

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended JUNE 30, 1998

or

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

Commission File No. 1-3548

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

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

Yes No
 --- ---

Common Stock, no par value,
33,866,616 shares outstanding
as of July 31, 1998

MINNESOTA POWER, INC.

INDEX

	Page
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheet - June 30, 1998 and December 31, 1997	1
Consolidated Statement of Income - Quarter Ended and Six Months Ended June 30, 1998 and 1997	2
Consolidated Statement of Cash Flows - Six Months Ended June 30, 1998 and 1997	3
Notes to Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Part II. Other Information	
Item 4. Submission of Matters to a Vote of Security Holders	14
Item 5. Other Information	15
Item 6. Exhibits and Reports on Form 8-K	16
Signatures	17

DEFINITIONS

The following abbreviations or acronyms are used in the text.

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

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

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

- prevailing governmental policies and regulatory actions, including those of the FERC, the MPUC, the FPSC, the NCUC and the PSCW, with respect to allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power and other capital investments, and present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs);
- economic and geographic factors including political and economic risks;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- population growth rates and demographic patterns;
- competition for retail and wholesale customers;
- Year 2000 issues;
- 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

	JUNE 30, 1998 Unaudited	DECEMBER 31, 1997 Audited

ASSETS		
PLANT AND INVESTMENTS		
Electric operations	\$ 776.7	\$ 783.5
Water services	323.7	322.2
Automotive services	177.6	167.1
Investments	260.5	252.9
	-----	-----
Total plant and investments	1,538.5	1,525.7
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	63.1	41.8
Trading securities	133.2	123.5
Accounts receivable (less allowance of \$17.6 and \$12.6)	253.6	158.5
Fuel, material and supplies	23.0	25.0
Prepayments and other	24.3	19.9
	-----	-----
Total current assets	497.2	368.7
	-----	-----
OTHER ASSETS		
Goodwill	173.0	158.9
Deferred regulatory charges	60.4	64.4
Other	50.0	54.6
	-----	-----
Total other assets	283.4	277.9
	-----	-----
TOTAL ASSETS	\$ 2,319.1	\$2,172.3

CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common stock without par value, 130.0 shares authorized; 33.8 and 33.6 shares outstanding	\$ 430.4	\$416.0
Unearned ESOP shares	(64.2)	(65.9)
Net unrealized gain on securities investments	5.9	5.5
Cumulative foreign translation adjustment	(3.3)	(0.8)
Retained earnings	304.5	296.1
	-----	-----
Total common stock equity	673.3	650.9
Cumulative preferred stock	11.5	11.5
Redeemable serial preferred stock	20.0	20.0
Company obligated mandatorily redeemable preferred securities of subsidiary MP&L Capital I which holds solely Company Junior Subordinated Debentures	75.0	75.0
Long-term debt	681.9	685.4
	-----	-----
Total capitalization	1,461.7	1,442.8
	-----	-----
CURRENT LIABILITIES		
Accounts payable	151.7	78.7
Accrued taxes, interest and dividends	63.7	67.3
Notes payable	187.8	129.1
Long-term debt due within one year	4.5	4.7
Other	41.7	45.3
	-----	-----
Total current liabilities	449.4	325.1
	-----	-----
OTHER LIABILITIES		
Accumulated deferred income taxes	152.8	151.3
Contributions in aid of construction	104.7	102.6
Deferred regulatory credits	58.7	60.7
Other	91.8	89.8
	-----	-----
Total other liabilities	408.0	404.4
	-----	-----
TOTAL CAPITALIZATION AND LIABILITIES	\$ 2,319.1	\$2,172.3

The accompanying notes are an integral part of these statements.

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

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
<hr/>				
OPERATING REVENUE AND INCOME				
Electric operations	\$ 140.7	\$ 129.7	\$ 274.8	\$ 261.1
Water services	25.0	22.4	45.7	43.1
Automotive services	84.8	64.4	161.5	124.9
Investments	18.7	13.9	33.9	23.4
	-----	-----	-----	-----
Total operating revenue and income	269.2	230.4	515.9	452.5
	-----	-----	-----	-----
OPERATING EXPENSES				
Fuel and purchased power	53.7	46.0	103.4	90.0
Operations	160.5	138.9	312.9	277.2
Interest expense	15.6	16.0	35.5	33.4
	-----	-----	-----	-----
Total operating expenses	229.8	200.9	451.8	400.6
	-----	-----	-----	-----
INCOME FROM EQUITY INVESTMENTS	3.7	3.3	7.9	7.3
	-----	-----	-----	-----
OPERATING INCOME	43.1	32.8	72.0	59.2
DISTRIBUTIONS ON REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY	1.5	1.5	3.0	3.0
INCOME TAX EXPENSE	18.8	12.6	27.7	21.4
	-----	-----	-----	-----
NET INCOME	22.8	18.7	41.3	34.8
DIVIDENDS ON PREFERRED STOCK	0.5	0.5	1.0	1.0
	-----	-----	-----	-----
EARNINGS AVAILABLE FOR COMMON STOCK	\$ 22.3	\$ 18.2	\$ 40.3	\$ 33.8
	=====	=====	=====	=====
AVERAGE SHARES OF COMMON STOCK	31.3	30.5	31.2	30.4
BASIC AND DILUTED EARNINGS PER SHARE OF COMMON STOCK	\$0.71	\$0.60	\$1.29	\$1.12
DIVIDENDS PER SHARE OF COMMON STOCK	\$0.51	\$0.51	\$1.02	\$1.02

The accompanying notes are an integral part of this statement.

MINNESOTA POWER
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	SIX MONTHS ENDED JUNE 30,	
	1998	1997
<hr style="border-top: 1px dashed black;"/>		
OPERATING ACTIVITIES		
Net income	\$ 41.3	\$ 34.8
Income from equity investments - net of dividends received	(7.6)	(7.1)
Depreciation and amortization	37.2	35.8
Deferred income taxes	0.4	1.4
Deferred investment tax credits	(0.6)	(0.9)
Pre-tax gain on sale of property	(0.3)	(4.4)
Changes in operating assets and liabilities		
Trading securities	(9.7)	(21.3)
Notes and accounts receivable	(95.1)	(31.9)
Fuel, material and supplies	2.0	(2.3)
Accounts payable	73.0	23.8
Other current assets and liabilities	(11.6)	(5.1)
Other - net	11.8	4.0
	-----	-----
Cash from operating activities	40.8	26.8
	-----	-----
 INVESTING ACTIVITIES		
Proceeds from sale of investments in securities	27.0	31.3
Proceeds from sale of property	1.0	6.4
Additions to investments	(26.2)	(33.4)
Additions to plant	(33.0)	(35.8)
Acquisition of subsidiaries - net of cash acquired	(23.8)	-
Other - net	0.2	10.4
	-----	-----
Cash for investing activities	(54.8)	(21.1)
	-----	-----
 FINANCING ACTIVITIES		
Issuance of common stock	13.3	9.7
Issuance of long-term debt	2.1	131.1
Changes in notes payable - net	58.7	50.3
Reductions of long-term debt	(5.8)	(136.8)
Dividends on preferred and common stock	(33.0)	(32.0)
	-----	-----
Cash from financing activities	35.3	22.3
	-----	-----
 CHANGE IN CASH AND CASH EQUIVALENTS	 21.3	 28.0
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	41.8	40.1
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 63.1	\$ 68.1
	=====	=====
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the period for		
Interest - net of capitalized	\$ 37.4	\$ 33.8
Income taxes	\$ 24.7	\$ 15.5

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1. BUSINESS SEGMENTS
Millions

	Consolidated	Electric Operations	Water Services	Automotive Services	Investments		Corporate Charges
					Portfolio & Reinsurance	Real Estate	
For the Quarter Ended June 30, 1998 -----							
Operating revenue and income	\$ 269.2	\$140.7	\$25.0	\$84.8	\$ 6.1	\$12.6	\$ -
Operation and other expense	195.5	107.2	15.4	61.9	0.7	6.9	3.4
Depreciation and amortization expense	18.7	11.9	2.8	3.9	-	-	0.1
Interest expense	15.6	5.5	2.5	2.6	-	-	5.0
Income from equity investments	3.7	-	-	-	3.7	-	-
	-----	-----	-----	-----	-----	-----	-----
Operating income (loss)	43.1	16.1	4.3	16.4	9.1	5.7	(8.5)
Distributions on redeemable preferred securities of subsidiary	1.5	0.5	-	-	-	-	1.0
Income tax expense (benefit)	18.8	5.9	1.5	7.9	4.5	2.7	(3.7)
	-----	-----	-----	-----	-----	-----	-----
Net income (loss)	\$ 22.8	\$ 9.7	\$ 2.8	\$ 8.5	\$ 4.6	\$ 3.0	\$(5.8)
	=====	=====	=====	=====	=====	=====	=====
For the Quarter Ended June 30, 1997 -----							
Operating revenue and income	\$ 230.4	\$129.7	\$22.4	\$64.4	\$ 4.5	\$ 9.5	\$(0.1)
Operation and other expense	167.1	96.7	13.2	49.4	0.5	5.9	1.4
Depreciation and amortization expense	17.8	11.2	3.2	3.3	-	-	0.1
Interest expense	16.0	5.3	2.7	2.7	-	0.3	5.0
Income from equity investments	3.3	-	-	-	3.3	-	-
	-----	-----	-----	-----	-----	-----	-----
Operating income (loss)	32.8	16.5	3.3	9.0	7.3	3.3	(6.6)
Distributions on redeemable preferred securities of subsidiary	1.5	0.4	-	-	-	-	1.1
Income tax expense (benefit)	12.6	6.1	1.0	4.8	2.6	1.4	(3.3)
	-----	-----	-----	-----	-----	-----	-----
Net income (loss)	\$ 18.7	\$ 10.0	\$ 2.3	\$ 4.2	\$ 4.7	\$ 1.9	\$(4.4)
	=====	=====	=====	=====	=====	=====	=====

Includes \$0.7 million of minority interest in 1998 (\$0.5 million in 1997).

NOTE 1. BUSINESS SEGMENTS CONTINUED
Millions

		Investments					
	Consolidated	Electric Operations	Water Services	Automotive Services	Portfolio & Reinsurance	Real Estate	Corporate Charges
For the Six Months Ended June 30, 1998							
Operating revenue and income	\$ 515.9	\$274.8	\$ 45.7	\$ 161.5	\$ 13.2	\$20.7	\$ -
Operation and other expense	379.1	208.0	29.3	122.0	1.6	11.8	6.4
Depreciation and amortization expense	37.2	23.7	5.7	7.5	-	0.1	0.2
Interest expense	35.5	11.1	5.1	4.8	-	-	14.5
Income from equity investments	7.9	-	-	-	7.9	-	-
Operating income (loss)	72.0	32.0	5.6	27.2	19.5	8.8	(21.1)
Distributions on redeemable preferred securities of subsidiary	3.0	0.9	-	-	-	-	2.1
Income tax expense (benefit)	27.7	11.9	2.1	13.3	8.4	4.0	(12.0)
Net income (loss)	\$ 41.3	\$ 19.2	\$ 3.5	\$ 13.9	\$ 11.1	\$ 4.8	\$(11.2)
Total assets	\$ 2,319.1	\$977.3	\$387.3	\$ 583.6	\$ 301.8	\$68.7	\$ 0.4
Accumulated depreciation	\$ 728.7	\$581.7	\$130.7	\$ 16.3	-	-	-
Accumulated amortization	\$ 19.2	-	-	\$ 17.7	-	\$ 1.5	-
Construction work in progress	\$ 48.2	\$ 17.6	\$ 14.0	\$ 16.6	-	-	-
For the Six Months Ended June 30, 1997							
Operating revenue and income	\$ 452.5	\$261.1	\$ 43.1	\$ 124.9	\$ 9.2	\$14.3	\$ (0.1)
Operation and other expense	331.4	191.4	27.2	97.2	1.0	9.8	4.8
Depreciation and amortization expense	35.8	22.4	6.4	6.8	-	0.1	0.1
Interest expense	33.4	10.7	5.5	5.1	-	0.5	11.6
Income from equity investments	7.3	-	-	-	7.3	-	-
Operating income (loss)	59.2	36.6	4.0	15.8	15.5	3.9	(16.6)
Distributions on redeemable preferred securities of subsidiary	3.0	0.8	-	-	-	-	2.2
Income tax expense (benefit)	21.4	13.5	1.3	8.4	5.5	1.7	(9.0)
Net income (loss)	\$ 34.8	\$ 22.3	\$ 2.7	\$ 7.4	\$ 10.0	\$ 2.2	\$(9.8)
Total assets	\$ 2,224.0	\$977.1	\$371.2	\$ 522.6	\$ 289.1	\$63.2	\$ 0.8
Accumulated depreciation	\$ 685.6	\$550.8	\$125.5	\$ 9.3	-	-	-
Accumulated amortization	\$ 12.2	-	-	\$ 11.0	-	\$ 1.2	-
Construction work in progress	\$ 44.6	\$ 19.5	\$ 13.6	\$ 11.5	-	-	-

Includes \$1.2 million of minority interest in 1998 (\$0.5 million in 1997).

NOTE 2. REGULATORY MATTERS

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

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

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

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

HILLSBOROUGH COUNTY RATES. In July 1997 Florida Water filed with the Hillsborough County Utilities Department a request for an annual interim revenue increase of \$0.8 million and a final increase of \$0.9 million. Interim rates became effective in August 1997. Hearings have concluded. A final decision is anticipated in the third quarter of 1998. The Company is unable to predict the outcome of this case.

NOTE 2. REGULATORY MATTERS CONTINUED

NORTH CAROLINA UTILITIES COMMISSION. In September 1997 Heater filed with the NCUC for an annual rate increase of \$1.1 million for its water and wastewater customers. On May 13, 1998 the NCUC issued an order authorizing a rate increase of \$0.3 million. The test year was adjusted for post-test year customer growth and consumption which substantially decreased the annual rate increase required. Heater does not plan to appeal this order.

NOTE 3. TOTAL COMPREHENSIVE INCOME

For the quarter ended June 30, 1998 total comprehensive income was \$21.1 million (\$21.3 million for the quarter ended June 30, 1997). For the six months ended June 30, 1998 total comprehensive income was \$39.2 million (\$35.4 million for the six months ended June 30, 1997). The difference between total comprehensive income and net income was unrealized gains and losses on securities classified as available-for-sale, and cumulative foreign translation adjustments.

NOTE 4. INCOME TAX EXPENSE

	Quarter Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997

Millions				
Current tax				
Federal	\$ 12.6	\$ 8.9	\$ 20.4	\$16.5
Foreign	1.8	0.7	2.6	1.1
State	2.4	1.5	4.9	3.3
	-----	-----	-----	-----
	16.8	11.1	27.9	20.9
	-----	-----	-----	-----
Deferred tax				
Federal	2.6	2.1	1.2	2.0
State	(0.3)	(0.3)	(0.8)	(0.6)
	-----	-----	-----	-----
	2.3	1.8	0.4	1.4
	-----	-----	-----	-----
Deferred tax credits	(0.3)	(0.3)	(0.6)	(0.9)
	-----	-----	-----	-----
Total income tax expense	\$ 18.8	\$ 12.6	\$ 27.7	\$21.4

NOTE 5. ACQUISITIONS

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

NOTE 6. SQUARE BUTTE PURCHASED POWER CONTRACT

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

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

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

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

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

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

CONSOLIDATED OVERVIEW

All of the Company's business segments have performed well during 1998 reflecting ongoing operational improvements and business growth. Earnings per share of common stock were \$0.71 for the quarter ended June 30, 1998 (\$0.60 for the quarter ended June 30, 1997) and \$1.29 for the six months ended June 30, 1998 (\$1.12 for the six months ended June 30, 1997).

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	1998	1997	1998	1997
----- Millions -----				
Net Income				
Electric Operations	\$ 9.7	\$ 10.0	\$ 19.2	\$ 22.3
Water Services	2.8	2.3	3.5	2.7
Automotive Services	8.5	4.2	13.9	7.4
Investments	7.6	6.6	15.9	12.2
Corporate Charges	(5.8)	(4.4)	(11.2)	(9.8)
	-----	-----	-----	-----
	\$ 22.8	\$ 18.7	\$ 41.3	\$ 34.8
	=====	=====	=====	=====

Basic and Diluted				
Earnings Per Share of Common Stock	\$ 0.71	\$0.60	\$1.29	\$ 1.12
Average Shares of Common Stock - Millions	31.3	30.5	31.2	30.4

The following summarizes significant events that led to the 22 percent and 19 percent increase in net income for the quarter and six months ended June 30, 1998, respectively.

- ELECTRIC OPERATIONS. Net income from Electric Operations reflected strong sales to other power suppliers during the quarter and six months ended June 30, 1998; however, additional operating and purchased power expenses were incurred because of scheduled maintenance outages at major generating facilities and higher priced purchased power. The scheduled maintenance has positioned the Company to meet anticipated strong electric demand during the rest of 1998. Higher priced purchased power was attributed to increased demand in the Midwest as a result of storms and hot weather. Net income in 1998 also reflected fewer sales to residential electric and gas customers due to the unusually mild winter and warm spring. In 1997 the Company recorded gains from the sale of certain land and other property.
- WATER SERVICES. Net income from Water Services was higher in 1998 due primarily to customer growth, increased consumption and operating efficiencies. Increased sales of water resulting from drought conditions in Florida during the second quarter of 1998 helped to offset lower sales in the first quarter of 1998 because of record rainfall.
- AUTOMOTIVE SERVICES. The significant increase in net income from Automotive Services was driven by more vehicle sales, and the expansion and maturing of recently opened loan production offices in the floorplan financing business. The Company has added three new auction facilities and nine loan production offices in 1998.
- INVESTMENTS. The increase in net income from Investments was attributable to four large sales at Palm Coast and the sale of a partnership interest in a development at Lehigh.

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

ELECTRIC OPERATIONS. Operating revenue and income from Electric Operations were \$11.0 million higher in 1998, even though kilowatthour sales remained at similar levels. This increase was primarily attributable to higher sales prices for power sold to other power suppliers. Average wholesale prices from Company sales were up approximately 60 percent from 1997 as a result of a supply shortage from storms and hot weather in the Midwest. In addition, revenue from retail and wholesale customers was higher in 1998 due to an increase in the fuel clause component. The fuel clause component was higher to allow recovery of the cost of replacement power needed during scheduled outages at Square Butte and Boswell. Demand revenue from large power customers was lower in 1998 as a result of successful renegotiation of contracts which extended the term, but in turn reduced the demand charge component. Operating revenue and income in 1997 included \$2.8 million in pre-tax gains from the sale of rights to microwave frequencies in accordance with a federal mandate and the sale of property along the St. Louis River to ensure the preservation of wilderness lands. Total operating expenses were \$11.4 million higher in 1998 due to a \$7.7 million increase in fuel and purchased power expense. Fuel expense was about \$1.7 million higher because of more steam generation. Purchased power expense increased \$6.0 million because of higher prices in the market. Operations expenses were \$3.5 million higher due to scheduled outages at Boswell, consulting services and amortization of deferred Conservation Improvement Programs costs. Property taxes were \$0.7 million lower in 1998 due to the reform of the Minnesota property tax system. Income tax expense was \$0.2 million lower in 1998 because of lower operating income.

Revenue from electric sales to taconite customers accounted for 30 percent of electric operating revenue and income in 1998 (31 percent in 1997). Electric sales to paper and pulp mills accounted for 11 percent of electric operating revenue and income in 1998 (12 percent in 1997). Sales to other power suppliers accounted for 16 percent of electric operating revenue and income in 1998 (12 percent in 1997).

WATER SERVICES. Operating revenue and income from Water Services were \$2.6 million higher in 1998 due primarily to increased revenue from non-regulated water subsidiaries. Consumption, which was up 19 percent in 1998, reflected a September 1997 acquisition of a water utility in North Carolina and drought conditions in Florida. Total operating expenses were \$1.6 million higher in 1998 due to marginal costs related to increased revenue from non-regulated water subsidiaries. Income tax expense was \$0.5 million higher in 1998 because of increased operating income.

AUTOMOTIVE SERVICES. Operating revenue and income from Automotive Services were \$20.4 million higher in 1998 due to a 16 percent increase in vehicle sales, and the expansion and maturing of AFC's floorplan financing business. At ADESA auction facilities 236,000 vehicles were sold in 1998 (204,000 in 1997). ADESA added three new auction facilities in 1998. AFC opened six additional loan production offices in 1998. Total operating expenses were up \$13.0 million due to expenses associated with increased vehicle sales and the expansion of the floorplan financing business. Income tax expense was \$3.1 million higher in 1998 because of increased operating income.

INVESTMENTS.

- **SECURITIES PORTFOLIO AND REINSURANCE.** Operating revenue and income were \$1.6 million higher in 1998 due to improved performance by the securities portfolio. Income from equity investments included \$3.9 million in 1998 (\$3.3 million in 1997) from the Company's investment in Capital Re. Together, the Company's securities portfolio and its equity investment in Capital Re earned an annualized after-tax return of 8.6 percent in 1998 (7.3 percent in 1997). Income tax expense was \$1.9 million higher in 1998 because of increased operating income.
- **REAL ESTATE OPERATIONS.** Operating revenue and income from Real Estate Operations were \$3.1 million higher in 1998 due primarily to two large sales at Palm Coast and the sale of a partnership interest in a development at Lehigh. Combined, the three sales contributed \$6.4 million to revenue in 1998. Total operating expenses (excluding minority interest) were \$0.5 million higher in 1998 due to expenses associated with the three large sales. Income tax expense was \$1.3 million higher in 1998 because of increased operating income.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 1998 AND 1997.

ELECTRIC OPERATIONS. Operating revenue and income from Electric Operations were \$13.7 million higher in 1998, even though kilowatthour sales remained at similar levels. This increase was primarily attributable to higher sales prices for power sold to other power suppliers. Average wholesale prices from Company sales were up approximately 40 percent from 1997 as a result of a supply shortage from storms and hot weather in the Midwest. In addition, revenue from retail and wholesale customers was higher in 1998 due to an increase in the fuel clause component. The fuel clause component was higher to allow recovery of the cost of replacement power needed during scheduled outages at Square Butte and Boswell. Demand revenue from large power customers was lower in 1998 as a result of successful renegotiation of contracts which extended the term, but in turn reduced the demand charge component. Revenue from residential and gas customers was \$2.8 million lower in 1998 because of the unusually mild winter and warm spring. Operating revenue and income in 1997 included \$3.7 million in pre-tax gains from the sale of rights to microwave frequencies in accordance with a federal mandate and the sale of property along the St. Louis River to ensure the preservation of wilderness lands. Total operating expenses were \$18.3 million higher in 1998 due to a \$13.4 million increase in fuel and purchased power expense. Fuel expense was about \$1.8 million higher because of more steam generation. Purchased power expense increased \$11.6 million because of higher prices in the market, more sales to other power suppliers, scheduled outages at Square Butte and Boswell, and less hydro generation. Dry winter and spring conditions reduced the Company's hydro supply. Operations expenses were \$4.5 million higher due to scheduled outages at Boswell, consulting services and amortization of deferred Conservation Improvement Programs costs. Property taxes were \$1.8 million lower in 1998 due to the reform of the Minnesota property tax system. Income tax expense was \$1.6 million lower in 1998 because of lower operating income.

Revenue from electric sales to taconite customers accounted for 31 percent of electric operating revenue and income in 1998 (32 percent in 1997). Electric sales to paper and pulp mills accounted for 11 percent of electric operating revenue and income in 1998 (12 percent in 1997). Sales to other power suppliers accounted for 13 percent of electric operating revenue and income in 1998 (10 percent in 1997).

WATER SERVICES. Operating revenue and income from Water Services were \$2.6 million higher in 1998 due primarily to increased revenue from non-regulated water subsidiaries. Consumption, which was up 5 percent in 1998, reflected a September 1997 acquisition of a water utility in North Carolina. Increased sales of water resulting from drought conditions in Florida during the second quarter of 1998 helped to offset lower sales in the first quarter of 1998 because of record rainfall. Total operating expenses were \$1.0 million higher in 1998 because of additional costs related to increased revenue from non-regulated water subsidiaries. Income tax expense was \$0.8 million higher in 1998 because of increased operating income.

AUTOMOTIVE SERVICES. Operating revenue and income from Automotive Services were \$36.6 million higher in 1998 due to a 15 percent increase in vehicle sales, and the expansion and maturing of AFC's floorplan financing business. At ADESA auction facilities 450,000 vehicles were sold in 1998 (391,000 in 1997). ADESA added three new auction facilities during 1998. AFC had 63 loan production offices at June 30, 1998 (50 at June 30, 1997). Nine additional loan production offices were opened during 1998. In 1997 operating revenue and income included a gain from the sale of an auction facility. Total operating expenses were up \$25.2 million due to expenses associated with increased vehicle sales and the expansion of the floorplan financing business. Income tax expense was \$4.9 million higher in 1998 because of increased operating income.

INVESTMENTS.

- **SECURITIES PORTFOLIO AND REINSURANCE.** Operating revenue and income were \$4.0 million higher in 1998 due to \$3.9 million of dividend income received from a venture capital investment. Income from equity investments included \$8.1 million in 1998 (\$7.3 million in 1997) from the Company's investment in Capital Re. Together, the Company's securities portfolio and its equity investment in Capital Re earned an annualized after-tax return of 7.2 percent in 1998 (8.6 percent in 1997). Income tax expense was \$2.9 million higher in 1998 because of increased operating income.

- REAL ESTATE OPERATIONS. Operating revenue and income from Real Estate Operations were \$6.4 million higher in 1998 due primarily to four large sales at Palm Coast and the sale of a partnership interest in a development at Lehigh. Combined, the five sales contributed \$11.5 million to revenue in 1998. Total operating expenses (excluding minority interest) were \$0.8 million higher in 1998 due to expenses associated with the five large sales. Income tax expense was \$2.3 million higher in 1998 because of increased operating income.

LIQUIDITY AND FINANCIAL POSITION

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

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

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

AFC also uses proceeds from the sale of commercial paper issued by the Company to meet its operational requirements. AFC offers short-term on-site financing for dealers to purchase vehicles at auctions in exchange for a security interest in those vehicles. The financing is provided through the earlier of the date the dealer sells the vehicle or a general borrowing term of 30 - 90 days. At June 30, 1998 AFC had sold \$144.0 million (\$124.0 million at December 31, 1997) of receivables on a revolving basis to a third party purchaser. Under an agreement, the purchaser agrees to purchase up to \$225.0 million of receivables on a revolving basis. Proceeds from the sale of the receivables are used to repay borrowings from the Company and fund vehicle inventory purchases for AFC's customers.

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

Effective May 8, 1998 AFC executed an Administration Agreement with ADT Automotive, Inc. (ADT) which has led to an arrangement whereby AFC will provide floorplan financing services at 26 ADT auctions. AFC expects that these new office locations will be opened during the last half of 1998. Start-up costs are not expected to be material.

In May 1998 the Company filed a shelf registration statement with the Securities and Exchange Commission (SEC) pursuant to Rule 415 under the Securities Act of 1933 with respect to 3.0 million original issue shares of Common Stock. The registration statement was declared effective by the SEC on May 18, 1998. The Company expects to sell the registered Common Stock from time to time as warranted by market conditions and the Company's capital requirements. The offer and sale of such shares shall be made only by means of a prospectus.

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

CAPITAL REQUIREMENTS. Consolidated capital expenditures for the six months ended June 30, 1998 totaled \$33.0 million (\$35.8 million in 1997). Expenditures for 1998 included \$17.2 million for Electric Operations, \$7.1 million for Water Services and \$8.7 million for Automotive Services. Internally generated funds were the primary source for funding these expenditures.

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. In the ordinary course of business, Minnesota Power has recently replaced, or is in the process of replacing, many of its major computer systems with new systems that are represented by the vendors to be Year 2000 compliant. These updated systems handle important aspects of Minnesota Power's operations, including energy management, customer information and financial management. A project team has been coordinating a comprehensive review of the Company's software and embedded microprocessor-based systems for possible Year 2000 compliance concerns. Systems so identified are being prioritized, and remediated and tested accordingly. The review has included communications with key outside entities with which the Company interacts. Contingency plans are also being developed for certain critical business processes. The Company estimates its cost to prepare for the Year 2000 will be \$6 million to \$10 million over the next two years and that its systems will be substantially compliant by July 1999.

The electric industry is unique in its reliance on the integrity of the power pool grid to support and maintain reliable, efficient operations. The Company's preparation for the Year 2000 is linked to the Year 2000 compliance efforts of other utilities as well as those of major customers whose loads support the integrity of the power pool grid. Minnesota Power is coordinating its Year 2000 efforts with the plans established by the North American Electric Reliability Council under the direction of the U.S. Department of Energy and is also working with a utility industry consortium to obtain and share utility-specific Year 2000 compliance information. The main external Year 2000 risk identified by the Company's other business segments is the potential loss of electrical supply.

The Year 2000 issue may impact other entities with which the Company transacts business. The Company cannot estimate or predict the potential adverse consequences, if any, that could result from such entities' failure to address this issue.

NEW ACCOUNTING STANDARD. In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), effective for fiscal years beginning after June 15, 1999. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) 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 in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. SFAS 133 must be applied to derivative instruments and certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. SFAS 133 is not expected to have a material impact on the Company upon adoption.

PART II. OTHER INFORMATION

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

- (a) The Company held its Annual Meeting of Shareholders on May 12, 1998.
- (b) Not applicable.
- (c) The election of directors, the appointment of independent accountants, and the amendment of the Company's Articles of Incorporation to change the Company's legal name to Minnesota Power, Inc. and to increase the amount of authorized Common Stock were voted on at the Annual Meeting of Shareholders.

The results were as follows:

Directors -----	Votes For -----	Votes Withheld or Against -----	Abstentions -----	Broker Nonvotes -----
Kathleen A. Brekken	28,976,676	269,773	-	-
Merrill K. Cragun	28,967,389	279,060	-	-
Dennis E. Evans	28,926,282	320,167	-	-
Peter J. Johnson	29,023,561	222,888	-	-
George L. Mayer	28,990,439	256,010	-	-
Paula F. McQueen	29,000,969	245,480	-	-
Jack I. Rajala	28,992,886	253,583	-	-
Edwin L. Russell	28,973,264	273,185	-	-
Arend J. Sandbulte	28,970,832	275,617	-	-
Nick Smith	28,985,657	260,792	-	-
Bruce W. Stender	29,012,964	233,485	-	-
Donald C. Wegmiller	28,965,912	280,537	-	-
Independent Accountants -----				
Price Waterhouse LLP, now PricewaterhouseCoopers LLP	28,750,558	190,903	304,988	-
Amendment of Articles of Incorporation -----				
Change Company legal name to Minnesota Power, Inc.	28,255,438	582,985	408,026	-
Increase amount of authorized Common Stock	26,286,541	2,104,021	855,887	-

- (d) Not applicable.

ITEM 5. OTHER INFORMATION

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

Ref. Page 3. - Last Paragraph

As of August 1, 1998 the minimum annual revenue the Company would collect under contracts with these large power customers, assuming no electric energy use by these customers, is estimated to be \$105.5, \$79.4, \$71.2, \$67.8 and \$57.4 million during the years 1998, 1999, 2000, 2001 and 2002, respectively. Based on past experiences and projected operating levels, the Company believes revenue from these large power customers will be substantially in excess of the minimum contract amounts.

Ref. Page 4. - Table - Contract Status for Minnesota Power Large Power Customers

On June 11, 1998 the MPUC approved a contract amendment which provides for the Company to continue to meet all of Hibbing Taconite Company's electric requirements through December 2008.

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

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

Ref. Page 13. - Regulatory Issues - Florida Public Service Commission - 1991 Rate Case Refunds

On May 22, 1998 initial briefs were filed by all parties who appealed the FPSC's January 26, 1998 order that would not require Florida Water to refund about \$12.5 million, which included interest, to customers who paid more under uniform rates. Upon issuance of the June 10, 1998 opinion of the Court of Appeals with respect to Florida Water's 1995 Rate Case (see next paragraph) in which the court reversed its previous ruling that the FPSC was without authority to order uniform rates, other customer groups supporting the FPSC's January 1998 order filed a motion with the Court of Appeals seeking dismissal of the appeal by customer groups seeking refunds. Customers seeking refunds have filed a motion requesting authority to amend their briefs. No provision for refund has been recorded. The Company is unable to predict the timing or outcome of the appeals process.

Ref. Page 13. - Regulatory Issues - Florida Public Service Commission - 1995 Rate Case

With respect to Florida Water's 1995 rate case, on June 10, 1998 the Court of Appeals ruled in Florida Water's favor on all material issues appealed by Florida Water and remanded the matter back to the FPSC for action consistent with the Court's order. The Court of Appeals also overturned its decision in Florida Water's 1991 Rate Case which had required a "functional relationship" between service areas as a precondition to implementation of uniform rates. Parties opposed to the Court of Appeals' reversal of its previous decision regarding uniform rates have requested rehearing. The Company is unable to predict the timing or outcome of these proceedings.

Ref. Page 14. - Regulatory Issues - North Carolina Utilities Commission
Ref. Form 10-Q for the quarter ended March 31, 1998, Page 10. - Fifth Paragraph

On May 13, 1998 the NCUC issued a final order granting Heater a rate increase of \$0.3 million for its water and wastewater customers. Heater had requested an annual rate increase of \$1.1 million; however, the test year was adjusted for post-test year customer growth and consumption which substantially decreased the annual rate increase required. Heater does not plan to appeal this order.

Ref. Page 14-15. - Environmental Matters - University Shores and Seaboard Facilities

On May 13, 1998 the DOJ filed a motion that noted (i) the 30-day public comment period on the Consent Decree executed by Florida Water, the DOJ and the EPA as a settlement of the complaint filed in 1997 with respect to alleged violation of effluent limitations in the National Pollutant Discharge Elimination System permits occurring at the University Shores and Seaboard wastewater facilities from February 1992 through March 1994, expired on May 11, 1998 and (ii) no protests had been filed. The motion also requested entry of the Consent Decree. The Consent Decree was entered by the U.S. District Court for the Middle District of Florida on May 20, 1998.

Ref. Page 15. - Automotive Services - ADESA

Ref. Page 22. - Table - ADESA Auctions

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

ADESA acquired the assets of Greater Lansing Auto Auction in Lansing, Michigan and I-55 Auto Auction in St. Louis, Missouri on April 30, 1998, and Ark-La-Tex Auto Auction in Shreveport, Louisiana on May 27, 1998. ADESA now owns and operates 28 vehicle auction facilities. AFC has loan production offices at the Lansing and St. Louis facilities and is expected to add an office at the Shreveport facility. AFC currently has 63 loan production offices.

Ref. Page 15. - Automotive Services - Automotive Finance Corporation

Effective May 8, 1998 AFC executed an Administration Agreement with ADT Automotive, Inc. (ADT) which has lead to an arrangement whereby AFC will provide floorplan financing services at 26 ADT auctions. AFC expects that these new office locations will be opened during the last half of 1998. Start-up costs are not expected to be material.

As noted in the Company's Proxy Statement for the 1998 Annual Meeting of Shareholders held on May 12, 1998, proposals submitted by shareholders pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended, (1934 Act) for inclusion in the Company's Proxy Statement and form of proxy for the 1999 Annual Meeting of Shareholders scheduled for May 11, 1999 must be received by the Secretary of the Company by no later than November 20, 1998. Pursuant to recently amended Rule 14a-4(c)(1) under the 1934 Act, after February 1, 1999, notice to the Company of a shareholder proposal submitted or to be submitted for consideration at the 1999 Annual Meeting other than pursuant to Rule 14a-8 under the 1934 Act will be considered untimely and the persons named in the proxies solicited by the Board of Directors for the 1999 Annual Meeting of Shareholders may exercise discretionary voting power with respect to any such matter.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

- 10 Power Purchase and Sale Agreement between the Company and Square Butte Electric Cooperative, dated as of May 29, 1998
- 27 Financial Data Schedule

(b) Reports on Form 8-K.

- Report on Form 8-K dated and filed May 15, 1998 with respect to Item 5. Other Events.
- Report on Form 8-K dated and filed June 3, 1998 with respect to Item 5. Other Events and Item 7. Financial Statements and Exhibits.

SIGNATURES

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

Minnesota Power, Inc.

(Registrant)

August 7, 1998

D. G. Gartzke

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

August 7, 1998

Mark A. Schober

Mark A. Schober
Controller

EXHIBIT INDEX

Exhibit Number

- | | |
|----|---|
| 10 | Power Purchase and Sale Agreement between the Company and Square Butte Electric Cooperative, dated as of May 29, 1998 |
| 27 | Financial Data Schedule |

=====

POWER PURCHASE AND SALE AGREEMENT

BETWEEN

MINNESOTA POWER, INC.

AND

SQUARE BUTTE ELECTRIC COOPERATIVE

Dated as of May 29, 1998

=====

Table of Contents

Page

ARTICLE I - DEFINITIONS.....	1
1.1 "AC Transmission Facilities".....	1
1.2 "Additional Delivery Costs".....	1
1.3 "Affiliate".....	1
1.4 "Alternate Capacity".....	2
1.5 "Alternate Energy".....	2
1.6 "Capacity".....	2
1.7 "Central Prevailing Time".....	2
1.8 "Contract Year".....	2
1.9 "Decommissioning".....	2
1.10 "Decommissioning Costs".....	2
1.11 "Deed of Conveyance".....	2
1.12 "Delivery Agreement".....	2
1.13 "Delivery Point".....	2
1.14 "Duluth HVDC Terminal".....	2
1.15 "Effective Date".....	3
1.16 "Energy".....	3
1.17 "FERC".....	3
1.18 "Fixed Charges".....	3
1.19 "Generator Step-Up Transformer".....	3
1.20 "Governmental Approval".....	3
1.21 "Governmental Authority".....	3
1.22 "HVDC Transmission Facilities".....	3
1.23 "Indenture".....	3
1.24 "Joint Facilities".....	3
1.25 "Joint Operating Agreement".....	3
1.26 "Joint Operating Committee".....	4
1.27 "kW".....	4
1.28 "kWh".....	4
1.29 "MAPP Agreement".....	4
1.30 "Mine".....	4
1.31 "Minnesota Power".....	4
1.32 "Minnesota Power Service Agreement".....	4
1.33 "Minnkota".....	4
1.34 "Minnkota PSA".....	4
1.35 "Month".....	4
1.36 "Monthly Charge for Capacity and Energy".....	4
1.37 "MW".....	4
1.38 "MWh".....	4
1.39 "Net Capability".....	4
1.40 "Obligations".....	5
1.41 "Operating Agent".....	5

1.42	"Option".....	5
1.43	"Option No. 1".....	5
1.44	"Option No. 1 Exercise Date".....	5
1.45	"Option No. 2".....	5
1.46	"Option No. 2 Exercise Date".....	5
1.47	"Option No. 3".....	5
1.48	"Option No. 3 Exercise Date".....	5
1.49	"Option No. 4".....	5
1.50	"Party".....	5
1.51	"Plant Closure Date".....	5
1.52	"Prudent Utility Practice".....	5
1.53	"Royalty Payments".....	5
1.54	"RUS".....	6
1.55	"Site".....	6
1.56	"Square Butte".....	6
1.57	"Square Butte Substation".....	6
1.58	"Square Butte's Monthly Fuel Costs".....	6
1.59	"Square Butte's Monthly Fuel Royalty Costs".....	6
1.60	"Square Butte's Monthly Non-Fuel Costs".....	6
1.61	"Square Butte's Transmission Tariff".....	6
1.62	"Transmission Facilities".....	7
1.63	"Trustee".....	7
1.64	"Uncontrollable Forces".....	7
1.65	"Uniform System of Accounts".....	7
1.66	"Unit #1".....	7
1.67	"Unit #2".....	7
1.68	"URGE".....	7
ARTICLE II - TERM OF AGREEMENT.....7		
2.1	Term of Agreement.....	7
2.2	Extension of Term.....	7
ARTICLE III - AVAILABILITY OF CAPACITY AND DELIVERY OF ENERGY.....8		
3.1	Availability of Capacity and Delivery of Energy.....	8
3.2	Power Entitlements and Options.....	8
3.2.1	Option No. 1.....	8
3.2.2	Option No. 2.....	8
3.2.3	Option No. 3.....	9
3.2.4	Option No. 4.....	9
3.3	Notices for and Restrictions on Exercise of Options.....	9
3.4	Alternate Capacity and Alternate Energy.....	10
ARTICLE IV - CHARGES.....10		
4.1	Monthly Charges.....	10

4.1.1	Square Butte's Monthly Non-Fuel Costs.....	10
4.1.2	Square Butte's Monthly Fuel Costs.....	10
4.1.3	Square Butte's Monthly Fuel Royalty Costs.....	10
4.1.4	Costs of Alternate Capacity and Energy.....	11
4.1.5	Margin.....	11
4.2	Estimates of Monthly Charge.....	11
4.3	Revised Estimates.....	11
4.4	Suspension of Payment Obligation.....	11
4.4.1	Obligation to Make Payment.....	11
4.4.2	Suspension of Payment Obligation.....	12
ARTICLE V - BILLING AND PAYMENT.....		12
5.1	Billing Statement.....	12
5.2	Payment Due Date.....	12
5.3	Failure to Make Payment.....	13
5.4	Billing Disputes.....	13
5.5	Annual Statement.....	13
5.6	Overpayments and Underpayments.....	13
ARTICLE VI - SCHEDULING OF DELIVERIES.....		14
6.1	Scheduling of Deliveries by Minnesota Power.....	14
6.2	Minnesota Power Scheduling Responsibilities.....	14
6.3	Scheduling of Deliveries by Square Butte.....	14
6.4	Scheduling Limitations.....	14
ARTICLE VII - POINT OF DELIVERY.....		14
7.1	Delivery Point.....	14
ARTICLE VIII - CONTROL.....		15
8.1	Control and Communication Equipment.....	15
8.2	Voltage.....	15
8.3	Reactive Power.....	15
ARTICLE IX - CHARACTER AND CONTINUITY OF SERVICE.....		15
9.1	Character and Continuity of Service.....	15
9.2	Uncontrollable Forces.....	15
ARTICLE X - METERING AND TRANSMISSION.....		16
10.1	Metering Equipment.....	16
10.2	Transmission.....	16
10.3	Measurement of Transmission Losses.....	16
10.4	Use of Transmission Facilities.....	16
ARTICLE XI - ACCOUNTING, AUDIT RIGHTS, AND INFORMATION SHARING.....		17

11.1	Records and Accounts; Audits.....	17
11.2	Copies of Audits.....	17
11.3	Examination of Records.....	17
11.4	Insurance Policies.....	17
11.5	Access to Facilities.....	17
ARTICLE XII	- INSURANCE AND EMINENT DOMAIN.....	17
12.1	Insurance.....	17
12.2	Settlement of Claims.....	17
12.3	Eminent Domain.....	17
ARTICLE XIII	- FAILURE OF PERFORMANCE AND LIABILITY.....	18
13.1	Liability and Indemnification.....	18
13.2	Failure to Perform.....	18
13.3	Uncontrollable Forces.....	18
13.3.1	Performance Excused.....	18
13.3.2	Obligation to Remove Disability.....	18
13.3.3	Actions of Third Parties.....	18
13.4	Limitation on Damages.....	18
ARTICLE XIV	- DISPUTE RESOLUTION.....	19
14.1	Dispute Resolution.....	19
14.2	Mediation.....	19
14.3	Arbitration.....	19
14.3.1	Arbitration Rules.....	19
14.3.2	Notice.....	19
14.3.3	Pre-Arbitration Conference.....	19
14.3.4	Authority of Arbitrators.....	19
14.3.5	Decision or Award.....	19
14.3.6	Costs.....	20
ARTICLE XV	- ASSIGNMENT.....	20
15.1	Permitted Assignments.....	20
15.1.1	Assignment by Square Butte.....	20
15.1.2	Assignment by Minnesota Power.....	20
ARTICLE XVI	- MISCELLANEOUS.....	21
16.1	Waiver of Default.....	21
16.2	Notices and Computation of Time.....	21
16.3	Minnesota Power Financial Information.....	21
16.4	Governing Law.....	21
16.5	Counterparts.....	21
16.6	Rules of Construction.....	21
16.6.1	Captions and Headings.....	21

16.6.2	Including.....	21
16.6.3	Singular and Plural.....	21
16.6.4	Time of the Essence.....	22
16.7	Joint Operating Committee.....	22
16.8	Survival.....	22
16.9	Amendments.....	22
16.10	Governmental Approvals.....	22
16.11	Other Business.....	22
16.12	Additional Financing; Sale of Facilities.....	22
16.13	Modification of Certain Instruments.....	22
16.14	Obligation to Pay Decommissioning Costs.....	22

POWER PURCHASE AND SALE AGREEMENT

This Power Purchase and Sale Agreement (hereinafter called the "Agreement"), is made and entered into as of this 29th day of May, 1998, by and between MINNESOTA POWER, INC., a Minnesota corporation (hereinafter called "Minnesota Power"), and SQUARE BUTTE ELECTRIC COOPERATIVE, a North Dakota cooperative corporation (hereinafter called "Square Butte").

W I T N E S S E T H :

WHEREAS, Square Butte is a North Dakota cooperative corporation organized to own and operate Unit #2 and the Transmission Facilities;

WHEREAS, the Parties hereto have previously entered into a Power Sales & Interconnection Agreement, dated as of April 1, 1974;

WHEREAS, Square Butte is refinancing Unit #2 and the Transmission Facilities and the Parties desire to enter into this Agreement and other agreements in order to support the refinancing of Unit #2 and the Transmission Facilities and to continue to obtain capacity and energy from Unit #2;

WHEREAS, negotiations and studies have indicated that the arrangement proposed hereunder will provide advantages to Square Butte and Minnesota Power such as reduced debt service and other costs; and

WHEREAS, due to the aforementioned advantages, Minnesota Power is desirous of continuing to purchase electric capacity and energy produced by Unit #2, subject to certain options providing for Square Butte to sell electric capacity and energy produced by Unit #2 to others;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, Minnesota Power and Square Butte hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 "AC Transmission Facilities" shall mean the 230 kilovolt alternating current facilities required to connect Unit #2 to the HVDC Transmission Facilities.

1.2 "Additional Delivery Costs" shall have the meaning set forth in the Delivery Agreement.

1.3 "Affiliate" shall mean, with respect to any specified entity, any other entity directly or indirectly controlling or controlled by or under direct or indirect common control with such specified entity. For purposes of this definition, "control" when used with respect to any specified entity means the power to direct the management and policies of such entity, directly or

indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "control" have meanings correlative to the foregoing.

1.4 "Alternate Capacity" shall mean electric capacity made available by Square Butte to Minnesota Power from any source other than Unit #2 when Net Capability cannot be made available to Minnesota Power.

1.5 "Alternate Energy" shall mean the energy that is associated with Alternate Capacity or energy that is delivered by Square Butte to Minnesota Power when Energy from Unit #2 is not available or cannot be delivered to Minnesota Power.

1.6 "Capacity" shall mean the rated capacity of Unit #2, which as of the Effective Date is four hundred fifty-five megawatts (455 MW) (except in July and August, when the rated capacity is four hundred forty-eight megawatts (448 MW)), as the same may be increased or decreased from time to time in accordance with the URGE rating then in effect. It shall be expressed in kilowatts (kW) or megawatts (MW).

1.7 "Central Prevailing Time" or "CPT" shall mean Central Standard Time or Central Daylight Time, whichever is in effect.

1.8 "Contract Year" shall mean the twelve-month period, commencing at 12:01 a.m. CPT on January 1 of each calendar year, except the first Contract Year shall begin on May 29, 1998, and end at 12:01 a.m. CPT on January 1, 1999.

1.9 "Decommissioning" shall mean the retirement from service of Unit #2, the Transmission Facilities and the Mine, including, but not limited to, decommissioning, dismantling, demolishing, disposing of, closing or removing Unit #2, the Transmission Facilities and the Mine, and the monitoring, security and maintenance associated with the retirement from service and decommissioning of Unit #2, the Transmission Facilities and the Mine.

1.10 "Decommissioning Costs" shall mean any and all costs and expenses associated with Decommissioning.

1.11 "Deed of Conveyance" shall have the meaning set forth in the Joint Operating Agreement.

1.12 "Delivery Agreement" shall mean the Delivery Agreement between and among Minnesota Power and Square Butte and Minnkota, dated as of June 1, 1998.

1.13 "Delivery Point" shall have the meaning set forth in Section 7.1.

1.14 "Duluth HVDC Terminal" shall mean the point of interconnection between the Transmission Facilities and Minnesota Power's transmission system.

1.15 "Effective Date" shall have the meaning set forth in Section 2.1.

1.16 "Energy" shall mean the electrical energy produced by Unit #2 that is associated with the Net Capability. It shall be expressed in kilowatt-hours (kWh) or megawatt-hours (MWh).

1.17 "FERC" shall mean the Federal Energy Regulatory Commission, or any entity or Governmental Authority succeeding to the powers and functions thereof.

1.18 "Fixed Charges" shall mean the principal, interest and any other amounts payable on the Obligations.

1.19 "Generator Step-Up Transformer" shall mean the generator step-up transformer, as that term is defined from time to time by FERC, associated with Unit #2.

1.20 "Governmental Approval" shall mean any jurisdictional approval or consent required to be obtained for the subject matter hereunder by Square Butte or Minnesota Power from any Governmental Authority, including RUS.

1.21 "Governmental Authority" shall mean any local, state, regional, or federal administrative, judicial or executive agency, commission, department, or other similar governmental or quasi-governmental body.

1.22 "HVDC Transmission Facilities" shall mean the +/- 250 kilovolt direct current transmission line from Center, North Dakota, to Duluth, Minnesota, the direct current terminals associated with such transmission line, the grounding facilities, and the filtering and other necessary reactive components, protective, control, instrumentation, and communications facilities associated with such transmission line and direct current terminals.

1.23 "Indenture" shall mean the Amended and Restated Indenture of Mortgage, dated as of May 29, 1998, by Square Butte Electric Cooperative, as grantor, to Bankers Trust Company, as Trustee, and all amendments and supplements thereto.

1.24 "Joint Facilities" shall mean all facilities used in common for the operation and maintenance of Unit #1 and Unit #2, including, but not limited to, those facilities subject to the Deed of Conveyance, additional land or rights therein, any other tangible and intangible property acquired, constructed, installed or replaced in accordance with the terms of the Joint Operating Agreement for the operation and maintenance of Unit #1 and Unit #2, and all facilities determined by the Joint Operating Committee to be "Joint Facilities."

1.25 "Joint Operating Agreement" shall mean the Amended and Restated Joint Operating Agreement among Square Butte, Minnkota and Minnesota Power, dated as of the date hereof.

1.26 "Joint Operating Committee" shall mean the committee established in accordance with the Joint Operating Agreement.

1.27 "kw" shall mean kilowatt.

1.28 "kWh" shall mean kilowatt-hour.

1.29 "MAPP Agreement" shall mean the Restated Mid-Continent Area Power Pool Agreement dated as of November 1, 1996, as such agreement may be amended from time to time.

1.30 "Mine" shall mean the BNI Coal lignite coal mine located near Unit #1 and Unit #2 in the Center, North Dakota, area, including, but not limited to, the improvements, facilities and fixtures which are a part thereof.

1.31 "Minnesota Power" shall mean Minnesota Power, Inc., a Minnesota corporation, and shall include its authorized agents, whether individual, corporation, cooperative or contractor, acting for and on its behalf.

1.32 "Minnesota Power Service Agreement" shall mean the service agreement, dated as of the date hereof, between Square Butte and Minnesota Power under Square Butte's Transmission Tariff.

1.33 "Minnkota" shall mean Minnkota Power Cooperative, Inc., a Minnesota cooperative corporation, and shall include its authorized agents, whether individual, corporation, cooperative or contractor, acting for and on its behalf.

1.34 "Minnkota PSA" shall mean the Power Purchase and Sale Agreement between Minnkota and Square Butte, dated as of the date hereof.

1.35 "Month" shall mean a calendar month, except that the first Month hereunder shall begin on the Effective Date and end at 12:01 a.m. CPT on the first day of the following Month.

1.36 "Monthly Charge for Capacity and Energy" shall have the meaning set forth in Section 4.1.

1.37 "MW" shall mean megawatt.

1.38 "MWh" shall mean megawatt-hour.

1.39 "Net Capability" shall mean the Capacity of Unit #2 established from time to time by the Joint Operating Committee based on the URGE rating then in effect, measured in kilowatts. The net figure shall represent the net capability available from Unit #2 to the Transmission Facilities.

1.40 "Obligations" shall have the meaning set forth in the Indenture.

1.41 "Operating Agent" shall mean Minnkota, or its successor operating agent named in accordance with the Joint Operating Agreement, which shall be responsible for the operation and maintenance of Unit #2 and the Joint Facilities in accordance with the Joint Operating Agreement.

1.42 "Option" shall have the meaning set forth in Section 3.2.

1.43 "Option No. 1" shall have the meaning set forth in Section 3.2.1.

1.44 "Option No. 1 Exercise Date" shall have the meaning set forth in Section 3.2.1.

1.45 "Option No. 2" shall have the meaning set forth in Section 3.2.2.

1.46 "Option No. 2 Exercise Date" shall have the meaning set forth in Section 3.2.2.

1.47 "Option No. 3" shall have the meaning set forth in Section 3.2.3.

1.48 "Option No. 3 Exercise Date" shall have the meaning set forth in Section 3.2.3.

1.49 "Option No. 4" shall have the meaning set forth in Section 3.2.4.

1.50 "Party" shall mean either Square Butte or its permitted successors or assigns or Minnesota Power or its permitted successors or assigns.

1.51 "Plant Closure Date" shall have the meaning set forth in Section 2.1, as such date may be revised in accordance with Section 2.2.

1.52 "Prudent Utility Practice" shall mean, at a particular time, any of the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry prior to such time, or any of the practices, methods, and acts which, in light of the facts known at the time the decision was made, could have been expected to accomplish the desired results at the lowest cost consistent with good business practices, reliability, safety, and expedition. "Prudent Utility Practice" is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be a spectrum of possible practices, methods, or acts having due regard for, among other things, manufacturers' warranties and other contractual obligations, the requirements or guidance of governmental agencies of competent jurisdiction, requirements of insurers, and the requirements of this Agreement.

1.53 "Royalty Payments" shall mean those charges based on Square Butte's obligation to Minnkota pursuant to the Joint Operating Agreement.

1.54 "RUS" shall mean the Rural Utilities Service, an agency of the United States Department of Agriculture, or any entity or Governmental Authority succeeding to the powers and functions thereof.

1.55 "Site" shall have the meaning set forth in the Joint Operating Agreement.

1.56 "Square Butte" shall mean Square Butte Electric Cooperative, a North Dakota cooperative corporation, and shall include its authorized agents, whether individual, corporation, cooperative or contractor, acting for and on its behalf.

1.57 "Square Butte Substation" shall mean the substation owned by Square Butte located near the Site.

1.58 "Square Butte's Monthly Fuel Costs" shall mean those monthly charges recorded in Account 501 of the Uniform System of Accounts related to Unit #2 exclusive of Royalty Payments.

1.59 "Square Butte's Monthly Fuel Royalty Costs" shall mean those monthly charges relating to Royalty Payments (which are excluded from Section 1.58).

1.60 "Square Butte's Monthly Non-Fuel Costs" shall mean all of Square Butte's costs and expenses except Decommissioning Costs, Square Butte's Monthly Fuel Costs, Square Butte's Monthly Fuel Royalty Costs, the costs associated with Alternate Capacity and Alternate Energy as recovered under Section 4.1.4, margins as recovered under Section 4.1.5, and any costs associated with the Transmission Facilities recovered under Square Butte's Transmission Tariff. "Square Butte's Monthly Non-Fuel Costs" shall include, but not be limited to, Fixed Charges, principal, interest and other amounts payable on obligations of Square Butte (other than Obligations), depreciation on items not otherwise reflected in payments to amortize the principal of the Obligations or other indebtedness of Square Butte, amounts payable by Square Butte to Minnesota Power pursuant to the Delivery Agreement (including, but not limited to, Additional Delivery Costs), taxes (including, but not limited to, Square Butte's income taxes), operating expenses, maintenance expenses, and administration costs; and shall be reduced by credits, including, but not limited to, interest income, capital credits received in cash, rental income, any costs associated with the Transmission Facilities recovered under Square Butte's Transmission Tariff from parties other than Minnesota Power and Minnkota that are not credited to Minnesota Power and Minnkota under Square Butte's Transmission Tariff, and payments received for SO2 allowances. Where such costs, expenses and credits, other than Fixed Charges, are on a basis other than monthly, an appropriate division shall be made to reflect them on a monthly basis.

1.61 "Square Butte's Transmission Tariff" shall mean the Pro Forma Open Access Transmission Tariff of Square Butte, dated as of December 16, 1996, as such tariff may be amended from time to time.

1.62 "Transmission Facilities" shall mean the HVDC Transmission Facilities and AC Transmission Facilities.

1.63 "Trustee" shall have the meaning set forth in the Indenture.

1.64 "Uncontrollable Forces" shall mean any cause beyond the reasonable control of Square Butte, Minnkota, the Operating Agent or Minnesota Power, as the case may be, and which by the exercise of due diligence the party is unable to prevent or overcome, including but not limited to an act of God, fire, flood, explosion, strike, sabotage, an act of the public enemy, civil or military authority, including court orders, injunction, insurrection or riot, an act of the elements, failure of equipment, or inability to obtain or ship materials or equipment because of the effect of similar causes on suppliers or carriers.

1.65 "Uniform System of Accounts" shall mean the Uniform System of Accounts Prescribed for Electric Borrowers of RUS or, if applicable, of FERC in effect on the date hereof as it may from time to time be revised or amended.

1.66 "Unit #1" shall mean Unit #1 of the Milton R. Young Steam Electric Station located at Center, North Dakota, and owned and operated by Minnkota.

1.67 "Unit #2" shall mean Unit #2 of the Milton R. Young Steam Electric Station located adjacent to Minnkota's existing Milton R. Young Steam Electric Station Unit #1 at Center, North Dakota.

1.68 "URGE" shall mean the Uniform Rating of Generating Equipment procedure as set forth in the MAPP Agreement.

ARTICLE II TERM OF AGREEMENT

2.1 Term of Agreement. This Agreement shall be effective as of May 29, 1998 (the "Effective Date"). The Agreement shall remain in full force and effect from the Effective Date until January 1, 2027 (the "Plant Closure Date"), plus an additional period of time necessary to undertake or fund all activities necessary to complete Decommissioning.

2.2 Extension of Term. Notwithstanding the provisions of Section 2.1, the Parties agree to revise the Plant Closure Date, and thereby extend the term of this Agreement, to the date of permanent retirement of Unit #2, as determined by the Joint Operating Committee. Such revised Plant Closure Date shall include an additional period of time necessary to undertake or fund all activities necessary to complete Decommissioning, as determined by the Joint Operating Committee, and shall in no event be before January 1, 2027. In the event that the Joint Operating Committee is unable to agree on a revised Plant Closure Date and/or such additional period of time necessary to undertake or fund all activities necessary to complete Decommissioning, then the term of this Agreement shall expire in accordance with the

provisions of Section 2.1. In the event that the term of this Agreement is extended, the Parties shall consent to the extension, by a corresponding period of time, of the term(s) of the Joint Operating Agreement, the Minnesota Power Service Agreement, and other appropriate agreements necessary to implement the extension of the term of this Agreement.

ARTICLE III
AVAILABILITY OF CAPACITY AND DELIVERY OF ENERGY

3.1 Availability of Capacity and Delivery of Energy. Square Butte shall make available to Minnesota Power the Net Capability and shall deliver to Minnesota Power at the Delivery Point Energy in accordance with the entitlements set forth in Section 3.2.

3.2 Power Entitlements and Options. Beginning on May 29, 1998, Minnesota Power shall be entitled, subject to the exercise of the options as set forth in this Section 3.2, to 70.8333% of the Net Capability and to the electric energy associated with such entitlement to Net Capability as measured at the Delivery Point for Energy. Thereafter, upon the exercise by Minnkota of its options to increase its entitlement to Net Capability and to the energy associated with its entitlement to Net Capability under the Minnkota PSA, Minnesota Power's entitlement to Net Capability and to the energy associated with its entitlement to Net Capability shall correspondingly decrease, in accordance with the options set forth in this Section 3.2 (the "Options") and in accordance with the provisions of Section 3.3. Minnesota Power shall transfer and assign to Minnkota any reserved capacity under Square Butte's Transmission Tariff necessary for the delivery of Minnkota's increased entitlement to Net Capability and associated energy associated with the exercise of such Options.

3.2.1 Option No. 1. Under Option No. 1, Minnesota Power's entitlement to Net Capability shall decrease by 5.2083% of the Net Capability. Minnesota Power's entitlement to energy associated with its entitlement to Net Capability shall decrease by a corresponding amount. Minnesota Power's entitlement to such Net Capability and associated energy under this Option No. 1 shall decrease as of January 1, 2006, or the annual anniversary thereafter, upon receipt of notice from Minnkota of its exercise of such Option. If Minnesota Power's entitlement decreases as a result of the exercise by Minnkota of Option No. 1, the date of such decrease shall be the "Option No. 1 Exercise Date."

3.2.2 Option No. 2. Under Option No. 2, Minnesota Power's entitlement to Net Capability shall decrease by 5.2083% of the Net Capability. Minnesota Power's entitlement to energy associated with its entitlement to Net Capability shall decrease by a corresponding amount. Minnesota Power's entitlement to such Net Capability and associated energy under this Option No. 2 shall decrease as of the later of January 1, 2007, or the date that is one (1) year after the Option No. 1 Exercise Date, upon receipt of notice from Minnkota of its exercise of such Option. If Minnesota Power's entitlement decreases as a result of the exercise by Minnkota of Option No. 2, the date of such decrease shall be the "Option No. 2 Exercise Date."

3.2.3 Option No. 3. Under Option No. 3, Minnesota Power's entitlement to Net Capability shall decrease by 5.2083% of the Net Capability. Minnesota Power's entitlement to energy associated with its entitlement to Net Capability shall decrease by a corresponding amount. Minnesota Power's entitlement to such Net Capability and associated energy under this Option No. 3 shall decrease as of the later of January 1, 2008, or the date that is one (1) year after the Option No. 2 Exercise Date, upon receipt of notice from Minnkota of its exercise of such Option. If Minnesota Power's entitlement decreases as a result of the exercise by Minnkota of Option No. 3, the date of such decrease shall be the "Option No. 3 Exercise Date."

3.2.4 Option No. 4. Under Option No. 4, if Minnkota has exercised Option No. 1, Option No. 2 and Option No. 3, Minnesota Power's entitlement to Net Capability shall decrease by an amount that will reduce Minnesota Power's entitlement to Net Capability to fifty percent (50%) of the Net Capability. Minnesota Power's entitlement to energy associated with its entitlement to Net Capability shall decrease by a corresponding amount. Minnesota Power's entitlement to such Net Capability and associated energy under this Option No. 4 shall decrease as of the later of January 1, 2009, or the date that is one (1) year after the Option No. 3 Exercise Date, upon receipt of notice from Minnkota of its exercise of such Option.

3.3 Notices for and Restrictions on Exercise of Options. Square Butte shall notify Minnesota Power of Minnkota's election to exercise an Option to increase Minnkota's entitlement to Net Capability and to energy associated with such entitlement under the Minnkota PSA as soon as practicable after Square Butte has received notice from Minnkota of Minnkota's election to exercise such Option. Subject to the provisions of this Section 3.3, once a decrease in Minnesota Power's entitlement to Net Capability and associated energy is made under Section 3.2, it shall be irrevocable thereafter. In the event Minnkota provides Minnesota Power with notice under the Minnkota PSA that sufficient transmission capacity is not available for the delivery to the Points of Delivery set forth in the Transmission Service Agreement between Minnesota Power (transmission) and Minnesota Power (merchant operations), dated April 17, 1998, of energy associated with Minnkota's entitlement to Net Capability under the Minnkota PSA which is the subject of an Option thereunder and Minnkota exercises its rights under the Minnkota PSA to reduce its entitlement to Net Capability and associated energy thereunder with respect to such Option, upon receipt of notice from Minnkota, (i) Minnesota Power's entitlement to Net Capability shall increase by an amount equal to the amount by which Minnkota's entitlement to Net Capability under the Minnkota PSA decreases thereunder, and (ii) Minnesota Power's entitlement to energy associated with its entitlement to Net Capability shall increase by a corresponding amount. If transmission capacity thereafter becomes available and Minnkota's entitlement to Net Capability and associated energy under the Minnkota PSA is increased in accordance with the Minnkota PSA, Minnesota Power's entitlement to Net Capability and associated energy shall decrease by the amount by which Minnkota's entitlement to Net Capability and associated energy under the Minnkota PSA increases thereunder. Minnesota Power shall transfer and assign to Minnkota, or shall receive and accept from Minnkota, any reserved capacity under Square Butte's Transmission Tariff necessary for the delivery of Minnesota Power's decreased or increased entitlement to Net Capability and associated energy

transferred from Minnesota Power to Minnkota, or from Minnkota to Minnesota Power, as the case may be, in accordance with the terms of this Section 3.3.

3.4 Alternate Capacity and Alternate Energy. If Square Butte is unable to make available to Minnesota Power all or part of the Net Capability to which Minnesota Power is entitled under Section 3.2 or is unable to deliver to Minnesota Power at the Delivery Point all or part of the energy to which Minnesota Power is entitled under Section 3.2, Square Butte shall not make available or deliver to Minnesota Power substantial amounts of Alternate Capacity or Alternate Energy without Minnesota Power's prior consent, except to prevent the suspension of Minnesota Power's payment obligations under the terms of Section 4.4.2.

ARTICLE IV CHARGES

4.1 Monthly Charges. Minnesota Power shall pay to Square Butte for each Month of each Contract Year a monthly charge (hereinafter called the "Monthly Charge for Capacity and Energy"), regardless of the amount of Net Capability or Alternate Capacity actually made available to Minnesota Power or the amount of Energy or Alternate Energy actually delivered to Minnesota Power, except as provided in Section 4.4. The Monthly Charge for Capacity and Energy for each Month shall consist of the total of all amounts set forth in Sections 4.1.1 through 4.1.5. Costs associated with the Transmission Facilities recovered by Square Butte in accordance with Square Butte's Transmission Tariff shall not be recovered hereunder.

4.1.1 Square Butte's Monthly Non-Fuel Costs. The Monthly Charge for Capacity and Energy for each Month shall consist of a share of Square Butte's Monthly Non-Fuel Costs, which share shall be determined by applying the percentage of Net Capability to which Minnesota Power is entitled for such Month under Section 3.2 to Square Butte's Monthly Non-Fuel Costs for such Month; provided that Minnesota Power's share of any costs and expenses incurred prior to the date hereof that are a part of Square Butte's Monthly Non-Fuel Costs shall be determined by applying the percentage of its entitlement to power and energy from Unit #2, in effect at the time such costs and expenses arose, under the Power Sales & Interconnection Agreement between Minnesota Power and Square Butte, dated as of April 1, 1974, to such costs and expenses.

4.1.2 Square Butte's Monthly Fuel Costs. The Monthly Charge for Capacity and Energy for each Month shall consist of a share of Square Butte's Monthly Fuel Costs, which share shall be determined by applying the percentage of Energy delivered to Minnesota Power from Unit #2 during such Month under Section 3.2 to Square Butte's Monthly Fuel Costs for such Month.

4.1.3 Square Butte's Monthly Fuel Royalty Costs. The Monthly Charge for Capacity and Energy for each Month shall consist of a share of Square Butte's Monthly Fuel Royalty Costs, which share shall be determined by applying the percentage of Energy delivered

to Minnesota Power from Unit #2 during such Month under Section 3.2 to Square Butte's Monthly Fuel Royalty Costs for such Month.

4.1.4 Costs of Alternate Capacity and Energy. The Monthly Charge for Capacity and Energy for each Month shall consist of the costs of any Alternate Capacity and Alternate Energy for such Month, including the costs of any transmission, transmission losses, ancillary services, and any other transmission-related services associated with making available such Alternate Capacity and delivering such Alternate Energy.

4.1.5 Margin. The Monthly Charge for Capacity and Energy for each Month shall consist of an amount equal to a share of five percent (5%) of the total of Square Butte's costs for such Month reflected in Accounts 500, 502 through 599, and 920 through 935 as recorded in the Uniform System of Accounts, which share shall be determined by applying the percentage of Net Capability to which Minnesota Power is entitled for such Month under Section 3.2 to five percent (5%) of the total of Square Butte's costs for such Month reflected in Accounts 500, 502 through 599, and 920 through 935 as recorded in the Uniform System of Accounts.

4.2 Estimates of Monthly Charge. Prior to the beginning of the first Contract Year and on or before forty-five (45) days prior to the beginning of each Contract Year thereafter, Square Butte shall prepare and deliver to Minnesota Power a pro-forma statement (in a form to be agreed upon by the Joint Operating Committee) showing a detailed estimate of the Monthly Charge for Capacity and Energy for each Month of the following Contract Year which will establish the basis for Minnesota Power's payment as provided herein.

4.3 Revised Estimates. At the end of the sixth (6th) Month of each Contract Year other than the first Contract Year, Square Butte shall review its estimate of the Monthly Charge for Capacity and Energy for each Month of the Contract Year, and in the event such estimate does not substantially correspond with actual receipts or expenditures, or if there are at any time during such Contract Year extraordinary receipts or payments of unusual costs substantially affecting the Monthly Charge for Capacity and Energy for any Month of such Contract Year, Square Butte shall prepare and deliver to Minnesota Power a revised estimate of the Monthly Charge for Capacity and Energy for each Month as a basis for Minnesota Power's monthly payments for the balance of that Contract Year.

4.4 Suspension of Payment Obligation.

4.4.1 Obligation to Make Payment. Except as provided in Section 4.4.2, Minnesota Power shall make all payments that are required pursuant to the terms of this Agreement at such time or times herein provided for such payments, notwithstanding (i) the non-performance by Square Butte of any of its obligations herein or in the Joint Operating Agreement, whether due to Uncontrollable Forces or otherwise; (ii) the failure, inoperativeness or suspension, interruption or interference of the operation of Unit #2 or the Transmission Facilities; (iii) the failure to make available to Minnesota Power Net Capability or Alternate

Capacity or to deliver to Minnesota Power Energy or Alternate Energy (except as provided in Section 4.4.2); (iv) the invalidity or unenforceability or lack of due authorization of this Agreement; or (v) any other matter or event whatsoever, including without limitation the bankruptcy or insolvency of Square Butte or the disaffirmance of any agreement by any trustee or receiver, which might otherwise relieve Minnesota Power from the obligation to pay such amounts at such times, notwithstanding any present or future law to the contrary. Minnesota Power agrees that no such payment by Minnesota Power shall be subject to any right of set-off or counterclaim or any other defense which Minnesota Power may now or hereafter have against Square Butte. This Section 4.4.1 shall not be construed as a guarantee by Minnesota Power of any obligation of Square Butte or to release Square Butte from the performance of any of its obligations expressed in this Agreement or, except to the extent expressly provided in this Agreement, prevent or restrict Minnesota Power from asserting any rights it may have against Square Butte under this Agreement.

4.4.2 Suspension of Payment Obligation. Minnesota Power's obligation to pay charges under Section 4.1 shall be suspended only in the event that Square Butte fails to deliver any Energy or Alternate Energy whatsoever to any Delivery Point for a period of twelve (12) consecutive Months. Such suspension, if any, shall begin at 12:01 a.m. CPT of the first (1st) day of the Month following such twelve (12) Month period, and shall continue until such time as Square Butte shall resume the delivery to Minnesota Power of any Energy or any Alternate Energy at any Delivery Point; provided, however, that such suspension shall not relieve Minnesota Power of its obligation to make payment of the Monthly Charges for Capacity and Energy incurred prior to the commencement of such suspension.

ARTICLE V BILLING AND PAYMENT

5.1 Billing Statement. On the first (1st) day of each Month beginning with the initial Month of the first Contract Year, Square Butte shall render to Minnesota Power a monthly statement showing the amount of the Monthly Charge for Capacity and Energy for the Month during which such statement is rendered as shown in the pro-forma estimate of the Monthly Charge for Capacity and Energy for such Month or any revisions thereof, furnished by Square Butte pursuant to Section 4.2 and Section 4.3. Square Butte also shall set forth in such statement the charges for any Alternate Capacity and/or Alternate Energy provided by Square Butte to Minnesota Power in the preceding Month, including any charges for transmission and transmission-related services associated with such Alternate Capacity and/or Alternate Energy, and any other charges due from Minnesota Power to Square Butte.

5.2 Payment Due Date. The pro-forma estimate of the Monthly Charge for Capacity and Energy submitted pursuant to Section 5.1, plus an adjustment for the difference between the prior Month's pro-forma estimate of the Monthly Charge for Capacity and Energy and the prior Month's actual Monthly Charge for Capacity and Energy, and any other amounts due from Minnesota Power to Square Butte, shall be due and payable from Minnesota Power to Square

Butte on the twentieth (20th) day after the date the monthly statement is rendered. Fixed Charges shall be paid on the due date of such Fixed Charges.

5.3 Failure to Make Payment. Square Butte may, whenever any amount due remains unpaid subsequent to the fifteenth (15th) day after the due date, discontinue deliveries to Minnesota Power until such bill and any subsequent payments which have become due are paid. No such discontinuance shall be treated as a failure on the part of Square Butte to make Net Capability or Alternate Capacity available or to deliver Energy or Alternate Energy to Minnesota Power or otherwise relieve Minnesota Power from any of its obligations under this Agreement. During any such discontinuance, for purposes of Section 4.1, if Unit #2 is capable of producing all or part of the Net Capability and Energy to which Minnesota Power is entitled under Section 3.2, Square Butte shall be deemed to have made available to Minnesota Power such Net Capability and to have delivered to Minnesota Power at the Delivery Point such Energy.

5.4 Billing Disputes. In the event of any dispute between Minnesota Power and Square Butte as to any portion of any monthly statement, Minnesota Power shall pay the full amount of the charges when due. As soon as practicable after the date of the disputed bill or an audit exception, Minnesota Power shall give written notice of the dispute or audit exception to Square Butte. Such notice shall identify the disputed bill, state the amount in dispute and set forth a full statement of the grounds on which such dispute is based. No adjustment shall be considered or made for disputed charges unless notice is given as aforesaid within twenty-four (24) Months after the date of the monthly statement. The dispute shall then be resolved in accordance with the dispute resolution procedures set forth in Article XIV.

5.5 Annual Statement. On or before one hundred twenty (120) days after the end of each Contract Year, Square Butte shall submit to Minnesota Power a detailed statement of the actual aggregate amount of the Monthly Charges for Capacity and Energy for all of the Months for the prior Contract Year, based on the annual audit of accounts provided for in Section 11.1. If, on the basis of the statement submitted as provided in this Section 5.5, the actual aggregate amount of the Monthly Charges for Capacity and Energy for the prior Contract Year exceeds the amount paid therefor by Minnesota Power (based on Square Butte's estimate and revision, if any, provided in accordance with Section 4.2 and Section 4.3), Minnesota Power shall pay Square Butte promptly the amount to which Square Butte is entitled. If, on the basis of the statement submitted pursuant to this Section 5.5, the actual aggregate amount of the Monthly Charges for Capacity and Energy for the prior Contract Year is less than the amount paid therefor by Minnesota Power (based on Square Butte's estimate and revision, if any, provided in accordance with Section 4.2 and Section 4.3), Square Butte shall credit such excess against Minnesota Power's next monthly payment or payments pursuant to Section 5.1.

5.6 Overpayments and Underpayments. If at the end of the term of this Agreement there are monies or credits remaining with Square Butte which are overpayments by Minnesota Power under this Agreement, or if Minnesota Power should owe Square Butte monies by virtue of the provisions of this Agreement, such settlements will be made by the Parties pursuant to bills rendered and promptly paid.

ARTICLE VI
SCHEDULING OF DELIVERIES

6.1 Scheduling of Deliveries by Minnesota Power. Scheduling of Net Capability and Energy from Unit #2 by Minnesota Power shall be as requested by Minnesota Power, subject to the limitations set forth in this Agreement, and the limitations, if any, established by the Joint Operating Committee.

6.2 Minnesota Power Scheduling Responsibilities. Operating representatives of Minnesota Power shall deliver to Square Butte (i) at least one hundred twenty (120) days prior to the beginning of each Contract Year other than the first Contract Year, a statement of the estimated total Net Capability and total Energy from Unit #2 desired by Minnesota Power for each Month of the ensuing Contract Year; (ii) at least seven (7) days before the end of each Month of each Contract Year, a statement of the estimated maximum daily Net Capability and total daily Energy from Unit #2 desired by Minnesota Power for the ensuing Month; and (iii) at least two (2) hours before any deadline for submission by Minnesota Power to Square Butte of transmission schedules for deliveries for the following day, an hourly schedule of total Energy deliveries desired by Minnesota Power for delivery for that day. Revisions in schedules furnished pursuant to clauses (ii) and (iii) of this Section 6.2 may be made with reasonable notice from time to time by Minnesota Power.

6.3 Scheduling of Deliveries by Square Butte. In the event that Square Butte makes available to Minnesota Power Alternate Capacity and/or delivers to Minnesota Power Alternate Energy, Square Butte shall schedule such delivery or deliveries to Minnesota Power at the Delivery Point in accordance with the transmission tariff of Minnesota Power or other applicable transmission provider.

6.4 Scheduling Limitations. The power scheduled from Unit #2 shall not exceed the reasonable and proper capability of Unit #2 less margins for spinning reserve and regulation as may be required for interconnected system operation in accordance with Prudent Utility Practice. Insofar as is practicable and unless otherwise agreed by Square Butte and Minnesota Power, required margins for spinning reserve shall be as determined by the Parties in accordance with Prudent Utility Practice and the applicable power pool policies or eligibility requirements then in effect.

ARTICLE VII
POINT OF DELIVERY

7.1 Delivery Point. The Delivery Point for the delivery by Square Butte of Energy hereunder shall be the Square Butte Substation. The Delivery Point for the delivery by Square Butte of Alternate Energy hereunder shall be any point on Minnesota Power's transmission system at which such Alternate Energy can be delivered (including the Duluth HVDC Terminal) or the Square Butte Substation, at Square Butte's option.

ARTICLE VIII
CONTROL

8.1 Control and Communication Equipment. Operation of Unit #2 shall be scheduled with Square Butte by the system operation center of Minnesota Power through proper load control, supervisory and communication equipment. It shall be the responsibility of Square Butte to provide and maintain control and communication equipment located at Unit #2, consistent with Prudent Utility Practice and for the proper operation of the Transmission Facilities, Minnesota Power's transmission system and other applicable interconnected systems. It shall be the responsibility of Minnesota Power to provide and maintain control and communication equipment located at its system operation center, consistent with Prudent Utility Practice and for the proper operation of the Transmission Facilities, its transmission system and other applicable interconnected systems.

8.2 Voltage. Square Butte shall schedule voltage levels at Unit #2 in coordination with Minnesota Power's system, Minnkota's system and other applicable interconnected systems.

8.3 Reactive Power. Reactive kilovolt-amperes shall be made available to Minnesota Power up to Minnesota Power's entitlement to Net Capability under Section 3.2, consistent with the hourly schedule of energy deliveries and voltage level schedule for Unit #2 at the time. At its discretion, Minnesota Power may take additional reactive deliveries when available, or otherwise by a reduction of real power delivery from Unit #2, so as to provide the additional reactive capacity requested. Square Butte shall operate Unit #2 so that under all conditions adequate reactive capacity is available so as not to cause an impairment of the service or facilities of Minnesota Power, Minnkota, or other applicable interconnected systems.

ARTICLE IX
CHARACTER AND CONTINUITY OF SERVICE

9.1 Character and Continuity of Service. Capacity and energy generated by Unit #2 hereunder shall be three-phase alternating current at approximately sixty (60) cycles per second. Square Butte may temporarily interrupt or reduce deliveries of electric energy to Minnesota Power if Square Butte determines that such interruption or reduction is necessary in case of emergencies affecting the ability of Square Butte to produce power or deliver power from Unit #2. Planned outages of Unit #2 shall be in accordance with the terms of the Joint Operating Agreement.

9.2 Uncontrollable Forces. Except as interrupted by Uncontrollable Forces, or as otherwise provided in this Agreement, Square Butte shall operate Unit #2 and make Net Capability and Energy therefrom available to Minnesota Power in accordance with this Agreement. In the event of interruption due to Uncontrollable Forces, Square Butte will correct the cause of the interruption as soon as possible in accordance with Prudent Utility Practice.

ARTICLE X
METERING AND TRANSMISSION

10.1 Metering Equipment. Square Butte shall provide and maintain, as agreed upon by the Parties, suitable metering equipment at Unit #2 and on the AC Transmission Facilities to indicate, record and telemeter Net Capability and Energy. Periodic tests and inspections of such metering equipment shall be made at reasonable intervals as agreed upon by the Parties to ensure that their accuracy of registration is maintained in accordance with Prudent Utility Practice. The expense involved in such tests shall be included in the Monthly Charges for Capacity and Energy. On the request of either Party, special tests shall be made at the requesting Party's expense. Each Party shall afford opportunity to representatives of the other to be present at all regular or special tests, if desired. If any test of metering equipment discloses an inaccuracy exceeding two percent (2%) above or below the equipment's calibrated standards, the Parties shall be promptly notified and the account between the Parties for service supplied shall be adjusted appropriately. Such correction and adjustment shall be made in the billing from the date the meter became inaccurate, if known; if such date cannot be determined, then such adjustment shall be made for the previous Month or from the date of the latest test, if within the previous Month, and for the elapsed period in the Month during which the test was made. Should any metering equipment at any time fail to register or should the registration thereof be so erratic as to be meaningless, the Net Capability made available and Energy transmitted shall be determined by the Parties from the best available data.

10.2 Transmission. Square Butte will arrange for transmission of Energy from Unit #2 to the Delivery Point. Square Butte shall have no obligation hereunder for transmission scheduling, charges, or losses, ancillary services or other transmission-related services for such Energy after the Delivery Point. In the event that Square Butte delivers Alternate Energy to Minnesota Power, Square Butte will arrange for appropriate transmission of such Alternate Energy to the Delivery Point, and Minnesota Power shall be responsible for all charges and losses associated with such transmission. Minnesota Power agrees to obtain firm transmission rights on the Transmission Facilities under Square Butte's Transmission Tariff in an amount equal to its entitlement to Net Capability and associated energy under Section 3.2, for a term that is coextensive with Square Butte's obligation to make available Net Capability and deliver energy to Minnesota Power hereunder.

10.3 Measurement of Transmission Losses. All deliveries of Energy hereunder shall be measured at Unit #2 and the AC Transmission Facilities. Minnesota Power shall be responsible for all losses of Energy beyond the high side of the Generator Step-up Transformer.

10.4 Use of Transmission Facilities. Use of the Transmission Facilities shall be in accordance with the rates, terms and conditions of Square Butte's Transmission Tariff.

ARTICLE XI
ACCOUNTING, AUDIT RIGHTS, AND INFORMATION SHARING

11.1 Records and Accounts; Audits. Square Butte agrees to keep accurate records and accounts for Unit #2 in accordance with the Uniform System of Accounts, separate and distinct from other records and accounts. Said accounts shall be audited annually by a firm of certified public accountants, experienced in electric utility accounting and acceptable to Minnesota Power, to be employed by Square Butte. Said annual audit shall cover the transactions of the Contract Year.

11.2 Copies of Audits. A copy of each annual audit, including all written comments and recommendations of such accountants, shall be furnished by Square Butte upon request to Minnesota Power.

11.3 Examination of Records. All operating and financial records and reports relating to Unit #2 and the Joint Facilities may be examined by Minnesota Power at the office of Square Butte or at the site of Unit #2 at reasonable times and at its own expense.

11.4 Insurance Policies. Copies of policies of insurance carried by Square Butte pursuant to Article XII shall be available at the office of Square Butte for inspection by Minnesota Power.

11.5 Access to Facilities. Minnesota Power's representatives shall at all reasonable times be given access to Unit #2 and the Joint Facilities, and the records and reports referred to in Section 11.3 and Section 11.4.

ARTICLE XII
INSURANCE AND EMINENT DOMAIN

12.1 Insurance. Square Butte agrees to obtain and maintain in full force and effect during the term of this Agreement, with responsible insurers, appropriate insurance in amounts and with deductibles satisfactory to Minnesota Power and Square Butte and in conformity with the Indenture.

12.2 Settlement of Claims. Square Butte agrees not to accept or agree to any settlement of any material claim it may have against any of its insurers without the prior written consent of Minnesota Power, which consent shall not be unreasonably withheld or delayed.

12.3 Eminent Domain. If any of Square Butte's properties shall be taken by or become subject to the exercise of the power of eminent domain, Square Butte shall promptly notify Minnesota Power and afford it an opportunity to participate in any proceedings with respect thereto. Square Butte shall not agree to the settlement of any such eminent domain proceeding without the prior written consent of Minnesota Power, which consent shall not be unreasonably withheld or delayed.

ARTICLE XIII
FAILURE OF PERFORMANCE AND LIABILITY

13.1 Liability and Indemnification. Square Butte and Minnesota Power each assumes full responsibility and liability for the maintenance and operation of its respective properties, including any property leased to either pursuant to lease agreements, and shall indemnify and save harmless the other Party from all liability and expense on account of any and all damages, claims or actions, including injury to or death of persons arising from any act, omission or accident in connection with a Party's installation, maintenance and operation of property and equipment.

13.2 Failure to Perform. In the event that either Party fails to perform its obligations hereunder, such Party shall be liable to the other Party for direct actual damages for such failure to perform. In the case of a failure to perform by Minnesota Power, such direct actual damages are in addition to Minnesota Power's payment obligations under Article IV. In no event shall Minnesota Power be relieved of its obligations under Article IV as a result of its payment of such direct actual damages.

13.3 Uncontrollable Forces.

13.3.1 Performance Excused. Notwithstanding any provision of this Agreement, the performance of the obligations set forth in this Agreement (other than the payment of any monies due hereunder) shall be suspended or excused in the event that such performance is adversely affected by an Uncontrollable Force or its adverse effects; provided, however, that nothing in this Section 13.3 shall excuse Minnesota Power from its obligations under Section 4.1.

13.3.2 Obligation to Remove Disability. A Party affected by an Uncontrollable Force shall use due diligence to place itself in a position to fulfill its obligations hereunder, and if unable to fulfill any obligation by reason of an Uncontrollable Force, such Party shall exercise due diligence to remove such disability at the earliest practicable time.

13.3.3 Actions of Third Parties. The action or inaction of any Affiliate or any third party contractor or subcontractor of a Party shall not be an Uncontrollable Force unless (a) such third party's action or failure to act is itself the result of an Uncontrollable Force, (b) such third party affected by an Uncontrollable Force is using due diligence to place itself in a position to fulfill its obligations to the Party, and (c) if such third party is unable to fulfill any obligation by reason of an Uncontrollable Force, such third party is exercising due diligence to remove such disability at the earliest practicable time.

13.4 Limitation on Damages. To the fullest extent permitted by law, neither Party shall have liability to the other Party for any indirect, consequential, multiple, punitive, or special damages unless such damages are the result of the Party's bad faith, gross negligence or willful misconduct.

ARTICLE XIV
DISPUTE RESOLUTION

14.1 Dispute Resolution. In the event of a dispute between the Parties arising out of the performance or non-performance of this Agreement, the Parties will in good faith negotiate to resolve such dispute. If the Parties are unable to resolve the dispute through such good faith negotiations within a reasonable amount of time, then the dispute shall be subject to the dispute resolution procedures set forth herein.

14.2 Mediation. If the Parties are unable through good faith negotiations between themselves to resolve such a dispute, then they will endeavor to resolve the dispute by mediation in good faith accordance with the Commercial Mediation Rules of the American Arbitration Association then in effect, and this shall be a condition precedent to the commencement of any arbitration.

14.3 Arbitration. Any controversy or claim arising out of or relating to this Agreement or the breach of any part thereof, or appeal from action of one of the Parties to this Agreement, which is not resolved through good faith negotiations or mediation between the Parties, shall be settled by arbitration, in accordance with the following procedures.

14.3.1 Arbitration Rules. Such arbitration shall be conducted before a single arbitrator selected by the American Arbitration Association and the arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect, subject to the further qualification that the arbitrator named under said rules shall be unbiased and qualified by virtue of education and experience in the particular matter subject to arbitration.

14.3.2 Notice. The Party desiring arbitration shall demand such arbitration by giving written notice to the other Party involved. Such notice shall conform to the procedures of the American Arbitration Association and shall include a statement of the facts or circumstances causing the controversy and the resolution, determination or relief sought by the Party desiring arbitration.

14.3.3 Pre-Arbitration Conference. Before the matter is presented to the arbitrator, a conference shall be held to stipulate as many facts as possible and to clarify and narrow the issues to be submitted to arbitration.

14.3.4 Authority of Arbitrators. The arbitrator shall have no authority, power or jurisdiction to alter, amend, change, modify, add to or subtract from any of the provisions of this Agreement, nor to consider any issues arising other than from the language in and authority derived from this Agreement.

14.3.5 Decision or Award. The decision or award of the arbitrator shall be final and binding upon the Parties and the Parties shall do such acts as the arbitration decision or

award may require of them. Judgment upon any award rendered by the arbitrator may be entered in any court having jurisdiction and execution issued thereon. This provision shall survive the termination of this Agreement.

14.3.6 Costs. Cost of the arbitration shall be shared equally unless the award shall specify a different division of cost.

ARTICLE XV
ASSIGNMENT

15.1 Permitted Assignments. Subject to any additional limitations set forth in the Indenture and except as provided in Section 15.1.1 and Section 15.1.2, neither Party may assign its rights and obligations under this Agreement without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed.

15.1.1 Assignment by Square Butte. Minnesota Power agrees to Square Butte's sale, transfer and assignment of its right, title and interest in this Agreement, including any and all extensions, renewals, amendments, modifications and supplements hereto, and all amounts due hereunder, as security for its obligations, without such assignees assuming or becoming in any respect obligated to perform any of the obligations of Square Butte hereunder, and, if any such assignee be a corporation, without its being required by the Parties hereto to qualify to do business in the State of North Dakota, and any such assignee may transfer, convey and assign all of its right, title and interest in, to or by virtue of this Agreement in connection with any proceeding (whether or not judicial) to realize on any security interests granted to it to secure Square Butte's obligations to any purchaser of any part of the property subject to such security interests, or exercise any other remedy permitted by the documents governing its security interests. This Agreement may not be terminated other than in accordance with its terms, and the terms and provisions of this Agreement may not be amended, altered, modified or waived except as permitted under the Indenture. No such assignment for security shall impose on any assignee any of the duties, obligations or liabilities of Square Butte hereunder, but the assignee shall acquire thereby all the rights of Square Butte hereunder as shall be necessary for it to collect and receive all such amounts payable hereunder, so as to constitute such assignee the beneficiary of the obligations of Minnesota Power set forth hereunder. Minnesota Power agrees to execute and cooperate in filing any acknowledgment or consent to any assignment as described above.

15.1.2 Assignment by Minnesota Power. Square Butte agrees to the assignment by Minnesota Power of this Agreement and Minnesota Power's respective rights hereunder, but not to the delegation by Minnesota Power of its respective obligations hereunder, to an Affiliate of Minnesota Power.

ARTICLE XVI
MISCELLANEOUS

16.1 Waiver of Default. Any waiver at any time by either Party of its rights with respect to any default of the other Party hereto, or with respect to any other matter arising in connection with this Agreement, shall not be considered a waiver with respect to any other default or matter.

16.2 Notices and Computation of Time. Any notice or demand, except those provided for in Article VI and Article XIII, by Minnesota Power under this Agreement to Square Butte shall be deemed properly given if mailed postage prepaid and addressed to Square Butte Electric Cooperative, P.O. Box 13200, Grand Forks, North Dakota 58208-3200, Attention: General Manager; any notice or demand by Square Butte under this Agreement to Minnesota Power shall be deemed properly given if mailed postage prepaid and addressed to Minnesota Power, Inc., 30 West Superior Street, Duluth, Minnesota 55802, Attention: Chief Executive Officer; and in computing any period of time from such notice, such period shall commence at 11:59 p.m. CPT of the day mailed. Notices of demands delivered pursuant to Article VI and Article XIII shall be deemed given when received. A Party may change at any time the designation of the name and address to which any notice or demand is directed by giving written notice of such change to the other Party as above provided.

16.3 Minnesota Power Financial Information. Minnesota Power agrees to furnish Square Butte adequate copies of the financial information relating to Minnesota Power which Square Butte is obligated to furnish to the Trustee pursuant to the Indenture at such times as Square Butte shall require to enable it to satisfy such obligation.

16.4 Governing Law. The Parties hereto agree that this Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

16.5 Counterparts. This Agreement may be executed simultaneously in several counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

16.6 Rules of Construction.

16.6.1 Captions and Headings. Captions and section headings, other than in Article I, are for ease of reading and reference and are not intended to be a part of this Agreement and shall have no binding effect.

16.6.2 Including. Wherever the term "including" is used in this Agreement, such term shall not be construed as limiting the generality of any statement, clause, phrase, or term.

16.6.3 Singular and Plural. The terms defined in this Agreement shall be applicable to the plural as well as the singular and the singular as well as the plural.

16.6.4 Time of the Essence. Time is of the essence of this Agreement.

16.7 Joint Operating Committee. There shall be established hereunder a Joint Operating Committee, the membership, functions and duties of which shall be set forth in the Joint Operating Agreement.

16.8 Survival. The applicable provisions of this Agreement shall continue in effect after termination of this Agreement to the extent necessary to provide for final billing, billing adjustments and payments, and with respect to liability and indemnification from acts or events that occurred while this Agreement was in effect.

16.9 Amendments. Subject to any additional limitations set forth in the Indenture, no amendment to this Agreement shall be effective unless it is in writing, executed by both Parties, and has been approved or accepted for filing and permitted to go into effect by any Governmental Authority having jurisdiction.

16.10 Governmental Approvals. It is recognized by the Parties that this Agreement may be subject to Governmental Approvals. Each Party agrees to cooperate with the other Party in obtaining any necessary Governmental Approvals of this Agreement or any amendment thereto.

16.11 Other Business. Square Butte agrees not to engage in any business or activity other than the ownership and operation of Unit #2, the Transmission Facilities and the Joint Facilities.

16.12 Additional Financing; Sale of Facilities. Square Butte may desire or be required to arrange financing for Unit #2 and/or the Transmission Facilities, including, but not limited to, financing for subsequent additions or replacements. Square Butte agrees that it will not enter into any such arrangement without the prior written consent of Minnesota Power, which consent shall not be unreasonably withheld, it being expressly recognized herein that Minnesota Power's obligation to pay Monthly Charges for Capacity and Energy could be increased by any such arrangement. Prior to the Plant Closure Date, Square Butte shall not sell any substantial portion of its assets without the prior written consent of Minnesota Power, which consent shall not be unreasonably withheld, it being expressly recognized herein that Minnesota Power's obligation to pay Monthly Charges for Capacity and Energy and other charges under this Agreement could be affected by any such transaction.

16.13 Modification of Certain Instruments. Square Butte shall not, without the written consent of Minnesota Power, amend, modify, supplement or otherwise change the Indenture or the Trustee thereunder.

16.14 Obligation to Pay Decommissioning Costs. In recognition of the fact that the Monthly Charge for Capacity and Energy hereunder does not contain a component to recover Decommissioning Costs, Minnesota Power shall pay a share of Decommissioning Costs, as provided in the Joint Operating Agreement.

IN WITNESS WHEREOF, each of the Parties has caused this Agreement to be executed and delivered by its duly authorized representative.

[CORPORATE SEAL]

MINNESOTA POWER, INC.

Attest:

/s/ James Vizanko

Treasurer

/s/ Steven W. Tyacke

Assistant General Counsel

[CORPORATE SEAL]

SQUARE BUTTE ELECTRIC
COOPERATIVE

Attest:

/s/ Robert L. Nelson

President

/s/ Rudolph Nelson

Secretary-Treasurer

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 JUNE 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

6-MOS	DEC-31-1998	JAN-01-1998	JUN-30-1998	PER-BOOK
	1,101			
	438			
	497			
	60			
		223		
		2,319		
			430	
	0			
		305		
673		75		
			32	
		682		
		188		
	0			
0				
4				
	0			
			0	
603				
2,319				
	516			
		28		
	416			
	452			
		72		
			5	
77				
	36			
			41	
	1			
40				
	32			
	0			
		41		
			1.29	
			1.29	

Includes \$8 million of Income from Equity Investments and \$3 million of Distributions on Redeemable Preferred Securities of Subsidiary.