

Securities and Exchange Commission  
Washington, D.C. 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, 1996

or

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

Commission File No. 1-3548

Minnesota Power & Light Company  
A Minnesota Corporation  
IRS Employer Identification No. 41-0418150  
30 West Superior Street  
Duluth, Minnesota 55802  
Telephone - (218) 722-2641

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

Yes  No   
-----

Common Stock, no par value,  
31,935,547 shares outstanding  
as of July 31, 1996

Minnesota Power & Light Company

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## Definitions

The following abbreviations or acronyms are used in the text.

Abbreviation or Acronym	Term
1995 Form 10-K	Minnesota Power's Annual Report on Form 10-K for the Year Ended December 31, 1995
ADESA	ADESA Corporation
Capital Re Company	Capital Re Corporation Minnesota Power & Light Company and its Subsidiaries
CPI	Consolidated Papers, Inc.
DRIP	Dividend Reinvestment and Stock Purchase Plan
ESOP	Employee Stock Ownership Plan
FERC	Federal Energy Regulatory Commission
FPSC	Florida Public Service Commission
Lehigh	Lehigh Acquisition Corporation
Minnesota Power	Minnesota Power & Light Company and its Subsidiaries
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
OOU	Orange Osceola Utilities
QUIPS	Quarterly Income Preferred Securities
Seabrook	Heater of Seabrook, Inc.
Square Butte	Square Butte Electric Cooperative
SSU	Southern States Utilities, Inc.

Minnesota Power  
Consolidated Balance Sheet  
In Thousands

	June 30, 1996 Unaudited	December 31, 1995 Audited
<b>Assets</b>		
<b>Plant and Other Assets</b>		
Electric operations	\$ 799,091	\$ 800,477
Water operations	319,331	323,182
Automobile auctions	140,257	123,632
Investments	227,056	201,360
	-----	-----
Total plant and other assets	1,485,735	1,448,651
	-----	-----
<b>Current Assets</b>		
Cash and cash equivalents	63,432	31,577
Trading securities	76,319	40,007
Trade accounts receivable (less reserve of \$4,088 and \$3,325)	171,700	128,072
Notes and other accounts receivable	22,309	12,220
Fuel, material and supplies	25,911	26,383
Prepayments and other	16,910	13,706
	-----	-----
Total current assets	376,581	251,965
	-----	-----
<b>Deferred Charges</b>		
Regulatory	82,178	88,631
Other	26,703	25,037
	-----	-----
Total deferred charges	108,881	113,668
	-----	-----
<b>Intangible Assets</b>		
Goodwill	124,122	120,245
Other	12,712	13,096
	-----	-----
Total intangible assets	136,834	133,341
	-----	-----
<b>Total Assets</b>	<b>\$ 2,108,031</b>	<b>\$ 1,947,625</b>
<b>Capitalization and Liabilities</b>		
<b>Capitalization</b>		
Common stock without par value, 65,000,000 shares authorized 31,917,569 and 31,467,650 shares outstanding	\$ 384,286	\$ 377,684
Unearned ESOP shares	(71,047)	(72,882)
Net unrealized gain on securities investments	1,165	3,206
Cumulative translation adjustment	(401)	(177)
Retained earnings	277,744	276,241
	-----	-----
Total common stock equity	591,747	584,072
Cumulative preferred stock	11,492	28,547
Redeemable serial preferred stock	20,000	20,000
Company obligated mandatorily redeemable preferred securities of MP&L Capital I	75,000	-
Long-term debt	653,039	639,548
	-----	-----
Total capitalization	1,351,278	1,272,167
	-----	-----
<b>Current Liabilities</b>		
Accounts payable	92,366	68,083
Accrued taxes	39,386	40,999
Accrued interest and dividends	16,136	14,471
Notes payable	89,330	96,218
Long-term debt due within one year	70,060	9,743
Other	27,155	27,292
	-----	-----
Total current liabilities	334,433	256,806
	-----	-----
<b>Deferred Credits</b>		
Accumulated deferred income taxes	164,994	164,737
Contributions in aid of construction	97,468	98,167
Regulatory	56,491	57,950
Other	103,367	97,798
	-----	-----
Total deferred credits	422,320	418,652
	-----	-----
<b>Total Capitalization and Liabilities</b>	<b>\$ 2,108,031</b>	<b>\$ 1,947,625</b>

The accompanying notes are an integral part of this statement.

Minnesota Power  
Consolidated Statement of Income  
In Thousands Except Per Share Amounts - Unaudited

	Quarter Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
-----				
Operating Revenue and Income				
Electric operations	\$ 129,219	\$ 119,694	\$ 260,718	\$ 240,448
Water operations	23,050	17,814	42,277	33,416
Automobile auctions	45,215	-	84,908	-
Investments	11,019	9,828	23,275	20,160
	-----	-----	-----	-----
Total operating revenue and income	208,503	147,336	411,178	294,024
	-----	-----	-----	-----
Operating Expenses				
Fuel and purchased power	48,291	44,113	91,934	84,422
Operations	87,034	60,975	173,063	123,117
Administrative and general	40,559	16,790	74,350	35,252
Interest expense	14,357	11,388	28,517	22,489
	-----	-----	-----	-----
Total operating expenses	190,241	133,266	367,864	265,280
	-----	-----	-----	-----
Income (Loss) from Equity Investments	2,832	2,361	6,609	(3,909)
	-----	-----	-----	-----
Operating Income from Continuing Operations	21,094	16,431	49,923	24,835
Income Tax Expense (Benefit)	4,753	5,508	15,077	(9,893)
	-----	-----	-----	-----
Income from Continuing Operations	16,341	10,923	34,846	34,728
Income from Discontinued Operations	-	1,190	-	2,842
	-----	-----	-----	-----
Net Income	16,341	12,113	34,846	37,570
Dividends on Preferred Stock	634	800	1,434	1,600
Distributions on Company Obligated Mandatorily Redeemable Preferred Securities of MP&L Capital I	1,509	-	1,711	-
	-----	-----	-----	-----
Earnings Available for Common Stock	\$ 14,198	\$ 11,313	\$ 31,701	\$ 35,970
	=====	=====	=====	=====
Average Shares of Common Stock	29,053	28,446	28,919	28,409
Earnings Per Share of Common Stock				
Continuing operations	\$ .49	\$ .35	\$ 1.10	\$1.17
Discontinued operations	-	.05	-	.10
	-----	-----	-----	-----
Total	\$ .49	\$ .40	\$ 1.10	\$1.27
	=====	=====	=====	=====
Dividends Per Share of Common Stock	\$ .51	\$ .51	\$ 1.02	\$1.02
-----				

The accompanying notes are an integral part of this statement.

Minnesota Power  
Consolidated Statement of Cash Flows  
In Thousands - Unaudited

	Six Months Ended June 30,	
	1996	1995
<b>Operating Activities</b>		
Net income	\$ 34,846	\$ 37,570
Depreciation and amortization	32,511	27,575
Deferred income taxes	(1,515)	(29,101)
Deferred investment tax credits	(839)	(1,024)
Pre-tax gain on sale of plant	(1,073)	-
Pre-tax loss on disposal of discontinued operations	-	1,793
Changes in operating assets and liabilities excluding the effects of discontinued operations		
Trading securities	(36,312)	18,013
Notes and accounts receivable	(53,488)	8,646
Fuel, material and supplies	531	(2,090)
Accounts payable	24,201	(1,325)
Other current assets and liabilities	(4,970)	8,221
Other - net	12,429	(2,514)
	6,321	65,764
	-----	-----
<b>Investing Activities</b>		
Proceeds from sale of investments in securities	14,640	94,162
Proceeds from sale of plant	5,311	-
Proceeds from sale of discontinued operations	-	106,115
Funds held by trustee for ADESA acquisition	-	(161,810)
Additions to investments	(51,921)	(65,996)
Additions to plant	(45,427)	(40,906)
Changes to other assets - net	6,443	2,777
	(70,954)	(65,658)
	-----	-----
<b>Financing Activities</b>		
Issuance of long-term debt	190,134	9,000
Issuance of Company obligated mandatorily redeemable preferred securities of MP&L Capital I - net	72,270	-
Issuance of common stock	9,015	1,467
Changes in notes payable	(9,588)	124,372
Reductions of long-term debt	(116,455)	(2,217)
Redemption of preferred stock	(17,568)	-
Dividends on preferred and common stock	(31,320)	(30,846)
	96,488	101,776
	-----	-----
Change in Cash and Cash Equivalents	31,855	101,882
Cash and Cash Equivalents at Beginning of Period	31,577	27,001
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 63,432	\$ 128,883
	=====	=====
<b>Supplemental Cash Flow Information</b>		
Cash paid during the period for		
Interest (net of capitalized)	\$ 24,930	\$ 22,481
Income taxes	\$ 17,182	\$ 11,893

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The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with the Company's 1995 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. The income statement information for prior periods has been reclassified to reflect the way in which the Company currently reports information regarding its businesses. Financial statement information may not be comparable between periods due to the purchase of ADESA on July 1, 1995.

Note 1. Business Segments  
In Thousands

	Consolidated	Electric Operations	Water Operations	Automobile Auctions	Investments		Corporate Charges & Other
					Portfolio & Reinsurance	Real Estate	
Quarter Ended June 30, 1996							
Operating revenue and income	\$208,503	\$129,219	\$ 23,050	\$ 45,215	\$4,736	\$ 6,605	\$ (322)
Operation and other expense	159,589	102,218	13,926	37,026	731	3,845	1,843
Depreciation and amortization expense	16,295	10,512	3,070	2,705	-	8	-
Interest expense	14,357	5,537	3,057	2,017	-	486	3,260
Income from equity investments	2,832	-	-	-	2,832	-	-
Operating income (loss)	21,094	10,952	2,997	3,467	6,837	2,266	(5,425)
Income tax expense (benefit)	4,753	3,593	1,010	2,002	928	(782)	(1,998)
Net income	\$ 16,341	\$ 7,359	\$ 1,987	\$ 1,465	\$5,909	\$ 3,048	\$(3,427)
Quarter Ended June 30, 1995							
Operating revenue and income	\$147,336	\$119,694	\$ 17,814	-	\$6,223	\$ 4,438	\$ (833)
Operation and other expense	109,152	91,128	11,692	-	1,322	3,492	1,518
Depreciation and amortization expense	12,726	10,115	2,551	-	-	60	-
Interest expense	11,388	5,573	2,534	-	1	-	3,280
Income from equity investments	2,361	-	-	-	2,361	-	-
Operating income (loss) from continuing operations	16,431	12,878	1,037	-	7,261	886	(5,631)
Income tax expense (benefit)	5,508	5,014	348	-	488	592	(934)
Income (loss) from continuing operations	10,923	\$ 7,864	\$ 689	-	\$6,773	\$ 294	\$(4,697)
Income from discontinued operations	1,190						
Net income	\$ 12,113						

Purchased July 1, 1995.

Note 1. Business Segments (Continued)  
In Thousands

	Consolidated	Investments				Corporate Charges & Other	
		Electric Operations	Water Operations	Automobile Auctions	Portfolio & Reinsurance		Real Estate
<b>Six Months Ended June 30, 1996</b>							
Operating revenue and income	\$ 411,178	\$ 260,718	\$ 42,277	\$ 84,908	\$ 8,605	\$ 15,281	\$ (611)
Operation and other expense	306,836	197,523	25,444	71,228	1,254	7,058	4,329
Depreciation and amortization expense	32,511	21,011	6,207	5,255	-	38	-
Interest expense	28,517	11,212	6,344	3,308	1	488	7,164
Income from equity investments	6,609	-	-	-	6,609	-	-
Operating income (loss)	49,923	30,972	4,282	5,117	13,959	7,697	(12,104)
Income tax expense (benefit)	15,077	11,367	1,459	2,664	2,897	1,581	(4,891)
Net income	\$ 34,846	\$ 19,605	\$ 2,823	\$ 2,453	\$ 11,062	\$ 6,116	\$ (7,213)
Total assets	\$2,108,031	\$ 983,971	\$ 341,792	\$453,561	\$ 244,526	\$ 82,516	\$ 1,665
Accumulated depreciation	\$ 646,609	\$ 527,425	\$ 115,162	\$ 4,022	-	-	-
Accumulated amortization	\$ 5,819	-	-	\$ 4,949	-	\$ 870	-
Construction work in progress	\$ 55,559	\$ 13,769	\$ 17,816	\$ 23,974	-	-	-
<b>Six Months Ended June 30, 1995</b>							
Operating revenue and income	\$ 294,024	\$ 240,448	\$ 33,416	-	\$ 12,962	\$ 8,703	\$ (1,505)
Operation and other expense	217,464	178,165	22,749	-	2,257	10,626	3,667
Depreciation and amortization expense	25,327	20,136	5,071	-	-	120	-
Interest expense	22,489	11,070	4,986	-	4	2	6,427
Income (loss) from equity investments	(3,909)	-	-	-	4,619	-	(8,528)
Operating income (loss) from continuing operations	24,835	31,077	610	-	15,320	(2,045)	(20,127)
Income tax expense (benefit)	(9,893)	12,833	(47)	-	1,950	(17,423)	(7,206)
Income (loss) from continuing operations	34,728	\$ 18,244	\$ 657	-	\$ 13,370	\$ 15,378	\$(12,921)
Income from discontinued operations	2,842	-	-	-	-	-	-
Net income	\$ 37,570	-	-	-	-	-	-
Total assets	\$1,872,156	\$ 993,127	\$ 325,348	-	\$ 518,702	\$ 34,181	\$ 798
Accumulated depreciation	\$ 604,884	\$ 510,170	\$ 94,714	-	-	-	-
Accumulated amortization	\$ 580	-	-	-	-	\$ 580	-
Construction work in progress	\$ 22,672	\$ 9,943	\$ 12,729	-	-	-	-

Purchased July 1, 1995.

Includes \$3.7 million of minority interest relating to the recognition of tax benefits. (See Note 3.)

Includes an \$8.5 million pre-tax provision for exiting the equipment manufacturing business.

Includes \$18.4 million of tax benefits. (See Note 3.)



Note 2. Regulatory Matters

FPSC Refund Order in Connection with 1993 Rate Case. On June 11, 1996 the FPSC voted 3-2 to require SSU to refund about \$10 million, including interest, to certain customers who had paid more to SSU under a uniform rate structure than they would have paid under a stand-alone rate structure during the period September 1993 to January 1996. In so ruling, the majority of the FPSC determined that a February 1996 decision of the Florida Supreme Court in GTE Florida v. FPSC did not render a refund requirement unlawful independent of an offsetting surcharge. SSU believes that the GTE Florida decision substantiates SSU's claim that it would be unlawful for the FPSC to order a refund to certain customers who paid more under uniform rates without also permitting SSU to recover the refund amount from remaining customers who paid less. SSU has recorded no provision for refund. SSU intends to appeal the FPSC's order to the First District Court of Appeal.

SSU's 1995 Rate Case. On July 31, 1996 the FPSC voted to allow SSU approximately 61 percent of the \$18.1 million rate increase requested in June 1995. The FPSC is expected to issue its final order on SSU's request on September 4, 1996.

Note 3. Income Tax Expense

Schedule of Income Tax Expense (Benefit)	Quarter Ended		Six Months Ended	
	1996	1995	1996	1995
-----				
In Thousands				
Charged to continuing operations				
Current tax				
Federal	\$ 4,030	\$ 1,040	\$ 12,888	\$ 3,866
Foreign	551	-	450	-
State	1,162	493	4,093	1,620
	-----	-----	-----	-----
	5,743	1,533	17,431	5,486
	-----	-----	-----	-----
Deferred tax				
Federal	1,143	3,598	1,131	3,524
State	84	781	(646)	521
	-----	-----	-----	-----
	1,227	4,379	485	4,045
	-----	-----	-----	-----
Change in valuation allowance	(2,000)	-	(2,000)	(18,400)
	-----	-----	-----	-----
Deferred tax credits	(217)	(404)	(839)	(1,024)
	-----	-----	-----	-----
Income tax - continuing operations	4,753	5,508	15,077	(9,893)
	-----	-----	-----	-----
Charged to discontinued operations				
Current tax				
Federal	-	13,502	-	13,396
State	-	4,209	-	4,192
	-----	-----	-----	-----
	-	17,711	-	17,588
	-----	-----	-----	-----
Deferred tax				
Federal	-	(12,870)	-	(11,851)
State	-	(3,195)	-	(2,895)
	-----	-----	-----	-----
	-	(16,065)	-	(14,746)
	-----	-----	-----	-----
Income tax - discontinued operations	-	1,646	-	2,842
	-----	-----	-----	-----
Total income tax expense (benefit)	\$ 4,753	\$ 7,154	\$ 15,077	\$ (7,051)
	=====	=====	=====	=====

In March 1995 based on the results of a project which analyzed the economic feasibility of realizing future tax benefits available to the Company, the board of directors of Lehigh directed the management of Lehigh to dispose of Lehigh's assets in a manner that would maximize utilization of tax benefits. Based on this directive, Lehigh recognized \$18.4 million of income in the first quarter of 1995 by reducing the valuation reserve which offsets deferred tax assets. In May 1996 an additional \$2 million of income was recognized based on a management review of the appropriateness of the valuation reserve. Additional unrealized net deferred tax assets of \$6.2 million resulting from the original purchase of Lehigh are included on the Company's balance sheet. These assets are fully offset by the deferred tax asset valuation allowance because under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," it is currently "more likely than not" that the value of these assets will not be realized. Management reviews the appropriateness of the valuation allowance quarterly.

#### Note 4. Square Butte Purchased Power Contract

The Company has a contract to purchase power and energy from Square Butte. Under the terms of the contract which extends through 2007, the Company is purchasing 71 percent of the output from a generating plant which is capable of generating up to 470 MW. Reductions to about 49 percent of the output are provided for in the contract and, at the option of Square Butte, could begin after a five-year advance notice to the Company.

The cost of the power and energy is a proportionate share of Square Butte's fixed obligations and variable operating costs, based on the percentage of the total output purchased by the Company. The annual fixed obligations of the Company to Square Butte are \$19.4 million from 1996 through 2000. The variable operating costs are not incurred unless production takes place. The Company is responsible for paying all costs and expenses of Square Butte if not paid by Square Butte when due. These obligations and responsibilities of the Company are absolute and unconditional whether or not any power is actually delivered to the Company.

#### Note 5. Preferred Stock

On May 13, 1996 Minnesota Power redeemed all of the 170,000 outstanding shares of its Serial Preferred Stock, \$7.36 Series. The redemption price was \$103.34 plus \$.86 accrued dividends. Proceeds from the QUIPS financing in March 1996 were used to redeem the shares.

#### Note 6. Mandatorily Redeemable Preferred Securities of MP&L Capital I

MP&L Capital I (Trust) was established as a wholly owned business trust of the Company for the purpose of issuing common and preferred securities (Trust Securities). On March 20, 1996 the Trust publicly issued three million 8.05% Cumulative Quarterly Income Preferred Securities (QUIPS), representing preferred beneficial interests in the assets held by the Trust, indirectly resulting in net proceeds to the Company of \$72.6 million. Holders of the QUIPS are entitled to receive quarterly distributions at an annual rate of 8.05 percent of the liquidation preference value of \$25 per security. The Company is the owner of all the common trust securities, which constitute approximately 3 percent of the aggregate liquidation amount of all the Trust Securities. The sole asset of the Trust is \$77.5 million of 8.05% Junior Subordinated Debentures, Series A, Due 2015 (Subordinated Debentures) issued by the Company, interest on which is deductible by the Company for income tax purposes. The Trust will use interest payments received on the Subordinated Debentures it holds to make the quarterly cash distributions on the QUIPS.

The QUIPS are subject to mandatory redemption upon repayment of the Subordinated Debentures at maturity or upon redemption. The Company has the option at any time on or after March 20, 2001, to redeem the Subordinated Debentures, in whole or in part. The Company also has the option, upon the occurrence of certain events, (i) to redeem at any time the Subordinated Debentures, in whole but not in part, which would result in the redemption of all the Trust Securities, or (ii) to terminate the Trust and cause the pro rata distribution of the Subordinated Debentures to the holders of the Trust Securities.

In addition to the Company's obligations under the Subordinated Debentures, the Company has guaranteed, on a subordinated basis, payment of distributions on the Trust Securities, to the extent the Trust has funds available to pay such distributions, and has agreed to pay all of the expenses of the Trust (such additional obligations collectively, the Back-up Undertakings). Considered together, the Back-up Undertakings constitute a full and unconditional guarantee by the Company of the Trust's obligations under the QUIPS.

#### Note 7. Long-Term Debt

On May 30, 1996 ADESA issued \$90 million of 7.70% Senior Notes, Series A, Due 2006 in a private placement offering. Proceeds were used by ADESA to repay existing indebtedness, including borrowings under ADESA's revolving bank credit agreement, floating rate option notes and certain borrowings from Minnesota Power. In June 1996 Lehigh obtained a \$20 million adjustable rate revolving line of credit due in 2003. The proceeds were used to partially finance the acquisition of real estate near Palm Coast, Florida.

Note 8. Common Stock

Shareholder Rights Plan. On July 24, 1996 the Board of Directors of the Company adopted a rights plan (Rights Plan) pursuant to which it declared a dividend distribution of one preferred share purchase right (Right) for each outstanding share of Common Stock of the Company (Common Stock) to shareholders of record at the close of business on July 24, 1996 (the Record Date) and authorized the issuance of one Right with respect to each share of Common Stock that becomes outstanding between the Record Date and July 23, 2006, or such earlier time as the Rights are redeemed.

Each Right will be exercisable to purchase one one-hundredth of a share of Junior Serial Preferred Stock A, without par value, at an exercise price of \$90, subject to adjustment, following a distribution date which shall be the earlier to occur of (i) 10 days following a public announcement that a person or group (Acquiring Person) has acquired, or obtained the right to acquire, beneficial ownership of 15 percent or more of the outstanding shares of Common Stock (Stock Acquisition Date) or (ii) 15 business days (or such later date as may be determined by the Board of Directors prior to the time that any person becomes an Acquiring Person) following the commencement of, or a public announcement of an intention to make, a tender or exchange offer if, upon consummation thereof, such person would meet the 15 percent threshold.

Subject to certain exempt transactions, in the event that the 15 percent threshold is met, each holder of a Right (other than the Acquiring Person) will thereafter have the right to receive, upon exercise at the then current exercise price of the Right, Common Stock (or, in certain circumstances, cash, property or other securities of the Company) having a value equal to two times the exercise price of the Right. If, at any time following the Stock Acquisition Date, the Company is acquired in a merger or other business combination transaction or 50 percent or more of the Company's assets or earning power are sold, each Right will entitle the holder (other than the Acquiring Person) to receive, upon exercise at the then current exercise price of the Right, common stock of the acquiring or surviving company having a value equal to two times the exercise price of the Right. Certain stock acquisitions will also trigger a provision permitting the Board of Directors to exchange each Right for one share of Common Stock.

The Rights are nonvoting and expire on July 23, 2006, unless redeemed by the Company at a price of \$.01 per Right at any time prior to the time a person becomes an Acquiring Person. The Board of Directors has authorized the reservation of one million shares of Junior Serial Preferred Stock A for issuance under the Rights Plan in the event of exercise of the Rights.

Stock Option and Award Plans. In May 1996 Company shareholders approved an Executive Long-Term Incentive Compensation Plan (the Executive Plan) and a Director Long-Term Stock Incentive Plan (the Director Plan), effective January 1, 1996.

The Executive Plan allows for the grant of up to 2.1 million shares of Common Stock to key employees of the Company. Such grants may be in the form of stock options and other awards, including stock appreciation rights, restrictive stock, performance units and performance shares. In January 1996 the Company granted non-qualified stock options to purchase 132,542 shares of Common Stock and granted 176,616 performance shares. Additionally, 24,000 restrictive shares of Common Stock were granted, with the restriction expiring over a three-year period. Pursuant to the Director Plan each nonemployee director receives an annual grant of 725 stock options and a biennial grant of performance shares equal to \$10,000 in value of Common Stock on the date of grant. The Director Plan provides for the grant of up to 150,000 shares of Common Stock.

The exercise price for stock options is equal to the market value of the Common Stock on the date of a grant. Stock options may be exercised 50 percent on the first anniversary date of the grant and the remaining 50 percent on the second anniversary and expire on the tenth anniversary. Grants of performance shares are earned over multi-year time periods upon the achievement of performance objectives.

The Company has elected to recognize compensation cost for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Generally, no compensation expense is recognized for stock options with exercise prices equal to the market value of the underlying shares of stock at the date of the grant. Compensation cost is recognized over the vesting periods for performance share awards based on the market value of the underlying shares of stock.

Note 9. Discontinued Operations

On June 30, 1995 Minnesota Power sold its interest in the paper and pulp business. The financial results of the paper and pulp business, including the loss on disposition, have been accounted for as discontinued operations.

Summary of Discontinued Operations	Quarter Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
-----				
In Thousands				
Operating revenue and income	-	\$ 22,285	-	\$ 44,324
		=====		=====
Equity in earnings	-	\$ 5,675	-	\$ 7,496
		=====		=====
Income from operations	-	\$ 4,629	-	\$ 7,477
Income tax expense	-	1,921	-	3,117
		-----		-----
	-	2,708	-	4,360
		-----		-----
Loss on disposal	-	(1,793)	-	(1,793)
Income tax benefit	-	275	-	275
		-----		-----
	-	(1,518)	-	(1,518)
		-----		-----
Income from discontinued operations	-	\$ 1,190	-	\$ 2,842
		=====		=====

The Company is still committed to a maximum guaranty of \$95 million to ensure a portion of a \$33.4 million annual lease obligation for paper mill equipment under an operating lease extending to 2012. The purchaser of the Company's paper and pulp business, CPI, has agreed to indemnify the Company for any payments the Company may make as a result of the Company's obligation relating to this operating lease.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Minnesota Power has operations in four business segments: (1) electric operations, which include electric and gas services, and coal mining; (2) water operations, which include water and wastewater services; (3) automobile auctions, which also include a finance company and an auto transport company; and (4) investments, which include real estate operations in Florida, a 21 percent equity investment in a financial guaranty reinsurance company, and a securities portfolio.

Earnings per share of common stock for the quarter ended June 30, 1996 were 49 cents compared to 40 cents for the quarter ended June 30, 1995. All four business segments were profitable for the second quarter ended June 30, 1996. Although earnings from electric operations decreased, water operations and investments significantly improved over second quarter results in 1995. The sale of the Company's paper and pulp business was included in the results for the quarter ended June 30, 1995 as discontinued operations.

Earnings per share of common stock for the six months ended June 30, 1996 were \$1.10 compared to \$1.27 for the six months ended June 30, 1995. Factors contributing to 1996 earnings include increased electric and water revenue, a gain resulting from the sale of certain water operations, the inclusion of automobile auctions and improvement in real estate operations (excluding the recognition of tax benefits in 1995).

Higher earnings in 1995 were attributed to the 52 cent per share recognition of tax benefits associated with real estate operations. Earnings in 1995 also reflect an 18 cent per share provision associated with exiting the truck-mounted lifting equipment business. The sale of the Company's paper and pulp business was included in 1995 as discontinued operations.

Earnings Per Share	Quarter Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
-----				
Continuing Operations				
Electric Operations	\$ .23	\$ .26	\$ .64	\$ .61
Water Operations	.07	.02	.10	.02
Automobile Auctions	.05	-	.08	-
Investments				
Portfolio and reinsurance	.20	.24	.38	.47
Real estate	.10	.01	.21	.54
	----	----	-----	-----
	.30	.25	.59	1.01
Corporate Charges and Other	(.16)	(.17)	(.31)	(.47)
	----	----	-----	-----
Total Continuing Operations	.49	.36	1.10	1.17
Discontinued Operations	-	.04	-	.10
	----	----	-----	-----
Total Earnings Per Share	\$ .49	\$ .40	\$ 1.10	\$ 1.27
	====	====	=====	=====

Results of Operations

Comparison of the Quarter Ended June 30, 1996 and 1995.

Electric Operations. Operating revenue and income from electric operations were higher in 1996 compared to 1995 due to a 30 percent increase in total kilowatthour sales. The increase in sales is attributed primarily to the Company's ability to market energy to other power suppliers.

Revenue from electric sales to taconite customers accounted for 33 percent of electric operating revenue in 1996 compared to 36 percent in 1995. Electric sales to paper and other wood-products companies accounted for 11 percent of electric operating revenue in 1996 and 13 percent in 1995. Sales to other

power suppliers accounted for 15 percent of electric operating revenue in 1996 compared to 8 percent in 1995.

Although revenue from electric operations was higher, earnings for the quarter ended June 30, 1996 were lower reflecting efforts in preparing for and meeting the more competitive challenges of today's electric industry. New industrial rates were lower on average while expenses associated with marketing new products and improving customer service were higher. Additionally, the costs associated with the early retirement plan offered in mid-1995 are being expensed over three years and are included in 1996 expenses. Scheduled maintenance expenses were also higher in 1996.

Water Operations. Operating revenue and income from water operations were higher in 1996 due to the addition of 17,000 new water and wastewater customers as a result of the December 1995 purchase of the assets of Orange Osceola Utilities (OOU) in Florida, and SSU's implementation of a \$7.9 million interim rate increase effective January 23, 1996. Operating costs also increased in 1996 because of the purchase of OOU.

Automobile Auctions. ADESA sold 160,000 cars during the quarter ended June 30, 1996, the best quarterly sales since Minnesota Power purchased the business in July 1995. One additional auction site was purchased during the quarter. Operating expenses include significant start-up costs at two other new locations added in 1996 and relocation costs for two existing auction operations.

Consolidated operating expenses in 1996 were significantly higher due to the inclusion of ADESA's operations following its purchase by the Company in July 1995.

#### Investments.

- Securities Portfolio and Reinsurance. The Company's securities portfolio and reinsurance performed well in 1996, however earnings were less because the portfolio balance was smaller. A portion of the portfolio was sold in 1995 to fund the purchase of ADESA.
- Real Estate Operations. Increased land sales, combined with the recognition of \$2 million of tax benefits at Lehigh, resulted in a more profitable quarter for the Company's real estate business in 1996.

Discontinued Operations. Income from discontinued operations in 1995 reflects the sale and operating results of the paper and pulp business which was sold in June 1995.

#### Comparison of the Six Months Ended June 30, 1996 and 1995.

Electric Operations. Operating revenue and income from electric operations were higher in 1996 compared to 1995 due to a 22 percent increase in total kilowatthour sales. The increase in sales is attributed primarily to the Company's ability to market energy to other power suppliers as well as extreme winter weather in 1996 compared to the milder winter in 1995.

Revenue from electric sales to taconite customers accounted for 32 percent of electric operating revenue in 1996 compared to 36 percent in 1995. Electric sales to paper and other wood-products companies accounted for 11 percent of electric operating revenue in 1996 and 13 percent in 1995. Sales to other power suppliers accounted for 12 percent of electric operating revenue in 1996 compared to 6 percent in 1995.

Purchased power and other expenses for electric operations were considerably higher in 1996 than in 1995. Increased purchased power costs were incurred in 1996 to meet higher demand. However, the average cost per kilowatthour was lower than in 1995. Square Butte, one of Minnesota Power's low priced sources of energy, produced 64 percent more energy in 1996, while in 1995 it was down for scheduled maintenance. Costs associated with the early retirement offering in mid-1995 are being expensed over three years and are reflected in 1996 expenses. Scheduled maintenance expenses were higher in 1996.

Water Operations. Operating revenue and income from water operations were higher in 1996 due to the \$1.1 million pre-tax gain from the sale of Seabrook's assets in South Carolina, the addition of 17,000 new water and wastewater customers as a result of the December 1995 purchase of the assets of OOU in Florida, and SSU's implementation of a \$7.9 million interim rate increase effective January 23, 1996. Operating costs also increased in 1996 because of the purchase of OOU.

Automobile Auctions. Automobile auction operations were profitable despite severe winter weather on the east coast which limited auction sales in January 1996. New auctions began operations at Jacksonville, Florida and Newark, New Jersey during the first half of 1996. Start-up costs associated with these new sites have had a negative impact on profitability of this segment and are expected to continue having such an impact on results through 1997. All other auction sites including, ADESA's acquisition of an auto auction facility in Portage, Wisconsin, have performed well in 1996.

Consolidated operating expenses in 1996 are significantly higher due to the inclusion of ADESA's operations following its purchase by the Company in July 1995.

#### Investments.

- Securities Portfolio and Reinsurance. The Company's securities portfolio and reinsurance performed well in 1996. The portfolio produced less earnings in 1996 because its balance was smaller as a result of the sale of a portion of the portfolio to fund the purchase of ADESA.
- Real Estate Operations. Revenue in 1996 includes \$3.7 million from the sale of Lehigh's joint venture in a resort and golf course. In 1995 \$18.4 million of tax benefits were recognized by Lehigh. The Company's portion of the tax benefits reflected as net income was \$14.7 million, or 52 cents per share. In 1996 an additional \$2 million of tax benefits were recognized.

Corporate Charges and Other. In March 1995 the Company recorded a \$5 million provision, lowering earnings per share by 18 cents, in anticipation of exiting the truck-mounted lifting equipment business.

Discontinued Operations. Income from discontinued operations in 1995 reflects the operating results of the paper and pulp business which was sold in June 1995.

#### Liquidity and Financial Position

Reference is made to the Consolidated Statement of Cash Flows for the six months ended June 30, 1996 and 1995, for purposes of the following discussion. Automobile auction operations, which were acquired July 1, 1995, are included in the six months ended June 30, 1996.

Cash Flow Activities. Cash from operating activities was affected by a number of factors representative of normal operations.

Working capital, if and when needed, generally is provided by the sale of commercial paper. In addition, securities investments can be liquidated to provide funds for reinvestment in existing businesses or acquisition of new businesses, and approximately 5,268,000 original issue shares of common stock are available for issuance through the DRIP.

MP&L Capital I (Trust) was established as a wholly owned business trust of the Company for the purpose of issuing common and preferred securities. On March 20, 1996 the Trust publicly issued three million 8.05% Cumulative Quarterly Income Preferred Securities (QUIPS), representing preferred beneficial interests in the assets held by the Trust, indirectly resulting in net proceeds to the Company of \$72.6 million. The net proceeds to the Company were used to retire approximately \$56 million of commercial paper and approximately \$17 million were used to redeem all of the outstanding shares of the Company's Serial Preferred Stock, \$7.36 Series, on May 13, 1996.

On May 30, 1996 ADESA issued \$90 million of 7.70% Senior Notes, Series A, Due 2006 in a private placement offering. Proceeds were used by ADESA to repay existing indebtedness, including borrowings

under ADESA's revolving bank credit agreement, floating rate option notes and certain borrowings from Minnesota Power. In June 1996 Lehigh obtained a \$20 million adjustable rate revolving line of credit due in 2003. The proceeds were used to partially finance the acquisition of real estate near Palm Coast, Florida.

On June 24, 1996 the Company's registration with the Securities and Exchange Commission became effective with respect to 5 million additional shares of common stock for offer and sale pursuant to the DRIP. Previously available to registered holders and electric utility customers, the DRIP has been amended, effective July 2, 1996, to, among other things, expand the customer feature and allow any interested investor to enroll in the plan with an initial investment of \$250. Capital raised through the sale of new issue shares under the DRIP is expected to be used for general corporate purposes.

Capital Requirements. Consolidated capital expenditures for the six months ended June 30, 1996 totaled \$53 million. These expenditures include \$19 million for electric operations, \$8 million for water operations and \$26 million for automobile auction operations. Internally generated funds were the primary source for funding electric and water operation expenditures. ADESA issued long-term debt to finance its construction expenditures.

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 14, 1996.
- (b) The election of directors, appointment of independent accountants and approval of the Minnesota Power Executive Long-Term Incentive Compensation Plan and the Minnesota Power Director Long-Term Stock Incentive Plan were voted on at the Annual Meeting of Shareholders.

The results were as follows:

Directors	Votes For	Votes Withheld or Against	Abstentions	Broker Nonvotes
Merrill K. Cragun	26,353,001	705,930	-	-
Dennis E. Evans	26,282,462	776,469	-	-
D. Michael Hockett	26,229,993	828,938	-	-
Peter J. Johnson	26,385,179	673,752	-	-
Jack R. Kelly, Jr.	26,322,548	736,383	-	-
George L. Mayer	26,364,365	694,566	-	-
Paula F. McQueen	26,371,643	687,288	-	-
Robert S. Nickoloff	26,292,136	766,795	-	-
Jack I. Rajala	26,379,143	679,788	-	-
Edwin L. Russell	26,363,621	695,310	-	-
Arend J. Sandbulte	26,325,841	733,090	-	-
Nick Smith	26,327,260	731,671	-	-
Bruce W. Stender	26,369,095	689,836	-	-
Donald C. Wegmiller	26,338,697	720,234	-	-
Independent Accountants				
Price Waterhouse LLP	26,375,793	234,701	448,438	-
Minnesota Power Executive Long-Term Incentive Compensation Plan				
	17,096,568	3,999,538	1,743,484	4,219,341
Minnesota Power Director Long-Term Stock Incentive Plan				
	17,025,492	4,084,573	1,729,524	4,219,342



Item 5. Other Information

Reference is made to the Company's 1995 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to the Company's 1995 Form 10-K.

Ref. Page 8. - Third Full Paragraph

On June 19, 1996 the FERC approved the proposed wholesale rates as filed. The new rates have an effective date of January 1, 1996.

Ref. Page 9. - Second Full Paragraph and Page 13. - Fourth Paragraph

Ref. 10-Q for the quarter ended March 31, 1996, Page 10. - Second Paragraph

On June 27, 1996 the Company filed in the U.S. Court of Appeals for the District of Columbia Circuit a petition for review of the order issued by the FERC granting a new license for the Company's St. Louis River Project. On June 28, 1996 separate petitions for review were filed in the same court by the U.S. Department of the Interior and the Fond du Lac Band of Lake Superior Chippewa, two intervenors in the licensing proceedings. The issues to be resolved concern the terms and conditions of the license which will govern the Company's operation and maintenance of the project.

Ref. Page 10. - Fourth Paragraph

Ref. 10-Q for the quarter ended March 31, 1996, Page 10. - Fifth Paragraph

The wholesale transmission tariff filed on April 16, 1996, in anticipation of new rules governing open access transmission for wholesale service became effective on June 16, 1996 subject to refund pending a hearing before an Administrative Law Judge and final FERC approval. The hearing is scheduled to begin on January 14, 1997. As required by Order No. 888, the Company filed with the FERC on July 9, 1996, a tariff for open access transmission service incorporating the terms and conditions of the FERC's pro forma tariff with appropriate modifications. A decision on the filing is pending.

In order to comply with the FERC's regulations and policies governing open access to electric transmission systems, the Company has initiated procedures which will result in the functional separation of the Company's operation of its transmission system from other aspects of its business as required by the FERC's Standards of Conduct implemented by Order No. 889. Compliance with Order No. 889 is required by November 1, 1996.

On July 15, 1996, the FERC accepted for filing and made effective a tariff allowing the Company to sell power at market-based rates. The tariff will permit the Company to respond more quickly and in a more competitive manner to requests for power from wholesale customers.

Ref. Page 13. - Table- Summary of National Pollutant Discharge Elimination System Permits

Facility	Issue Date	Expiration Date
-----	-----	-----
Arrowhead DC Terminal	June 17, 1996	March 31, 2001

Ref. Page 15. - Seventh Paragraph

On July 31, 1996 the FPSC voted to allow SSU approximately 61 percent of the \$18.1 million rate increase requested in June 1995. The FPSC is expected to issue its final order on SSU's request on September 4, 1996.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10 (a) Minnesota Power Executive Long-Term Incentive Compensation Plan

10 (b) Minnesota Power Director Long-Term Stock Incentive Plan

27 Financial Data Schedule

\* 99 The consolidated financial statements of ADESA Corporation for the quarter ended June 30, 1995 (filed as Item 7(a) to Form 8-K/A dated September 8, 1995, File No. 1-3548).

- -----  
\* Incorporated herein by reference as indicated.

(b) Reports on Form 8-K.

Report on Form 8-K dated and filed June 18, 1996 with respect to Item 5. Other Events.

Report on Form 8-K dated and filed August 2, 1996 with respect to Item 5. Other Events and 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 & Light Company  
-----  
(Registrant)

August 9, 1996

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

August 9, 1996

Mark A. Schober  
-----  
Mark A. Schober  
Corporate Controller

MINNESOTA POWER  
EXECUTIVE LONG-TERM  
INCENTIVE COMPENSATION PLAN

Effective 01/01/96

MINNESOTA POWER  
EXECUTIVE LONG-TERM INCENTIVE COMPENSATION PLAN

1. Establishment, Purpose and Duration

1 Establishment of the Plan. Minnesota Power & Light Company, a Minnesota corporation (hereinafter referred to as the "Company"), hereby establishes an incentive compensation plan to be known as the "Minnesota Power Executive Long-Term Incentive Compensation Plan" (hereinafter referred to as the "Plan"), as set forth in this document. The Plan permits the grant of Nonqualified Stock Options (NQS0), Incentive Stock Options (ISO), Stock Appreciation Rights (SAR), Restricted Stock, Performance Units, Performance Shares and other grants.

The Plan shall become effective as of January 1, 1996 (the "Effective Date"), subject to shareholder approval, and shall remain in effect as provided in Section 1.3 herein.

2 Purpose of the Plan. The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of Participants to those of Company shareholders and customers, providing Participants with an incentive for outstanding performance.

The Plan is further intended to assist the Company in its ability to motivate, attract and retain the services of Participants upon whom the successful conduct of its operations is largely dependent.

3 Duration of the Plan. The Plan shall commence on the Effective Date, as described in Section 1.1 herein, and shall remain in effect, subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article 15 herein, until all Shares subject to it shall have been purchased or acquired according to the Plan's provisions. However, in no event may a Grant be made under the Plan on or after the tenth anniversary of the Effective Date.

2. Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when such meaning is intended, the initial letter of the word is capitalized:

1 "Base Value" of an SAR shall have the meaning set forth in Section 7.1 herein.

2 "Board" or "Board of Directors" means the Board of Directors of the Company.

3 "Cause" means: (i) willful misconduct on the part of a Participant that is detrimental to the Company or (ii) the conviction of a Participant for the commission of a felony or crime involving moral turpitude. "Cause" under either (i) or (ii) shall be determined in good faith by the Committee.

4 "Change in Control" of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

- (a) the dissolution or liquidation of the Company;
- (b) a reorganization, merger or consolidation of the Company with one or more unrelated corporations, as a result of which the Company is not the surviving corporation;
- (c) the sale, exchange, transfer or other disposition of shares of the common stock of the Company (or shares of the stock of any person that is a shareholder of the Company) in one or more transactions, related or unrelated, to one or more Persons unrelated to the Company if, as a result of such transactions, any Person (or any Person and its affiliates) owns more than twenty percent (20%) of the voting power of the outstanding common stock of the Company; or
- (d) a reorganization, merger or consolidation of the Company with one or more unrelated corporations, if immediately after the consummation of such transaction less than a majority of the board of directors of the surviving corporation is comprised of Continuing Directors. Continuing Director shall mean (i) each member of the Board of Directors of the Company, while such person is a member of the Board, who is not the other party to the transaction, an Affiliate or Associate (as these terms are defined in the Exchange Act) of such other party to the transaction, or a representative of such other party or of any such Affiliate or Associate, and was a member of the Board immediately prior to the initial public announcement of a proposal relating to a reorganization, merger or consolidation involving such other party, or an Affiliate or Associate of such other party or (ii) any person who subsequently becomes a member of the Board, while such person is a member of the Board, who is not the other party to the transaction, or an Affiliate or Associate thereof, or a representative of such other party to the transaction or of any such Affiliate or Associate, if such person's nomination for election to the Board is recommended or approved by two-thirds of the Continuing Directors then in office;
- (e) the sale of all or substantially all the assets of the Company.

5 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

6 "Committee" means the committee, as specified in Article 3, appointed by the Board to administer the Plan with respect to Grants.

7 "Company" means Minnesota Power & Light Company, a Minnesota corporation, or any successor thereto as provided in Article 17 herein.

8 "Director" means any individual who is a member of the Board of Directors of the Company.

9 "Disability" shall have the meaning ascribed to such term under Section 22(e)(3) of the Code.

10 "Dividend Equivalent" means, with respect to Shares subject to Options or Performance Shares, a right to an amount equal to dividends declared on an equal number of outstanding Shares.

11 "Eligible Employee" means an employee who is eligible to participate in the Plan, as set forth in Section 5.1 herein.

12 "Employee" means any full-time employee of the Company or of the Company's Subsidiaries, who is not covered by any collective bargaining agreement to which the Company or any of its Subsidiaries is a party. Directors who are not otherwise employed by the Company shall not be considered Employees under the Plan. For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries (or between Subsidiaries) shall not be deemed a termination of employment.

13 "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

14 "Exercise Period" means the period during which an SAR or Option is exercisable, as set forth in the related Grant Agreement.

15 "Fair Market Value" means the closing sale price as reported in the composite reporting system or, if there is no such sale on the relevant date, then on the last previous day on which a sale was reported.

16 "Freestanding SAR" means an SAR that is granted independently of any Options.

17 "Grant" means, individually or collectively, a grant under the Plan of NQSOs, ISOs, SARs, Restricted Stock, Performance Units, Performance Shares or any other type of grant permitted under Article 10 of the Plan.

18 "Grant Agreement" means an agreement entered into by each Participant and the Company, setting forth the terms and provisions applicable to a Grant made to a Participant under the Plan.

19 "Incentive Stock Option" or "ISO" means an option to purchase Shares, granted under Article 6 herein, which is designated as an Incentive Stock Option and satisfies the requirements of Section 422 of the Code.

20 "Insider" means an Employee who is, on the relevant date, an officer, director or ten percent (10%) beneficial owner of the Common Stock of the Company, as defined under Section 16 of the Exchange Act.

21 "Named Executive Officer" means a Participant who, as of the date of vesting and/or payout of a Grant, is one of the group of "covered employees," as defined in the Regulations promulgated under Code Section 162(m), or any successor statute.

22 "Nonqualified Stock Option" or "NQSO" means an option to purchase Shares, granted under Article 6 herein, which is not intended to be an Incentive Stock Option.

23 "Option" means an Incentive Stock Option or a Nonqualified Stock Option.

24 "Option Price" means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee and set forth in the Option Grant Agreement.

25 "Participant" means an Employee who has outstanding a Grant made under the Plan.

26 "Performance Unit" means a Grant made to an Employee, as described in Article 9 herein.

27 "Performance Share" means a Grant made to an Employee, as described in Article 9 herein.

28 "Period of Restriction" means the period during which the transfer of Restricted Stock is limited, as provided in Article 8 herein.

29 "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act, as used in Sections 13(d) and 14(d) thereof including usage in the definition of a "group" in Section 13(d) thereof.

30 "Restricted Stock" means a Grant of Shares made to a Participant pursuant to Article 8 herein.

31 "Retirement" shall, with respect to a Participant, have the meaning ascribed to such term in the tax-qualified defined benefit pension plan maintained by the Company for the benefit of such Participant.

32 "Shares" means the shares of common stock of the Company, without par value.

33 "Stock Appreciation Right" or "SAR" means a right, granted alone or in connection with a related Option, designated as an SAR, to receive a payment on the day the right is exercised, pursuant to the terms of Article 7 herein. Each SAR shall be denominated in terms of one Share.

34 "Subsidiary" means any corporation that is a "subsidiary corporation" of the Company as that term is defined in Section 424(f) of the Code.

35 "Tandem SAR" means an SAR that is granted in connection with a related Option, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall be similarly canceled).



### 3. Administration

1 The Committee. The Plan shall be administered by the Executive Compensation Committee of the Board, or by any other Committee appointed by the Board consisting of not less than three (3) non-employee Directors. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.

The Committee, to the extent necessary, shall be comprised solely of Directors who are eligible to administer the Plan pursuant to Rule 16b-3 under the Exchange Act and Treas. Reg. 1.162-27(e)(3) with respect to Grants made to Named Executive Officers. However, if for any reason the Committee does not qualify to administer the Plan, as contemplated by Rule 16b-3 under the Exchange Act or Treas. Reg. 1.162-27(e)(3), the Board of Directors may appoint a new Committee so as to comply with Rule 16b-3 and Treas. Reg. 1.162-27(e)(3).

2 Authority of the Committee. The Committee shall have full power except as limited by law, the Articles of Incorporation and the Bylaws of the Company, subject to such other restricting limitations or directions as may be imposed by the Board and subject to the provisions herein, to determine the size and types of Grants; to determine the terms and conditions of such Grants in a manner consistent with the Plan; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend or waive rules and regulations for the Plan's administration; and (subject to the provisions of Article 15 herein) to amend the terms and conditions of any outstanding Grant. Further, the Committee shall make all other determinations which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate its authorities as identified hereunder.

3 Decisions Binding. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, its shareholders, Employees, Participants and their estates and beneficiaries.

4 Costs. The Company shall pay all costs of administration of the Plan.

### 4. Shares Subject to the Plan

1 Number of Shares. Subject to Section 4.2 herein, the maximum number of Shares available for grant under the Plan shall be two million one hundred thousand (2,100,000). Shares underlying lapsed or forfeited Grants, or Grants that are not paid in stock, may be reused for other Grants. Shares may be (i) authorized but unissued shares of Common Stock or (ii) shares purchased on the open market.

2 Adjustments in Authorized Shares. In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, split-up, share combination or other change in the corporate structure of the Company affecting the Shares, such adjustment shall be made in the number and class of Shares which may be delivered under the Plan, and in the number and class of and/or price of Shares subject to outstanding Grants made under the Plan, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; provided, however, that the number of Shares subject to any Grant shall always be a whole number.

5. Eligibility and Participation

1 Eligibility. Persons eligible to participate in the Plan include all officers and key employees of the Company and its Subsidiaries, as determined by the Committee, including Employees who are members of the Board, but excluding Directors who are not Employees.

2 Actual Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees those to whom Grants shall be made and shall determine the nature and amount of each Grant.

6. Stock Options

1 Grant of Options. Subject to the terms and conditions of the Plan, Options may be granted to an Eligible Employee at any time and from time to time, as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Shares subject to Options granted to each Participant (subject to Article 4 herein) and consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Options; provided, however, the maximum number of shares subject to Options which may be granted to any single Participant during any one calendar year is twenty thousand (20,000). The Committee may grant ISOs, NQSOs or a combination thereof.

2 Option Grant Agreement. Each Option grant shall be evidenced by an Option Grant Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains, the Exercise Period and such other provisions as the Committee shall determine. The Option Grant Agreement also shall specify whether the Option is intended to be an ISO or a NQSO.

3 Option Price. The Option Price for each Option granted under the Plan shall be the Fair Market Value of a Share on the date of grant.

4 Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Option shall be exercisable later than the tenth (10th) anniversary of its date of grant.

5 Dividend Equivalents. Simultaneously with the grant of an Option, the Participant receiving the Option may be granted Dividend Equivalents with respect to the Shares subject to such Option. Dividend Equivalents shall constitute rights to amounts equal to the dividends declared on an equal number of outstanding Shares on all payment dates occurring during the period between the grant date of an Option and the date the Option is exercised. The Committee shall determine at the time Dividend Equivalents are granted the conditions, if any, to which the payment of such Dividend Equivalents is subject.

6 Exercise of and Payment for Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each Grant or for each Participant. However, in no event may an Option granted under the Plan become exercisable prior to six (6) months following the date of its grant.

A Participant may exercise an Option at any time during the Exercise Period. Options shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by provisions for full payment for the Shares.

The Option Price upon exercise of any Option shall be payable to the Company in full either (a) in cash or its equivalent, (b) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by the Participant for at least six (6) months prior to their tender to satisfy the Option Price), (c) by share withholding or (d) by a combination of (a), (b) and/or (c).

The Committee also may allow cashless exercise as permitted under Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law.

As soon as practicable after receipt of a written notification of exercise of an Option and provisions for full payment therefor, the Company shall deliver to the Participant, in the Participant's name, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s).

7 Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option under the Plan as it may deem advisable, including, without limitation, restrictions to comply with applicable Federal securities laws, with the requirements of any stock exchange or market upon which such Shares are then listed and/or traded and with any blue sky or state securities laws applicable to such Shares.

8 Termination of Employment. Each Option Grant Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Option Grant Agreement entered into with Participants, need not be uniform among all Options granted pursuant to the Plan or among Participants and may reflect distinctions based on the reasons for termination of employment.

9 Nontransferability of Options. No Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all Options granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or his or her legal representative.

## 7. Stock Appreciation Rights

1 Grant of SARs. Subject to the terms and conditions of the Plan, an SAR may be granted to an Eligible Employee at any time and from time to time, as shall be determined by the Committee. The Committee may grant Freestanding SARs, Tandem SARs or any combination of these forms of SAR.

The Committee shall have complete discretion in determining the number of SARs granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs; provided, however, the maximum number of SARs which may be granted to any single Participant during any one calendar year is twenty thousand (20,000).

The Base Value of a Freestanding SAR shall equal the Fair Market Value of a Share on the date of grant of the SAR. The Base Value of Tandem SARs shall equal the Option Price of the related Option. In no event shall any SAR granted hereunder become exercisable within the first six (6) months of its grant.

2 SAR Grant Agreement. Each SAR grant shall be evidenced by an SAR Grant Agreement that shall specify the number of SARs granted, the Base Value, the term of the SAR (not to exceed ten (10) years), the Exercise Period and such other provisions as the Committee shall determine.

3 Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable.

Notwithstanding any other provision of the Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR will expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than one hundred percent (100%) of the difference between the Option Price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (iii) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the Option Price of the ISO.

4 Exercise of Freestanding SARs. Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them.

5 Exercise and Payment of SARs. A Participant may exercise an SAR at anytime during the Exercise Period. SARs shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of SARs being exercised. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount equal to the product of:

(a) the excess of (i) the Fair Market Value of a Share on the date of exercise over (ii) the Base Value of the SAR, multiplied by

(b) the number of Shares with respect to which the SAR is exercised.

At the sole discretion of the Committee, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

6 Termination of Employment. Each SAR Grant Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the SAR Grant Agreement entered into with Participants, need not be uniform among all SARs granted pursuant to the Plan or among Participants and may reflect distinctions based on the reasons for termination of employment.

7 Nontransferability of SARs. No SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or his or her legal representative.

## 8. Restricted Stock

1 Grant of Restricted Stock. Subject to the terms and conditions of the Plan, Restricted Stock may be granted to Eligible Employees at any time and from time to time, as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of shares of Restricted Stock granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Restricted Stock.

2 Restricted Stock Grant Agreement. Each Restricted Stock grant shall be evidenced by a Restricted Stock Grant Agreement that shall specify the Period or Periods of Restriction, the number of Restricted Stock Shares granted and such other provisions as the Committee shall determine.

3 Transferability. Except as provided in this Article 8, Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Restricted Stock Grant Agreement. However, in no event may any Restricted Stock granted under the Plan become vested in a Participant prior to six (6) months following the date of its grant. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

4 Certificate Legend. Each certificate representing Restricted Stock granted pursuant to the Plan may bear a legend substantially as follows:

"The sale or other transfer of the shares of stock represented by this certificate, whether voluntary, involuntary or by operation of law, is subject to certain restrictions on transfer as set forth in the Minnesota Power Executive Long-Term Incentive Compensation Plan, and in a Restricted Stock Grant Agreement. A copy of such Plan and such Agreement may be obtained from Minnesota Power & Light Company."

The Company shall have the right to retain the certificates representing Restricted Stock in the Company's possession until such time as all restrictions applicable to such Shares have been satisfied.

5 Removal of Restrictions. Except as otherwise provided in this Article 8, Restricted Stock shall become freely transferable by the Participant after the last day of the Period of Restriction applicable thereto. Once Restricted Stock is released from the restrictions, the Participant shall be entitled to have the legend referred to in Section 8.4 removed from his or her stock certificate.

6 Voting Rights. During the Period of Restriction, Participants holding Restricted Stock may exercise full voting rights with respect to those Shares.

7 Dividends and Other Distributions. During the Period of Restriction, Participants holding Restricted Stock shall be credited with all regular cash dividends paid with respect to all Shares while they are so held. All cash dividends and other distributions paid with respect to Restricted Stock shall be credited to Participants subject to the same restrictions on transferability and forfeitability as the Restricted Stock with respect to which they were paid. If any such dividends or distributions are paid in Shares, such Shares shall be subject to the same restrictions on transferability and forfeitability as the Restricted Stock with respect to which they were paid. Subject to the restrictions on vesting and the forfeiture provisions, all dividends credited to a Participant shall be paid to the Participant promptly following the full vesting of the Restricted Stock with respect to which such dividends were paid. The provisions of this Section 8.7 are subject to the right of the Committee to determine otherwise at the time of grant.

8 Termination of Employment. Each Restricted Stock Grant Agreement shall set forth the extent to which the Participant shall have the right to receive unvested Restricted Shares following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Restricted Stock Grant Agreement entered into with Participants, need not be uniform among all grants of Restricted Stock or among Participants and may reflect distinctions based on the reasons for termination of employment.

9. Performance Units and Performance Shares

1 Grant of Performance Units and Performance Shares. Subject to the terms of the Plan, Performance Units and/or Performance Shares may be granted to an Eligible Employee at any time and from time to time, as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Performance Units and/or Performance Shares granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Grants; provided, however, the maximum payout to any single Participant with respect to Performance Units granted in any one calendar year shall be 200% of base salary determined at the earlier of the beginning of the Performance Period and the time the performance goals are set by the Committee and with respect to Performance Shares shall be twenty thousand (20,000) shares.

2 Performance Unit/Performance Share Grant Agreement. Each grant of Performance Units and/or Performance Shares shall be evidenced by a Performance Unit and/or Performance Share Grant Agreement that shall specify the number of Performance Units and/or Performance Shares granted, the initial value (if applicable), the Performance Period, the performance goals and such other provisions as the Committee shall determine, including, but not limited to, any right to Dividend Equivalents during or after the Performance Period.

3 Value of Performance Units/Shares. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. The value of a Performance Share shall equal the value of one Share. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the number and/or value of Performance Units/Shares that will be paid out to the Participants. The time period during which the performance goals must be met shall be called a "Performance Period." Performance Periods shall, in all cases, be at least six (6) months in length.

Unless and until the Committee proposes for shareholder vote a change in the general performance goals set forth below, the attainment of which shall serve as a basis for the determination of the number and/or value of Performance Units and/or Performance Shares granted under the Plan, the performance goals to be used for purposes of grants to Named Executive Officers shall be based upon any one or more of the following:

- (a) Total shareholder return (measured as the sum of Share appreciation and dividends declared).
- (b) Return on invested capital, assets or net assets.
- (c) Share earnings/earnings growth.
- (d) Cash flow/cash flow growth.
- (e) Cost of services to consumers.
- (f) Growth in revenues, sales, operating income, net income, stock price and/or earnings per share.
- (g) Return on shareholders equity.
- (h) Economic value created.
- (i) Customer satisfaction and/or customer service quality.
- (j) Operating effectiveness.

In the event that applicable tax and/or securities laws change to permit Committee discretion to alter the governing performance goals without obtaining shareholder approval of such changes and without losing any income tax benefits to the Company, the Committee shall have sole discretion to make such changes without obtaining shareholder approval.

4 Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares shall be entitled to receive payout with respect to the Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved.

5 Form and Timing of Payment of Performance Units/Shares.

Payment of earned Performance Units/Shares shall be made following the close of the applicable Performance Period or at such later time as the Committee, in its sole discretion, may determine. The Committee, in its sole discretion, may pay earned Performance Units/Shares in cash or in Shares (or in a combination thereof), which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period. Such Shares may be granted subject to any restrictions deemed appropriate by the Committee.

6 Dividend Equivalents. Simultaneously with the grant of Performance

Shares, the Participant may be granted Dividend Equivalents with respect to such Performance Shares. Dividend Equivalents shall constitute rights to amounts equal to the dividends declared on an equal number of outstanding Shares on all payment dates occurring during the period between the grant date and the date the Performance Shares are earned or paid out. The Committee shall determine at the time Dividend Equivalents are granted the conditions, if any, to which the payment of such Dividend Equivalents is subject.

7 Termination of Employment. Each Grant Agreement shall set forth

the extent to which the Participant shall have the right to receive a Performance Unit/Share payout following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Grant Agreement entered into with the Participants, need not be uniform among all grants of Performance Units/Shares or among Participants and may reflect distinctions based upon reasons for termination of employment.

8 Nontransferability. Performance Units/Shares may not be sold,

transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant or the Participant's legal representative.

10. Other Grants

The Committee shall have the right to make other Grants which may include, without limitation, the grant of Shares based on certain conditions, the payment of cash based on performance criteria established by the Committee, and the payment of Shares in lieu of cash under other Company incentive or bonus programs. Payment under or settlement of any such Grants shall be made in such manner and at such times as the Committee may determine.

11. Beneficiary Designation

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Committee during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

The spouse of a married Participant domiciled in a community property jurisdiction shall join in any designation of beneficiary or beneficiaries other than the spouse.



## 12. Deferrals

The Committee may permit a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of (1) the exercise of an SAR or (2) the satisfaction of any requirements or goals with respect to any Grants. If any such deferral election is permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

## 13. Rights of Employees

1 Employment. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, for any reason or no reason in the Company's sole discretion, nor confer upon any Participant any right to continue in the employ of the Company.

2 Participation. No Employee shall have the right to be selected to receive a Grant under the Plan, or, having been so selected, to be selected to receive a future Grant.

## 14. Change in Control

Upon the occurrence of a Change in Control, as defined herein, unless otherwise specifically prohibited by the terms of Article 18 herein or unless the Committee provides otherwise prior to the Change in Control:

- (a) Any and all Options and SARs granted hereunder shall become immediately exercisable;
- (b) Any restriction periods and restrictions imposed on Restricted Stock shall be deemed to have expired;
- (c) With respect to all outstanding Grants of Performance Units, Performance Shares and other performance-based Grants, there shall be paid out immediately to Participants the superior number of Performance Units or Shares granted for the entire Performance Period as increased by Dividend Equivalents for the entire Performance Period. Payment shall be made in cash or in stock, as determined by the Committee. However, there shall not be an accelerated payout under this Section 14(c) with respect to Grants of Performance Units, Performance Shares or other performance-based Grants which were made less than six (6) months prior to the effective date of the Change in Control; and

- (d) All earned Performance Units, Performance Shares and other performance-based Grants (as increased by any Dividend Equivalents to the date of payment) not yet paid out shall be paid out immediately, in cash or in stock, as determined by the Committee.

15. Amendment, Modification and Termination

1 Amendment, Modification and Termination. The Board may, at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part; provided, however, that no amendment which requires shareholder approval in order for the Plan to continue to comply with Rule 16b-3 under the Exchange Act, including any successor to such Rule, shall be effective unless such amendment shall be approved by the requisite vote of the shareholders of the Company entitled to vote thereon.

2 Grants Previously Made. No termination, amendment or modification of the Plan shall adversely affect in any material way any Grant previously made under the Plan, without the written consent of the Participant holding such Grant unless such termination, modification or amendment is required by applicable law.

16. Withholding

1 Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to a Grant made under the Plan.

2 Share Withholding. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising out of or as a result of Grants made hereunder, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. All elections shall be irrevocable, made in writing and signed by the Participant.

17. Successors

All obligations of the Company under the Plan, with respect to Grants made hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

18. Legal Construction

1 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular and the singular shall include the plural.

2 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

3 Requirements of Law. The making of Grants and the issuance of Shares under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

Notwithstanding any other provision set forth in the Plan, if required by the then-current Section 16 of the Exchange Act, any "derivative security" or "equity security" offered pursuant to the Plan to any Insider may not be sold or transferred within the minimum time limits specified or required in such rule. The terms "equity security" and "derivative security" shall have the meanings ascribed to them in the then-current Rule 16a-1 under the Exchange Act.

4 Securities Law Compliance. With respect to Insiders, transactions under the Plan are intended to comply with all applicable conditions of the Federal securities laws. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

5 Governing Law. To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with, and governed by, the laws of the State of Minnesota.

MINNESOTA POWER

By Edwin L. Russell  
-----  
Its Chief Executive Officer

Attest:

By Philip R. Halverson  
-----  
Corporate Secretary



MINNESOTA POWER  
DIRECTOR LONG-TERM  
STOCK INCENTIVE PLAN

Effective 01/01/96

MINNESOTA POWER  
DIRECTOR LONG-TERM STOCK INCENTIVE PLAN

1. Establishment, Purpose and Duration

1 Establishment of the Plan. Minnesota Power & Light Company, a Minnesota corporation (hereinafter referred to as the "Company"), hereby establishes an outside director plan to be known as the "Minnesota Power Director Long-Term Stock Incentive Plan" (hereinafter referred to as the "Plan"), as set forth in this document. The Plan provides for the automatic grant of Stock Options and Performance Shares to non-employee directors.

The Plan shall become effective as of January 1, 1996 (the "Effective Date"), subject to shareholder approval, and shall remain in effect as provided in Section 1.3 herein.

2 Purpose of the Plan. The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of directors to those of Company shareholders. The Plan is further intended to assist the Company in its ability to motivate, attract and retain highly qualified individuals to serve as directors of the Company.

3 Duration of the Plan. The Plan shall commence on the Effective Date, as described in Section 1.1 herein, and shall remain in effect, subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article 12 herein, until all Shares subject to it shall have been purchased or acquired according to the Plan's provisions. However, in no event may a Grant be made under the Plan on or after the tenth anniversary of the Effective Date.

4 Long-Term Incentive Plan. The Company has previously made grants to outside directors under the Directors' Long-Term Incentive Plan, which provides for maximum award opportunities of 600 shares of Company common stock every other year. The terms of this plan are set forth in Annex A hereto. One performance period (1994-1997) is still running under this plan, although no new performance period will commence in 1996. On and after the Effective Date, the shares relating to the existing performance period shall be deemed to be covered by this Plan and shall be counted against the number of shares available under this Plan, and their grant and the performance goals shall be deemed to have been approved by Company shareholders by their approval of this Plan.

2. Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when such meaning is intended, the initial letter of the word is capitalized:

1 "Board" or "Board of Directors" means the Board of Directors of the Company.

2 "Change in Control" of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

- (a) the dissolution or liquidation of the Company;
- (b) a reorganization, merger or consolidation of the Company with one or more unrelated corporations, as a result of which the Company is not the surviving corporation;
- (c) the sale, exchange, transfer or other disposition of shares of the common stock of the Company (or shares of the stock of any person that is a shareholder of the Company) in one or more transactions, related or unrelated, to one or more Persons unrelated to the Company if, as a result of such transactions, any Person (or any Person and its affiliates) owns more than twenty percent (20%) of the voting power of the outstanding common stock of the Company; or
- (d) the sale of all or substantially all the assets of the Company.

3 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

4 "Committee" means the committee, as specified in Article 3, appointed by the Board to administer the Plan with respect to Grants.

5 "Company" means Minnesota Power & Light Company, a Minnesota corporation, or any successor thereto as provided in Article 15 herein.

6 "Director" means any individual who is a member of the Board of Directors of the Company.

7 "Dividend Equivalent" means, with respect to Shares subject to Performance Shares, a right to be paid an amount equal to any and all dividends declared on an equal number of outstanding Shares.

8 "Employee" means any full-time employee of the Company or of the Company's Subsidiaries, who is not covered by any collective bargaining agreement to which the Company or any of its Subsidiaries is a party. Directors who are not otherwise employed by the Company shall not be considered Employees under the Plan.

9 "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

10 "Exercise Period" means the period during which an Option is exercisable, as set forth in the related Grant Agreement.

11 "Fair Market Value" means the closing sale price as reported in the composite reporting system or, if there was no such sale on the relevant date, then on the last previous day on which a sale was reported.

12 "Grant" means, individually or collectively, a grant under the Plan of Stock Options and Performance Shares and the grant made under the Directors' Long-Term Incentive Plan referred to in Section 1.4 herein.

13 "Grant Agreement" means an agreement entered into by each Participant and the Company, setting forth the terms and provisions applicable to a Grant made to a Participant under the Plan.

14 "Insider" means an Employee who is, on the relevant date, an officer, director or ten percent (10%) beneficial owner of the common stock of the Company, as defined under Section 16 of the Exchange Act.

15 "Option or "Stock Option" means an option to purchase Shares, granted under Article 6 herein.

16 "Option Price" means the price at which a Share may be purchased by a Participant pursuant to an Option, set forth in the Grant Agreement.

17 "Participant" means any person who is elected or appointed to the Board of Directors of the Company and who is not an Employee.

18 "Performance Period" means the time period during which performance goals must be met.

19 "Performance Share" means a Grant made to a Participant, as described in Article 7 herein.

20 "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act, as used in Sections 13(d) and 14(d) thereof including usage in the definition of a "group" in Section 13(d) thereof.

21 "Plan Year" means the period commencing on the Effective Date of the Plan and ending the next following December 31 and thereafter the calendar year.



22 "Retirement" means resignation from the Board upon reaching retirement age, or otherwise resigning or not standing for reelection with the approval of the Board.

23 "Shares" means the shares of common stock of the Company, without par value.

24 "Subsidiary" means any corporation that is a "subsidiary corporation" of the Company as that term is defined in Section 424(f) of the Code.

### 3. Administration

1 The Committee. The Plan shall be administered by a committee (the "Committee") appointed by the Board consisting of not less than three persons who are not eligible to participate in the Plan. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors. Members of the Committee need not be members of the Board.

2 Authority of the Committee. The Committee shall have full power except as limited by law, the Articles of Incorporation and the Bylaws of the Company, subject to such other restricting limitations or directions as may be imposed by the Board and subject to the provisions herein, to construe and interpret the Plan and any agreement or instrument entered into under the Plan and to establish, amend or waive rules and regulations for the Plan's administration. Further, the Committee shall make all other determinations which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate its authorities as identified hereunder.

3 Decisions Binding. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, its shareholders, the Participants and their estates and beneficiaries.

4 Costs. The Company shall pay all costs of administration of the Plan.

### 4. Shares Subject to the Plan

1 Number of Shares. Subject to Section 4.2 herein, the maximum number of Shares available for grant under the Plan shall be one hundred fifty thousand (150,000). Shares underlying lapsed or forfeited grants may be reused for other grants. Shares may be (i) authorized but unissued shares of common stock or (ii) shares purchased on the open market.

2 Adjustments in Authorized Shares. In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, split-up, share combination or other change in the corporate structure of the Company affecting the Shares, such adjustment shall be made in the number and class of Shares which may be delivered under the Plan, and in the number and class of and/or price of Shares subject to outstanding Grants made under the Plan, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; provided, however, that the number of Shares subject to any Grant shall always be a whole number.

5. Eligibility and Participation

Persons eligible to participate in the Plan are any persons elected or appointed to the Board of Directors of the Company, who are not Employees.

6. Stock Options

1 Grant of Options. On the first business day after the Effective Date and on each January 2nd thereafter (or on the first business day thereafter if January 2nd is not a business day), 725 Options shall be granted to each Participant.

2 Option Grant Agreement. Each Option grant shall be evidenced by an Option Grant Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains and the Exercise Period.

3 Option Price. The Option Price for each Option grant under the Plan shall be the Fair Market Value of a Share on the date of grant.

4 Duration of Options. Each Option shall expire on the tenth anniversary of the date of grant.

5 Exercise Period and Exercise. 50% of the Options shall become exercisable on the first anniversary of the date of grant; the remaining 50% of the Options shall become exercisable on the second anniversary of the date of grant.

Subject to the provisions of Article 8 herein, a Participant may exercise an Option at any time during the Exercise Period. Options shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by provisions for full payment for the Shares.

The Option Price upon exercise of any Option shall be payable to the Company in full either (a) in cash or its equivalent, (b) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by the Participant for at least six (6) months prior to their tender to satisfy the Option Price), (c) by share withholding, (d) by cashless exercise or (e) by a combination of (a), (b) (c) and/or (d).

As soon as practicable after receipt of a written notification of exercise of an Option and provisions for full payment therefor, the Company shall deliver to the Participant, in the Participant's name, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s).

## 7. Performance Shares

1 Grant of Performance Shares. On the first business day after the Effective Date and on every second January 2nd thereafter (or on the first business day thereafter, if January 2nd is not a business day), Performance Shares, equal in number to \$10,000 divided by the Fair Market Value for a Share on the date of Grant, shall be granted to each Participant.

2 Dividend Equivalents. The Participant shall also receive Dividend Equivalents with respect to the number of Performance Shares subject to the Grant. The Dividend Equivalents credited on each common stock ex-dividend date during the Performance Period shall be in the form of additional Performance Shares, shall be added to the number of Performance Shares subject to the Grant and shall equal the number of Shares (including fractional Shares) that could be purchased on the ex-dividend date, based on the closing sale price as reported in the consolidated transaction reporting system on that date, with cash dividends that would have been paid on Performance Shares, if such Performance Shares were Shares.

3 Performance Share Grant Agreement. Each grant of Performance Shares shall be evidenced by a Performance Share Grant Agreement that shall specify the date of grant, the number of Performance Shares granted and the Performance Period. Performance Periods shall end on the December 31st two years after the date of grant.

Performance Goals. The Performance Goal for each Performance Period is total shareholder return (defined as stock price appreciation plus dividends reinvested on the ex-dividend date throughout the Performance Period, divided by the Fair Market Value of a share at the beginning of the Performance Period) for the Company in comparison to the total shareholder return for the 16 companies set forth in Annex B hereto over the Performance Period.

First Performance Cycle (1996-1997)

	Threshold -----	Target -----	Superior -----
% Payout	50%	100%	200%
Goal	40th percentile	50th percentile	75th percentile

Subsequent Performance Cycles (1998-1999 and thereafter)

	Threshold -----	Target -----	Superior -----
% Payout	50%	100%	200%
Goal	47th percentile	65th percentile	88th percentile

No awards will be paid if the threshold percentiles are not reached. Earned awards will range from 50% up to 200% of the number of Performance Shares granted (as increased by the Dividend Equivalents), based on the percentile reached. Straight line interpolation will be used for results between those specified, rounded down to the nearest whole Share.

If any company listed on Annex B hereto no longer exists, whether by merger into another company, dissolution or for any other reason, no replacement company shall be named unless the number of companies still remaining on the list is reduced below 12, in which case the Company's independent compensation consulting firm shall select replacement companies to bring the number back to 16.

4 Earning of Performance Shares. After the applicable Performance Period has ended, the holder of Performance Shares shall receive a payout with respect to the Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved.

5 Form and Timing of Payment of Performance Shares. Subject to the provisions of Articles 8 and 11, 50% of any earned Performance Shares (as increased by the Dividend Equivalents) shall be paid after the end of the Performance Period promptly after determination of the extent to which Performance Goals have been met. The remaining 50% of the earned Performance Shares (as increased by the Dividend Equivalents) shall continue to accrue Dividend Equivalents, as set forth in Section 7.2 above, until paid out as set forth in the next sentence. One-half of the remaining earned Performance Shares (as increased by the Dividend Equivalents) shall be paid out on the first business day in January, 1999. The remaining Performance Shares shall continue to accrue Dividend Equivalents and shall be paid out on the first business day in January, 2000.

Payment shall be made in Minnesota Power common stock.

8. Termination of Director Status

1 Retirement or Death. In the event a Participant ceases to be a Director of the Company by reason of Retirement or death

(i) before the Exercise Period commences for a Stock Option Grant, any Stock Options not yet exercisable shall become exercisable immediately and may be exercisable in full at any time during the one year period after Retirement or death;

(ii) after the Exercise Period commences for a Stock Option Grant, such Stock Options may be exercised in full at any time during the one year period after Retirement or death, but in no event after the Exercise Period has expired;

(iii) during a Performance Period for Performance Shares, the Participant (or his beneficiary or estate) shall receive a payment of any earned Performance Shares (as increased by the Dividend Equivalents), promptly after determination of the extent to which Performance Goals have been met. The payment shall be prorated based upon the number of complete and partial calendar months within the Performance Period which have elapsed as of the date of Retirement or death in relation to the number of calendar months in the full Performance Period; and

(iv) after the end of a Performance Period, but before any or all earned Performance Shares have been paid out, the Participant (or his beneficiary or estate) shall be entitled to a full payout of all earned Performance Shares (as increased by the Dividend Equivalents), which shall be paid promptly after such occurrence.

2 Other. Except as set forth in Article 11 herein, in the event a participant ceases to be a director of the Company for any other reason

(i) all Stock Options not yet exercisable or exercised shall be forfeited;

(ii) all Performance Shares and related Dividend Equivalents not yet earned shall be forfeited; and

(iii) all earned Performance Shares (as increased by Dividend Equivalents) shall continue to accrue Dividend Equivalents and shall be paid out as and when provided in Section 7.6 above.

9. Beneficiary Designation

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee and will be effective only when filed by the Participant in writing with the Committee during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

The spouse of a married Participant domiciled in a community property jurisdiction shall join in any designation of beneficiary or beneficiaries other than the spouse.

10. Continuation of Directors in Same Status

Nothing in the Plan or any action taken pursuant to the Plan shall be construed as creating or constituting evidence of any agreement or understanding, express or implied, that the Company will retain a Director as a director or in any other capacity for any period of time or at a particular retainer or other rate of compensation, as conferring upon any Participant any legal or other right to continue as a director or in any other capacity, or as limiting, interfering with or otherwise affecting the right of the Company to terminate a Participant in his capacity as a director or otherwise at any time for any reason, with or without cause, and without regard to the effect that such termination might have upon him as a Participant under the Plan.

11. Change in Control

Upon the occurrence of a Change in Control, as defined herein, unless otherwise specifically prohibited by the terms of Article 16 herein:

- (a) Any and all Options granted hereunder shall become immediately exercisable;
- (b) With respect to all outstanding Grants of Performance Shares, the Committee (i) shall determine the greater of (x) the payout at 100% of the number of Performance Shares granted for the entire Performance Period and (y) the payout based upon actual performance for the Performance Period ending as of the effective date of the Change in Control, in either case after giving effect to accumulation of Dividend Equivalents and (ii) shall pay to the Participants immediately the greater of such amounts, in Shares, prorated based upon the number of complete and partial calendar months within the Performance Period which have elapsed as of the effective date of the Change in Control in relation to the number of calendar months in the full Performance Period. However, there shall not be an accelerated payout under this Section 11(b) with respect to Grants of Performance Shares which were made less than six (6) months prior to the effective date of the Change in Control; and

- (c) All earned Performance Shares (as increased by Dividend Equivalents) not yet paid out shall be paid out immediately.

12. Amendment, Modification and Termination

1 Amendment, Modification and Termination. The Board may, at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part; provided, however, that no amendment which requires shareholder approval in order for the Plan to continue to comply with Rule 16b-3 under the Exchange Act, including any successor to such Rule, shall be effective unless such amendment shall be approved by the requisite vote of the shareholders of the Company entitled to vote thereon. Notwithstanding the foregoing, any provision of the Plan that either states the amount and price of securities to be issued under the Plan and specifies the timing of such issuances, or sets forth a formula that determines the amount, price and timing of such issuances, shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, or the rules thereunder.

2 Grants Previously Made. No termination, amendment or modification of the Plan shall adversely affect in any material way any Grant previously made under the Plan, without the written consent of the Participant holding such Grant unless such termination, modification or amendment is required by applicable law.

13. Restrictions on Share Transferability

The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option or the payment of Performance Shares under the Plan as it may deem advisable, including, without limitation, restrictions to comply with applicable Federal securities laws, with the requirements of any stock exchange or market upon which such Shares are then listed and/or traded and with any blue sky or state securities laws applicable to such Shares.

14. Nontransferability

No Options or Performance Shares granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, a Participant's rights under the Plan shall be exercisable during his or her lifetime only by such Participant or his or her legal representative.

15. Successors

All obligations of the Company under the Plan, with respect to Grants made hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

16. Legal Construction

1 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular and the singular shall include the plural.

2 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

3 Requirements of Law. Neither the Plan nor the Company shall be obligated to issue any shares of common stock pursuant to the Plan at any time unless and until all applicable requirements imposed by any federal and state securities and other laws, rules and regulations, by any regulatory agencies or by any stock exchanges upon which the common stock may be listed have been fully met. As a condition precedent to any issuance of shares of common stock and delivery of certificates evidencing such shares pursuant to the Plan, the Board or the Committee may require a Participant to take any such action or make any such covenants, agreements and representations as the Board or the Committee, as the case may be, in its discretion deems necessary or advisable to ensure compliance with such requirements. The Company shall in no event be obligated to register the shares of common stock deliverable under the Plan pursuant to the Securities Act of 1933, as amended, or to qualify or register such shares under any securities laws of any state upon their issuance under the Plan or at any time thereafter, or to take any other action in order to cause the issuance and delivery of such shares under the Plan or any subsequent offer, sale, or other transfer of such shares to comply with any such law, regulation or requirement. Participants are responsible for complying with all applicable federal and state securities and other laws, rules, and regulations in connection with any offer, sale, or other transfer of the shares of common stock issued under the Plan or any interest therein including, without limitation, compliance with the registration requirements of the Securities Act of 1933 as amended (unless an exception therefrom is available) or with the provisions of Rule 144 promulgated thereunder, if applicable, or any successor provisions. Certificates for shares of common stock may be legended as the Committee shall deem appropriate.

Notwithstanding any other provision set forth in the Plan, if required by the then-current Section 16 of the Exchange Act, any "derivative security" or "equity security" offered pursuant to the Plan to any Insider may not be sold or transferred within the minimum time limits specified or required in such rule. The terms "equity security" and "derivative security" shall have the meanings ascribed to them in the then-current Rule 16a-1 under the Exchange Act.



4 Securities Law Compliance. With respect to Insiders, transactions under the Plan are intended to comply with all applicable conditions of the Federal securities laws. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

Governing Law. To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with, and governed by, the laws of the State of Minnesota.

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MINNESOTA POWER

By E. L. Russell  
-----  
Its Chief Executive Officer

Attest:

By Philip R. Halverson  
-----  
Corporate Secretary

ANNEX A

Directors' Long-Term Incentive Plan

The plan awards a maximum of 600 shares of common stock to each outside director if, over a four-year period commencing with each even-numbered year, total shareholders return (TSR) equals or exceeds (i) median TSR compared to a pre-selected group of comparable utilities (listed below) and/or (ii) the 40.0 percentile TSR compared to companies in the Standard & Poor's 500. No awards are granted to directors if Company results are below both of these threshold performance levels. The comparison to comparable utilities and to the S&P 500 companies is weighted 60% and 40%, respectively.

The first comparator group is comprised of:

- Midamerican Energy Company
- IES Industries, Inc.
- Interstate Power Company
- Madison Gas & Electric Company
- Northern States Power Company
- Otter Tail Power Company
- Wisconsin Energy Corporation
- WPL Holdings, Inc.
- Northwestern Public Service Company
- Wisconsin Public Service Corporation

The second comparator group is the companies comprising the S&P 500.

After calculation of the Company's TSR ranking within the first and second comparator groups, the schedule below indicates the percent of the Director's Performance Award Opportunity actually earned.

Utility TSR Ranking

- - - - -

1-2	60	68	76	84	92	100
3	48	56	64	72	80	88
4	36	44	52	60	68	76
5	24	32	40	48	56	64
6	12	20	28	36	44	52
7-11	0	8	16	24	32	40
	0-40	50	60	70	80	90

TSR Percentile Ranking in S&P 500

- - - - -

TSR is defined as:

$$\text{TSR} = \frac{\text{Stock price appreciation} + \text{reinvested dividends}}{\text{Initial stock price}}$$

- Stock prices for the beginning and end of the period are the closing prices on the composite reporting system on the first and last business days of the period.
- Dividends are assumed to be reinvested on the ex-dividend date at the closing stock prices on that date.
- Calculation of TSR for the S&P 500 group is based on the companies included in the S&P 500 Index as of the end of the period.

ANNEX B

Black Hills Corp.  
Central & South West  
CILCORP Inc.  
Eastern Utilities Assoc.  
Florida Progress Corp.  
Hawaiian Electric Indust.  
Mid American Energy  
MDU Resources Group  
Montana Power Co.  
New England Electric Sys.  
PacifiCorp  
Potomac Electric Power  
Public Service Enterprise  
SCEcorp  
TECO Energy Inc.  
UtiliCorp United, Inc.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MINNESOTA POWER'S CONSOLIDATED BALANCE SHEET, STATEMENT OF INCOME, AND STATEMENT OF CASH FLOW FOR THE PERIOD ENDED JUNE 30, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

		1,000
6-MOS		
	DEC-31-1996	
	JAN-01-1996	
	JUN-30-1996	
	PER-BOOK	
1,118,422		
367,313		
	376,581	
108,881		
	136,834	
	2,108,031	
		384,286
	0	
	277,744	
591,747		
	75,000	
		31,492
	653,039	
	89,330	
	0	
0		
70,060		
	0	
	0	
		0
527,080		
2,108,031		
	411,178	
	15,077	
	339,347	
	367,864	
	49,923	
		6,609
63,363		
	28,517	
		34,846
	3,145	
31,701		
	29,685	
	0	
	6,321	
		1.10
		1.10

Includes \$1,711,000 for distribution on Company Obligated Mandatorily Redeemable Preferred Securities of MP&L Capital I.