Securities and Exchange Commission
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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 X No ______

Common Stock, no par value,
32,571,548 shares outstanding
as of September 30, 1996

Minnesota Power & Light Company

Index

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
Common Stock	Minnesota Power & Light Company's common stock
Company	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)
Orange Osceola	Orange Osceola Utilities
QUIPS	Quarterly Income Preferred Securities
Seabrook	Heater of Seabrook, Inc.
Square Butte	Square Butte Electric Cooperative
SSU	Southern States Utilities, Inc.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Minnesota Power
Consolidated Balance Sheet
In Thousands

	September 30, 1996 Unaudited	December 31, 1995 Audited
Assets		
Plant and Other Assets		
Electric operations	$ 796,929	$ 800,477
Water operations	320,130	323,182
Automobile auctions	154,126	123,632
Investments	240,398	201,360
Total plant and other assets	1,511,583	1,448,651
Current Assets		
Cash and cash equivalents	36,938	31,577
Trading securities	78,658	40,007
Trade accounts receivable (less reserve of $5,276 and $3,325)	181,952	128,072
Notes and other accounts receivable	21,185	12,220
Fuel, material and supplies	25,235	26,383
Prepayments and other	18,475	13,706
Total current assets	362,443	251,965
Deferred Charges		
Regulatory	80,171	88,631
Other	26,495	25,037
Total deferred charges	106,666	113,668
Intangible Assets		
Goodwill	152,127	120,245
Other	12,818	13,096
Total intangible assets	164,945	133,341
Total Assets	$ 2,145,637	$ 1,947,625
Capitalization and Liabilities		
Capitalization		
Common stock without par value, 65,000,000 shares authorized 32,571,548 and 31,467,650 shares outstanding	$ 389,698	$ 377,684
Unearned ESOP shares	(70,129)	(72,882)
Net unrealized gain on securities investments	1,640	3,206
Cumulative translation adjustment	(389)	(177)
Retained earnings	280,073	276,241
Total common stock equity	600,893	584,072
Cumulative preferred stock	11,492	28,547
Redeemable serial preferred stock	20,000	20,000
Company obligated mandatorily redeemable preferred securities of subsidiary MP&L Capital I which holds solely Company Junior Subordinated Debentures	75,000	-
Long-term debt	638,845	639,548
Total capitalization	1,346,230	1,272,167
Current Liabilities		
Accounts payable	88,163	68,083
Accrued taxes	46,407	40,999
Accrued interest and dividends	10,016	14,471
Notes payable	150,508	96,218
Long-term debt due within one year	64,745	9,743
Other	39,233	27,292
Total current liabilities	399,072	256,806
Deferred Credits		
Accumulated deferred income taxes	164,344	164,737
Contributions in aid of construction	97,478	98,167
Regulatory	55,762	57,950
Other	82,751	97,798
Total deferred credits	400,335	418,652
Total Capitalization and Liabilities	$ 2,145,637	$ 1,947,625

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 September 30, 1996	Quarter Ended September 30, 1995	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
Operating Revenue and Income				
Electric operations	$ 133,480	$ 131,036	$ 394,200	$ 371,486
Water operations	20,848	16,678	63,124	50,093
Automobile auctions	50,464	30,492	135,372	30,492
Investments	10,358	7,915	33,631	28,074
Total operating revenue and income	215,150	186,121	626,327	480,145
Operating Expenses				
Fuel and purchased power	50,937	46,087	142,871	130,510
Operations	90,676	75,696	263,741	198,812
Administrative and general	38,571	29,768	112,918	65,018
Interest expense	16,074	13,246	44,593	35,735
Total operating expenses	196,258	164,797	564,123	430,075
Income (Loss) from Equity Investments	2,832	2,339	9,441	(1,570)
Operating Income from Continuing Operations	21,724	23,663	71,645	48,500
Income Tax Expense (Benefit)	2,701	7,978	17,777	(1,915)
Income from Continuing Operations	19,023	15,685	53,868	50,415
Income from Discontinued Operations	-	33	-	2,874
Net Income	19,023	15,718	53,868	53,289
Dividends on Preferred Stock	487	800	1,921	2,400
Distributions on Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary MP&L Capital I which holds solely Company Junior Subordinated Debentures	1,509	-	3,220	-
Earnings Available for Common Stock	$ 17,027	$ 14,918	$ 48,727	$ 50,889
Average Shares of Common Stock	29,428	28,512	29,091	28,443
Earnings Per Share of Common Stock				
Continuing operations	$ .58	$ .52	$ 1.68	$ 1.69
Discontinued operations	-	.00	-	.10
Total	$ .58	$ .52	$ 1.68	$ 1.79
Dividends Per Share of Common Stock	$ .51	$ .51	$ 1.53	$ 1.53

The accompanying notes are an integral part of this statement.

Minnesota Power
Consolidated Statement of Cash Flows
In Thousands - Unaudited

	Nine Months Ended September 30, 1996	1995
Operating Activities		
Net income	$ 53,868	$ 53,289
Depreciation and amortization	49,310	40,269
Deferred income taxes	(5,161)	(28,491)
Deferred investment tax credits	(1,503)	(1,437)
Pre-tax gain on sale of plant	(1,073)	-
Pre-tax loss on disposal of discontinued operations	-	1,760
Changes in operating assets and liabilities excluding the effects of discontinued operations		
Trading securities	(38,652)	20,127
Notes and accounts receivable	(55,426)	(6,748)
Fuel, material and supplies	1,208	(1,015)
Accounts payable	12,522	16,560
Other current assets and liabilities	7,986	13,977
Other - net	17,150	(8,388)
Cash from operating activities	40,229	99,903
Investing Activities		
Proceeds from sale of investments in securities	32,488	77,997
Proceeds from sale of plant	5,311	-
Proceeds from sale of discontinued operations	-	107,633
Additions to investments	(84,138)	(43,405)
Additions to plant	(71,894)	(73,053)
Acquisition of subsidiaries - net of cash acquired	(44,013)	(129,083)
Changes to other assets - net	5,358	(447)
Cash for investing activities	(156,888)	(60,358)
Financing Activities		
Issuance of long-term debt	190,549	18,805
Issuance of Company obligated mandatorily redeemable preferred securities of MP&L Capital I - net	72,270	-
Issuance of common stock	14,271	2,158
Changes in notes payable	51,063	10,006
Reductions of long-term debt	(139,042)	(9,074)
Redemption of preferred stock	(17,568)	-
Dividends on preferred and common stock	(49,523)	(45,974)
Cash from (for) financing activities	122,020	(24,079)
Change in Cash and Cash Equivalents	5,361	15,466
Cash and Cash Equivalents at Beginning of Period	31,577	27,001
Cash and Cash Equivalents at End of Period	$ 36,938	$ 42,467
Supplemental Cash Flow Information		
Cash paid during the period for		
Interest (net of capitalized)	$ 43,164	$ 40,249
Income taxes	$ 17,338	$ 20,534

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 is not comparable between periods due to the purchase of 80 percent of ADESA in July 1995 and the purchase of the remaining 20 percent in 1996.

Note 1. Business Segments
In Thousands

	Consolidated	Electric Operations	Water Operations	Automobile Auctions	Investments: Portfolio & Reinsurance	Investments: Real Estate	Corporate Charges & Other
Quarter Ended September 30, 1996							
Operating revenue and income	$215,150	$133,480	$ 20,848	$ 50,464	$5,334	$ 5,345	$ (321)
Operation and other expense	163,386	100,073	13,637	42,395	732	4,623	1,926
Depreciation and amortization expense	16,798	10,412	3,079	3,299	-	8	-
Interest expense	16,074	5,681	3,112	2,880	-	363	4,038
Income from equity investments	2,832	-	-	-	2,832	-	-
Operating income (loss)	21,724	17,314	1,020	1,890	7,434	351	(6,285)
Income tax expense (benefit)	2,701	6,343	292	1,158	2,202	(3,553)	(3,741)
Net income	$ 19,023	$ 10,971	$ 728	$ 732	$5,232	$ 3,904	$(2,544)
Quarter Ended September 30, 1995							
Operating revenue and income	$186,121	$131,036	$ 16,678	$ 30,492	$3,813	$ 4,373	$ (271)
Operation and other expense	136,609	92,902	11,699	25,650	593	3,721	2,044
Depreciation and amortization expense	14,942	10,089	2,502	2,291	-	60	-
Interest expense	13,246	5,650	2,497	907	2	1	4,189
Income from equity investments	2,339	-	-	-	2,339	-	-
Operating income (loss) from continuing operations	23,663	22,395	(20)	1,644	5,557	591	(6,504)
Income tax expense (benefit)	7,978	9,187	(123)	856	1,468	292	(3,702)
Income (loss) from continuing operations	15,685	$ 13,208	$ 103	$ 788	$4,089	$ 299	$(2,802)
Income from discontinued operations	33						
Net income	$ 15,718						

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Purchased 80 percent on July 1, 1995, another 3 percent on January 31, 1996 and the remaining 17 percent on August 21, 1996.
Includes $800,000 of minority interest relating to the recognition of tax benefits. (See Note 3.)
Includes $4 million of tax benefits. (See Note 3.)

Note 1. Business Segments (Continued)
In Thousands

	Consolidated	Electric Operations	Water Operations	Automobile Auctions	Investments: Portfolio & Reinsurance	Investments: Real Estate	Corporate Charges & Other
Nine Months Ended September 30, 1996							
Operating revenue and income	$ 626,327	$ 394,200	$ 63,124	$135,372	$ 13,939	$ 20,626	$ (934)
Operation and other expense	470,220	297,594	39,081	113,623	1,986	11,681	6,255
Depreciation and amortization expense	49,310	31,424	9,286	8,554	-	46	-
Interest expense	44,593	16,897	9,456	6,188	1	851	11,200
Income from equity investments	9,441	-	-	-	9,441	-	-
Operating income (loss)	71,645	48,285	5,301	7,007	21,393	8,048	(18,389)
Income tax expense (benefit)	17,777	17,710	1,750	3,822	5,099	(1,972)	(8,632)
Net income	$ 53,868	$ 30,575	$ 3,551	$ 3,185	$ 16,294	$ 10,020	$ (9,757)
Total assets	$2,145,637	$ 980,187	$ 339,544	$479,254	$ 260,658	$ 84,202	$ 1,792
Accumulated depreciation	$ 661,643	$ 536,707	$ 119,272	$ 5,664	-	-	-
Accumulated amortization	$ 6,970	-	-	$ 6,028	-	$ 942	-
Construction work in progress	$ 38,279	$ 11,813	$ 14,786	$ 11,680	-	-	-
Nine Months Ended September 30, 1995							
Operating revenue and income	$ 480,145	$ 371,486	$ 50,093	$ 30,492	$ 16,775	$ 13,076	$ (1,777)
Operation and other expense	354,071	271,672	34,448	25,650	2,243	14,347	5,711
Depreciation and amortization expense	40,269	30,225	7,573	2,291	-	180	-
Interest expense	35,735	16,720	7,483	907	6	3	10,616
Income (loss) from equity investments	(1,570)	-	-	-	6,958	-	(8,528)
Operating income (loss) from continuing operations	48,500	52,869	589	1,644	21,484	(1,454)	(26,632)
Income tax expense (benefit)	(1,915)	22,020	(170)	856	3,418	(17,131)	(10,908)
Income (loss) from continuing operations	50,415	$ 30,849	$ 759	$ 788	$ 18,066	$ 15,677	$(15,724)
Income from discontinued operations	2,874						
Net income	$ 53,289						
Total assets	$1,932,822	$ 997,599	$ 308,348	$343,267	$ 229,592	$ 53,266	$ 750
Accumulated depreciation	$ 617,532	$ 519,862	$ 96,713	$ 957	-	-	-
Accumulated amortization	$ 1,949	-	-	$ 1,297	-	$ 652	-
Construction work in progress	$ 69,135	$ 12,488	$ 20,258	$ 36,389	-	-	-

Purchased 80 percent on July 1, 1995, another 3 percent on January 31, 1996 and the remaining 17 percent on August 21, 1996.
Includes $1.2 and $3.7 million of minority interest relating to the recognition of tax benefits in 1996 and 1995, respectively. (See Note 3.)
Includes $6 and $18.4 million of tax benefits in 1996 and 1995, respectively. (See Note 3.)
Includes an $8.5 million pre-tax provision for exiting the equipment manufacturing business.

Note 2. Regulatory Matters

FPSC Refund Order in Connection with 1993 Rate Case. On August 14, 1996 the FPSC ordered 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 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. On September 3, 1996 SSU appealed the FPSC's order to the First District Court of Appeals. A decision on this appeal is anticipated in early 1998.

SSU's 1995 Rate Case. SSU implemented new water and wastewater rates on September 20, 1996 that will result in an annualized increase of approximately $11.1 million in revenue. SSU requested an $18.1 million rate increase in June 1995. Approved interim rates of $7.9 million on an annualized basis have been in effect since January 23, 1996. Though a final order has not yet been issued by the FPSC, SSU anticipates that it will appeal certain aspects of the FPSC decision.

Note 3. Income Tax Expense

Schedule of Income Tax Expense (Benefit)	Quarter Ended September 30, 1996	Quarter Ended September 30, 1995	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
In Thousands				
Charged to continuing operations				
Current tax				
Federal	$ 5,560	$ 4,904	$18,452	$ 8,272
Foreign	408	428	853	1,153
State	1,041	2,448	5,136	3,842
	7,009	7,780	24,441	13,267
Deferred tax				
Federal	176	1,200	1,307	4,724
State	179	(590)	(468)	(69)
	355	610	839	4,655
Change in valuation allowance	(4,000)	-	(6,000)	(18,400)
Deferred tax credits	(663)	(412)	(1,503)	(1,437)
Income tax - continuing operations	2,701	7,978	17,777	(1,915)
Charged to discontinued operations				
Current tax				
Federal	-	-	-	13,396
State	-	-	-	4,192
	-	-	-	17,588
Deferred tax				
Federal	-	-	-	(11,851)
State	-	-	-	(2,895)
	-	-	-	(14,746)
Income tax - discontinued operations	-	-	-	2,842
Total income tax expense	$ 2,701	$ 7,978	$17,777	$ 927

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 and in September 1996 $4 million of income was recognized based on a management review of the appropriateness of the valuation reserve. Additional unrealized net deferred tax assets of $2.2 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 per share plus accrued and unpaid dividends in the amount of $.86 per share. 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 $72.3 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 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), both 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, restricted 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 restricted shares of Common Stock were granted, with the restriction expiring over a four-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 and restricted share awards based on the market value of the underlying shares of stock.

Note 9. Acquisitions

Minority Interest in ADESA. On August 21, 1996 the Company acquired the remaining 17 percent ownership interest of ADESA from the ADESA management shareholders. The acquisition of ADESA has been accounted for as a purchase. Acquired goodwill and other intangible assets associated with this acquisition are being amortized on a straight line basis over periods not exceeding 40 years. The acquisition was funded from proceeds received from the issuance of commercial paper.

Auto Auctions in Texas. On September 30, 1996 Minnesota Power exchanged 473,006 shares of Common Stock for all the outstanding shares of common stock of Alamo Auto Auction, Inc. and Alamo Auto Auction Houston, Inc. The Common Stock was issued by the Company and delivered to the sellers in a private placement transaction that has been accounted for as a pooling of interests. The two new auto auction businesses are located in San Antonio and Houston, Texas. The San Antonio site is on 48 acres and has five auction lanes. The Houston site is on 9 acres, has two auction lanes and recently commenced operations. Given the relatively small size of the transaction, the prior period consolidated financial statements have not been restated and separate results of operations are not presented.

Note 10. 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 September 30, 1996	Quarter Ended September 30, 1995	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
In Thousands				
Operating revenue and income	-		-	$ 44,324
Equity in earnings	-		-	$ 7,496
Income from operations	-		-	$ 7,476
Income tax expense	-		-	3,117
	-		-	4,359
Loss on disposal	-	$ 33	-	(1,760)
Income tax benefit	-	-	-	275
	-	33	-	(1,485)
Income from discontinued operations	-	$ 33	-	$ 2,874

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 September 30, 1996 were 58 cents compared to 52 cents for the quarter ended September 30, 1995. Higher earnings in 1996 were attributed primarily to the performance of the Company's portfolio and real estate investments offset in part by a decrease in earnings from electric operations.

Earnings per share of common stock for the nine months ended September 30, 1996 were $1.68 compared to $1.79 for the nine months ended September 30, 1995. Although 1996 includes increased earnings from water operations, 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), higher earnings in 1995 were attributed to the 52 cent per share recognition of tax benefits associated with real estate operations offset in part by 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.

	Quarter Ended September 30,		Nine Months Ended September 30,	
Earnings Per Share	1996	1995	1996	1995
Continuing Operations				
Electric Operations	$ .36	$.44	$ 1.00	$1.03
Water Operations	.02	.01	.12	.03
Automobile Auctions	.03	.03	.11	.03
Investments				
Portfolio and reinsurance	.18	.15	.56	.64
Real estate	.14	.01	.35	.55
	.32	.16	.91	1.19
Corporate Charges and Other	(.15)	(.12)	(.46)	(.59)
Total Continuing Operations	.58	.52	1.68	1.69
Discontinued Operations	-	.00	-	.10
Total Earnings Per Share	$ .58	$.52	$ 1.68	$ 1.79

Results of Operations

Comparison of the Quarters Ended September 30, 1996 and 1995.

Electric Operations. Operating revenue and income from electric operations were higher in 1996 compared to 1995. Total kilowatthour sales increased 13 percent due to the Company's marketing of energy to other power suppliers.

Revenue from electric sales to taconite customers accounted for 32 percent of electric operating revenue in 1996 compared to 34 percent in 1995. Electric sales to paper and other wood-products companies accounted for 11 percent of electric operating revenue in 1996 and 12 percent in 1995. Sales to other power suppliers accounted for 17 percent of electric operating revenue in 1996 compared to 13 percent in 1995.

Although revenue from electric operations was higher, earnings for the quarter ended September 30, 1996 were lower reflecting efforts in preparing for and meeting the more competitive challenges of today's electric utility industry. New industrial rates were lower on average while expenses associated with marketing new products and improving customer service were higher. Also, the average revenue per kilowatthour sold to other power suppliers was lower in 1996 due to cooler summer weather compared to 1995 and more competitive wholesale pricing. Additionally, 1996 expenses include three months of amortization associated with the 1995 early retirement plan compared to two months in 1995.

Water Operations. Operating revenue and income from water operations were higher in 1996 due to increased sales and higher rates. SSU added 17,000 new water and wastewater customers as a result of the December 1995 purchase of the assets of Orange Osceola in Florida. On September 20, 1996 SSU implemented new water and wastewater rates that will result in an annualized increase of approximately $11.1 million in revenue. Approved interim rates of $7.9 million on an annualized basis have been in effect since January 23, 1996. Operating costs also increased in 1996 due to the additional customers from the purchase of Orange Osceola.

Automobile Auctions. Higher operating revenue and income from ADESA in 1996 is attributed to 32,000 more cars being sold. Many of these cars received ancillary services, such as transportation, reconditioning, and bodywork. Also, three additional auction sites were purchased during the quarter. Operating expenses include significant start-up costs at two other new locations added in 1996, relocation costs for three existing auction operations and additional costs associated with reorganization following the purchase of the remaining minority interest in ADESA from ADESA's management shareholders.

Investments.

- Securities Portfolio and Reinsurance. The Company's securities portfolio and reinsurance performed well in 1996. Even though the average portfolio balance has been smaller because a portion of the portfolio was sold in 1995 to fund the purchase of ADESA, a favorable market has helped achieve good returns.

- Real Estate Operations. Land sales increased due to additional property available for sale following the acquisition of Palm Coast in April 1996. In addition, the recognition of $4 million of tax benefits at Lehigh contributed to a strong quarter for the Company's real estate business in 1996.

Comparison of the Nine Months Ended September 30, 1996 and 1995.

Electric Operations. Operating revenue and income from electric operations were higher in 1996 compared to 1995 due to a 19 percent increase in total kilowatthour sales. The increase in sales is attributed primarily to the Company's marketing of 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 35 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 14 percent of electric operating revenue in 1996 compared to 9 percent in 1995.

Revenue from sales of electricity was up in 1996, but provided lower margins due to the cooler summer weather in 1996 and more competitive wholesale pricing. Square Butte, one of Minnesota Power's low priced sources of energy, produced 34 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 amortized over three years. Expenses in 1996 included nine months of amortization, while 1995 included only two months. 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 Orange Osceola in Florida, and SSU's implementation of a $7.9 million interim rate increase effective January 23, 1996. Operating costs also increased in 1996 due to the additional customers from the purchase of Orange Osceola.

Automobile Auctions. Automobile auction operations were profitable despite severe winter weather on the east coast which limited auction sales in January 1996. Operating revenue and income has been strong in 1996 as a result of increased ancillary services, such as transportation, reconditioning, and bodywork. New auctions began operations at Jacksonville, Florida and Newark, New Jersey in 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 1996. ADESA's wholly owned subsidiary, Automotive Finance Corporation, continues to grow and contribute to results. Collectively, the other auction sites 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. Even though the average portfolio balance has been smaller because a portion of the portfolio was sold in 1995 to fund the purchase of ADESA, a favorable market has helped achieve good returns.

- Real Estate Operations. Revenue in 1996 includes $3.7 million from the sale of Lehigh's joint venture in a resort and golf course. Based on a management quarterly review of the appropriateness of the valuation reserve which offsets deferred tax assets, Lehigh recognized $6 million of tax benefits in 1996 and $18.4 million of tax benefits in 1995. The Company's portion of the tax benefits reflected as net income was $4.8 million in 1996 and $14.7 million in 1995.

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 nine months ended September 30, 1996 and 1995, for purposes of the following discussion. Automobile auction operations are included as of July 1995.

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 August 1996, commercial paper was also used to finance the purchase of the minority interest of ADESA. In addition, securities investments can be liquidated to provide funds for reinvestment in existing businesses or acquisition of new businesses, and approximately 5 million 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 $72.3 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.

On September 30, 1996 Minnesota Power exchanged 473,006 shares of Common Stock for all the outstanding shares of common stock of Alamo Auto Auction, Inc. and Alamo Auto Auction Houston, Inc. The Common Stock was issued by the Company and delivered to the sellers in a private placement transaction that has been accounted for as a pooling of interests.

Capital Requirements. Consolidated capital expenditures for the nine months ended September 30, 1996 totaled $77 million. These expenditures include $27 million for electric operations, $14 million for water operations and $36 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 capital expenditures.

PART II. OTHER INFORMATION

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 4 and 5. - Table-Contract Status for Minnesota Power Large Power Customers

Potlatch - Brainerd and Potlatch - Cloquet (Potlatch) combined into a new contract their previously separate contracts and extended the contract period through 2002. The new contract has contract demand of 28.5 MW (22 MW contract and 6.5 MW incremental demand) from July 1996 through October 1997, 16 MW (11.9 MW contract and 4.1 MW incremental demand) through December 2000 and 10 MW through December 2002. The contract also provides for economy energy, incremental production service and replacement firm power service. The MPUC approved this contract on September 26, 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
Ref. 10-Q for the quarter ended June 30, 1996, Page 14. - Third 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. By an order issued on July 3, 1996 the court consolidated the three petitions for review. On October 16, 1996 the Company filed with the court an unopposed motion for a procedural schedule pursuant to which the briefing of the issues would be completed on May 17, 1997.

Ref. Page 10. - Fourth Paragraph
Ref. 10-Q for the quarter ended March 31, 1996, Page 10. - Fifth Paragraph
Ref. 10-Q for the quarter ended June 30, 1996, Page 14. - Fourth 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. A hearing previously scheduled for January 14, 1997 has been deferred pending discussions which could resolve some or all of the issues in the proceeding. 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. In further compliance with Order No. 888, the Company also filed with the FERC information setting forth separately the rates for power sales and transmission services which are bundled together in the rate schedules and tariffs for wholesale customers taking requirements service from the Company. On October 16, 1996 the FERC accepted the informational filing.

Statement under the Private Securities Litigation Reform Act of 1995

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (Reform Act), Minnesota Power is hereby filing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in "forward-looking statements" (as such term is defined in the Reform Act) of the Company made by or on behalf of the Company which are made orally, whether in presentations, in response to questions or otherwise. Any statements that express, or involve discussion as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "projection," "outlook,") are not historical facts and may be forward-looking and, accordingly, such statements involve estimates, assumptions, and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors that could cause the Company's actual results to differ materially from those contained in forward-looking statements of the Company made by or on behalf of the Company.

The Company cautions that the following important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements of the Company made by or on behalf of the Company. Furthermore, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Some important factors that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements include prevailing governmental policies and regulatory actions with respect to allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power, and present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs).

The business and profitability of the Company are also influenced by economic and geographic factors including political and economic risks, changes in and compliance with environmental and safety laws and policies, weather conditions, population growth rates and demographic patterns, competition for retail and wholesale customers, pricing and transportation of commodities, market demand for energy from plants or facilities, changes in tax rates or policies or in rates of inflation, unanticipated development project delays or changes in project costs, unanticipated changes in operating expenses and capital expenditures, capital market conditions, competition for new energy development opportunities, and legal and administrative proceedings (whether civil, such as environmental, or criminal) and settlements.

All such factors are difficult to predict, contain uncertainties which may materially affect results, and are beyond the control of the Company.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

27 Financial Data Schedule

(b) Reports on Form 8-K.

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.

Report on Form 8-K dated and filed August 23, 1996 with respect to Item 5. Other Events.

Report on Form 8-K dated September 5, 1996 and filed September 6, 1996 with respect to Item 4. Changes in Registrant's Certifying Accountant and Item 7. Financial Statements and Exhibits.

Report on Form 8-K dated and filed October 3, 1996 with respect to Item 5. Other Events.

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)

October 29, 1996

D. G. Gartzke

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

October 29, 1996

Mark A. Schober

Mark A. Schober
Corporate Controller

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

1,000

9-MOS
DEC-31-1996
JAN-01-1996
SEP-30-1996
PER-BOOK
1,117,059
394,524
362,443
106,666
164,945
2,145,637
389,698
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638,845
150,508
0
0
64,745
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2,145,637
626,327
17,777
519,530
564,123
71,645
9,441
98,461
44,593
53,868
5,141
48,727
44,382
0
40,229
1.68
1.68

Includes $3,220,000 for distribution on Company Obligated Mandatorily Redeemable Preferred Securities of MP&L Capital I.