

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 JUNE 30, 2000

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 55802-2093
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	<input checked="" type="checkbox"/>	No
	-----	-----

Common Stock, no par value,
74,259,810 shares outstanding
as of July 31, 2000

MINNESOTA POWER, INC.

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DEFINITIONS

The following abbreviations or acronyms are used in the text.

Abbreviation or Acronym -----	Term -----
1999 Form 10-K	Minnesota Power's Annual Report on Form 10-K for the Year Ended December 31, 1999
ACE	ACE Limited
ADESA	ADESA Corporation
ADESA Canada	ADESA Canada Inc.
ADT	ADT Automotive Holdings, Inc.
AFC	Automotive Finance Corporation
AFG	Auction Finance Group, Inc.
CAG	Canadian Auction Group
Capital Re	Capital Re Corporation
Common Stock	Minnesota Power, Inc. Common Stock
Company	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.
Impact Auto	Impact Auto Auctions Ltd. and Suburban Auto Parts Inc., collectively
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
FTC	Federal Trade Commission
LTV	LTV Steel Company, Inc.
Manheim	Manheim Auctions, Inc.
MAPP	Mid-Continent Area Power Pool
Mid South	Mid South Water Systems, Inc.
Minnesota Power	Minnesota Power, Inc. and its subsidiaries
MPUC	Minnesota Public Utilities Commission
NCUC	North Carolina Utilities Commission
Note ____	Note ____ to the consolidated financial statements included in this Quarterly Report on Form 10-Q
PCUC	Palm Coast Utility Corporation
PSCW	Public Service Commission of Wisconsin
SEC	United States Securities and Exchange Commission
Spruce Creek	Spruce Creek South Utilities Inc.
Square Butte	Square Butte Electric Cooperative

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 Congress, state legislatures, 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;
- 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 that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors 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

	JUNE 30, 2000 Unaudited	DECEMBER 31, 1999 Audited
<hr/>		
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 193.7	\$ 101.5
Trading Securities	98.1	179.6
Accounts Receivable (Less Allowance of \$15.4 and \$13.9)	283.3	176.4
Inventories	26.5	24.2
Prepayments and Other	106.3	82.8
	-----	-----
Total Current Assets	707.9	564.5
Property, Plant and Equipment	1,311.5	1,258.8
Investments	109.0	197.2
Goodwill	322.2	181.0
Other Assets	109.6	111.1
	-----	-----
TOTAL ASSETS	\$ 2,560.2	\$ 2,312.6
<hr/>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 292.1	\$ 124.7
Accrued Taxes, Interest and Dividends	86.9	79.4
Notes Payable	126.7	96.5
Long-Term Debt and Preferred Stock Due Within One Year	19.2	9.1
Other	75.7	88.6
	-----	-----
Total Current Liabilities	600.6	398.3
Long-Term Debt	720.1	712.8
Accumulated Deferred Income Taxes	125.8	139.9
Other Liabilities	152.0	149.3
	-----	-----
Total Liabilities	1,598.5	1,400.3
	-----	-----
Company Obligated Mandatorily Redeemable		
Preferred Securities of Subsidiary MP&L Capital I		
Which Holds Solely Company Junior Subordinated Debentures	75.0	75.0
Redeemable Serial Preferred Stock	-	20.0
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock	11.5	11.5
Common Stock Without Par Value, 130.0 Shares Authorized		
74.2 and 73.5 Shares Outstanding	565.7	552.0
Unearned ESOP Shares	(57.5)	(59.2)
Accumulated Other Comprehensive Income (Loss)	(0.5)	2.4
Retained Earnings	367.5	310.6
	-----	-----
Total Stockholders' Equity	886.7	817.3
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,560.2	\$ 2,312.6
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The accompanying notes are an integral part of these statements.

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

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
<hr/>				
OPERATING REVENUE				
Electric Services	\$ 138.9	\$ 135.3	\$ 280.5	\$ 267.5
Automotive Services	129.7	104.0	249.2	200.8
Water Services	31.7	29.9	59.7	54.3
Investments	26.7	10.0	60.2	14.3
	-----	-----	-----	-----
Total Operating Revenue	327.0	279.2	649.6	536.9
	-----	-----	-----	-----
OPERATING EXPENSES				
Fuel and Purchased Power	55.1	52.3	109.9	99.9
Operations	199.6	170.9	399.1	334.9
Interest Expense	15.2	14.4	31.5	28.6
	-----	-----	-----	-----
Total Operating Expenses	269.9	237.6	540.5	463.4
	-----	-----	-----	-----
OPERATING INCOME BEFORE CAPITAL RE AND ACE	57.1	41.6	109.1	73.5
INCOME (LOSS) FROM INVESTMENT IN CAPITAL RE AND RELATED DISPOSITION OF ACE	48.0	(13.4)	48.0	(15.8)
	-----	-----	-----	-----
OPERATING INCOME	105.1	28.2	157.1	57.7
DISTRIBUTIONS ON REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY	1.5	1.5	3.0	3.0
INCOME TAX EXPENSE	39.4	24.8	59.5	31.9
	-----	-----	-----	-----
NET INCOME	64.2	1.9	94.6	22.8
DIVIDENDS ON PREFERRED STOCK	0.3	0.5	0.8	1.0
	-----	-----	-----	-----
EARNINGS AVAILABLE FOR COMMON STOCK	\$ 63.9	\$ 1.4	\$ 93.8	\$ 21.8
	=====	=====	=====	=====
AVERAGE SHARES OF COMMON STOCK	69.6	68.2	69.4	68.0
BASIC AND DILUTED EARNINGS PER SHARE OF COMMON STOCK	\$0.92	\$0.02	\$1.35	\$0.32
DIVIDENDS PER SHARE OF COMMON STOCK	\$0.2675	\$0.2675	\$0.535	\$0.535

The accompanying notes are an integral part of this statement.

MINNESOTA POWER
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
<hr/>		
OPERATING ACTIVITIES		
Net Income	\$ 94.6	\$ 22.8
(Gain) Loss From Investment in Capital Re and Related Disposition of ACE	(48.0)	15.8
Depreciation and Amortization	41.4	37.8
Deferred Income Taxes	(12.8)	7.6
Changes In Operating Assets and Liabilities		
Trading Securities	81.5	1.1
Accounts Receivable	(89.5)	(128.2)
Inventories	(2.3)	(0.4)
Accounts Payable	153.6	125.1
Other Current Assets and Liabilities	(28.3)	(29.9)
Other - Net	14.0	10.9
	-----	-----
Cash From Operating Activities	204.2	62.6
	-----	-----
INVESTING ACTIVITIES		
Proceeds From Sale of Investments	144.6	36.1
Additions to Investments	(27.6)	(20.1)
Additions to Property, Plant and Equipment	(56.5)	(42.7)
Acquisitions - Net of Cash Acquired	(181.0)	(64.6)
Other - Net	9.0	(1.3)
	-----	-----
Cash For Investing Activities	(111.5)	(92.6)
	-----	-----
FINANCING ACTIVITIES		
Issuance of Common Stock	13.1	14.9
Issuance of Long-Term Debt	48.8	25.6
Changes in Notes Payable - Net	30.2	83.3
Reductions of Long-Term Debt	(41.4)	(7.7)
Redemption of Preferred Stock	(10.0)	-
Dividends on Preferred and Common Stock	(37.7)	(36.5)
	-----	-----
Cash From Financing Activities	3.0	79.6
	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(3.5)	2.1
	-----	-----
CHANGE IN CASH AND CASH EQUIVALENTS	92.2	51.7
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	101.5	89.4
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 193.7	\$ 141.1
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Period For		
Interest - Net of Capitalized	\$24.0	\$30.8
Income Taxes	\$54.6	\$27.2

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 1999 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 Services	Automotive Services	Water Services	Investments	Corporate Charges

For the Quarter Ended						

June 30, 2000						

Operating Revenue	\$327.0	\$138.9	\$129.7	\$31.7	\$ 26.8	\$(0.1)
Operation and Other Expense	233.6	106.2	95.2	18.8	10.2	3.2
Depreciation and Amortization Expense	21.1	11.6	5.7	3.7	-	0.1
Interest Expense	15.2	5.3	3.8	2.5	-	3.6
-----	-----	-----	-----	-----	-----	-----
Operating Income (Loss) Before ACE	57.1	15.8	25.0	6.7	16.6	(7.0)
Income from Disposition of ACE	48.0	-	-	-	48.0	-
-----	-----	-----	-----	-----	-----	-----
Operating Income (Loss)	105.1	15.8	25.0	6.7	64.6	(7.0)
Distribution on Redeemable						
Preferred Securities of Subsidiary	1.5	0.5	-	-	-	1.0
Income Tax Expense (Benefit)	39.4	6.0	10.3	2.6	24.0	(3.5)
-----	-----	-----	-----	-----	-----	-----
Net Income (Loss)	\$ 64.2	\$ 9.3	\$ 14.7	\$ 4.1	\$ 40.6	\$(4.5)
	=====	=====	=====	=====	=====	=====

For the Quarter Ended						

June 30, 1999						

Operating Revenue	\$279.2	\$135.3	\$104.0	\$29.9	\$ 10.0	\$ -
Operation and Other Expense	203.8	104.1	75.9	17.8	3.5	2.5
Depreciation and Amortization Expense	19.4	11.4	4.4	3.4	0.1	0.1
Interest Expense	14.4	5.3	2.5	2.5	-	4.1
-----	-----	-----	-----	-----	-----	-----
Operating Income (Loss)						
Before Capital Re	41.6	14.5	21.2	6.2	6.4	(6.7)
Loss from Investment in Capital Re	(13.4)	-	-	-	(13.4)	-
-----	-----	-----	-----	-----	-----	-----
Operating Income (Loss)	28.2	14.5	21.2	6.2	(7.0)	(6.7)
Distribution on Redeemable						
Preferred Securities of Subsidiary	1.5	0.5	-	-	-	1.0
Income Tax Expense (Benefit)	24.8	5.4	9.2	2.4	10.7	(2.9)
-----	-----	-----	-----	-----	-----	-----
Net Income (Loss)	\$ 1.9	\$ 8.6	\$ 12.0	\$ 3.8	\$(17.7)	\$(4.8)
	=====	=====	=====	=====	=====	=====

Included \$26.2 million of Canadian operating revenue in 2000 (\$13.4 million in 1999).
Included \$0.2 million of minority interest in 2000 (\$0.1 million in 1999).

NOTE 1. BUSINESS SEGMENTS
Millions

	Consolidated	Electric Services	Automotive Services	Water Services	Investments	Corporate Charges

For the Six Months Ended						

June 30, 2000						

Operating Revenue	\$ 649.6	\$ 280.5	\$ 249.2	\$ 59.7	\$ 60.4	\$ (0.2)
Operation and Other Expense	467.6	213.2	185.2	36.5	25.2	7.5
Depreciation and Amortization Expense	41.4	23.1	10.5	7.5	0.1	0.2
Interest Expense	31.5	10.5	7.7	5.1	-	8.2
-----	-----	-----	-----	-----	-----	-----
Operating Income (Loss) Before ACE	109.1	33.7	45.8	10.6	35.1	(16.1)
Income from Disposition of ACE	48.0	-	-	-	48.0	-
-----	-----	-----	-----	-----	-----	-----
Operating Income (Loss)	157.1	33.7	45.8	10.6	83.1	(16.1)
Distribution on Redeemable Preferred Securities of Subsidiary	3.0	0.9	-	-	-	2.1
Income Tax Expense (Benefit)	59.5	12.8	19.2	4.1	31.0	(7.6)
-----	-----	-----	-----	-----	-----	-----
Net Income (Loss)	\$ 94.6	\$ 20.0	\$ 26.6	\$ 6.5	\$ 52.1	\$(10.6)
=====	=====	=====	=====	=====	=====	=====
Total Assets	\$2,560.2	\$ 889.4	\$1,073.8	\$324.4	\$272.1	\$ 0.5
Property, Plant and Equipment	\$1,311.5	\$ 769.4	\$ 279.5	\$262.6	-	-
Accumulated Depreciation and Amortization	\$1,018.0	\$ 650.7	\$ 162.5	\$202.8	\$ 2.0	-
Capital Expenditures	\$ 56.5	\$ 20.4	\$ 24.5	\$ 11.6	-	-

For the Six Months Ended

June 30, 1999

Operating Revenue	\$ 536.9	\$ 267.5	\$ 200.8	\$ 54.3	\$ 14.4	\$ (0.1)
Operation and Other Expense	397.0	201.9	148.8	33.5	7.6	5.2
Depreciation and Amortization Expense	37.8	22.3	8.6	6.6	0.1	0.2
Interest Expense	28.6	10.6	4.9	4.9	-	8.2
-----	-----	-----	-----	-----	-----	-----
Operating Income (Loss) Before Capital Re	73.5	32.7	38.5	9.3	6.7	(13.7)
Loss from Investment in Capital Re	(15.8)	-	-	-	(15.8)	-
-----	-----	-----	-----	-----	-----	-----
Operating Income (Loss)	57.7	32.7	38.5	9.3	(9.1)	(13.7)
Distribution on Redeemable Preferred Securities of Subsidiary	3.0	0.9	-	-	-	2.1
Income Tax Expense (Benefit)	31.9	12.2	16.9	3.6	5.7	(6.5)
-----	-----	-----	-----	-----	-----	-----
Net Income (Loss)	\$ 22.8	\$ 19.6	\$ 21.6	\$ 5.7	\$(14.8)	\$ (9.3)
=====	=====	=====	=====	=====	=====	=====
Total Assets	\$2,438.3	\$1,018.7	\$ 733.0	\$322.3	\$363.9	\$ 0.4
Property, Plant and Equipment	\$1,220.4	\$ 766.7	\$ 199.5	\$254.2	-	-
Accumulated Depreciation and Amortization	\$ 865.7	\$ 617.7	\$ 49.2	\$197.0	\$ 1.8	-
Capital Expenditures	\$ 42.7	\$ 20.9	\$ 12.5	\$ 9.3	-	-

Included \$44.3 million of Canadian operating revenue in 2000 (\$24.8 million in 1999).

Included \$227.9 million of Canadian assets in 2000 (\$100.7 million in 1999).

Included \$0.4 million of minority interest in 2000 (\$0.2 million in 1999).

NOTE 2. REGULATORY MATTERS

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 in January 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 1998 order, the FPSC required Florida Water to refund, with interest, \$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. 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 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 in May 1998. In June 1998 the Court of Appeals reversed its previous ruling that the FPSC was without authority to order uniform rates at which time 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 filed amended briefs in September 1998. A provision for refund related to the \$2.5 million refund order was recorded in the third quarter of 1999. A decision is not expected before 2001. The Company is unable to predict the timing or outcome of the appeals process.

NOTE 3. INCOME TAX EXPENSE

	Quarter Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999

Millions				
Current Tax				
Federal	\$ 43.1	\$ 12.5	\$ 62.7	\$ 22.5
Foreign	0.6	0.5	1.1	0.9
State	5.2	(0.7)	8.5	0.9
	-----	-----	-----	-----
	48.9	12.3	72.3	24.3
	-----	-----	-----	-----
Deferred Tax				
Federal	(8.3)	13.3	(10.6)	11.7
Foreign	(0.2)	-	(0.3)	-
State	(0.8)	(0.5)	(1.3)	(3.4)
	-----	-----	-----	-----
	(9.3)	12.8	(12.2)	8.3
	-----	-----	-----	-----
Deferred Tax Credits	(0.2)	(0.3)	(0.6)	(0.7)
	-----	-----	-----	-----
Total Income Tax Expense	\$ 39.4	\$ 24.8	\$ 59.5	\$ 31.9

NOTE 4. TOTAL COMPREHENSIVE INCOME

For the quarter ended June 30, 2000 total comprehensive income was \$42.7 million (\$1.5 million loss for the quarter ended June 30, 1999). For the six months ended June 30, 2000 total comprehensive income was \$91.7 million (\$20.4 million for the six months ended June 30, 1999). Total comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale, and foreign currency translation adjustments.

NOTE 5. ACQUISITIONS

ADESA AUCTION FACILITIES. On June 20, 2000 ADESA acquired all of the outstanding common shares of Auction Finance Group, Inc. (AFG). AFG, which is headquartered in Miami, Florida, owns CAAG Auto Auction Holdings Ltd., a wholesale automotive remarketing company with locations throughout Canada, doing business as Canadian Auction Group. The transaction was accounted for using the purchase method which included an estimated allocation of the purchase price. Final purchase accounting adjustments are not expected to be material. Financial results have been included in the Company's consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality. This acquisition added 13 vehicle auction facilities and associated dealer financing business to ADESA's existing locations and established ADESA as the premier automotive services company in Canada.

On May 31, 2000 ADESA Canada purchased the remaining 27 percent of Impact Auto. ADESA Canada acquired 20 percent of Impact Auto on October 1, 1995, 27 percent in March 1999 and another 26 percent in January 2000. The transaction was accounted for using the purchase method. Financial results have been included in the Company's consolidated financial statements since the date of each purchase. Pro forma financial results have not been presented due to immateriality. Impact Auto is Canada's largest national salvage auction chain with 11 sites in six provinces. Impact Auto provides remarketing services to insurance companies for their "total loss" vehicles.

On February 7, 2000 ADESA purchased the Mission City Auto Auction in San Diego, California. The transaction was accounted for using the purchase method. Financial results have been included in the Company's consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality. The Mission City auction, which has been renamed ADESA San Diego, operates six auction lanes on 30 acres with full reconditioning facilities.

The transactions described in the three preceding paragraphs had a combined purchase price of approximately \$175.5 million and resulted in goodwill of \$145.9 million, which the Company expects to amortize over a 40-year useful life. The Company funded these transactions with proceeds from the sale of ACE shares and proceeds from the sale of a portion of the Company's securities portfolio.

SPRUCE CREEK SOUTH UTILITIES INC. On June 29, 2000 Florida Water purchased the assets of Spruce Creek for \$5.5 million, plus a commitment to pay a fee for water connections through June 2005. The transaction was accounted for using the purchase method. Financial results have been included in the Company's consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality. Spruce Creek serves 3,100 water and 2,500 wastewater customers in three communities in Marion County, Florida. The systems acquired are designed to accommodate 10,000 customers. The Company funded this transaction with internally generated funds.

NOTE 6. INVESTMENTS IN CAPITAL RE AND ACE

In May 2000 Minnesota Power recorded a \$30.4 million, or \$0.44 per share, after-tax gain on the sale of the 4.7 million shares of ACE that Minnesota Power received in December 1999 when Capital Re merged with ACE. As a result of the merger, in 1999 Minnesota Power recorded a \$36.2 million, or \$0.52 per share, after-tax non-cash charge as follows: a \$24.1 million, or \$0.35 per share, charge in the second quarter following the merger agreement and discontinuance of Minnesota Power's equity accounting for Capital Re and a \$12.1 million, or \$0.17 per share, charge in the fourth quarter upon completion of the merger.

NOTE 7. LONG-TERM DEBT

On March 30, 2000 ADESA issued \$35 million of 8.10% Senior Notes, Series B, due March 30, 2010. Proceeds were used to refinance short-term bank indebtedness incurred for the acquisition of vehicle auction facilities purchased in 1999 and for general corporate purposes.

On June 22, 2000 Minnesota Power refinanced \$4.6 million of 6.875% Pollution Control Revenue Refunding Bonds, Series 1991-A with \$4.6 million of Adjustable Rate Pollution Control Revenue Refunding Bonds Series 2000 due December 1, 2015. The new bonds had an initial rate of 4.75%.

On June 29, 2000 Heater issued an \$8 million, 8.24%, note to COBANK, ACB, due June 20, 2025. Proceeds were used to refinance short-term indebtedness incurred for the 1999 acquisition of Mid South and capital improvements in 1999 and 2000.

NOTE 8. PREFERRED STOCK

In April 2000 the Company redeemed all 100,000 shares of Redeemable Serial Preferred Stock A, \$7.125 Series for an aggregate of \$10 million. Proceeds from the Company's securities portfolio were used to fund this redemption.

NOTE 9. SQUARE BUTTE PURCHASED POWER CONTRACT

The Company has a power purchase agreement with Square Butte that extends through 2026 (Agreement). It provides a long-term supply of low-cost energy to customers in the Company's electric service territory and enables the Company to meet power pool reserve requirements. Square Butte, a North Dakota cooperative corporation, owns a 455-megawatt coal-fired generating unit (Unit) near Center, North Dakota. The Unit is adjacent to a generating unit owned by Minnkota Power Cooperative, Inc. (Minnkota), a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota serves as the operator of the Unit and also purchases power from Square Butte.

The Company is entitled to approximately 71 percent of the Unit's output under the Agreement. After 2005 and upon compliance with a two-year advance notice requirement, Minnkota has the option to reduce the Company's entitlement by 5 percent annually, to a minimum of 50 percent. The Company is obligated to pay its pro rata share of Square Butte's costs based on the Company's entitlement to Unit output. 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. Square Butte's fixed costs consist primarily of debt service. At June 30, 2000 Square Butte had total debt outstanding of \$329.6 million. Total annual debt service for Square Butte is expected to be approximately \$36 million in each of the years 2000 through 2003 and \$23 million in 2004. 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 expense for ratemaking purposes by both the MPUC and FERC.

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

MINNESOTA POWER is a multi-services company with operations in four business segments: (1) ELECTRIC SERVICES, which include electric and gas services, coal mining and telecommunications; (2) AUTOMOTIVE SERVICES, which include a network of vehicle auctions, a finance company, an auto transport company, a vehicle remarketing company and a company that provides field information services; (3) WATER SERVICES, which include water and wastewater services; and (4) INVESTMENTS, which include a securities portfolio, intermediate-term investments and real estate operations. Corporate charges represent general corporate expenses, including interest, not specifically related to any one business segment.

CONSOLIDATED OVERVIEW

For the quarter and six months ended June 30, 2000 the Company reported continued strong performance across all business segments. Significant acquisitions and growth in Automotive Services and the performance of Investments contributed to higher operating results in 2000.

Excluding the Capital Re and ACE transactions (see net income discussion for Investments below), net income for the second quarter of 2000 increased 30 percent over the second quarter of 1999 and net income for the six months ended June 30, 2000 increased 37 percent over the same period in 1999. Excluding the Capital Re and ACE transactions, earnings per share were \$0.48 for the second quarter of 2000, an increase of 30 percent over the second quarter of 1999 and earnings per share were \$0.91 per share for the six months ended June 30, 2000, a 36 percent increase over the same period in 1999.

	Quarter Ended June 30,		Year to Date June 30,	
	2000	1999	2000	1999

Millions				
Operating Revenue				
Electric Services	\$138.9	\$135.3	\$280.5	\$267.5
Automotive Services	129.7	104.0	249.2	200.8
Water Services	31.7	29.9	59.7	54.3
Investments	26.8	10.0	60.4	14.4
Corporate Charges	(0.1)	-	(0.2)	(0.1)
	-----	-----	-----	-----
	\$327.0	\$279.2	\$649.6	\$536.9
Operating Expenses				
Electric Services	\$123.1	\$120.8	\$246.8	\$234.8
Automotive Services	104.7	82.8	203.4	162.3
Water Services	25.0	23.7	49.1	45.0
Investments	10.2	3.6	25.3	7.7
Corporate Charges	6.9	6.7	15.9	13.6
	-----	-----	-----	-----
	\$269.9	\$237.6	\$540.5	\$463.4
Net Income				
Electric Services	\$ 9.3	\$ 8.6	\$ 20.0	\$ 19.6
Automotive Services	14.7	12.0	26.6	21.6
Water Services	4.1	3.8	6.5	5.7
Investments	10.2	6.4	21.7	9.3
Corporate Charges	(4.5)	(4.8)	(10.6)	(9.3)
	-----	-----	-----	-----
	33.8	26.0	64.2	46.9
Capital Re and ACE Transactions	30.4	(24.1)	30.4	(24.1)
	-----	-----	-----	-----
	\$ 64.2	\$ 1.9	\$ 94.6	\$ 22.8

Basic and Diluted Earnings Per Share of Common Stock				
Before Capital Re and ACE Transactions	\$ 0.48	\$ 0.37	\$ 0.91	\$ 0.67
Capital Re and ACE Transactions	0.44	(0.35)	0.44	(0.35)
	-----	-----	-----	-----
	\$ 0.92	\$ 0.02	\$ 1.35	\$ 0.32
Average Shares of Common Stock - Millions	69.6	68.2	69.4	68.0

Including the \$30.4 million gain associated with the ACE transaction, net income from Investments was \$40.6 million for the quarter ended June 30, 2000 and \$52.1 million for the six months ended June 30, 2000. (See Note 6.)

Including the \$24.1 million non-cash charge associated with the Capital Re transaction, net income from

Investments was a \$17.7 million loss for the quarter ended June 30, 1999 and a \$14.8 million loss for the six months ended June 30, 1999. (See Note 6.)

NET INCOME

The following net income discussion summarizes significant events for the six months ended June 30, 2000.

ELECTRIC SERVICES reflected stable net income in 2000 with growth in megawatthour sales offset by associated expenses.

AUTOMOTIVE SERVICES reported higher net income in 2000 due to increased sales activity at ADESA auctions facilities and increased financing activity at AFC's loan production offices. During 2000 ADESA acquired or opened 16 new vehicle auction facilities, completed the acquisition of 11 salvage auction facilities and announced plans to purchase 9 additional vehicle auction facilities in the third quarter of 2000.

WATER SERVICES generated higher net income in 2000 due to increased water consumption as a result of drier weather conditions and customer growth. Net income in 2000 also reflected higher rates approved by the FPSC in 1999.

INVESTMENTS reported higher net income in 2000 because of significant sales by the Company's real estate operations, improved returns on the Company's securities portfolio and gains on intermediate-term investments in emerging technologies relating to the electric industry.

In May 2000 Minnesota Power recorded a \$30.4 million, or \$0.44 per share, after-tax gain on the sale of the 4.7 million shares of ACE that Minnesota Power received in December 1999 when Capital Re merged with ACE. As a result of the merger, in 1999 Minnesota Power recorded a \$36.2 million, or \$0.52 per share, after-tax non-cash charge as follows: a \$24.1 million, or \$0.35 per share, charge in the second quarter following the merger agreement and discontinuance of Minnesota Power's equity accounting for Capital Re and a \$12.1 million, or \$0.17 per share, charge in the fourth quarter upon completion of the merger.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2000 AND 1999

OPERATING REVENUE

ELECTRIC SERVICES operating revenue was up \$3.6 million in 2000, even though total megawatthour sales were about the same as in 1999. Megawatthour sales from retail customers were 5 percent higher in 2000 and contributed \$3.8 million more to revenue. The increase was primarily due to higher requirements from large industrial customers. Megawatthour sales from wholesale power marketing activities decreased 28 percent in 2000 and contributed \$2.3 million less to revenue due to cooler weather in 2000. Non-regulated subsidiaries within Electric Services contributed \$1.1 million more to revenue in 2000.

Revenue from electric sales to taconite customers accounted for 13 percent of consolidated operating revenue in 2000 (14 percent in 1999). Electric sales to paper and pulp mills accounted for 5 percent of consolidated operating revenue in both 2000 and 1999. Sales to other power suppliers accounted for 6 percent of consolidated operating revenue in 2000 (8 percent in 1999).

AUTOMOTIVE SERVICES operating revenue was up \$25.7 million in 2000 primarily due to a 14 percent increase in vehicles sold through ADESA auction facilities and a 16 percent increase in the number of vehicles financed at AFC loan production offices. At ADESA auction facilities 307,000 vehicles were sold in 2000 (270,000 in 1999). The increase in vehicles sold was primarily attributable to new auctions acquired or opened in 1999 and 2000. Financial results for 2000 included three months of operations for one auction facility acquired in July of 1999, one auction facility acquired in February 2000 and two auction facilities opened in April 2000. Financial results for 2000 also reflected one month of operations for 11 salvage auctions acquired in May 2000 and a partial month of operations for 13 auction facilities acquired in June 2000. AFC financed approximately 202,000 vehicles in 2000 (175,000 in 1999). AFC had 86 loan production offices at June 30, 2000 (84 at June 30, 1999).

WATER SERVICES operating revenue was up \$1.8 million in 2000 because of a 10 percent increase in water consumption. Drier weather conditions, customer growth and the inclusion of water systems acquired during 1999 and early 2000 led to the increase in water consumption. In addition, revenue in 2000 was \$0.3 million higher due to higher rates approved by the FPSC in 1999.

INVESTMENTS operating revenue was up \$16.8 million in 2000. Significant sales by the Company's real estate operations were the primary reason for the increase. In 2000 revenue from real estate operations was \$15.1 million higher. The increase was primarily attributed to four large sales that contributed \$13.1 million to revenue. Revenue from Investments was also higher due to \$2.7 million of gains on intermediate-term investments in emerging technologies relating to the electric industry.

OPERATING EXPENSES

ELECTRIC SERVICES operating expenses were up \$2.3 million in 2000 primarily due to increased fuel expense. Fuel expense was \$5.8 million higher in 2000 because the Company paid higher prices for coal and generated 422,000, or 36 percent, more megawatthours. Purchased power expense was \$3.0 million lower in 2000 because the Company purchased 411,000, or 37 percent, fewer megawatthours. During 1999 one of the Company's generating plants was down for scheduled maintenance which forced the Company to incur higher purchased power expense in 1999 to meet requirements.

AUTOMOTIVE SERVICES operating expenses were up \$21.9 million in 2000 primarily due to the inclusion of new vehicles auctions facilities acquired or opened in late 1999 and 2000. Increased sales activity at existing auction facilities and financing activity at the automobile dealer floorplan financing business also increased operating expenses in 2000.

WATER SERVICES operating expenses were up \$1.3 million in 2000 due to the inclusion of water systems acquired in the second quarter of 1999 and early 2000.

INVESTMENTS operating expenses were up \$6.6 million in 2000 due to the cost of property sold by the Company's real estate operations.

INCOME (LOSS) FROM INVESTMENT IN CAPITAL RE AND RELATED DISPOSITION OF ACE

Income (loss) from investment in Capital Re and related disposition of ACE reflected a \$48 million gain on the disposition of ACE shares in 2000 and a \$16.1 million non-cash charge associated with the loss on the Capital Re share exchange at June 30, 1999.

INCOME TAX EXPENSE

Income tax expense was up \$14.6 million in 2000 primarily due to the gain on the disposition of ACE shares and increased operating income. In 1999 income tax expense included the recognition of \$15.0 million of deferred taxes related to the Company's investment in Capital Re.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2000 AND 1999

OPERATING REVENUE

ELECTRIC SERVICES operating revenue was up \$13.0 million in 2000 primarily due to a 5 percent increase in megawatthour sales. More sales from wholesale power marketing activities and higher requirements by large industrial customers led to the increase in megawatthour sales. Megawatthour sales from wholesale power marketing activities increased 6 percent in 2000 and contributed \$2.1 million more to revenue, while megawatthour sales to industrial customers increased 5 percent in 2000 and contributed \$4.4 million more to revenue. Residential and commercial megawatthour sales were up 2 percent in 2000 and contributed \$1.8 million more to revenue. In addition, non-regulated subsidiaries within Electric Services contributed \$1.9 million more to revenue in 2000.

Revenue from electric sales to taconite customers accounted for 13 percent of consolidated operating revenue in 2000 (15 percent in 1999). Electric sales to paper and pulp mills accounted for 5 percent of consolidated operating revenue in both 2000 and 1999. Sales to other power suppliers accounted for 6 percent of consolidated operating revenue in 2000 (7 percent in 1999).

AUTOMOTIVE SERVICES operating revenue was up \$48.4 million in 2000 primarily due to a 14 percent increase in vehicles sold through ADESA auction facilities and a 23 percent increase in the number of vehicles financed at AFC loan production offices. At ADESA auction facilities 602,000 vehicles were sold in 2000 (530,000 in 1999). The increase in vehicles sold was primarily attributable to new auctions acquired or opened in 1999 and 2000. Financial results for 2000 included six months of operations for two auction facilities acquired in 1999, five months of operations for one auction facility acquired in February 2000 and three months of operations for two auction facilities opened in April 2000. Financial results for 2000 also reflected one month of operations for 11 salvage auctions acquired in May 2000 and a partial month of operations for 13 auction facilities acquired in June 2000. AFC financed approximately 397,000 vehicles in 2000 (323,000 in 1999). AFC had 86 loan production offices at June 30, 2000 (84 at June 30, 1999).

WATER SERVICES operating revenue was up \$5.4 million in 2000 because of a 13 percent increase in water consumption. Drier weather conditions, customer growth and the inclusion of water systems acquired during 1999 and early 2000 led to the increase in water consumption. In addition, revenue in 2000 was \$0.5 million higher due to higher rates approved by the FPSC in 1999.

INVESTMENTS operating revenue was up \$46.0 million in 2000. Significant sales by the Company's real estate operations were the primary reason for the increase. In 2000 seven large sales contributed \$31.9 million to revenue. Improved returns from the securities portfolio and the \$6.3 million of gains on intermediate-term investments in emerging technologies relating to the electric industry also contributed to higher operating revenue from Investments in 2000. The Company's securities portfolio recorded an after-tax return of 6.02 percent in 2000 (3.32 percent in 1999).

OPERATING EXPENSES

ELECTRIC SERVICES operating expenses were up \$12.0 million in 2000 primarily due to increased fuel and purchased power expenses. Fuel expense was \$5.8 million higher in 2000 because the Company paid higher prices for coal and generated 418,000, or 15 percent, more megawatthours to support the higher requirements of industrial retail customers. Purchased power expense was \$4.2 million higher in 2000 because of increased prices in the wholesale market and more megawatthours bought to meet MPEX's marketing activities in the first quarter of 2000. MPEX is the Company's wholesale power marketing division.

AUTOMOTIVE SERVICES operating expenses were up \$41.1 million in 2000 primarily due to the inclusion of new vehicles auctions facilities acquired or opened in 1999 and 2000. Increased sales activity at the auction facilities and financing activity at the automobile dealer floorplan financing business also increased operating expenses in 2000.

WATER SERVICES operating expenses were up \$4.1 million in 2000 due to the inclusion of water systems acquired in the second quarter of 1999 and early 2000.

INVESTMENTS operating expenses were up \$17.6 million in 2000 due to the cost of property sold by the Company's real estate operations.

INCOME (LOSS) FROM INVESTMENT IN CAPITAL RE AND RELATED DISPOSITION OF ACE

Income (loss) from investment in Capital Re and related disposition of ACE reflected a \$48 million gain on the disposition of ACE shares in 2000 and a \$16.1 million non-cash charge associated with the loss on the Capital Re share exchange at June 30, 1999.

INCOME TAX EXPENSE

Income tax expense was up \$27.6 million in 2000 primarily due to the gain on the disposition of the ACE shares and increased operating income. In 1999 income tax expense included the recognition of \$15.0 million of deferred taxes related to the Company's investment in Capital Re.

OUTLOOK

ELECTRIC SERVICES. As the electric industry continues to restructure, the contribution from Electric Services is expected to remain stable with a solid customer base. Approximately half of the electricity the Company sells is to Large Power Customers, primarily taconite producers, which have long-term all-requirements contracts. Approximately 80 percent of the ore consumed by integrated steel facilities in the Great Lakes region originates from five taconite customers of Minnesota Power.

On May 24, 2000 LTV announced its intention to close permanently its taconite pellet operation in Hoyt Lakes, Minnesota because it is no longer able to provide taconite pellets of competitive quality or cost. The financial impact of the LTV closure on Minnesota Power is minimal because LTV is not a Large Power Customer. LTV plans to close in the summer of 2001.

The domestic steel industry continues to face high levels of imported products. Through May 2000, finished steel imports, at 12,599,000 net tons, were 17 percent higher than in the same period in 1999 and remain on pace to exceed 30 million tons this year. In 1999 the United States imported 35,657,000 tons of steel, higher than any year except 1998. Overall steel prices remain somewhat depressed.

On a national level, despite the high level of imports, the strong U.S. economy continues to help fuel demand for domestically produced steel.

AUTOMOTIVE SERVICES. ADESA is the second largest and the fastest growing vehicle auction business in North America. In May 2000 ADESA purchased the remaining 27 percent ownership in Impact Auto, which added 11 salvage auctions to the Automotive Services segment. The June 2000 acquisition of AFG added 13 Canadian vehicle auction facilities and associated dealer financing business to ADESA and established ADESA as the premier automotive services company in Canada. The ADESA/Manheim transaction, which is scheduled to close in the third quarter of 2000, will add nine vehicle auction facilities to ADESA. These acquisitions are expected to increase the number of vehicles sold by 60 percent in the near term with additional growth potential in the future. ADESA currently owns (or leases) and operates 45 vehicle auction facilities throughout the United States and Canada. Once the Manheim transaction closes and operations begin at the Calgary auction, which is under construction, ADESA will have 55 vehicle auction facilities. By the end of 2000 AFC will exit 17 of the 21 ADT auctions where it now has loan production offices. AFC plans to continue to serve these areas from newly established loan production offices or from other existing offices. AFC does not anticipate that the relocations will have a material financial impact.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITIES. Cash flow from operations during the six months ended June 30, 2000 reflected improved operating results and continued focus on working capital management. Cash from operating activities was also affected by a number of factors representative of normal operations.

WORKING CAPITAL. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. In addition, securities investments can be liquidated to provide funds for reinvestment in existing businesses or acquisition of new businesses and approximately 6 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 for services provided. However, ADESA has arrangements to use the 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 has arrangements to use 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 to 45 days. AFC sells certain finance receivables on a revolving basis to a wholly owned, unconsolidated, qualified special purpose subsidiary. This subsidiary in turn sells, on a revolving basis, an undivided interest in eligible finance receivables, up to a maximum at any one time outstanding of \$300 million, to third party

purchasers under an agreement which expires at the end of 2002. At June 30, 2000 AFC had sold \$333.1 million of finance receivables to the special purpose subsidiary (\$296.8 million at December 31, 1999). Third party purchasers had purchased an undivided interest in finance receivables of \$237 million from this subsidiary at June 30, 2000 (\$225 million at December 31, 1999). Unsold finance receivables held by the special purpose subsidiary are recorded by AFC as residual interest at fair value. Fair value is based upon estimates of future cash flows, using assumptions that market participants would use to value such instruments, including estimates of anticipated credit losses over the life of the receivables sold; a discount rate was not used due to the short-term nature of the receivables sold. The fair value of AFC's residual interest was \$79.5 million at June 30, 2000 (\$57.6 million at December 31, 1999). Proceeds from the sale of the receivables were used to repay borrowings from the Company and fund vehicle inventory purchases for AFC's customers.

Significant changes in accounts receivable and accounts payable balances at June 30, 2000 compared to December 31, 1999 were due to increased sales and financing activity at Automotive Services. Typically auction volumes are down during the winter months and in December because of the holidays. As a result, both ADESA and AFC had lower receivables and fewer payables at year end.

SALE OF INVESTMENTS. In May 2000 Minnesota Power sold its 4.7 million shares of ACE. Minnesota Power received the ACE shares and \$25 million in cash in December 1999 when Capital Re merged with ACE. Prior to the merger, Minnesota Power owned 7.3 million shares, or 20 percent, of Capital Re. The \$127 million in proceeds from the sale of ACE shares and proceeds from the sale of a portion of the Company's securities portfolio were used to fund the acquisitions of AFG and Impact Auto.

ACQUISITIONS. In February 2000 ADESA purchased the Mission City Auto Auction in San Diego, California. The Mission City auction, which has been renamed ADESA San Diego, operates six auction lanes on 30 acres with full reconditioning facilities.

In May 2000 ADESA Canada purchased the remaining 27 percent of Impact Auto. ADESA Canada acquired 20 percent of Impact Auto on October 1, 1995, 27 percent in March 1999 and another 26 percent in January 2000. Impact is Canada's largest national salvage auction chain with 11 sites in six provinces. Impact Auto provides remarketing services to insurance companies for their "total loss" vehicles.

In June 2000 ADESA acquired all of the outstanding common shares of AFG. AFG, which is headquartered in Miami, Florida, owns CAAG Auto Auction Holdings Ltd., a wholesale automotive remarketing company with locations throughout Canada, doing business as Canadian Auction Group. The acquisition of AFG added 13 vehicle auction facilities and associated dealer financing business to ADESA's existing locations and established ADESA as the premier automotive services company in Canada.

The transactions described in the three preceding paragraphs had a combined purchase price of approximately \$175.5 million. The Company funded these transactions with proceeds from the sale of ACE shares and proceeds from the sale of a portion of the Company's securities portfolio.

In July 2000 ADESA signed a definitive agreement with Manheim to buy eight ADT auctions and one Manheim auction for \$251 million. In January 2000 Manheim agreed to purchase 28 ADT auctions. Following FTC review of the Manheim/ADT transaction, Manheim agreed to sell the nine auctions ADESA intends to purchase. The ADESA/Manheim transaction is subject to approval by the FTC and satisfaction of various other customary conditions. Closing is anticipated in the third quarter of 2000. The Company expects to finance the transaction through the issuance of long-term debt. As a result of these transactions, by the end of 2000 AFC will exit 17 of the 21 ADT auctions where it now has loan production offices. AFC plans to continue to serve these areas from newly established loan production offices or from other existing offices. AFC does not anticipate that the relocations will have a material financial impact.

In June 2000 Florida Water purchased the assets of Spruce Creek for \$5.5 million, plus a commitment to pay fees for water connections through June 2005. Spruce Creek serves 3,100 water and 2,500 wastewater customers in three communities in Marion County, Florida. The systems acquired are designed to accommodate 10,000 customers. The Company funded this transaction with internally generated funds.

LONG-TERM DEBT. In March 2000 ADESA issued \$35 million of 8.10% Senior Notes, Series B, due March 30, 2010. Proceeds were used to refinance short-term bank indebtedness incurred for the acquisition of vehicle auction facilities purchased in 1999 and for general corporate purposes.

In June 2000 Minnesota Power refinanced \$4.6 million of 6.875% Pollution Control Revenue Refunding Bonds, Series 1991-A with \$4.6 million of Adjustable Rate Pollution Control Revenue Refunding Bonds Series 2000 due December 1, 2015. The new bonds had an initial rate of 4.75%.

In June 2000 Heater issued an \$8 million, 8.24%, note to COBANK, ACB, due June 20, 2025. Proceeds were used to refinance short-term indebtedness incurred for the 1999 acquisition of Mid South and capital improvements in 1999 and 2000.

On July 21, 2000 the Company filed a registration statement with the SEC pursuant to Rule 415 under the Securities Act of 1933 for an aggregate of \$400 million of first mortgage bonds and debt securities. The registration statement has not yet been declared effective by the SEC. Any offer and sale of the first mortgage bonds and debt securities will be made only by means of a prospectus.

PREFERRED STOCK. In April 2000 the Company redeemed all 100,000 shares of Redeemable Serial Preferred Stock A, \$7.125 Series for an aggregate of \$10 million. In July 2000 the Company redeemed all 100,000 shares of Redeemable Serial Preferred Stock A, \$6.70 Series for an aggregate of \$10 million. Proceeds from the sale of a portion of the Company's securities portfolio were used to fund these redemptions.

In July 2000 the Company called all 113,358 outstanding shares of 5% Preferred Stock at \$102.50 per share plus accrued and unpaid dividends of \$0.75 per share. The redemption date is August 24, 2000. Internally generated funds will be used to fund this redemption.

LEASES. In April 2000 leases for three ADESA auction facilities (Boston, Charlotte and Knoxville) were refinanced in a \$28.4 million leveraged lease transaction. The new lease expires on April 1, 2010, but may be terminated after 2005 under certain conditions. Minnesota Power has guaranteed ADESA's obligations under the lease.

CAPITAL REQUIREMENTS. Consolidated capital expenditures for the six months ended June 30, 2000 totaled \$56.5 million (\$42.7 million in 1999). Expenditures for 2000 included \$20.4 million for Electric Services, \$24.5 million for Automotive Services and \$11.6 million for Water Services. Internally generated funds and the issuance of long-term debt were the primary sources of funding for these expenditures.

NEW ACCOUNTING STANDARDS

In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137, effective for fiscal years beginning after June 15, 2000. 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. The Company currently believes it has only a limited amount of derivative activity and adoption of SFAS 133 is not expected to have a material impact on the Company's financial position and results of operations.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's securities portfolio has exposure to both price and interest rate risk. Investments held principally for near-term sale are classified as trading securities and recorded at fair value. Trading securities consist primarily of the common stock of publicly traded companies. In strategies designed to hedge overall market risks, the Company also sells common stock short. Investments held for an indeterminate period of time are classified as available-for-sale securities and also recorded at fair value. Available-for-sale securities consisted of securities in a grantor trust established to fund certain employee benefits. In May 2000 Minnesota Power sold its entire investment in ACE. (See Note 6.)

June 30, 2000	Fair Value
-----	-----
Millions	
Trading Securities Portfolio	\$98.1
Available-For-Sale Securities Portfolio	\$15.6
-----	-----

PART II. OTHER INFORMATION

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

- (a) The Company held its Annual Meeting of Shareholders on May 12, 2000.
- (b) Not applicable.
- (c) The election of directors and the appointment of independent accountants were voted on at the Annual Meeting of Shareholders.

The results were as follows:

Directors	Votes For	Votes Withheld or Against	Abstentions	Broker Nonvotes
-----	-----	-----	-----	-----
Kathleen A. Brekken	60,712,617	969,462	-	-
Merrill K. Cragun	60,781,641	900,438	-	-
Dennis E. Evans	60,668,305	1,013,774	-	-
Glenda E. Hood	60,689,798	992,281	-	-
Peter J. Johnson	60,816,228	865,851	-	-
George L. Mayer	60,827,600	854,479	-	-
Jack I. Rajala	60,774,686	907,393	-	-
Edwin L. Russell	55,351,436	6,330,643	-	-
Arend J. Sandbulte	58,430,776	3,251,303	-	-
Nick Smith	60,741,616	940,463	-	-
Bruce W. Stender	60,832,047	850,032	-	-
Donald C. Wegmiller	58,440,100	3,241,979	-	-

Independent Accountants

PricewaterhouseCoopers LLP	60,675,157	474,377	532,545	-

- (d) Not applicable.

ITEM 5. OTHER INFORMATION

Reference is made to the Company's 1999 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to the Company's 1999 Form 10-K.

Ref. Page 4. - First and Second Paragraphs

Ref. 10-Q for the quarter ended March 31, 2000, Page 11. - Third and Fourth Paragraphs

The domestic steel industry continues to face high levels of imported products. Through May 2000, finished steel imports, at 12,599,000 net tons, were 17 percent higher than in the same period in 1999 and remain on pace to exceed 30 million tons this year. In 1999 the United States imported 35,657,000 tons of steel, higher than any year except 1998. Overall steel prices remain somewhat depressed.

On a national level, despite the high level of imports, the strong U.S. economy continues to help fuel demand for domestically produced steel.

Ref. Page 5. - Second Paragraph

On May 24, 2000 LTV announced its intention to close permanently its taconite pellet operation in Hoyt Lakes, Minnesota because it is no longer able to provide taconite pellets of competitive quality or cost. The financial impact of the LTV closure on Minnesota Power is minimal because LTV is not a full-requirements customer. LTV plans to close in the summer of 2001.

Ref. Page 9. - Fourth Full Paragraph

Ref. 10-Q for the quarter ended March 31, 2000, Page 12. - Second Full Paragraph

During the second quarter of 2000 Split Rock Energy LLC received the necessary regulatory approvals and began operations in June 2000.

Ref. Page 12. - Third Full Paragraph

Ref. 10-Q for the quarter ended March 31, 2000, Page 9. - Third Paragraph
Ref. 8-K filed June 28, 2000

On July 28, 2000 ADESA signed a definitive agreement with Manheim to buy eight ADT auctions and one Manheim auction for \$251 million. In January 2000 Manheim agreed to purchase 28 ADT auctions. Following FTC review of the Manheim/ADT transaction, Manheim agreed to sell the nine auctions ADESA intends to purchase. The ADESA/Manheim transaction is subject to approval by the FTC and satisfaction of various other customary conditions. Closing is anticipated in the third quarter of 2000. The Company expects to finance the transaction through the issuance of long-term debt. As a result of these transactions, by the end of 2000 AFC will exit 17 of the 21 ADT auctions where it now has loan production offices. AFC plans to continue to serve these areas from newly established loan production offices or from other existing offices. AFC does not anticipate that the relocations will have a material financial impact.

Ref. Page 14. - Fourth Full Paragraph

In June 2000 Florida Water purchased the assets of Spruce Creek for \$5.5 million, plus a commitment to pay fees for water connections through June 2005. Spruce Creek serves 3,100 water and 2,500 wastewater customers in three communities in Marion County, Florida. The systems acquired are designed to accommodate 10,000 customers. The Company funded this transaction with internally generated funds.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

- 10 (a) Wholesale Power Coordination and Dispatch Operating Agreement, dated April 14, 2000, between Minnesota Power, Inc. and Split Rock Energy LLC.
- 10 (b) Letter addressed to the Federal Regulatory Commission, dated April 21, 2000, amending the Wholesale Power Coordination and Dispatch Operating Agreement, dated April 14, 2000, between Minnesota Power, Inc. and Split Rock Energy LLC.
- 27 Financial Data Schedule for the Six Months Ended June 30, 2000.

(b) Reports on Form 8-K.

Report on Form 8-K filed June 20, 2000 with respect to Item 5. Other Events.

Report on Form 8-K filed June 28, 2000 with respect to Item 5. Other Events.

Report on Form 8-K filed July 19, 2000 with respect to Item 7. Financial Statements and Exhibits.

SIGNATURES

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

Minnesota Power, Inc.

(Registrant)

August 3, 2000

D. G. Gartzke

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

August 3, 2000

Mark A. Schober

Mark A. Schober
Controller

EXHIBIT INDEX

Exhibit Number

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- 27 Financial Data Schedule for the Six Months Ended June 30, 2000.

WHOLESALE POWER COORDINATION
AND DISPATCH OPERATING AGREEMENT

Between

MINNESOTA POWER, INC.

and

SPLIT ROCK ENERGY LLC

This WHOLESale POWER COORDINATION AND DISPATCH OPERATING AGREEMENT ("AGREEMENT") is dated as of this 14th day of April, 2000, between Minnesota Power, Inc, a Minnesota corporation ("MP"), and SPLIT ROCK ENERGY LLC, a Minnesota limited liability company ("Split Rock"). For purposes of this AGREEMENT, MP or Split Rock shall be referred to individually as a "Party" and collectively as the "Parties."

RECITALS

WHEREAS, MP is an investor-owned electric utility that owns electric generation, transmission and distribution facilities and is engaged in the generation, transmission and sale of electric power and energy to retail customers in the state of Minnesota and to wholesale customers in Minnesota and throughout the Midwest; and

WHEREAS, Great River Energy ("GRE") is an electric cooperative company that owns electric generation and transmission facilities and is engaged in the generation, transmission, and sale of electric power and energy at wholesale in the state of Minnesota; and

WHEREAS, MP and GRE, operate their respective electric systems within the interconnected electrical transmission network in accordance with the requirements and guidelines set forth by the Mid-Continent Area Power Pool ("MAPP"); and

WHEREAS, MP and GRE, have agreed to enter into a business alliance intended to mutually benefit them in such areas as risk management, economic commitment and dispatch of generating and purchased power resources, load and capability responsibilities under MAPP, and wholesale power marketing and brokering; and

WHEREAS, Split Rock was formed by MP and GRE as a limited liability company, with MP and GRE as its original members, and MP and GRE have executed and entered into a Member Control Agreement to set out the terms and conditions of the business alliance; and

WHEREAS, MP desires to enter into a power coordination agreement with Split Rock setting out the terms and conditions under which MP will, among other things, make its generating and purchased power resources available to Split Rock for commitment and dispatch, and Split Rock will, among other things, commit and dispatch those resources on an economic basis to meet MP's native load needs and obligations under power sales contracts with third parties, be responsible for meeting MP's load and capability responsibilities under MAPP, and facilitate joint resource planning.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, and intending to be legally bound, MP and Split Rock hereto agree as follows:

SECTION 1.

TERM OF AGREEMENT AND DEFINITIONS

Section 1.01 Term of Agreement.

This AGREEMENT shall become effective on the latest of: (1) the date this AGREEMENT is approved by the Administrator of the RUS or accepted for filing by any other regulatory agencies as required by law; or (2) the date hereof. After such effective date, unless earlier terminated in accordance with its provisions, this AGREEMENT shall remain in effect as long as MP is a member of Split Rock and a party to the Member Control Agreement.

Section 1.02 Purpose of Agreement.

The purpose of this AGREEMENT, among other things, is to establish the terms and conditions under which Split Rock shall: (i) become responsible for integrating the commitment and dispatch of MP's Generation Resources, and the procurement of capacity and energy, with the Generation Resources of other Members to serve safely and reliably, and at the lowest reasonable costs, the full requirements of MP's End-Use Loads and the End-Use Loads of other Members; (ii) become a member of MAPP and undertake those MAPP obligations and responsibilities necessary for Split Rock to assume the MAPP End-Use Load Obligation for the Members' combined electric loads and to represent the Members' interests in MAPP and its subcommittees for that purpose; (iii) cooperate with the Members to establish an equitable sharing of the costs and benefits of Split Rock membership; (iv) facilitate joint resource planning between and among the Members; and (v) market excess Generation Resources on a coordinated basis to maximize the value of the Members' Generating Resources.

Section 1.03 Definitions.

The following terms, when used herein, shall have the meanings specified below

a. "Due Diligence" means the exercise of good faith efforts to perform a required or requested act on a timely basis and in accordance with Good Utility Practice, using the technical and human resources reasonably available.

b. "End-Use Load" means the load of persons or other entities that purchase or produce electric energy for their own consumption and not for resale, as defined in the MAPP Restated Agreement or by any similar successor organization.

c. "End-Use Load Obligation" means an obligation imposed by law, regulation or contract to serve End-Use Load within the MAPP Region including any obligation imposed by an assignment

of End-Use Load Obligation, as defined in the MAPP Restated Agreement, or by any similar successor organization.

d. "FERC" means the Federal Energy Regulatory Commission (or its successor).

e. "Force Majeure" means any cause beyond the control of the Party affected, including, without limitation, the following: acts of God, fire, flood, landslide, lightning, earthquake, tornado, storm, freeze, drought, blight, famine, epidemic or quarantine; strike, lockout, or other labor difficulty; act or failure to act on the part of any Party that impedes or prevents the others Party's performance; theft, casualty, accident, equipment breakdown, failure or shortage of, or inability to obtain from usual sources goods, labor, equipment, information or drawings, machinery, supplies, energy, fuel, or materials; embargo; injunction; litigation or arbitration with suppliers or manufacturers; civil unrest, war, civil disorder or disturbance, explosion, or breach of contract by any supplier, contractor, subcontractor, laborer or materialman, including, but not limited to, failure of facilities, flood, earthquake, storm, fire, lightning, epidemic, war, riot, civil disturbance, labor disturbance, sabotage, and restraint by court or public authority.

f. "Generation Resources" means a Member's electric generation resources, whether owned or under contract.

g. "Good Utility Practice" means any of the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at the lowest possible cost consistent with good business practices, reliability, and safety. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather as a spectrum of possible practices, methods, or acts which could have been expected to accomplish the desired result at the lowest possible cost consistent with good business practices, reliability, and safety. Good Utility Practice includes due regard for manufacturers' warranties and the requirements of regulatory authorities.

h. "Hedges" means (a) futures or forward transactions, (b) transactions for the purchase or sale of Power, (c) the purchase or sale of put or call options, (d) transactions for the purchase or sale of fuel, (e) similar transactions; in each case the purpose of which is to offset the price risk of transactions envisioned under this AGREEMENT. Hedges may be entered into by Split Rock with the Parties or third parties. "Hedge", used as a verb, means the act of entering into Hedges.

i. "MAPP" means the Mid-Continent Area Power Pool or its successor organization.

j. "MAPP Agreement" means the Mid-Continent Area Power Pool Restated Agreement dated January 12, 1996, as amended, and as may be further amended from time to time.

k. "Member" means a utility that has executed the Member Control Agreement and has become a participant in Split Rock.

l. "NERC" means the North American Electric Reliability Council or its successor reliability entity.

m. "Off-System Transaction" means a wholesale purchase or sale of capacity or energy by Split Rock or MP from or to an entity that is not a Member of Split Rock.

n. "Power" means either electric capacity or energy or both.

o. "RUS" means the U.S.D.A. Rural Utilities Service or its successor.

p. "Scheduling Center" means a center responsible for one or more of the following functions, consistent with FERC standards of conduct requirements: marketing, 24-hour transaction (buying and selling) scheduling, and Generation Resource commitment and dispatch decisions.

SECTION 2.

MEMBERSHIP IN SPLIT ROCK

Throughout the term of this AGREEMENT, MP shall maintain its membership in Split Rock as provided for under the Member Control Agreement, and shall be subject fully to the terms and conditions of that Agreement, as it may be amended from time to time.

SECTION 3.

PARTIES' RESPONSIBILITIES

Section 3.01 MP Authorized Split Rock Representative.

MP shall designate in writing an Authorized Representative, which person shall have full authority to, among other things, coordinate MP's actions under this AGREEMENT, to provide support to Split Rock for the services to be provided hereunder, and to review and recommend revisions of the cost-sharing and transfer price principles agreed to by the Members. MP may, at any time, designate a new Authorized Representative by providing written notice to Split Rock and the other Members. In addition, MP's Authorized Representative may, by providing written notice to Split Rock and the other Members, designate Alternate Authorized Representatives who, unless explicitly provided otherwise, shall, for the duration of their designation, have the full authority and responsibility to act on behalf of MP as if they were MP's Authorized Representative.

Section 3.02 Split Rock Responsibilities.

The responsibilities of Split Rock shall include but are not necessarily limited to the following:

a. Establish procedures and operating protocols consistent with the provisions hereof governing the coordination of MP's Generation Resources and other Members' Generation Resources to serve End-Use Load pursuant to this AGREEMENT.

b. Review MP's estimates of future loads and projected fuel and resource requirements and recommend resource plans to meet Split Rock's obligations to the Members; provided, however, that nothing herein shall obligate MP to acquire any additional generation resources for itself and for any Member as a result of Split Rock's recommendations.

c. Perform the dispatch, scheduling, commodity trading, and marketing functions in this AGREEMENT.

d. Represent MP's End-Use Load interests in NERC and MAPP and other organizations or reliability councils in regions in which Split Rock may transact, and perform, on behalf of MP, those responsibilities and undertake those obligations that are consistent with and required by such organizations and/or councils.

e. Prepare and distribute for MP's and the other Members' review and approval annual operational budgets.

f. Take such other actions and perform such other duties as may be required in connection with the terms of this AGREEMENT and approved by the Members.

Section 3.02.1 Arrangements with Affiliates. MP recognizes that Split Rock may fulfill some or all of its obligations under this AGREEMENT through contracts and arrangements with other parties, and that such parties may be affiliated with a Member. To the extent Split Rock contracts with a Member or a Member's affiliate for the performance of one or more of Split Rock's obligations hereunder, the other Members must consent to any such arrangement.

Section 3.02.2 Limitation on Split Rock Responsibilities. Nothing in this AGREEMENT or otherwise shall be interpreted as requiring that Split Rock assume any responsibility, and Split Rock shall not have any responsibility, for the physical operation and/or maintenance of any of MP's Generation Resources or facilities, employees, fuel arrangements or obligations, or for any MP debt or other obligations related to ownership or operation and maintenance of those resources or facilities.

Section 3.03 MP Responsibilities.

The responsibilities of MP under this AGREEMENT shall include but are not necessarily limited to the following:

a. MP shall pay fifty percent (50%) of the costs and charges for the Scheduling Center, and related facilities, staff, and other operating expenses incurred by Split Rock in performing the functions hereunder.

b. MP shall make available to Split Rock under an applicable Administrative Services Agreement those of MP's staff and resources as are reasonably necessary and available to support Split Rock's functions and responsibilities hereunder, consistent with applicable regulatory principles and standards of conduct.

c. MP shall be responsible for the costs of owning and operating its control center and providing or obtaining from third parties all necessary control area functions and services. MP shall provide to Split Rock control center information and coordinate control area functions and services with Split Rock and/or any of the Members as reasonably necessary for Split Rock to fulfill its obligations hereunder.

d. MP shall coordinate with Split Rock, and designate Split Rock as its agent where necessary, to obtain from third parties the transmission service necessary to implement this AGREEMENT.

SECTION 4.

INTEGRATED DISPATCH OF MEMBERS' GENERATION RESOURCES

Section 4.01 Integrated Dispatch and Scheduling.

a. Split Rock shall provide services that are necessary and appropriate to economically commit and dispatch the Members' Generation Resources on an integrated basis to serve the Members' combined End-Use Load and any Off-System Transactions arranged by Split Rock on behalf of itself and/or the Member(s). In order to effectuate a least-cost, economic dispatch, MP shall operate its Generation Resources consistent with Split Rock's instructions; provided, however, as to such MP Generation Resources, MP operators may take any and all actions that they reasonably believe, based on the circumstances and information available to them at the time, are necessary and appropriate to avoid or alleviate emergency conditions or to protect the safety of persons or property.

b. MP shall provide and maintain, at its own expense, in accordance with specifications and procedures satisfactory to meet its obligations hereunder, such telecommunications and other facilities at its premises as are necessary to transfer data relating to its Generation Resources, and other necessary operating data, to and from the Split Rock Scheduling Center.

c. Split Rock shall operate and maintain a Scheduling Center as necessary to commit and dispatch the Members' Generating Resources to serve their combined End-Use Loads on an economic basis and to consolidate Split Rock's and/or the Members' wholesale trading, marketing and scheduling activities.

d. Should MP or any other Member provide notice of its intent to retire, dispose of, or let lapse any of its Generation Resources, Split Rock shall recommend to the Members alternative generation resources to replace such retired, disposed, or lapsed Generation Resources.

Section 4.02 Ownership and Maintenance of Generation Resources.

a. MP shall have the responsibility, at its cost, to operate and maintain its Generation Resources, including maintaining any necessary accreditation, consistent with Good Utility Practice and any operating practices or protocols implemented by Split Rock pursuant to this AGREEMENT.

b. MP may retire or dispose of any of its existing Generation Resources, or choose not to renew or extend the contractual arrangements for Generation Resources under contract, upon reasonable notice to Split Rock and the other Members, and MP shall have no obligation to Split Rock or the Members to replace any retired, disposed or lapsed Generation Resource.

c. Should an event of Force Majeure or other event of partial or complete outage of MP's Generation Resources occur, MP shall immediately notify Split Rock and the other Members of such event, its expected duration, and MP's intentions to address such event. During such Force Majeure events, MP shall take all reasonable actions, in coordination with Split Rock, to restore the operation and rating of any Generation Resource adversely affected by such Force Majeure events.

d. Should MP experience an outage of any of its Generation Resources that may affect the ability of Split Rock to fulfill its responsibilities under this AGREEMENT or any applicable prevailing regional reliability requirements, Split Rock will take any actions that it reasonably believes are necessary and appropriate to obtain replacement capacity or energy from other resources. Unless other arrangements have been made and agreed to by the other Members, the cost of such replacement capacity and energy shall be borne by MP.

e. MP shall be responsible for procuring any fuel or other resources needed for the operation of its Generation Resources and for maintaining and administering any contacts for the purchase and delivery of such fuel or resources; provided, however, that consistent with any confidentiality obligations or restrictions, MP shall coordinate with Split Rock and provide such information as may be reasonably necessary for Split Rock to maximize the Members' efficient use and procurement of fuel and other resources.

SECTION 5.

END-USE LOAD SERVICE

Section 5.01 Split Rock Obligations.

As provided for in Section 6.4.3(f) of the MAPP Restated Agreement, MP hereby assigns to Split Rock, and Split Rock hereby accepts such assignment from MP, all of MP's End-Use Load Obligation. Notwithstanding Split Rock's obligations hereunder, MP at all times retains all of the rights and obligations it may have under its own contracts to provide electric service to MP's End-Use Loads, including contracts with municipal electric utility customers.

Section 5.02. Dispatch to Serve Other Members.

In the event that Split Rock's dispatch directions result in MP's Generation Resources being used to serve end-use Loads other than MP's End-Use Load or other Members' Off-System Transactions, MP shall sell to Split Rock that capacity or energy transferred to serve such other Members' requirements, under MP's market-based rate tariff. In the event that Split Rock's dispatch directions result in MP's End-Use Load or Off-System Transactions being served from the capacity and energy of other Members' Generation Resources, MP shall purchase from Split Rock that capacity and energy transferred to serve MP's requirements. To the extent that Split Rock's dispatch directions result in the need to serve all or a portion of MP's End-Use Load or Off-System Transactions other than from MP's Generation Resources, MP shall purchase that capacity or energy to serve those requirements at the price, terms, and conditions for such transactions determined in accordance with transfer pricing principles established by Split Rock and approved by the Members. Such transactions shall be identified by Split Rock, and shall be accounted for and settled between the Members on a monthly basis.

Section 5.03 Generation Resource Obligations.

MP shall designate a level of Generation Resources, and be required to operate and maintain such Generation Resources consistent with Good Utility Practices, sufficient to meet

MP's contribution to Split Rock's End-Use Load Obligation. Unless otherwise agreed to by the Members, MP shall be solely responsible for any costs incurred by Split Rock as a result of MP's failure to meet its obligations herein.

SECTION 6.

MARKETING AND SALE OF EXCESS CAPACITY AND ENERGY

Section 6.01 Existing MP Off-System Transactions.

MP shall retain its rights and obligations under the existing MP Off-System Transactions described in Appendix A. Split Rock will provide scheduling and dispatch services for MP in connection with these Off-System Transactions.

Section 6.02 Marketing of MP's Power Resources.

Split Rock shall market the excess Power available from MP's Generation Resources, including the purchase and resale of Power from non-Members, with the goal to maximize the economic value of MP's Generation Resources and reduce the cost to MP of serving MP's End-Use Loads. Split Rock may fulfill its obligations hereunder by contracting with MPEX under the Wholesale Marketing and Operating Services Agreement Between MPEX and Split Rock Energy LLC.

Section 6.03. Purchase and Resale of Members' Excess Power.

MP hereby grants to Split Rock the exclusive option to purchase for resale to non-Member customers any excess Power available from MP's Generation Resources, after deduction for the Power dispatched from those Generation Resources to serve MP's End-Use Loads, any existing MP Off-System Transactions, and any released energy available as a result of arrangements with MP's retail customers. The Power for any such sales to non-Members shall be dispatched as part of Split Rock's dispatch services under this AGREEMENT, and shall be sold by MP to Split Rock under MP's market-based rate tariff at the transfer price and under the terms and conditions agreed to by the Members. If Split Rock does not exercise its option hereunder to purchase excess Power from MP, MP shall have the right, consistent with its other obligations under this AGREEMENT, to separately enter into transactions with third parties for the sale of such excess Power.

Section 6.04 Duration of Split Rock's Contracts to Supply Power to Non-Members.

No transaction for the purchase or sale of Power between Split Rock and non-Members shall have a duration longer than the notice period for terminating this AGREEMENT unless one or more of the Members agrees in writing to assume the obligation to provide service and assume any and all liabilities under such transactions after the dissolution of Split Rock and the termination of this AGREEMENT.

SECTION 7.

MEMBERSHIP IN MAPP

Section 7.01 End-Use Load and Reliability Membership.

In recognition of the End-Use Load Obligation assumed by Split Rock under this AGREEMENT, Split Rock shall apply for and become an End-Use Load and Reliability Member of MAPP, taking responsibility for the End-Use Loads and the Generation Resources of MP and satisfying MP's related obligations under the MAPP Agreement.

Section 7.02 MAPP Application.

MP and Split Rock, in conjunction with the other Members, shall mutually cooperate in preparation of Split Rock's MAPP membership application, and MP shall support the application through the MAPP approval process. As part of that process, MP shall prepare and submit to MAPP an application for a change in its MAPP membership status consistent with Split Rock's assumption of End-Use Load Obligation and Reliability Membership for MP's End-Use Loads and Generation Resources. Notwithstanding the foregoing, MP intends to participate in MAPP as a Transmission Owning Member.

Section 7.02.1 Change in MAPP Membership Status.

If, during the term of this AGREEMENT, (a) MP ceases to be a MAPP Member, (b) the MAPP Agreement is terminated or materially modified, (c) some or all of MAPP's functions and responsibilities are assumed under a successor or different organization or entity, all terms and conditions with respect to MAPP shall remain in force until new terms and conditions are mutually agreed upon by the Members.

Section 7.03 Costs of MAPP Membership.

The costs of Split Rock's application to and participation in MAPP shall be considered a Split Rock cost and shall be charged to MP and the other Members pursuant to this AGREEMENT.

SECTION 8.

STANDARDS FOR SYSTEM OPERATIONS

Section 8.01 Operating Standards.

To the extent applicable, MP shall operate its electrical systems and Split Rock shall carry out its responsibilities under this AGREEMENT consistent with Good Utility Practice and in compliance with NERC and MAPP requirements.

Section 8.02 Scheduling, Metering, and Systems Coordination

Split Rock shall adopt principles and procedures to address the scheduling of MP's Generation Resources, metering, record-keeping, and electric systems coordination.

Section 8.03 Information Requirements.

The Parties shall maintain records reflecting hourly schedules of power and energy generated and actual deliveries of power and energy from MP Generation Resources, and shall make such records available to each other and to the other Members upon request. Nothing in this AGREEMENT shall obligate either Party to retain records longer than the period prescribed by FERC, RUS, MAPP, or other applicable regulatory body, reliability council or operational standard.

SECTION 9.

TERMINATION

Section 9.01 Notice of Termination.

This AGREEMENT may be terminated by MP upon one year's notice of termination, provided, however, that such termination shall not take effect between May 1 and September 30 of any year. Termination will be effective on the first day of the month, and written notice of termination must be given at least one year prior to the first day of the month that MP intends for its notice to become effective and for the AGREEMENT to terminate. Upon termination in accordance with this Section 9.01, MP shall be excused and relieved of all obligations and liabilities under this AGREEMENT, except those liabilities incurred before the effective date of termination or as a result of the termination. Each Party shall use every reasonable effort to mitigate any damages resulting from a breach and/or termination of this AGREEMENT.

Section 9.02 Effect of Termination.

If, upon termination of this AGREEMENT, the Parties are unable to mutually agree as to the effects of termination, any dispute over the effects of termination shall be resolved through arbitration under Section 11 of this AGREEMENT. The Parties shall allocate the responsibility for purchase and sales obligations under Split Rock contracts outstanding as of termination in accordance with principles to be adopted and implemented by the Members. The termination of this AGREEMENT shall not discharge either Party from any obligation it owes to the other or to any other Member by reason of any transaction, cost, damage, expense, investment, or liability which shall occur or arise prior to such termination. The Parties intend that any such obligation owed (whether the same shall be known or unknown at the termination of this AGREEMENT) shall survive the termination of this AGREEMENT.

SECTION 10.

GENERAL

Section 10.01 Continuity of Operation.

a. Unless otherwise directed by Split Rock as part of its integrated dispatch, the operating performance of MP's electrical system under this AGREEMENT shall be continuous, except for the following:

(1) Interruptions or reductions due to Force Majeure, which, by exercise of due diligence and foresight, could not reasonably have been avoided.

(2) Interruptions or reductions due to operation of devices installed for power system protection.

(3) Temporary interruptions or reductions which are necessary or desirable for the purposes of maintenance, repairs, replacements, installation of equipment or investigation and inspection. MP will give Split Rock and other Members reasonable advance notice of such interruptions or reductions, except in cases of emergency make such advance notice impracticable as reasonably determined by MP, and MP will use best reasonable efforts to remove the cause thereof as quickly as practicable under the circumstances.

b. The Party prevented from performing its obligations for any of the reasons set forth in Section 10.01(a), above, shall exercise Due Diligence in attempting to remove the cause of its failure to perform, and nothing herein shall be construed as permitting that Party to continue to fail to perform after said cause has been removed; however, the Party shall not be obligated to agree to any settlement of a strike or labor dispute which, in that Party's sole discretion, may be inadvisable or detrimental to its interests.

Section 10.02. Character of Power and Energy.

All deliveries of electric power and energy hereunder shall be of the character commonly known as three-phase, sixty-Hertz power and energy, unless explicitly stated otherwise.

Section 10.03 Successors and Assigns.

This AGREEMENT shall be binding upon the respective Parties, their successors and assigns, on and after the effective date hereof. None of the provisions of this AGREEMENT, whether in whole or in part, shall be assigned nor their performance delegated by any Party to any third party without the written consent of the other, which shall not be unreasonably withheld, unless such assignment is to an affiliate or successor that assumes all of the rights and obligations hereunder so long as such assignment would not adversely affect any of the federal, state or reliability council approvals or findings required or in place for Split Rock's operations under this AGREEMENT.

Section 10.04 No Third Party Beneficiary.

No provision of this AGREEMENT shall in any way inure to the benefit of any customer, or any other third party, so as to constitute any such person as a third party beneficiary under this AGREEMENT, or of any one or more of the terms hereof, or otherwise give rise to any cause of action in any person not a Party hereto.

Section 10.05 Notices.

Any notice, demand, request, or communication required or authorized by this AGREEMENT shall be either hand-delivered or mailed by certified mail, return-receipt requested, with postage prepaid, to:

Minnesota Power, Inc.
30 West Superior Street
Duluth, Minnesota 55802
Attn: Donald J. Shippar
Chief Operating Officer - Minnesota Power Electric

with copies to:

Steven W. Tyacke
Assistant General Counsel
Minnesota Power, Inc.
30 West Superior Street
Duluth, Minnesota 55802

On behalf of Split Rock to:

Split Rock Energy LLC
17845 East Highway 10
P.O. Box 800
Elk River, MN 55330-0800
Attn: David Saggau

The designation and titles of the persons to be notified or the address of such person may be changed at any time by written notice.

Section 10.06 Billing and Payment Procedure.

Unless governed by separate written agreement, the Parties shall bill and make payments in accordance with the following procedures:

a. The Party (selling Party) providing any billable services to the other Party (buying Party) shall issue an invoice by the fifteenth of each month for services provided during the previous month.

b. The buying Party's payments to the selling Party shall be due if by mail at the selling Party's general office, or if by wire transfer to a bank and account named by the selling Party, no later than fifteen days following the date of the invoice, but such payment shall not be due before the 20th day of the month. The buying Party shall have the right to dispute the amount of any such invoice by protest on or before the payment date, but such dispute shall not relieve the buying Party of the obligation to pay the entire amount, including the disputed portion, by the payment date. If such due date falls on a Saturday, Sunday, or holiday, such due date shall be the next working day. Payments received after the due date shall be considered late and shall bear interest on the payment due at a rate equal to the rate set out in Section 35.19a(a) of FERC's Regulations, as such section may be amended from time to time, for the number of days elapsed from and including the day after the due date, to and including the payment date.

c. Upon the failure of the buying Party to pay all amounts due within thirty days of the due date, the buying Party shall be in default.

Section 10.07 Right of Access; Right to Audit.

a. Each Party, after receiving reasonable notice from another Party, will give authorized agents and employees of the other the right to enter its premises at all reasonable times for the purpose of reviewing hourly metering and scheduling records, for reading or checking meters, or for constructing, testing, repairing, renewing, exchanging, or removing any or all of its equipment which may be located on the property of the other, or for any work incident to performing system operations under this AGREEMENT or rendering service contracted for.

b. Each Party shall have the right from time to time, upon written request and at its own expense, to audit the other Party's books and records to verify the information provided by that Party as required under this AGREEMENT.

Section 10.08 Drafting Responsibility.

No Member shall be deemed solely responsible for drafting all or any portion of this AGREEMENT and, in the event of a dispute, responsibility for any ambiguities arising from any provision of this AGREEMENT shall be equally shared by the Members.

Section 10.09 Captions.

All titles, subject headings, section titles, and similar items are provided for the purpose of reference and convenience and are not intended to be inclusive, definitive, or to affect the meaning of the contents or scope of this AGREEMENT.

Section 10.10 Governing Law.

This AGREEMENT shall be interpreted and governed by the laws of the state of Minnesota, or the laws of the United States, as applicable.

Section 10.11 Regulation.

This AGREEMENT, and all rights and obligations of MP hereunder is subject to all applicable state and federal laws and regulations. The Parties agree to defend this AGREEMENT before any regulatory body, and to cooperate to seek to obtain any necessary regulatory approvals. Fees or costs associated with obtaining approvals shall be the responsibility of MP.

Section 10.12 No Joint Venture or Partnership.

No provision of this AGREEMENT shall be interpreted to mean or imply that the Members have established or intend to establish a joint venture or a partnership.

Section 10.13 Amendment.

Any amendment, alteration, variation, modification, or waiver of the provisions of this AGREEMENT shall be valid only after it has been signed by the Parties and, if required, approved or accepted by any regulatory body with jurisdiction over MP or this AGREEMENT.

Section 10.14 Severability.

If any governmental agency or court of competent jurisdiction holds that any provision of this AGREEMENT is invalid, or if, as a result of a change in any federal or state law or constitutional provision, or any rule or regulation promulgated pursuant thereto, any provision of this AGREEMENT is rendered invalid or results in the impossibility of performance thereof, the remainder of this AGREEMENT shall not be affected thereby and shall continue in full force and effect. In such an event, the Parties shall promptly renegotiate in good faith new provisions to restore this AGREEMENT as nearly as possible to its original intent and effect.

Section 10.15 Superseding Effect.

This AGREEMENT supersedes and has merged into it all prior oral and written agreements on the same subjects by or among the Parties, with the effect that this AGREEMENT shall control.

SECTION 11.

ARBITRATION

Section 11.01 Arbitration.

Any controversy or claim arising out of or relating to this AGREEMENT or the breach hereof which cannot be resolved amicably shall be settled by arbitration. A Party desiring to invoke this arbitration provision shall serve written notice upon the other of its intention to do so. The arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration then prevailing. The American Arbitration Association shall administer the arbitration and act as appointing authority of the arbitrator. Each Party shall bear its own costs and

expenses of the arbitration, including attorneys and expert witness fees, and shall equally share the expense of the arbitrator and the administrative expenses of the arbitration. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. Sections 1-16. The award of the arbitrator shall be final, and judgment on the award rendered by the arbitrator may be entered by any court having jurisdiction. The arbitration shall be conducted in Minneapolis, Minnesota unless the Parties agree otherwise.

Section 11.02 Effect of Termination on Arbitration.

This Section 11 shall survive the termination of this AGREEMENT as necessary to resolve any outstanding disputes that arose prior to the time that termination of this AGREEMENT became effective as well as any disputes involving termination, as provided for in Section 9.02 herein

[The next page is the signature page]

IN WITNESS WHEREOF, the Parties have caused this AGREEMENT to be executed by their duly authorized representatives as of the day and year first above written.

MINNESOTA POWER, INC.

By: /s/ R. D. Edwards

 Robert D. Edwards

Title: Executive Vice President and

 President - MP Electric

SPLIT ROCK ENERGY LLC

By: /s/ Ade Mussell

 Ade Mussell

Title: President

APPENDIX A

MP Existing Off-System Transactions

MPE Existing
Transactions
(May 1, 2000)

CAPACITY
PURCHASES &
SALES

Company	Contract	MP Purchase/Sale	MW	End of Term
OH	OM-L98-01	Purchase	150 MW	10/31/01
Alliant (IPW)	ALT-1	Sale	Summers-55 MW	4/30/01
Alliant (WPL)	WPL-1	Sale	75 MW	12/31/07
MPC	M-2	Sale	10 MW	10/31/00
NSP	NSP-1	Sale	150 MW	10/31/00
OTP	OTP-4	Sale	50 MW	5/1/01-10/31/01
				5/1/02-10/31/02
OTP	OTP-5/NSP-8	Sale	50 MW	10/31/00

ENERGY SALES
& PURCHASES

Company	Contract	MP Purchase/Sale	MW	End of Term
GRE	GRE-6	Sale	50 MW	10/31/00
WEP	WEP	Purchase	50 MW	6/1/00-8/31/00

SERVICES

Company	Contract	MP Purchase/Sale	MP Service Provided	End of Term
MRES	MR-2	Sale	Operating Reserves	60 day notice
NWPS	NWPS-1	Sale	Operating Reserves	30 day notice

BROKERING

Company	Contract	MP Purchase/Sale	MP Service Provided	End of Term
MHEB			Real Time Services	1/1/01
Enbridge			Marketing Services	
Rainy River			Marketing Services	

1800 M Street, N.W.
Washington, D.C. 20036-5869
202-467-7000
Fax: 202-467-7176

[MORGAN, LEWIS
& BOCKIUS LLP LOGO]
COUNSELORS AT LAW

April 21, 2000

Mr. David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Amended Filing in Docket No. ER00-1857-000

Dear Mr. Boergers:

Enclosed for filing are six copies of the response of Split Rock Energy LLC ("Split Rock") and Minnesota Power, Inc. ("MP"), to the deficiency letter issued on April 10, 2000, in regards to the above-referenced docket. Split Rock and MP respectfully request that the Commission shorten the time for responding to this filing, in an effort to permit Split Rock to become operational by May 1, 2000, the beginning of the Mid-Continent Area Power Pool ("MAPP") summer season. There have been no interventions to date in this proceeding.

I. BACKGROUND

On March 10, 2000, Split Rock submitted for filing an Application for Market-Based Rate Authority ("Market Rate Application"), along with a Market-Based Wholesale Power Sales Tariff ("Market Rate Tariff"). Split Rock is a limited liability company formed pursuant to the laws of Minnesota by MP and Great River Energy ("GRE"), a generation and transmission cooperative (collectively Split Rock's "Members"). The Members formed Split Rock to schedule and dispatch their combined generation resources to optimally meet their native load needs and obligations under power sales contracts with third parties, and to market their excess generation resources.

In its Market Rate Application, Split Rock requested authorization to engage in wholesale bulk power sales at market-determined prices and to resell transmission services. Split Rock indicated that it will sell power to its Members and will buy the excess power of its Members

Philadelphia Washington New York Los Angeles Miami Harrisburg Pittsburgh
Princeton London Brussels Frankfurt Tokyo Singapore

for resale, at negotiated rates under the proposed Market Rate Tariff. Split Rock will also purchase power from third parties as necessary to optimally serve the Members' native load needs and obligations under power sales contracts.

Split Rock explained that it will function in much the same way as a cooperative, in that it will not retain net revenues, but instead will periodically disburse any profits to the Members. Split Rock's Market Rate Application indicated that MP committed to treating revenues flowing through Split Rock, the same as if the revenues were obtained directly by MP. In other words, like a cooperative, Split Rock is owned by those who use its joint dispatch and marketing services - MP and GRE - and any profits flow back to its owners, MP and GRE. Again, MP has committed to treating revenues from Split Rock as if they were earned within the utility. Due to the "cooperative-like" structure of Split Rock vis-a-vis its Members, there is no need for Split Rock to commit not to transact with its affiliates MP and GRE, nor is there a need for a code of conduct to govern the interactions or relationships between Split Rock and its Members.

On April 10, 2000, Mr. Michael C. McLaughlin, Director, Division of Corporate Applications, issued a deficiency letter regarding Split Rock's Market Rate Application. The letter requested that Split Rock provide additional information about the affiliate relationships noted above. Specifically, the letter requested that Split Rock explain why MP is a cooperative, and requested that Split Rock respond to two scenarios specified in the letter.

II. SPLIT ROCK'S AMENDED FILING

Split Rock and its Members have spent considerable time and effort to ensure that captive customers will not be adversely affected by affiliate transactions. As explained in further detail below, Split Rock retains no profits at its level, but rather regularly distributes any profits to its Members MP and GRE. MP has expressly committed to treat revenues from Split Rock as if they were earned within MP, and as such, there is no opportunity for such revenues to be diverted to MP's shareholders. Ratepayers will benefit from the revenues in the same manner as if such revenues were obtained directly by MP.

A. Transactions Between MP and Split Rock Will Not Adversely ----- Affect MP's Ratepayers -----

The deficiency letter first asks for a detailed explanation as to why MP is a cooperative and how its customers are the cooperative's owners, and are not captive ratepayers. MP is a traditional investor-owned utility, and neither Split Rock nor MP contends that MP is a cooperative. Split Rock does contend that Split Rock itself, although not a cooperative, is

structured like a cooperative, and that this structure eliminates any concerns about affiliate abuse.

In the traditional case where a power marketer is seeking to transact with its affiliated public utility, the Commission is concerned that the power marketer and the affiliated utility may transact in ways that result in a transfer of benefits from the affiliated utility (and its ratepayers), to the affiliated power marketer (and its shareholders). See, e.g., GS Electric Generating Corp., Inc., 81 FERC Paragraph 61,042 (1997). For example, the utility may purchase power from its affiliated marketer at higher-than-market rates, or sell power to its affiliated power marketer at lower-than-market rates - at the expense of the utility's ratepayers - in exchange for other benefits which are not passed on to the utility's ratepayers. See, e.g., Hinson Power Co., 72 FERC Paragraph 61,190, at 61,911 (1995). In the case of cooperatives, however, this concern is not present because the cooperative's owners are also its ratepayers; thus, any profits or benefits inuring to the cooperative are passed through automatically to the ratepayer/owners. See, e.g., Hinson, 72 FERC Paragraph 61,190, at 61,911.

Here, Split Rock is wholly-owned by its sole Members MP and GRE, who are also the recipients of Split Rock's joint dispatch and power marketing services. Split Rock is essentially a service entity for its Members. Split Rock does not have any "shareholders" separate and apart from these Members.

Although Split Rock will sell power to its Members, all sales by Split Rock to a Member will be priced based on Split Rock's cost, and Split Rock will not earn any margins on power sales to Members. Because Split Rock will not earn any margin on sales of power to MP, no revenues of MP will be diverted to Split Rock. MP's ratepayers will thus be indifferent as to whether MP purchases power from Split Rock, or directly from an unaffiliated third party.

Likewise, although Split Rock will also purchase power from its Members, all of Split Rock's purchases from MP and GRE will be priced based on a transfer pricing methodology agreed to and developed by the Members, which is intended to track market prices. Split Rock may sell power purchased from MP or GRE, to third parties at a price that differs slightly from the price paid by Split Rock to MP or GRE. However, Split Rock will not retain any profits earned from such transactions. Rather, all profits obtained by Split Rock will be regularly distributed to its Members, MP and GRE.

Accordingly, Split Rock is structured like a cooperative, in that its Member-owners are also its customers, and any profits earned by Split Rock will be regularly disbursed to its Member-owners, MP and GRE. As noted, MP has expressly committed to treat such revenues from Split Rock as if they were revenues earned by MP. MP's ratepayers will not be adversely

affected by Split Rock's involvement in transactions with its Members. Split Rock is simply a joint dispatch and power marketing organization, created to provide its Members with the economic benefits of jointly dispatching and marketing their combined resources.

B. Examples of Transactions

The letter also requests that Split Rock address two specific examples of transactions and revenue flows. Split Rock will address each of these examples in turn.

(1) Purchases by MP: "If MP purchases power at market-based rates from Split Rock at a price that is above the prevailing market, explain why this transaction will not adversely affect MP's captive ratepayers. In your example, trace the stream of revenues from MP to Split Rock, back to MP and its captive ratepayers."

The short answer is that MP's ratepayers and shareholders will be in precisely the same position as if MP made the purchase from the market. Split Rock's involvement in a purchase transaction for one of its Members is similar to that of a broker. Split Rock purchases power and resells it to the Member at the same price paid by Split Rock. There is no mark-up for such purchases, and Split Rock's administrative and other non-power costs of the transaction are recovered separately through its dispatch agreements with its Members. To the extent Split Rock buys power at a price higher than a perceived market price, the result is the same as if MP had made such a purchase itself. This should not occur, however, as under the pricing methodology established by the Members, the Members have the right to the lowest-cost energy purchased by Split Rock.

Accordingly, Split Rock will not earn any margins from sales to MP. The results will be the same as if MP had entered into a transaction directly with a third party, leaving MP's ratepayers indifferent as to whether MP purchases power from Split Rock, or directly from unaffiliated third parties.

(2) Purchases by Split Rock: "If Split Rock purchases power at market-based rates from MP at a price that is below the prevailing market, explain why this transaction will not adversely affect MP's captive ratepayers. In your example, trace the stream of revenues and describe the impact this transaction will have on MP's captive ratepayers."

The pricing methodology developed by the Members for purchases by Split Rock from MP or GRE, combines a regional day-ahead market index with Split Rock's actual market experience.

Accordingly, the price paid by Split Rock to MP for power may differ from the price obtained by Split Rock upon resale, because the market price will not reflect the market index factor upon which the price paid by Split Rock to MP is based.

In the event that the price paid by Split Rock to MP for power is below the prevailing market price subsequently obtained by Split Rock, however, Split Rock does not retain the difference. Rather, as discussed above in Section II.A, any Split Rock profit will be disbursed to the Members, MP and GRE. Although a portion of Split Rock profits from sales of power originally purchased from MP may go to GRE, the sharing of profits will also work to MP's benefit: MP will receive a similar share of any Split Rock profits obtained from sales of power which Split Rock originally purchased from GRE. As noted, MP will treat such disbursements from Split Rock as if they were obtained directly through MP as utility revenues.

C. Overall Benefits of Split Rock

Although the April 10, 2000 letter did not ask that MP or Split Rock describe the anticipated benefits of Split Rock, Split Rock's activities are expected to result in significant savings to MP's ratepayers. The economic dispatch of the Members' combined generation resources will result in increased operational efficiencies. Further, Split Rock will engage in marketing on behalf of its Members, with the goal of optimizing the value of their resources. Split Rock will also engage in power trading transactions with third parties, and MP will receive its proportionate share of Split Rock's profits from its power trading activities. As noted, MP has committed to treat all revenues obtained from Split Rock as utility revenues. Overall, the Members anticipate that Split Rock's economic dispatch, marketing, and power trading activities will result in significant cost savings and economic benefits to MP, and to MP's ratepayers.

III. REQUEST FOR EXPEDITED NOTICE AND COMMENT PERIOD

As noted in the Market Rate Application, Split Rock and its Members desire Split Rock to commence commercial operations on May 1, 2000, the beginning of the MAPP summer season. Accordingly, Split Rock requested waiver of the standard 60-day notice requirement to permit its Market Rate Tariff to become effective as a rate schedule as of May 1, 2000. Such an effective date will allow Split Rock to engage in transactions under the Market Rate Tariff as soon as it begins operations, and to begin its joint dispatch and marketing functions on behalf of the Members for the full upcoming MAPP summer season.

Split Rock respectfully requests that the Commission issue the attached notice of amendment no later than April 24, 2000, and that the Commission provide that comments must be received

Mr. David P. Boergers
April 21, 2000
Page 6

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& BOCKIUS LLP LOGO]

no later than April 28, 2000. This will allow the Commission to issue its order as soon as possible.

A notice of filing of amendment suitable for publication in the Federal Register and a copy of the notice on diskette are also included.

In the event additional information is needed, please contact either of the undersigned.

Sincerely,

/s/ Kristina E. Beard

John D. McGrane
Kristina E. Beard

Attorneys for Minnesota Power, Inc., on behalf of Split Rock Energy LLC,
and Minnesota Power, Inc.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

SPLIT ROCK ENERGY LLC
MINNESOTA POWER, INC.

)
)

DOCKET NO. ER00-1857-000

NOTICE OF FILING
(April , 2000)

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Take notice that on April 21, 2000, Split Rock Energy LLC, and Minnesota Power, Inc., submitted an amendment to the Application of Split Rock Energy LLC, for Market-Based Rate Authority, and Proposed Revisions to Minnesota Power, Inc. Wholesale Coordination Service Tariff No. 2.

Any person desiring to be heard or to protest such filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's regulations (18 C.F.R. Sections 385.211 and 385.214). All such motions or protests should be filed on or before , 2000. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a petition to intervene. Copies of this filing are on file with the Commission and are available for public inspection. This filing may also be viewed on the Internet at <http://www.ferc.fed.us/online/rims.htm> (call 202-208-2222 for assistance).

David P. Boergers
Secretary

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused to be served the foregoing document upon each person designated on the official service list compiled by the Secretary in these proceedings.

Dated at Washington, D.C. this 21st day of April, 2000.

/s/ Kristina E. Beard

Kristina E. Beard
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

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 JUNE 30, 2000, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

6-MOS	
	DEC-31-2000
	JAN-01-2000
	JUN-30-2000
	194
	98
	283
	15
	27
	708
	1,312
	1,018
	2,560
601	
	720
75	
	12
	566
	310
2,560	
	0
	650
	0
	509
	0
	0
32	
	157
	60
95	
	0
	0
	0
	95
	1.35
	1.35

In May 2000 Minnesota Power sold its investment in ACE Limited (ACE) common stock, which resulted in an after-tax gain of \$30.4 million, or \$0.44 per share. The ACE shares were received in December 1999 upon completion of ACE's merger with Capital Re Corporation (Capital Re). During 1999 Minnesota Power recorded an aggregate \$36.2 million, or \$0.52 per share after-tax non-cash charge in connection with the valuation and exchange of its investment in Capital Re stock for the ACE shares, including a \$24.1 million, or \$0.35 per share charge in the second quarter.