yours,

Philip R. Halverson

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MINNESOTA POWER'S CONSOLIDATED BALANCE SHEET, STATEMENT OF INCOME, AND STATEMENT OF CASH FLOW FOR THE PERIOD ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

9-MOS	DEC-31-1998	JAN-01-1998	SEP-30-1998	PER-BOOK
	1,094			
	446			
	550			
	60			
		222		
		2,371		
			520	
	0			
		314		
773		75		
		678		
		83		
	0			
0				
4				
	0			
			0	
665				
2,371				
	782			
		45		
	627			
	677			
	117			
		7		
118				
	51			
			67	
	1			
66				
	48			
	0			
	143			
		2.08		
		2.08		

Includes \$12 million of Income from Equity Investments and \$5 million of Distributions on Redeemable Preferred Securities of Subsidiary.