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, 1999

or

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

Commission File No. 1-3548

MINNESOTA POWER, INC.
A Minnesota Corporation
IRS Employer Identification No. 41-0418150
30 West Superior Street
Duluth, Minnesota 55802-2093
Telephone - (218) 722-2641

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

Yes X   No
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Common Stock, no par value,
73,460,518 shares outstanding
as of October 31, 1999

MINNESOTA POWER, INC.

INDEX

DEFINITIONS

The following abbreviations or acronyms are used in the text.

Abbreviation or Acronym	Term
1998 Form 10-K	Minnesota Power's Annual Report on Form 10-K for the Year Ended December 31, 1998
ACE	ACE Limited
ADESA	ADESA Corporation
AFC	Automotive Finance Corporation
AutoVIN	AutoVIN, Inc.
Cape Coral Holdings	Cape Coral Holdings, Inc.
Capital Re	Capital Re Corporation
CIP	Conservation Improvement Programs
Common Stock	Minnesota Power, Inc. Common Stock
Company	Minnesota Power, Inc. and its subsidiaries
DRIP	Dividend Reinvestment and Stock Purchase Plan
ESOP	Employee Stock Ownership Plan
FERC	Federal Energy Regulatory Commission
Heater	Heater Utilities, Inc.
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
MAPP	Mid-Continent Area Power Pool
Mid South	Mid South Water Systems, Inc.
Minnesota Power	Minnesota Power, Inc. and its subsidiaries
MP Real Estate	MP Real Estate Holdings, Inc.
MPUC	Minnesota Public Utilities Commission
NCUC	North Carolina Utilities Commission
Palm Coast	Palm Coast Holdings, Inc.
PCUC	Palm Coast Utilities Corporation
PSCW	Public Service Commission of Wisconsin
Square Butte	Square Butte Electric Cooperative
XL Capital	XL Capital Ltd.

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

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

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

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

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MINNESOTA POWER
CONSOLIDATED BALANCE SHEET
Millions

	SEPTEMBER 30, 1999 Unaudited	DECEMBER 31, 1998 Audited
ASSETS		
PLANT AND INVESTMENTS		
Electric Operations	$ 769.4	$ 771.5
Water Services	433.8	329.4
Automotive Services	222.4	186.2
Investments	211.4	263.5
Total Plant and Investments	1,637.0	1,550.6
CURRENT ASSETS		
Cash and Cash Equivalents	157.4	89.4
Trading Securities	154.8	169.9
Accounts Receivable (less Allowance of $10.6 and $9.6)	286.9	156.1
Fuel, Material and Supplies	25.7	24.0
Prepayments and Other	72.8	48.1
Total Current Assets	697.6	487.5
OTHER ASSETS		
Goodwill	180.0	169.8
Deferred Regulatory Charges	57.2	56.1
Other	52.2	53.1
Total Other Assets	289.4	279.0
TOTAL ASSETS	$ 2,624.0	$2,317.1
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common Stock Without Par Value, 130.0 Shares Authorized; 73.4 and 72.3 Shares Outstanding	$ 551.1	$ 529.0
Unearned ESOP Shares	(60.0)	(62.5)
Accumulated Other Comprehensive Income (Loss)	(31.7)	1.5
Retained Earnings	319.7	317.6
Total Common Stock Equity	779.1	785.6
Cumulative Preferred Stock	11.5	11.5
Redeemable Serial Preferred Stock	20.0	20.0
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary MP&L Capital I Which Holds Solely Company Junior Subordinated Debentures	75.0	75.0
Long-Term Debt	714.6	672.2
Total Capitalization	1,600.2	1,564.3
CURRENT LIABILITIES		
Accounts Payable	245.7	123.3
Accrued Taxes, Interest and Dividends	76.3	62.9
Notes Payable	151.9	81.0
Long-Term Debt Due Within One Year	9.3	9.0
Other	67.9	69.8
Total Current Liabilities	551.1	346.0
OTHER LIABILITIES		
Accumulated Deferred Income Taxes	139.9	153.4
Contributions in Aid of Construction	179.3	108.2
Deferred Regulatory Credits	55.6	55.2
Other	97.9	90.0
Total Other Liabilities	472.7	406.8
TOTAL CAPITALIZATION AND LIABILITIES	$ 2,624.0	$2,317.1

The accompanying notes are an integral part of these statements.

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

	QUARTER ENDED SEPTEMBER 30, 1999	QUARTER ENDED SEPTEMBER 30, 1998	NINE MONTHS ENDED SEPTEMBER 30, 1999	NINE MONTHS ENDED SEPTEMBER 30, 1998
OPERATING REVENUE				
Electric Operations	$ 155.2	$ 147.2	$ 422.7	$ 422.0
Water Services	31.1	24.2	85.4	70.0
Automotive Services	105.5	83.9	306.3	245.4
Investments	14.5	11.0	28.6	44.8
Total Operating Revenue	306.3	266.3	843.0	782.2
OPERATING EXPENSES				
Fuel and Purchased Power	54.9	54.6	154.8	158.1
Operations	180.4	155.5	515.3	468.4
Interest Expense	15.1	15.1	43.7	50.5
Total Operating Expenses	250.4	225.2	713.8	677.0
OPERATING INCOME	55.9	41.1	129.2	105.2
DISTRIBUTIONS ON REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY	1.5	1.5	4.5	4.5
INCOME TAX EXPENSE	21.1	16.0	49.6	38.3
INCOME BEFORE INCOME (LOSS) FROM EQUITY INVESTMENTS	33.3	23.6	75.1	62.4
INCOME (LOSS) FROM EQUITY INVESTMENTS - NET OF TAX	1.2	2.2	(17.8)	4.7
NET INCOME	34.5	25.8	57.3	67.1
DIVIDENDS ON PREFERRED STOCK	0.5	0.5	1.5	1.4
EARNINGS AVAILABLE FOR COMMON STOCK	$ 34.0	$ 25.3	$ 55.8	$ 65.7
AVERAGE SHARES OF COMMON STOCK	68.6	64.0	68.2	63.0
BASIC AND DILUTED EARNINGS PER SHARE OF COMMON STOCK	$0.50	$0.39	$0.82	$1.04
DIVIDENDS PER SHARE OF COMMON STOCK	$0.2675	$0.255	$0.8025	$0.765

The accompanying notes are an integral part of this statement.

MINNESOTA POWER
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	NINE MONTHS ENDED SEPTEMBER 30, 1999	1998
OPERATING ACTIVITIES		
Net Income	$ 57.3	$ 67.1
Loss (Income) From Equity Investments - Net of Dividends Received	13.6	(11.2)
Depreciation and Amortization	57.4	56.0
Deferred Income Taxes	6.5	(1.0)
Deferred Investment Tax Credits	(1.3)	(1.2)
Pre-Tax Gain on Sale of Property	-	(0.6)
Changes in Operating Assets and Liabilities		
Trading Securities	15.1	(13.5)
Notes and Accounts Receivable	(130.9)	(91.2)
Fuel, Material and Supplies	(1.7)	1.2
Accounts Payable	122.4	122.0
Other Current Assets and Liabilities	(13.5)	7.1
Other - Net	(1.7)	13.2
Cash From Operating Activities	123.2	147.9
INVESTING ACTIVITIES		
Proceeds From Sale of Investments in Securities	64.5	32.8
Proceeds From Sale of Property	-	1.4
Additions to Investments	(27.6)	(32.2)
Additions to Plant	(94.3)	(51.3)
Acquisition of Subsidiaries - Net of Cash Acquired	(67.8)	(23.8)
Changes to Other Assets - Net	(12.0)	5.5
Cash For Investing Activities	(137.2)	(67.6)
FINANCING ACTIVITIES		
Issuance of Common Stock	20.8	102.8
Issuance of Long-Term Debt	50.8	9.1
Changes in Notes Payable - Net	70.9	(46.6)
Reductions of Long-Term Debt	(8.1)	(16.6)
Dividends on Preferred and Common Stock	(55.1)	(49.2)
Cash From (For) Financing Activities	79.3	(0.5)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	2.7	(4.8)
CHANGE IN CASH AND CASH EQUIVALENTS	68.0	75.0
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	89.4	41.8
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 157.4	$ 116.8
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Period For		
Interest - Net of Capitalized	$47.4	$55.8
Income Taxes	$38.5	$41.4

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 1998 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. Prior year balances have been reclassified to present comparable information for all periods.

NOTE 1. STOCK SPLIT

On March 2, 1999 the Company's Common Stock was split two-for-one. All common share and per share amounts have been adjusted for all periods to reflect the two-for-one stock split.

NOTE 2. BUSINESS SEGMENTS

Millions

					Investments		
	Consolidated	Electric Operations	Water Services	Automotive Services	Portfolio & Reinsurance	Real Estate	Corporate Charges
For the Quarter Ended September 30, 1999							
Operating Revenue	$ 306.3	$155.2	$31.1	$105.5	$ 2.9	$ 11.7	$(0.1)
Operation and Other Expense	215.7	105.7	18.4	80.6	0.4	6.9	3.7
Depreciation and Amortization	19.6	11.4	3.7	4.4	-	-	0.1
Interest Expense	15.1	5.2	2.6	3.0	-	-	4.3
Operating Income (Loss)	55.9	32.9	6.4	17.5	2.5	4.8	(8.2)
Distributions on Redeemable Preferred Securities of Subsidiary	1.5	0.4	-	-	-	-	1.1
Income Tax Expense (Benefit)	21.1	13.7	2.5	7.8	0.4	2.1	(5.4)
Income (Loss) before Loss from Equity Investments	33.3	18.8	3.9	9.7	2.1	2.7	(3.9)
Income (Loss) from Equity Investments - Net of Tax	1.2	(0.2)	-	-	1.4	-	-
Net Income (Loss)	$ 34.5	$ 18.6	$ 3.9	$ 9.7	$ 3.5	$ 2.7	$(3.9)
For the Quarter Ended September 30, 1998							
Operating Revenue	$ 266.3	$147.2	$24.2	$ 83.9	$ 5.5	$ 5.3	$ 0.2
Operation and Other Expense	191.3	103.0	15.3	64.8	1.1	3.7	3.4
Depreciation and Amortization	18.8	11.8	3.0	4.0	-	-	-
Interest Expense	15.1	5.5	2.6	2.4	-	-	4.6
Operating Income (Loss)	41.1	26.9	3.3	12.7	4.4	1.6	(7.8)
Distributions on Redeemable Preferred Securities of Subsidiary	1.5	0.4	-	-	-	-	1.1
Income Tax Expense (Benefit)	16.0	10.5	1.3	6.0	1.3	0.7	(3.8)
Income (Loss) before Income from Equity Investments	23.6	16.0	2.0	6.7	3.1	0.9	(5.1)
Income from Equity Investments - Net of Tax	2.2	-	-	-	2.2	-	-
Net Income (Loss)	$ 25.8	$ 16.0	$ 2.0	$ 6.7	$ 5.3	$ 0.9	$(5.1)

Included $15.2 million of Canadian operating revenue in 1999 ($10.7 million in 1998).
Included $0.7 million of minority interest in 1999 ($0.2 million in 1998).

NOTE 2. BUSINESS SEGMENTS (Continued)
Millions

	Consolidated	Electric Operations	Water Services	Automotive Services	Investments: Portfolio & Reinsurance	Investments: Real Estate	Corporate Charges
For the Nine Months Ended September 30, 1999							
Operating Revenue	$ 843.0	$ 422.7	$ 85.4	$306.3	$ 10.3	$ 18.5	$ (0.2)
Operation and Other Expense	612.7	307.6	51.9	229.4	2.5	12.4	8.9
Depreciation and Amortization	57.4	33.7	10.3	13.0	-	0.1	0.3
Interest Expense	43.7	15.8	7.5	7.9	-	-	12.5
Operating Income (Loss)	129.2	65.6	15.7	56.0	7.8	6.0	(21.9)
Distributions on Redeemable Preferred Securities of Subsidiary	4.5	1.3	-	-	-	-	3.2
Income Tax Expense (Benefit)	49.6	25.9	6.1	24.7	2.2	2.6	(11.9)
Income (Loss) before Loss from Equity Investments	75.1	38.4	9.6	31.3	5.6	3.4	(13.2)
Loss from Equity Investments - Net of Tax	(17.8)	(0.2)	-	-	(17.6)	-	-
Net Income (Loss)	$ 57.3	$ 38.2	$ 9.6	$ 31.3	$ (12.0)	$ 3.4	$(13.2)
Total Assets	$ 2,624.0	$1,003.1	$232.4	$788.1	$ 483.5	$116.5	$ 0.4
Accumulated Depreciation and Amortization	$ 873.8	$ 624.2	$194.6	$ 53.2	-	$ 1.8	-
Construction Work in Progress	$ 49.5	$ 24.6	$19.1	$ 5.8	-	-	-
Capital Expenditures	$ 68.6	$ 34.5	$14.1	$ 20.0	-	-	-
For the Nine Months Ended September 30, 1998							
Operating Revenue	$ 782.2	$ 422.0	$ 70.0	$245.4	$ 18.7	$ 26.0	$ 0.1
Operation and Other Expense	570.5	311.0	44.7	186.8	2.7	15.5	9.8
Depreciation and Amortization	56.0	35.5	8.7	11.5	-	0.1	0.2
Interest Expense	50.5	16.6	7.7	7.2	-	-	19.0
Operating Income (Loss)	105.2	58.9	8.9	39.9	16.0	10.4	(28.9)
Distributions on Redeemable Preferred Securities of Subsidiary	4.5	1.3	-	-	-	-	3.2
Income Tax Expense (Benefit)	38.3	22.4	3.4	19.3	4.3	4.7	(15.8)
Income (Loss) before Income from Equity Investments	62.4	35.2	5.5	20.6	11.7	5.7	(16.3)
Income from Equity Investments - Net of Tax	4.7	-	-	-	4.7	-	-
Net Income (Loss)	$ 67.1	$ 35.2	$5.5	$ 20.6	$ 16.4	$ 5.7	$(16.3)
Total Assets	$ 2,371.3	$ 975.6	$391.8	$631.0	$ 298.1	$ 74.3	$ 0.5
Accumulated Depreciation and Amortization	$ 765.4	$ 593.0	$133.0	$ 37.9	-	$ 1.5	-
Construction Work in Progress	$ 51.5	$ 16.2	$ 15.5	$ 19.8	-	-	-
Capital Expenditures	$ 51.3	$ 24.6	$ 10.4	$ 16.3	-	-	-

Included $41.7 million of Canadian operating revenue in 1999 ($28.1 million in 1998).
Included $130.6 million of Canadian assets in 1999 ($65.3 million in 1998).
Included a $24.1 million non-cash charge to reflect the estimated valuation of the pending merger between Capital Re and ACE as of June 30, 1999. (See Note 5.)
Included $0.9 million of minority interest in 1999 ($1.4 million in 1998).

NOTE 3. REGULATORY MATTERS

FLORIDA WATER 1995 RATE CASE. Florida Water requested an $18.1 million annual rate increase in June 1995 for all water and wastewater customers of Florida Water regulated by the FPSC. In October 1996 the FPSC issued its final order approving an $11.1 million annual increase. The new rates were implemented in September 1996. In November 1996 Florida Water filed with the Florida First District Court of Appeals (Court of Appeals) an appeal of the FPSC's final order seeking judicial review of issues relating to the amount of investment in utility facilities recoverable in rates from current customers. Other parties to the rate case also filed appeals. In the course of the appeals process, the FPSC reconsidered an issue in its initial decision and, in June 1997, allowed Florida Water to resume collecting approximately $1 million, on an annual basis, in new customer fees. In June 1998 the Court of Appeals ruled in Florida Water's favor on all material issues appealed by Florida Water and remanded the matter back to the FPSC for action consistent with the Court's order. The Court of Appeals also overturned its decision in Florida Water's 1991 Rate Case which had required a "functional relationship" between service areas as a precondition to implementation of uniform rates. In December 1998 the FPSC granted Florida Water an additional annual revenue increase of approximately $1.2 million related to several of the issues reversed by the Court of Appeals, and permitted collection of approximately $2.4 million in surcharges to reimburse Florida Water for revenue (plus interest) wrongfully denied in the FPSC's October 1996 order. Florida Water began collecting the new rates in January 1999. Intervenors protested the surcharge allocation methodology. As a result collection of the surcharges was delayed and interest accumulated until the FPSC approved a methodology. The FPSC reopened the record on two remaining issues on remand from the Court of Appeals regarding the amount of investment in utility facilities recoverable in rates from current customers. On June 14, 1999 Florida Water filed a motion seeking approval of an offer of settlement which was heard by the FPSC on August 23, 1999. After Florida Water agreed to modification of certain terms of its offer settlement, on September 14, 1999 the FPSC issued a final order which increased annual revenue by approximately $1 million; authorized Florida Water to book approximately $8.5 million of accumulated surcharges, including interest accrued through September 30, 1999, as a regulatory asset recoverable in base rates beginning in the next rate case; and provided a three-year moratorium on the initiation of rate cases by Florida Water, exclusive of index filings which provide rate adjustments based on inflationary costs associated with operation and maintenance expenses. The annual rate increase of approximately $1 million associated with the settlement became effective on October 1, 1999. In total, the FPSC approved $13.6 million of the $18.1 million requested by Florida Water in the 1995 rate case.

1991 RATE CASE REFUNDS. In 1995 the Court of Appeals reversed a 1993 FPSC order establishing uniform rates for most of Florida Water's service areas. With "uniform rates" all customers in each uniform rate area pay the same rates for water and wastewater services. In response to the Court of Appeals' order, in August 1996 the FPSC ordered Florida Water to issue refunds to those customers who paid more since October 1993 under uniform rates than they would have paid under stand-alone rates. This order did not permit a balancing surcharge to customers who paid less under uniform rates. Florida Water appealed, and the Court of Appeals ruled in June 1997 that the FPSC could not order refunds without balancing surcharges. In response to the Court of Appeals' ruling, the FPSC issued an order in January 1998 that did not require refunds.

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

Customer groups which paid more under uniform rates have appealed the FPSC's January 1998 order, arguing that they are entitled to a refund because the FPSC had no authority to order uniform rates. The Company has appealed the $2.5 million refund order. Initial briefs were filed by all parties in May 1998.

NOTE 3. REGULATORY MATTERS (Continued)

Upon issuance of the June 1998 opinion of the Court of Appeals with respect to Florida Water's 1995 Rate Case (see 1995 Rate Case) in which the court reversed its previous ruling that the FPSC was without authority to order uniform rates, customer groups supporting the FPSC's January 1998 order filed a motion with the Court of Appeals seeking dismissal of the appeal by customer groups seeking refunds. Customers seeking refunds filed amended briefs in September 1998. A provision for refund related to the $2.5 million refund order was recorded in the third quarter of 1999. The Company is unable to predict the timing or outcome of this matter.

ELECTRIC MPUC ORDERS. On March 31, 1999 the Company made its annual filing with the MPUC requesting approval for a 1998 year-end Conservation Improvement Program (CIP) tracker account balance (deferred regulatory charge) of $18.9 million; recovery from customers in 1999 of $3.5 million of 1998 margins lost due to approved conservation improvement programs; and continuation of the 2.75 percent billing adjustment factor. On July 27, 1999 the MPUC issued an order approving the Company's CIP filing, except for the recovery of lost margins which was denied. The MPUC's primary rationale for denial of lost margin recovery was that in 1998 Electric Operations earned in excess of its allowed return on equity. In a companion order, the MPUC opened an investigation into the reasonableness of Minnesota Power's rates.

In September 1999 the MPUC granted the Company's request for rehearing of both orders. On September 9, 1999 the MPUC clarified the scope of its investigation into the reasonableness of the Company's rates and shortened the time period for interested party comments. On September 29, 1999 the Company filed the required report with respect to 1998 actual and 1999 projected electric earnings and explained why current rates are just and reasonable. The Company anticipates that the MPUC will make a decision in 1999 whether further investigation will be made into the reasonableness of Minnesota Power's rates. At the October 28, 1999 hearing regarding recovery of the Company's 1998 lost margins, the MPUC tabled a final decision until early December 1999. The Company is unable to predict the outcome of these matters.

NOTE 4. ACQUISITIONS

PALM COAST UTILITIES CORPORATION. On January 22, 1999 Florida Water purchased the assets and assumed certain liabilities of PCUC from ITT Industries, Inc. for $16.8 million plus $1,000 per new water connection for an eight-year period. The Company estimates the present value of these future water connections at $5.1 million. PCUC provides service to approximately 15,000 water and 14,000 wastewater customers in Flagler County, Florida. The transaction was accounted for using the purchase method. Financial results have been included in the Company's consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality.

ADESA AUCTION FACILITIES. On April 30, 1999 ADESA acquired Des Moines Auto Auction located in Des Moines, Iowa and on July 2, 1999 ADESA Canada, Inc. purchased the Vancouver Auto Auction of New Westminster, British Columbia. The two transactions had a combined purchase price of $31.3 million and were accounted for using the purchase method and resulted in goodwill of $11.9 million which will be amortized over a 40 year period. Financial results for each facility have been included in the Company's consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality. The 33-acre Des Moines facility has three auction lanes and primarily serves consignment and fleet/lease accounts. AFC provides dealer floorplan financing at this auction. The 70-acre Vancouver facility has six auction lanes. The purchase of the Vancouver auction facility is a major component of the Company's Canadian growth strategy.

MID SOUTH WATER SYSTEMS, INC. On June 17, 1999 Heater acquired the assets of Mid South Water Systems, Inc. (Mid South) located in Sherills Ford, North Carolina for $9 million. The acquisition was accounted for using the purchase method. Financial results have been included in the Company's consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality. Mid South serves approximately 12,000 customers.

NOTE 4. ACQUISITIONS (Continued)

CAPE CORAL. On June 30, 1999 Cape Coral Holdings, Inc. (Cape Coral Holdings), a subsidiary of MP Real Estate, purchased, for $45.0 million, certain real estate properties located in Cape Coral, Florida, from subsidiaries of Avatar Holdings Inc., a publicly traded developer and home builder headquartered in Coral Gables, Florida. Cape Coral, located adjacent to Fort Myers, Florida, has a population of 100,000 and is Florida's second largest municipality in land area. Properties purchased include approximately 2,500 acres of commercial and residential zoned land, including home sites, a golf resort, marina and commercial buildings. Concurrently with the purchase, Cape Coral Holdings assigned to a third party the rights to a shopping center and a portion of the vacant land for $8.8 million, which reduced the net amount paid by Cape Coral Holdings to $36.2 million. The transaction was accounted for using the purchase method. Financial results have been included in the Company's consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality.

NOTE 5. INVESTMENT IN CAPITAL RE

Minnesota Power owns 7.3 million shares, or 19.9 percent, of Capital Re. On June 10, 1999 Capital Re and ACE Limited (ACE) signed an agreement providing for the merger of Capital Re with ACE. Under the terms of the Agreement and Plan of Merger (Merger Agreement), Capital Re's shareholders would have received 0.6 ordinary shares of ACE for each share of Capital Re at closing, subject to a maximum value to Capital Re shareholders of $22 per share.

On October 6, 1999 Capital Re received an unsolicited all-cash acquisition offer from XL Capital Ltd. (XL Capital). To consider XL Capital's offer, Capital Re postponed its October 7, 1999 shareholder meeting at which there was to be a vote on the proposed merger with ACE. Capital Re has since received from ACE proposed amendments to the Merger Agreement and competing offers from XL Capital.

On October 26, 1999 Capital Re and ACE signed an amended merger agreement. Under the terms of the amended agreement, each Capital Re share will be exchanged for 0.65 ordinary shares of ACE plus cash, as needed, to deliver an aggregate value of $14 for each Capital Re share, as long as ACE's stock price is between $14.34 and $19.54 per share at closing. The amount of cash is subject to a minimum of $1.30 per Capital Re share and a maximum of $4.68 per Capital Re share. If ACE's stock price is below $14.34 per share or above $19.54 per share, Capital Re shareholders would receive less value or more value, respectively. Minnesota Power is unable to predict the timing of this transaction.

Minnesota Power's net income for nine months ended September 30, 1999 included a $24.1 million non-cash charge to income from equity investments. The non-cash charge reflected an estimated Capital Re valuation of $17 per share based on ACE's stock price at June 30, 1999 and the exchange ratio in the ACE Merger Agreement. As a result of the pending merger with ACE, Minnesota Power discontinued the equity method of accounting for its investment in Capital Re. Minnesota Power currently accounts for its investment in Capital Re as an available-for-sale security with changes in value reflected in accumulated other comprehensive income (loss) on the balance sheet. Accordingly, a $31.3 million charge to accumulated other comprehensive income (loss) was recorded on the balance sheet during the third quarter of 1999 to reflect the September 30, 1999 Capital Re share price of $10. Adjustments to Minnesota Power's investment in Capital Re will be recognized in net income at the time a Capital Re merger transaction is finalized. Assuming the transaction is finalized prior to year end at a value of $14 per share, the after-tax loss of $31.3 million at September 30, 1999 would be reduced by $17.7 million, resulting in a charge to fourth quarter net income of $13.6 million.

NOTE 6. INCOME TAX EXPENSE

Millions	Quarter Ended September 30, 1999	Quarter Ended September 30, 1998	Nine Months Ended September 30, 1999	Nine Months Ended September 30, 1998
Current Tax				
Federal	$ 19.9	$ 14.7	$ 42.4	$ 35.1
Foreign	0.3	1.2	1.2	3.8
State	4.1	3.7	5.0	8.6
	24.3	19.6	48.6	47.5
Deferred Tax				
Federal	(1.4)	(0.7)	10.3	0.5
Foreign	0.1	-	0.1	-
State	(0.5)	(0.7)	(3.9)	(1.5)
	(1.8)	(1.4)	6.5	(1.0)
Deferred Tax Credits	(0.6)	(0.6)	(1.3)	(1.2)
Total Income Tax Expense	$ 21.9(a)	$ 17.6(a)	$ 53.8(b)	$ 45.3(b)

(a) Included income tax expense of $0.8 million in 1999 ($1.6 million in 1998) associated with income from equity investments.
(b) Included income tax expense of $4.2 million in 1999 ($7.0 million in 1998) associated with income from equity investments.

NOTE 7. TOTAL COMPREHENSIVE INCOME

For the quarter ended September 30, 1999 total comprehensive income was $3.7 million ($25.0 million of income for the quarter ended September 30, 1998). For the nine months ended September 30, 1999 total comprehensive income was $24.1 million ($65.1 million for the nine months ended September 30, 1998). Total comprehensive income included net income, unrealized gains and losses on securities classified as available-for-sale, and foreign currency translation adjustments.

NOTE 8. SQUARE BUTTE PURCHASED POWER CONTRACT

The Company has had a power purchase agreement with Square Butte since 1977 which has provided a long-term supply of low-cost energy to customers in the Company's electric service territory and enabled the Company to meet power pool reserve requirements. Square Butte, a North Dakota cooperative corporation, owns a 455-megawatt coal-fired generating unit (Unit) near Center, North Dakota. The Unit is adjacent to a generating unit owned by Minnkota Power Cooperative, Inc. (Minnkota), a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota serves as the operator of the Unit and also purchases power from Square Butte.

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

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

Under the 1998 Agreement, the Company is obligated to pay its pro rata share of Square Butte's costs based on the Company's entitlement to Unit output. The Company's payment obligation is suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Under the 1977 agreement the Company was unconditionally obligated to pay all of Square Butte's costs, if not paid by Square Butte when due. Square Butte's fixed costs consist primarily of debt service. At September 30, 1999 Square Butte had total debt outstanding of $343.1 million. Total annual debt service for Square Butte is expected to be approximately $36 million in each of the years 1999 through 2002 and $23 million in 2003. Variable operating costs include the price of coal purchased from BNI Coal, a subsidiary of Minnesota Power, under a long-term contract. The Company's payments to Square Butte are approved as purchased power expense for ratemaking purposes by both the MPUC and FERC.

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

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

CONSOLIDATED OVERVIEW

Significant growth in the Company's Automotive Services and Water Services segments contributed to higher operating results in 1999. For the third quarter of 1999, net income increased 34 percent over 1998 and earnings per share increased 28 percent over the prior period. For the nine months ended September 30, 1999, the Company reported a $24.1 million non-cash charge associated with the Company's investment in Capital Re. Excluding the non-cash charge, net income for the nine months ended September 30, 1999 increased 21 percent over 1998 and earnings per share increased 13 percent over the prior period. Earnings per share in 1999 reflected the impact of the additional 4.2 million shares of Common Stock issued by the Company in an underwritten public offering in September 1998.

	Quarter Ended September 30, 1999	Quarter Ended September 30, 1998	Nine Months Ended September 30, 1999	Nine Months Ended September 30, 1998
Millions				
Operating Revenue				
Electric Operations	$ 155.2	$147.2	$ 422.7	$ 422.0
Water Services	31.1	24.2	85.4	70.0
Automotive Services	105.5	83.9	306.3	245.4
Investments	14.6	10.8	28.8	44.7
Corporate Charges	(0.1)	0.2	(0.2)	0.1
	$ 306.3	$266.3	$ 843.0	$ 782.2
Operating Expenses				
Electric Operations	$ 122.3	$120.3	$ 357.1	$ 363.1
Water Services	24.7	20.9	69.7	61.1
Automotive Services	88.0	71.2	250.3	205.5
Investments	7.3	4.8	15.0	18.3
Corporate Charges	8.1	8.0	21.7	29.0
	$ 250.4	$225.2	$ 713.8	$ 677.0
Net Income				
Electric Operations	$ 18.6	$ 16.0	$ 38.2	$ 35.2
Water Services	3.9	2.0	9.6	5.5
Automotive Services	9.7	6.7	31.3	20.6
Investments	6.2	6.2	(8.6)(a)	22.1
Corporate Charges	(3.9)	(5.1)	(13.2)	(16.3)
	$ 34.5	$ 25.8	$ 57.3	$ 67.1
Basic and Diluted Earnings Per Share of Common Stock	$0.50	$0.39	$0.82(a)	$1.04
Average Shares of Common Stock - Millions	68.6	64.0	68.2	63.0

(a) Included a $24.1 million ($0.35 per share) non-cash charge to reflect the estimated valuation of the pending merger between Capital Re and ACE as of June 30, 1999.

NET INCOME

The following net income discussion summarizes significant events for the quarter and nine months ended September 30, 1999.

Electric Operations reflected higher margins from bulk power electric sales and lower sales to large industrial customers in 1999.

Water Services generated higher net income in 1999 due to strategic purchases that increased the customer base by 23 percent, regulatory relief granted by the FPSC in settlement of Florida Water's 1995 Rate Case, increased average consumption and management of operating costs.

Automotive Services showed significant growth during 1999 reflecting a profitable mix of same-store growth and selective acquisitions. The number of vehicles offered for sale at ADESA auction facilities increased 17 percent over the third quarter of 1998 (15 percent over the nine months ended September 30, 1998). Increased financing activity and the maturing of loan production offices that opened in 1998 at AFC also contributed to higher net income from Automotive Services.

Investments reported lower net income in 1999 primarily due to a $24.1 million non-cash charge that reflected the estimated valuation of the pending merger between Capital Re and ACE.

Minnesota Power owns 7.3 million shares, or 19.9 percent, of Capital Re. On June 10, 1999 Capital Re and ACE signed an agreement providing for the merger of Capital Re with ACE. Under the terms of the Agreement and Plan of Merger (Merger Agreement), Capital Re's shareholders would have received 0.6 ordinary shares of ACE for each share of Capital Re at closing, subject to a maximum value to Capital Re shareholders of $22 per share.

On October 6, 1999 Capital Re received an unsolicited all-cash acquisition offer from XL Capital. To consider XL Capital's offer, Capital Re postponed its October 7, 1999 shareholder meeting at which there was to be a vote on the proposed merger with ACE. Capital Re has since received from ACE proposed amendments to the Merger Agreement and competing offers from XL Capital.

On October 26, 1999 Capital Re and ACE signed an amended merger agreement. Under the terms of the amended agreement, each Capital Re share will be exchanged for 0.65 ordinary shares of ACE plus cash, as needed, to deliver an aggregate value of $14 for each Capital Re share, as long as ACE's stock price is between $14.34 and $19.54 per share at closing. The amount of cash is subject to a minimum of $1.30 per Capital Re share and a maximum of $4.68 per Capital Re share. If ACE's stock price is below $14.34 per share or above $19.54 per share, Capital Re shareholders would receive less value or more value, respectively. Minnesota Power is unable to predict the timing of this transaction.

The non-cash charge included in income reflected an estimated Capital Re valuation of $17 per share based on ACE's stock price at June 30, 1999 and the exchange ratio in the ACE Merger Agreement. As a result of the pending merger with ACE, Minnesota Power discontinued the equity method of accounting for its investment in Capital Re. Minnesota Power currently accounts for its investment in Capital Re as an available-for-sale security with changes in value reflected in accumulated other comprehensive income (loss) on the balance sheet. Accordingly, a $31.3 million charge to accumulated other comprehensive income (loss) was recorded on the balance sheet during the third quarter of 1999 to reflect the September 30, 1999 Capital Re share price of $10. Adjustments to Minnesota Power's investment in Capital Re will be recognized in net income at the time a Capital Re merger transaction is finalized. Assuming the transaction is finalized prior to year end at a value of $14 per share, the after-tax loss of $31.3 million at September 30, 1999 would be reduced by $17.7 million, resulting in a charge to fourth quarter net income of $13.6 million.

Investments also reflected lower net income because of stock market volatility affecting returns from short-term investments during 1999 and the discontinuance of equity accounting for the Company's investment in Capital Re. In addition, 1998 net income included dividend income received from a venture capital investment and more large bulk land sales by Real Estate Operations.

COMPARISON OF THE QUARTERS ENDED SEPTEMBER 30, 1999 AND 1998

OPERATING REVENUE

Electric Operations operating revenue was $8.0 million higher in 1999 primarily due to a $22.4 million increase from sales to other power suppliers because of extreme weather conditions affecting the power market during the third quarter of 1999. Temperatures, which were at record highs during the last week of July 1999, created high demand for power from other power suppliers. Revenue from industrial customers was down $12.2 million in 1999 due to decreased taconite production, paper manufacturing and pipeline usage. Revenue from residential and commercial customers was $1.1 million higher in 1999 because of the unusually hot weather in July 1999. Revenue in 1998 reflected $3.8 million of CIP lost margin recovery. Total retail kilowatthour sales were down 9.1 percent from 1998.

Revenue from electric sales to taconite customers accounted for 10 percent of consolidated operating revenue in 1999 (16 percent in 1998). Electric sales to paper and pulp mills accounted for 5 percent of consolidated operating revenue in 1999 (6 percent in 1998). Sales to other power suppliers accounted for 16 percent of consolidated operating revenue in 1999 (10 percent in 1998).

Water Services operating revenue was $6.9 million higher in 1999, with $3.3 million of the increase coming from PCUC which was purchased in January 1999. The remainder of the increase resulted from regulatory relief granted by the FPSC in December 1998 and September 1999, and more consumption due to customer growth. Overall consumption increased 3 percent in 1999.

Automotive Services operating revenue was $21.6 million higher in 1999 due to stronger sales at ADESA auction facilities, and increased financing activity and the maturing of loan production offices opened in 1998 by AFC. ADESA offered for sale on consignment 453,000 vehicles (387,000 in 1998) at its 29 auction facilities in 1999 (28 in 1998). AFC financed approximately 186,000 vehicles in 1999 (140,000 in 1998) through its 84 loan production offices. AFC has had 84 loan production offices since August 1998, 29 of which were opened during the summer of 1998.

Investments operating revenue was $3.8 million lower in 1999. Portfolio operating revenue was $2.6 million lower in 1999 due to stock market volatility affecting returns from short-term investments. The Company's securities portfolio, excluding Capital Re shares, earned an annualized after-tax return of 4.3 percent in 1999 (7.2 percent in 1998). Real Estate Operations operating revenue was $6.4 million higher in 1999 because two large sales contributed $6.9 million.

OPERATING EXPENSES

Electric Operations operating expenses were $2.0 million higher in 1999 primarily due to higher employee compensation and property taxes.

Water Services operating expenses were $3.8 million higher in 1999 due to inclusion of PCUC and Mid South operations.

Automotive Services operating expenses were $16.8 million higher in 1999 primarily due to increased sales activity at the auction facilities and the floorplan financing business. Additional expenses associated with more auction facilities and loan production offices also contributed to higher expenses in 1999.

Investments operating expenses were $2.5 million higher in 1999 primarily due to the inclusion of Cape Coral operations and two large sales by Real Estate Operations.

INCOME (LOSS) FROM EQUITY INVESTMENTS - NET OF TAX

Income (loss) from equity investments - net of tax was $1.0 million lower in 1999 primarily due to the discontinuance of equity accounting for the Company's investment in Capital Re. This decrease was partially offset by $1.2 million of equity income from investments in venture capital funds.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

OPERATING REVENUE

Electric Operations operating revenue was slightly higher in 1999. Revenue in 1999 reflected a $22.2 million increase from sales to other power suppliers because of extreme weather conditions affecting the power market during the third quarter of 1999. Temperatures, which were at record highs during the last week of July 1999, created a high demand for power from other power suppliers. Revenue from industrial customers was down $18.4 million in 1999 due to decreased taconite production, paper manufacturing and pipeline usage. Revenue from residential and commercial customers was $3.4 million higher in 1999 because the winter weather in northern Minnesota and Wisconsin was colder than 1998 and unusually hot in July 1999. Revenue in 1998 included $3.8 million of CIP lost margin recovery. Total retail kilowatthour sales were down 6.3 percent from 1998.

Revenue from electric sales to taconite customers accounted for 13 percent of consolidated operating revenue in 1999 (16 percent in 1998). Electric sales to paper and pulp mills accounted for 5 percent of consolidated operating revenue in 1999 (6 percent in 1998). Sales to other power suppliers accounted for 10 percent of consolidated operating revenue in 1999 (8 percent in 1998).

Water Services operating revenue was $15.4 million higher in 1999, with $8.7 million of the increase coming from PCUC which was purchased in January 1999. The remainder of the increase was attributed to regulatory relief granted by the FPSC in December 1998 and September 1999, and more consumption due to customer growth. Overall consumption increased 14 percent in 1999. In 1998 overall consumption was lower than normal due to some of the Company's water systems being adversely impacted by record rainfall during the first quarter. Gains totaling $600,000 from the sale of a water system and the sale of land in Florida were included in 1998 revenue.

Automotive Services operating revenue was $60.9 million higher in 1999 due to stronger sales at ADESA auction facilities, and increased financing activity and the maturing of loan production offices opened in 1998 by AFC. ADESA offered for sale on consignment 1,277,000 vehicles (1,115,000 in 1998) at its 29 auction facilities in 1999 (28 in 1998). In 1999 ADESA auction financial results included a full nine months of operations from three vehicle auctions acquired in late April and May 1998, five months of operations from a vehicle auction acquired in late April 1999 and three months from a vehicle auction facility acquired in July 1999. AFC financed approximately 508,000 vehicles in 1999 (393,000 in 1998) through its 84 loan production offices. AFC has had 84 loan production offices since August 1998, 29 of which were opened during the summer of 1998.

Investments operating revenue was $15.9 million lower in 1999. Portfolio operating revenue was $8.4 million lower in 1999 due to stock market volatility affecting returns from short-term investments. The Company's securities portfolio, excluding Capital Re shares, earned an annualized after-tax return of 3.6 percent in 1999 (6.4 percent in 1998). Also, revenue in 1998 included $3.9 million of dividend income received from a venture capital investment. Real Estate Operations operating revenue was $7.5 million lower in 1999 because 1998 included four large sales at Palm Coast and two large sales at Lehigh. Combined, the six sales contributed $13.0 million to revenue in 1998. In 1999 two large sales contributed $6.9 million to revenue. The remainder of the decrease was due to normal fluctuations in Florida real estate sales.

OPERATING EXPENSES

Electric Operations operating expenses were $6.0 million lower in 1999 primarily due to a $3.3 million reduction in fuel and purchased power expenses because of fewer kilowatthour sales and a $1.8 million decrease in depreciation expense primarily the result of plant life extensions. Operating expenses were also $2.7 million lower in 1999 because the amortization of an early retirement program was completed in July 1998.

Water Services operating expenses were $8.6 million higher in 1999 primarily due to inclusion of PCUC and Mid South operations.

Automotive Services operating expenses were $44.8 million higher in 1999 primarily due to increased sales activity at the auction facilities and the floorplan financing business. Additional expenses associated with more auction facilities and loan production offices also contributed to higher expenses in 1999.

Investments operating expenses were $3.3 million lower in 1999 primarily due to fewer sales by Real Estate Operations.

Corporate Charges operating expenses were $7.3 million lower in 1999. The decrease is partially attributed to less interest expense in 1999 because the average commercial paper balance was lower. Also, interest expense in 1998 reflected a settlement with the Internal Revenue Service on tax issues relating to prior years. As a result of the settlement, in the first quarter of 1998 $4.7 million previously accrued as income tax expense were reversed and recorded as interest expense. There was no impact on consolidated net income from this transaction.

INCOME (LOSS) FROM EQUITY INVESTMENTS - NET OF TAX

Income (loss) from equity investments - net of tax was $22.5 million lower in 1999 primarily due to a $24.1 million non-cash charge that reflected the estimated valuation of the pending merger between Capital Re and ACE, and the discontinuance of equity accounting for the Company's investment in Capital Re. Equity income from investments in venture capital funds was $1.4 million higher in 1999.

OUTLOOK

ELECTRIC OPERATIONS. On March 31, 1999 the Company made its annual filing with the MPUC requesting approval for a 1998 year-end CIP tracker account balance (deferred regulatory charge) of $18.9 million; recovery from customers in 1999 of $3.5 million of 1998 margins lost due to approved conservation improvement programs; and continuation of the 2.75 percent billing adjustment factor. On July 27, 1999 the MPUC issued an order approving the Company's CIP filing, except for the recovery of lost margins which was denied. The MPUC's primary rationale for denial of lost margin recovery was that in 1998 Electric Operations earned in excess of its allowed return on equity. In a companion order, the MPUC opened an investigation into the reasonableness of Minnesota Power's rates.

In September 1999 the MPUC granted the Company's request for rehearing of both orders. On September 9, 1999 the MPUC clarified the scope of its investigation into the reasonableness of the Company's rates and shortened the time period for interested party comments. On September 29, 1999 the Company filed the required report with respect to 1998 actual and 1999 projected electric earnings and explained why current rates are just and reasonable. The Company anticipates that the MPUC will make a decision in 1999 whether further investigation will be made into the reasonableness of Minnesota Power's rates. At the October 28, 1999 hearing regarding recovery of the Company's 1998 lost margins, the MPUC tabled a final decision until early December 1999. The Company is unable to predict the outcome of these matters.

CASH FLOW ACTIVITIES. Cash flow from operations during the nine months ended September 30, 1999 reflected improved operating results and continued focus on working capital management. Cash from operating activities was also affected by a number of factors representative of normal operations.

Working capital, 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 8 million original issue shares of Common Stock are available for issuance through the DRIP.

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

AFC also uses proceeds from the sale of commercial paper issued by the Company to meet its operational requirements. AFC offers short-term on-site financing for dealers to purchase vehicles at auctions in exchange for a security interest in those vehicles. The financing is provided through the earlier of the date the dealer sells the vehicle or a general borrowing term of 30 to 45 days. AFC sells certain finance receivables on a revolving basis to a wholly owned, unconsolidated, qualified special purpose subsidiary. This subsidiary in turn sells, on a revolving basis, an undivided interest in eligible finance receivables, up to a maximum at any one time outstanding of $300.0 million, to third party purchasers under an agreement which expires at the end of 2002. At September 30, 1999 AFC had sold $314.9 million of finance receivables to this subsidiary ($202.9 million at December 31, 1998). Third party purchasers had purchased an undivided interest in finance receivables of $224.0 million from this subsidiary at September 30, 1999 ($170.0 million at December 31, 1998). Proceeds from the sale of the receivables were used to repay borrowings from the Company and fund vehicle inventory purchases for AFC's customers.

Significant changes in accounts receivable and accounts payable balances at September 30, 1999 compared to December 31, 1998 were due to increased sales activity by Automotive Services. Typically auction volumes are down during the winter months and in December because of the holidays. As a result, both ADESA and AFC had lower receivables and fewer payables at year end.

Notes payable increased temporarily to finance Automotive Services' cash requirements due to significant auction sales and financing growth. The Company also used the temporary increase in notes payable and proceeds from the September 1998 issuance of Common Stock to fund the January 1999 purchase of PCUC. Florida Water purchased the assets of PCUC from ITT Industries, Inc. for $16.8 million plus $1,000 per new water connection for an eight-year period. The Company estimates the present value of these future water connections to be $5.1 million.

On April 30, 1999 ADESA acquired Des Moines Auto Auction located in Des Moines, Iowa and on July 2, 1999 ADESA Canada, Inc. purchased the Vancouver Auto Auction of New Westminster, British Columbia. The two transactions had a combined purchase price of $31.3 million. The Company funded these transactions with internally generated funds and notes payable that are expected to be replaced with long-term debt financing.

On June 17, 1999 Heater acquired the assets of Mid South of Sherills Ford, North Carolina for $9 million. The Company funded this transaction with internally generated funds and proceeds from a long-term revolving line of credit.

On June 30, 1999 Cape Coral Holdings, Inc., a subsidiary of MP Real Estate, purchased, for $36.2 million, certain real estate properties located in Cape Coral, Florida, from subsidiaries of Avatar Holdings Inc. The Company funded this transaction with internally generated funds and proceeds from a long-term revolving line of credit.

CAPITAL REQUIREMENTS. Consolidated capital expenditures for the nine months ended September 30, 1999 totaled $68.6 million ($51.3 million in 1998). Expenditures for 1999 included $34.5 million for Electric Operations, $14.1 million for Water Services and $20.0 million for Automotive Services. Internally generated funds and proceeds from the September 1998 issuance of Common Stock were the primary sources of funding for these expenditures.

NEW ACCOUNTING STANDARDS. In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137, effective for fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset the related results on the hedged item. The Company currently believes it has only a limited amount of derivative activity and adoption of SFAS 133 is not expected to have a material impact on the Company's financial position and results of operations.

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

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

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

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

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

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

EVALUATION. This phase involves computer program code review and testing, vendor contacts, System testing and fully-integrated System testing where practical. The objective of this phase is to develop and update the remediation plan. Some Systems, upon inspection, are determined to be non-compliant and are immediately placed on the remediation schedule. Some Systems require testing to determine compliance status. The evaluation phase was substantially complete in February 1999.

REMEDIATION. In this phase each System is either fixed, replaced or removed. Critical Systems fixed or replaced are tested again for Year 2000 readiness.

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

As of November 5, 1999 the remediation phase for mission-critical systems within Electric Operations was complete. As defined by NERC, mission-critical systems are those systems that could be related to the loss of a 50-megawatt or larger generation source, the loss of a transmission facility or the interruption of system load. The Company's believes its mission-critical systems used to produce, deliver and transmit electricity are ready for date changes associated with Year 2000.

The Company estimates that as of November 5, 1999 the remediation phase for all business segment systems is approximately 91 percent complete based on the number of systems remediated. The bulk of the remaining systems are support systems within Electric Operations that are not mission critical. The remediation phase for the Company's other business segments was substantially complete in June 1999.

CONTINGENCY PLANNING. Each business segment has developed contingency plans designed to continue critical processes in the event the Company experiences Year 2000 disruptions despite remediation and testing. These plans include establishment of internal communications, securing adequate on-site supplies of certain critical materials and staffing for key Year 2000 dates. Contingency plans will also be tested when appropriate. Some contingency plans have already undergone testing. The Company successfully participated in both the April and September 1999 NERC drills. The April 1999 drill tested inter and intra backup communications for the scenario that assumed 10 percent of voice and data communications had failed, while the September 1999 drill was a dress rehearsal of staff deployment and backup communication for the millennium rollover. As of November 5, 1999 the Company estimates the contingency planning phase is approximately 97 percent complete.

COSTS. In the ordinary course of business over the last five years, the Company has replaced major business and operating computer systems. These systems should require minimal remediation efforts because of their recent implementation. Formal Year 2000 readiness plans were established in March 1998. Since that time, the Company has incurred $3.8 million in expenses primarily for labor associated with inventory, evaluation and remediation efforts. The Company estimates its remaining costs to prepare for the Year 2000 will be approximately $1.2 million, some of which will be incurred during the year 2000 for systems not critical to daily operations. Funds to address Year 2000 issues have been provided for in the Company's existing budgets. These costs include the assignment of existing personnel to Year 2000 projects, maintenance and repair expenses, and capitalized improvements. To date no critical projects have been deferred because of Year 2000 issues. The Company does not anticipate that its costs associated with Year 2000 readiness will materially impact the Company's earnings in any year.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's securities portfolio has exposure to both price and interest rate risk. Investments held principally for near-term sale are classified as trading securities and recorded at fair value. Trading securities consist primarily of the common stock of publicly traded companies, with utilities being the largest industry sector. Investments held for an indefinite period of time are classified as available-for-sale securities and also recorded at fair value. The available-for-sale securities portfolio consists primarily of the preferred stock of utilities and financial institutions with investment grade debt ratings and Capital Re shares. (See Note 5 to the consolidated financial statements in Item 1 of this quarterly report on Form 10-Q.)

In strategies designed to reduce market risks, the Company sells common stock short and enters into short sales of treasury futures contracts. Selling common stock short is intended to reduce price risks associated with securities in the Company's trading securities portfolio. The stock sold short consists primarily of the stock of companies in similar industries. Treasury futures are used as a hedge to reduce interest rate risks associated with holding fixed dividend preferred stocks included in the Company's available-for-sale securities portfolio. Generally, treasury futures contracts mature in 90 days.

September 30, 1999 Millions	Fair Value
Trading Securities Portfolio	$154.9
Available-For-Sale Securities Portfolio	$100.0(a)
Other Available-For-Sale Securities	$17.5(b)

(a) The notional fair value of outstanding sales of treasury futures contracts was $9.0 million, which represented 79 contracts with a notional basis of $9.1 million.
(b) Securities in a grantor trust established to fund certain employee benefits.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

Reference is made to the Company's 1998 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to the Company's 1998 Form 10-K.

Ref. Page 2. - Eighth Paragraph
Ref. Page 25. - Tenth Paragraph
Ref. 10-Q for the quarter ended March 31, 1999 Page 13. - Fourth and Fifth Paragraphs
Ref. 10-Q for the quarter ended June 30, 1999 Page 19. - Second, Third and Fourth Paragraphs

Steel imports continue to be a critical issue facing the American steel industry. Total imports for the first eight months of 1999 were 23.3 million net tons of steel, 8.2 percent higher than the same period in 1997, the last record year prior to the unprecedented import surge of 1998. The surge of imported steel in recent years continues to depress average prices for steel mill products. Prices for 1999 continue to be off about 25 percent compared to the same period in 1998. In 1998 the United States imported a record 42 million tons of steel, which represented an 83 percent increase over the 23 million-ton average for each of the previous eight years (1990-1997).

Domestic production for the first eight months of 1999 was 68.3 million net tons, down some 4 percent from the same period in 1998. Capacity utilization for the industry during that same period was 81.5 percent, down from 90.0 percent from the same period in 1998. The continued lower worldwide demand for steel produced in the United States is having an adverse affect on northern Minnesota's taconite producers and the economy of northern Minnesota in general. The Company is unable to predict the eventual impact of this issue on the Company's Electric Operations.

Ref. Page 3. - Contract Status for Minnesota Power Large Power Customers
Ref. 10-Q for the quarter ended March 31, 1999 Page 14. - First Paragraph

On August 5, 1999 the MPUC approved a new contract for electric service with Potlatch Corp. The new contract has a contract termination date of December 31, 2004 and combines the billing of Potlatch's Brainerd, Cloquet and Grand Rapids facilities.

Ref. Page 3. - Contract Status for Minnesota Power Large Power Customers

On September 30, 1999 Blandin Paper Co. signed an amendment to its agreement with Minnesota Power to increase its operating flexibility and extend its contract from April 2004 to April 2006. The amendment is pending regulatory approval.

Ref. Page 3. - First Full Paragraph
Ref. Page 25. - Eleventh Paragraph
Ref. 10-Q for the quarter ended June 30, 1999 Page 19. - Fifth Paragraph

Six of the seven taconite producers in Minnesota have collective bargaining agreements with the United Steel Workers of America (USWA). These agreements expired in August 1999. Five-year collective bargaining agreements have been ratified with five of the six USWA taconite producers. Contract negotiations with the sixth taconite producer have been put on hold pending the outcome of acquisition discussions with another company.

Ref. Page 6. - Seventh Full Paragraph
Ref. Page 25. - Insert after Eleventh Paragraph
Ref. 10-Q for the quarter ended March 31, 1999 Page 14. - Fifth Paragraph
Ref. 10-Q for the quarter ended June 30, 1999 Page 19. - Sixth Paragraph

In September 1999 the MPUC granted the Company's request for reconsideration of the July 27, 1999 orders which denied the recovery of lost margins related to CIP and opened an investigation into the reasonableness of Minnesota Power's rates. On September 9, 1999 the MPUC clarified the scope of its investigation into the reasonableness of the Company's rates and shortened the time period for interested party comments. On September 29, 1999 the Company filed the required report with respect to 1998 actual and 1999 projected electric earnings and explained why current rates are just and reasonable. The Company anticipates that the MPUC will make a decision in 1999 whether further investigation will be made into the reasonableness of Minnesota Power's rates. At the October 28, 1999 hearing regarding recovery of the Company's 1998 lost margins, the MPUC tabled a final decision until early December 1999. The Company is unable to predict the outcome of these matters.

Ref. Page 10. - Seventh Full Paragraph
Ref. 10-Q for the quarter ended June 30, 1999 Page 20. - Second Paragraph

1995 RATE CASE. After Florida Water agreed to modification of certain terms of its June 14, 1999 offer of settlement, on September 14, 1999 the FPSC issued a final order with respect to Florida Water's 1995 rate case. The final order increased annual revenue by approximately $1 million; authorized Florida Water to book approximately $8.5 million of accumulated surcharges, including interest accrued through September 30, 1999, as a regulatory asset recoverable in base rates beginning in the next rate case; and provided a three-year moratorium on the initiation of rate cases by Florida Water, exclusive of index filings which provide rate adjustments based on inflationary costs associated with operation and maintenance expenses. The annual rate increase of approximately $1 million associated with the settlement became effective on October 1, 1999. In total, the FPSC approved $13.6 million of the $18.1 million requested by Florida Water in the 1995 rate case.

Ref. Page 12. - Second Paragraph

In October 1999 ADESA broke ground to begin building a six-lane vehicle auction facility in Calgary, Alberta, Canada. The new facility is expected to occupy 25 of the 65 acres acquired. Opening is scheduled in the spring of 2000.

Ref. Page 12. - Third Paragraph

On September 30, 1999 the Company, through a wholly owned subsidiary, acquired 90 percent of AutoVIN, Inc., the Automated Vehicle Information Network. AutoVIN provides professional field information services to the automotive industry, including vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspection. AutoVIN has been providing services to AFC and will now work closely with AFC to offer auto dealers one-stop shopping for financial and information services.

Ref. Page 13. - Third Paragraph
Ref. Page 22. - Fifth and Sixth Paragraphs
Ref. Form 8-K dated and filed May 27, 1999
Ref. Form 8-K dated and filed June 15, 1999
Ref. 10-Q for the quarter ended June 30, 1999 Page 11. - Fifth through Seventh Paragraph
Ref. Form 8-K dated and filed October 20, 1999

On October 6, 1999 Capital Re received an unsolicited all-cash acquisition offer from XL Capital. To consider XL Capital's offer, Capital Re postponed its October 7, 1999 shareholder meeting at which there was to be a vote on the proposed merger with ACE. Capital Re has since received from ACE proposed amendments to the June 10, 1999 Agreement and Plan of Merger (Merger Agreement) and competing offers from XL Capital.

On October 21, 1999 ACE filed a lawsuit in Delaware Chancery Court against Capital Re alleging that Capital Re breached its existing Merger Agreement with ACE by, among other things, entering into negotiations with XL Capital. ACE also sought a temporary restraining order to prevent Capital Re from terminating its existing Merger Agreement until ACE's claims can be decided by the Delaware court. This temporary restraining order was denied on October 25, 1999.

On October 26, 1999 Capital Re and ACE signed an amended merger agreement. Under the terms of the amended agreement, each Capital Re share will be exchanged for 0.65 ordinary shares of ACE plus cash, as needed, to deliver an aggregate value of $14 for each Capital Re share, as long as ACE's stock price is between $14.34 and $19.54 per share at closing. The amount of cash is subject to a minimum of $1.30 per Capital Re share and a maximum of $4.68 per Capital Re share. If ACE's stock price is below $14.34 per share or above $19.54 per share, Capital Re shareholders would receive less value or more value, respectively. Minnesota Power is unable to predict the timing of this transaction.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10(a) Third Amendment to Receivables Purchase Agreement, dated as of October 30, 1998, among AFC Funding Corporation, as Seller; Automotive Finance Corporation, as Servicer; Pooled Accounts Receivable Capital Corporation, as Purchaser; and Nesbitt Burns Securities Inc., as Agent.

10(b) Fourth Amendment to Receivables Purchase Agreement, dated as of September 22, 1999, among AFC Funding Corporation, as Seller; Automotive Finance Corporation, as Servicer; Pooled Accounts Receivable Capital Corporation, as Purchaser; and Nesbitt Burns Securities Inc., as Agent.

27(a) Financial Data Schedule for the Nine Months Ended September 30, 1999.

27(b) Restated Financial Data Schedule for the Nine Months Ended September 30, 1998.

(b) Reports on Form 8-K.

Report on Form 8-K dated and filed October 20, 1999 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, Inc.

(Registrant)

November 5, 1999

D. G. Gartzke

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

November 5, 1999

Mark A. Schober

Mark A. Schober
Controller

INDEX TO EXHIBITS

Exhibit Number	
10(a)	Third Amendment to Receivables Purchase Agreement, dated as of October 30, 1998, among AFC Funding Corporation, as Seller; Automotive Finance Corporation, as Servicer; Pooled Accounts Receivable Capital Corporation, as Purchaser; and Nesbitt Burns Securities Inc., as Agent.
10(b)	Fourth Amendment to Receivables Purchase Agreement, dated as of September 22, 1999, among AFC Funding Corporation, as Seller; Automotive Finance Corporation, as Servicer; Pooled Accounts Receivable Capital Corporation, as Purchaser; and Nesbitt Burns Securities Inc., as Agent.
27(a)	Financial Data Schedule for the Nine Months Ended September 30, 1999.
27(b)	Restated Financial Data Schedule for the Nine Months Ended September 30, 1998.

THIRD AMENDMENT TO
RECEIVABLES PURCHASE AGREEMENT

THIS THIRD AMENDMENT (this "Amendment") dated as of October 30, 1998 is entered into among AFC FUNDING CORPORATION, an Indiana corporation (the "Seller"), AUTOMOTIVE FINANCE CORPORATION, an Indiana corporation (the "Servicer"), POOLED ACCOUNTS RECEIVABLE CAPITAL CORPORATION, a Delaware corporation (the "Purchaser"), and NESBITT BURNS SECURITIES INC., a Delaware corporation, as agent for Purchaser (the "Agent").

R E C I T A L S

1. The Seller, the Servicer, the Purchaser and the Agent are parties to that certain Receivables Purchase Agreement dated as of December 31, 1996 (as amended by the first Amendment dated as of February 28, 1997 and the Second Amendment dated as of August 15, 1997, the "Agreement").

2. The Seller, the Servicer, the Purchaser and the Agent desire to amend the Agreement as hereinafter set forth.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Certain Defined Terms. Capitalized terms which are used herein without definition and that are defined in the Agreement shall have the same meanings herein as in the Agreement.

2. Amendments to Agreement. The Agreement is hereby amended as follows:

2.1 Change in Control. Paragraph (a) of the definition of "Change in Control" in Exhibit I to the Agreement is amended to read as follows:

> "(a) Minnesota Power, Inc. shall fail to own at least 50% of the outstanding voting stock of ADESA;"

2.2 Eligible Receivable. Paragraph (m) of the definition of "Eligible Receivable" in Exhibit I to the Agreement is amended in its entirety as follows:

> "which arises from the making of a loan to finance the purchase of a motor vehicle, the ownership of which is evidenced by a certificate of title, driven or drawn by mechanical power, manufactured primarily for use on the public streets, roads or highways with two axles (but not

including any recreational vehicles); provided, however, that up to 5% (but in any event not to exceed $5,000,000) of the Net Receivables Pool Balance (which Net Receivables Pool Balance shall be calculated without taking into account any Tractor Receivables) may consist of otherwise Eligible Receivables which are Tractor Receivables."

2.3 Receivable. The definition of "Receivable" in Exhibit I to the Agreement is amended in its entirety as follows:

"'Receivable' means any right to payment from any Person, whether constituting an account, chattel paper, instrument or a general intangible, arising from the providing of financing and other services by the Originator to new, used and wholesale automobile or other motor vehicle dealers for which the Obligor under the Dealer Note or similar agreement is a resident of the United States of America, or any of its possessions or territories, and that is denominated and payable only in United States dollars, and includes the right to payment of any interest or finance charges and other obligations of such Person with respect thereto."

2.4 Exhibit I to the Agreement is amended by adding thereto the following definitions in the appropriate alphabetical order:

"GAAP" means, generally accepted accounting principles and practices in the United States, consistently applied."

"Tangible Net Worth" means, with respect to any Person, the net worth of such Person calculated in accordance with GAAP after subtracting therefrom the aggregate amount of such Person's intangible assets, including, without limitation, goodwill, franchises, licenses, patents, trademarks, tradenames, copyrights, service marks and brand names and capitalized software."

"Tractor Receivable" means, those Receivables generated as a result of the making of loans to finance the purchase of Tractors.

"Tractors" means, any non-cargo carrying power unit manufactured with a minimum of two axles and a maximum of three axles intended primarily for use on the public streets, roads and highways and designed to operate in combination with a semitrailer or trailer; provided, further, this definition specifically excludes any semitrailer or trailer.

2.5 Reporting Requirements. Paragraph (l)(i) and (ii) of Exhibit IV to the Agreement are amended to read as follows:

"(l) Reporting Requirements. The Seller will provide to the Agent (in multiple copies, if requested by the Agent)(except that with respect to paragraphs (i), (ii), (iii) and (iv)) the Seller will cause the Servicer to provide to the Agent and the Servicer will deliver to the Agent the following:

(i) as soon as available and in any event within 45 days after the end of the first three quarters of each fiscal year of AFC in a format acceptable to the Agent, balance sheets of AFC, its consolidated subsidiaries and Seller as of the end of such quarter and statements of income, cash flows and retained earnings of AFC and its consolidated subsidiaries and balance sheets and income statements of the Seller for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, certified by the chief financial officer of such Person;

(ii) as soon as available and in any event within 90 days after the end of each fiscal year of AFC, (A) a copy of the annual report for AFC and its consolidated subsidiaries, containing financial statements for such year audited by PricewaterhouseCoopers LLP or other independent certified public accountants acceptable to the Agent and (B) the income statement of the Seller for such year certified by the chief financial officer of the Seller;"

2.6 Termination Events: Paragraph (e) of Exhibit V to the Agreement is amended to read as follows:

"(e) A default shall occur in the payment when due (subject to any applicable grace period), whether by acceleration or otherwise, of any Debt of either the Seller, AFC or ADESA or a default shall occur in the performance or observance of any obligation or condition with respect to such Debt if the effect of such default is to accelerate the maturity of any such Debt and the Debt with respect to which non-payment and/or non-performance shall have occurred exceeds, at any point in time, with respect to the Seller or AFC, $1,000,000 in the aggregate for all such occurrences or, with respect to ADESA, $5,000,000, in the aggregate for all such occurrences;"

2.7 Net Worth. Paragraph (n)(i) of Exhibit V to the Agreement is amended by deleting "$18,000,000" and inserting in its place "$24,000,000."

2.8 Leverage Test. Exhibit V to the Agreement is amended by inserting the following at the end thereof:

" ; or (r) The sum of all of AFC's Debt (including intercompany loans between AFC and Minnesota Power, Inc.), plus the Investment of the Participation, plus the outstanding balance of any other non-recourse transactions exceeds 8.5 times the total stockholder's equity of AFC on a quarterly basis."

3. Representations and Warranties. Each of the Seller and the Servicer hereby represents and warrants to the Agent and the Purchaser as follows:

(a) Representations and Warranties. The representations and warranties of such Person contained in Exhibit III to the Agreement are true and correct as of the date hereof (unless stated to relate solely to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

(b) Enforceability. The execution and delivery by such Person of this Amendment, and the performance of its obligations under this Amendment and the Agreement, as amended hereby, are within its corporate powers and have been duly authorized by all necessary corporate action on its part. This Amendment and the Agreement, as amended hereby, are its valid and legally binding obligations, enforceable in accordance with its terms.

(c) Termination Event. No Termination Event or Unmatured Termination Event has occurred and is continuing.

4. Effectiveness. This Amendment shall become effective as of the date hereof upon receipt by the Agent of the following, each duly executed and dated as of the date hereof (or such other date satisfactory to the Agent), in form and substance satisfactory to the Agent:

(a) counterparts of this Amendment (whether by facsimile or otherwise) executed by each of the parties hereto;

(b) a written statement from Moody's Investors Service, Inc. and Standard & Poor's that this Amendment will not result in a downgrade or withdrawal of the rating of the Notes; and

(c) such other documents and instruments as the Agent may reasonably request.

5. Effect of Amendment. Except as expressly amended and modified by this Amendment, all provisions of the Agreement shall remain in full force and effect. After this Amendment becomes

effective, all references in the Agreement (or in any other Transaction Document) to "the Receivables Purchase Agreement," "this Agreement," "hereof," "herein" or words of similar effect, in each case referring to the Agreement, shall be deemed to be references to the Agreement as amended by this Amendment. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement other than as set forth herein.

6. Counterparts. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, and each counterpart shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

7. Governing Law. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Indiana without reference to conflict of laws principles.

8. Section Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this amendment or the Agreement or any provision hereof or thereof.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

AFC FUNDING CORPORATION

By: Curtis L. Phillips
Name: Curtis L. Phillips
Title: Executive Vice President/Chief Financial Officer and Treasurer

AUTOMOTIVE FINANCE CORPORATION

By: Curtis L. Phillips
Name: Curtis L. Phillips
Title: Executive Vice President/Chief Financial Officer and Treasurer

POOLED ACCOUNTS RECEIVABLE CAPITAL CORPORATION

By: Dwight Jenkins
Name: Dwight Jenkins
Title: Vice President

NESBITT BURNS SECURITIES INC.

By: David J. Kucera
Name: David J. Kucera
Title: Managing Director

By: Jeffrey J. Phillips
Name:
Title:

FOURTH AMENDMENT TO RECEIVABLES PURCHASE AGREEMENT

This FOURTH AMENDMENT (this "Amendment"), dated as of September 22, 1999, is among AFC Funding Corporation, an Indiana corporation (the "Seller"), Automotive Finance Corporation, an Indiana corporation (the "Servicer"), POOLED ACCOUNTS RECEIVABLE CAPITAL CORPORATION, a Delaware Corporation (the "Purchaser"), and NESBITT BURNS SECURITIES, INC., a Delaware Corporation, as Agent for Purchaser (in such capacity, the "Agent").

RECITALS

1. The Seller, the Servicer, the Purchaser and the Agent are parties to the Receivables Purchase Agreement, dated as of December 31, 1996 (as amended by the First Amendment dated as of February 28, 1997; the Second Amendment dated as of August 15, 1997; and the Third Amendment dated as of October 30, 1998, the "Agreement").

2. The Seller, the Servicer, the Purchaser, and the Agent desire to amend the Agreement as hereinafter set forth.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

SECTION 1. Amendments to the Agreement. The Agreement is hereby amended as follows:

1.1 The definition of "Purchase Limit" in Exhibit I to the Agreement is hereby amended by substituting "$300,000,000" for "$225,000,000" where the latter appears in that definition.

1.2 The definition of "Termination Date" in Exhibit I to the Agreement is hereby amended by substituting "December 30, 2002" for "December 31, 2001" where the latter appears in that definition.

1.3 The definition of "Loss Percentage" in Exhibit I to the Agreement is hereby amended and restated in its entirety as follows:

> "Loss Percentage" means, on any date, the greatest of (i) 4 times the highest Delinquency Ratio during the 12 calendar months ended immediately preceding such date, (ii) the Loss Reserve Ratio, and (iii) 12%.

1.4 The definition of "Net Spread" in Exhibit I to the Agreement is hereby amended and restated in its entirety as follows:

> "Net Spread' means the annualized percentage equivalent of a fraction (computed as of the last day of each calendar month), the numerator of which is the excess of (x) all Finance Charge and Floor Plan Fee Collections received and applied during such calendar month (including recoveries) over (y) the sum of, without duplication, (i) the Carry Costs for such calendar month, (ii) the aggregate amount of Receivables that became Defaulted Receivables during such calendar month, (iii) the Outstanding Balance of Pool Receivables that have been or, consistent with the Credit and Collection Policy, should have been written off the Seller's books as uncollectible during such calendar month (but excluding any Receivables that were included in the calculation of Net Spread pursuant to clause (ii) above in any previous calendar month), and (iv) the aggregate amount of non-cash adjustments that reduced the Outstanding Balance of any Pool Receivable during such calendar month (but excluding any Receivable that was included in the calculation of Net Spread pursuant to clause (ii) above in any previous calendar month); and the denominator of which is the average aggregate Outstanding Balances of the Pool Receivables during such calendar month."

1.5 Clause (viii) of paragraph (l) of Exhibit IV to the Agreement is hereby amended and restated in its entirety as follows:

> "(viii) such other information respecting the Receivables (including a Portfolio Certificate on a more frequent basis than provided in clause (iii) above), the Related Security (including inventory reports by branch, obligor, vehicle identification number, and other descriptions sufficient to identify the Related Security) or the condition of operations, financial or otherwise, of the Seller or AFC as the Agent may from time to time reasonably request;"

SECTION 2. Conditions to Effectiveness.

2.1 This Amendment shall become effective on the date hereof upon receipt by the Agent of the following, each duly executed and dated as of the date hereof (or such other date satisfactory to the Agent), in form and substance satisfactory to the Agent:

(a) counterparts of this Amendment (whether by facsimile or otherwise) executed by each of the parties hereto;

(b) a written statement from Moody's Investors Service, Inc. and Standard & Poor's that this Amendment will not result in a downgrade or withdrawal of the rating of the Notes; and

(c) such other documents and instruments as the Agent may reasonably request.

SECTION 3. Effect of Amendment; Ratification. Except as specifically amended hereby, the Agreement is hereby ratified and confirmed in all respects, and all of its provisions shall remain in full force and effect. After this Amendment becomes effective, all references in the Agreement (or in any other Transaction Document) to "the Receivables Purchase Agreement", "this Agreement", "hereof", "herein", or words of similar effect, in each case referring to the Agreement, shall be deemed to be references to the Agreement as amended hereby. This Amendment shall not be deemed to expressly or impliedly waive, amend, or supplement any provision of the Agreement other than as specifically set forth herein.

SECTION 4. Counterparts. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, and each counterpart shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

SECTION 5. Governing Law. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Indiana without regard to any otherwise applicable conflict of laws principles.

SECTION 6. Section Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or the Agreement or any provision hereof or thereof.

[SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first written above.

AFC FUNDING CORPORATION

By: Curtis L. Phillips

Name: Curtis L. Phillips
Title: Executive Vice President, Chief Financial Officer and Treasurer

AUTOMOTIVE FINANCE CORPORATION

By: Curtis L. Phillips
Name: Curtis L. Phillips
Title: Executive Vice President, Chief Financial Officer and Treasurer

POOLED ACCOUNTS RECEIVABLE CAPITAL CORPORATION

By: Dwight Jenkins
Name: Dwight Jenkins
Title: Vice President

NESBITT BURNS SECURITIES INC.

By: David J. Kucera
Name: David J. Kucera
Title: Managing Director

By: Jeffrey J. Phillips
Name: Jeffrey J. Phillips
Title: Managing Director

ACKNOWLEDGED AND ACCEPTED

CAPITAL MARKETS ASSURANCE CORPORATION

By: Robert M. Lupoli
Name: Robert M. Lupoli
Title: Director

ACKNOWLEDGED AND ACCEPTED

BANK OF MONTREAL

By: Leon H. Sinclair

Name: Leon H. Sinclair

Title: Director

FIFTH THIRD BANK, INDIANA

By: David P. Greene

Name: David P. Greene

Title: Vice President

HARRIS TRUST AND SAVINGS BANK

By: Thad D. (illegible)

Name: Thad D. (illegible)

Title: V.P.

SUN TRUST BANK, CENTRAL FLORIDA,
N.A.

By: C. A. Black

Name: Christopher A. Black

Title: Director

LLOYDS TSB BANK, PLC

By: Gavin Rees

Name: Gavin Rees

Title: Assistant Vice President
Structured Finance
R185

By: Amy Vespasiano

Name: Amy Vespasiano

Title: Vice President
Structured Finance
V024

UT

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, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

9-MOS
DEC-31-1999
JAN-01-1999
SEP-30-1999
PER-BOOK
1,203
434
698
57
232
2,624
551
0
320
779
95
12
714
152
0
0
9
0
0
0
771
2,624
843
50
670
714
129
(22)
101
44
57
1
56
54
0
123
0.82
0.82

Included $5 million for Distributions on Redeemable Preferred Securities of Subsidiary and a $17 million Loss from Equity Investments - Net of Tax. The $17 million Loss from Equity Investments - Net of Tax included a $24 million non-cash charge to reflect the estimated valuation of the transaction between Capital Re Corporation and ACE Limited as of June 30, 1999. (See Note 5 to the consolidated financial statements in Item 1 of Minnesota Power's quarterly report on Form 10-Q for the period ended September 30, 1999.)
On March 2, 1999 Minnesota Power, Inc.'s Common Stock split two-for-one. Financial data schedules filed prior to the effective date have not been restated for this recapitalization.

UT

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

1,000,000

9-MOS
DEC-31-1998
JAN-01-1998
SEP-30-1998
PER-BOOK
1,094
446
550
60
222
2,371
520
0
314
773
95
12
678
83
0
0
4
0
0
0
665
2,371
782
38
627
677
105
0
118
51
67
1
66
48
0
143
1.04
1.04

Includes $5 million of Income from Equity Investments and $5 million of Distributions on Redeemable Preferred Securities of Subsidiary.
On March 2, 1999 Minnesota Power, Inc.'s Common Stock split two-for-one. Financial data schedules filed prior to the effective date have not been restated for this recapitalization.