

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 March 31, 1997

or

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

Commission File No. 1-3548

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

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

Yes            X            No

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Common Stock, no par value,  
32,958,014 shares outstanding  
as of April 30, 1997

Minnesota Power & Light Company

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## Definitions

The following abbreviations or acronyms are used in the text.

Abbreviation or Acronym	Term
1996 Form 10-K	Minnesota Power's Annual Report on Form 10-K for the Year Ended December 31, 1996
ADESA	ADESA Corporation
AFC	Automotive Finance Corporation
BNI Coal	BNI Coal, Ltd.
Common Stock Company	Minnesota Power & Light Company's common stock Minnesota Power & Light Company and its Subsidiaries
DOJ	United States Department of Justice
DRIP	Dividend Reinvestment and Stock Purchase Plan
EPA	United States Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FERC	Federal Energy Regulatory Commission
Heater	Heater Utilities, Inc.
ISI	Instrumentation Services, Inc.
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
Lehigh	Lehigh Acquisition Corporation
Minnesota Power	Minnesota Power & Light Company and its Subsidiaries
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
NCUC	North Carolina Utilities Commission
Palm Coast	Palm Coast Holdings, Inc.
PSCW	Public Service Commission of Wisconsin
SCPSC	South Carolina Public Service Commission
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company

PART I. FINANCIAL INFORMATION  
Item 1. Financial Statements

Minnesota Power  
Consolidated Balance Sheet  
In Thousands

	March 31, 1997 Unaudited	December 31, 1996 Audited
-----		
Assets		
Plant and Other Assets		
Electric operations	\$ 792,239	\$ 796,055
Water services	319,904	323,869
Automotive services	164,369	167,274
Investments	234,261	236,509
	-----	-----
Total plant and other assets	1,510,773	1,523,707
	-----	-----
Current Assets		
Cash and cash equivalents	58,851	40,095
Trading securities	95,498	86,819
Trade accounts receivable (less reserve of \$8,250 and \$6,568)	207,208	144,060
Notes and other accounts receivable	19,425	20,719
Fuel, material and supplies	23,796	23,221
Prepayments and other	15,493	17,195
	-----	-----
Total current assets	420,271	332,109
	-----	-----
Deferred Charges		
Regulatory	78,401	83,496
Other	30,366	27,086
	-----	-----
Total deferred charges	108,767	110,582
	-----	-----
Intangible Assets		
Goodwill	164,739	166,986
Other	11,984	12,665
	-----	-----
Total intangible assets	176,723	179,651
	-----	-----
Total Assets	\$ 2,216,534	\$ 2,146,049
-----		
Capitalization and Liabilities		
Capitalization		
Common stock without par value, 65,000,000 shares authorized 32,934,958 and 32,758,310 shares outstanding	\$ 399,185	\$ 394,187
Unearned ESOP shares	(68,213)	(69,124)
Net unrealized gain on securities investments	733	2,752
Cumulative translation adjustment	86	73
Retained earnings	282,787	282,960
	-----	-----
Total common stock equity	614,578	610,848
Cumulative preferred stock	11,492	11,492
Redeemable serial preferred stock	20,000	20,000
Company obligated mandatorily redeemable preferred securities of subsidiary MP&L Capital I which holds solely Company Junior Subordinated Debentures	75,000	75,000
Long-term debt	683,834	694,423
	-----	-----
Total capitalization	1,404,904	1,411,763
	-----	-----
Current Liabilities		
Accounts payable	106,535	72,787
Accrued taxes	61,551	48,813
Accrued interest and dividends	10,029	14,851
Notes payable	174,793	155,726
Long-term debt due within one year	25,178	7,208
Other	36,628	37,598
	-----	-----
Total current liabilities	414,714	336,983
	-----	-----
Deferred Credits		
Accumulated deferred income taxes	148,875	148,931
Contributions in aid of construction	99,090	98,378
Regulatory	63,881	64,394
Other	85,070	85,600
	-----	-----

Total deferred credits	396,916	397,303
	-----	-----
Total Capitalization and Liabilities	\$ 2,216,534	\$ 2,146,049

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The accompanying notes are an integral part of these statements.

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

	Quarter Ended March 31,	
	1997	1996
-----		
Operating Revenue and Income		
Electric operations	\$ 131,457	\$ 131,501
Water services	20,648	19,227
Automotive services	60,510	39,693
Investments	9,458	12,255
	-----	-----
Total operating revenue and income	222,073	202,676
	-----	-----
Operating Expenses		
Fuel and purchased power	44,029	43,643
Operations	138,379	119,822
Interest expense	17,308	14,160
	-----	-----
Total operating expenses	199,716	177,625
	-----	-----
Income from Equity Investment	4,042	3,777
	-----	-----
Operating Income	26,399	28,828
Distributions on Redeemable Preferred Securities of Subsidiary	1,509	201
Income Tax Expense	8,796	10,324
	-----	-----
Net Income	16,094	18,303
Dividends on Preferred Stock	487	800
	-----	-----
Earnings Available for Common Stock	\$ 15,607	\$ 17,503
	=====	=====
Average Shares of Common Stock	30,223	28,786
Earnings Per Share of Common Stock	\$ .52	\$ .61
Dividends Per Share of Common Stock	\$ .51	\$ .51

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The accompanying notes are an integral part of this statement.

Minnesota Power  
Consolidated Statement of Cash Flows  
In Thousands - Unaudited

	Quarter Ended March 31,	
	1997	1996
<b>Operating Activities</b>		
Net income	\$ 16,094	\$18,303
Income from equity investment	(4,042)	(3,777)
Depreciation and amortization	17,961	16,216
Deferred income taxes	(438)	(742)
Deferred investment tax credits	(493)	(623)
Pre-tax gain on sale of plant	(3,376)	(1,073)
Changes in operating assets and liabilities		
Trading securities	(8,679)	(5,948)
Notes and accounts receivable	(59,378)	(45,776)
Fuel, material and supplies	(575)	3,584
Accounts payable	33,748	33,532
Other current assets and liabilities	8,648	24,279
Other - net	3,315	5,342
	-----	-----
Cash from operating activities	2,785	43,317
	-----	-----
<b>Investing Activities</b>		
Proceeds from sale of investments in securities	11,882	7,849
Proceeds from sale of plant	4,375	-
Additions to investments	(7,809)	(672)
Additions to plant	(8,558)	(25,427)
Changes to other assets - net	966	250
	-----	-----
Cash from (for) investing activities	856	(18,000)
	-----	-----
<b>Financing Activities</b>		
Issuance of common stock	4,935	4,546
Issuance of long-term debt	76,000	77,108
Issuance of Company obligated mandatorily redeemable preferred securities of subsidiary MP&L Capital I - net	-	72,638
Changes in notes payable - net	19,067	(53,821)
Reductions of long-term debt	(68,620)	(81,217)
Dividends on preferred and common stock	(16,267)	(15,878)
	-----	-----
Cash from financing activities	15,115	3,376
	-----	-----
Change in Cash and Cash Equivalents	18,756	28,693
Cash and Cash Equivalents at Beginning of Period	40,095	31,577
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 58,851	\$ 60,270
	=====	=====
<b>Supplemental Cash Flow Information</b>		
Cash paid during the period for		
Interest (net of capitalized)	\$ 18,366	\$ 17,781
Income taxes	\$ 2,362	\$ 2,844

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The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with the Company's 1996 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  
In Thousands

	Consolidated	Electric Operations	Water Services	Automotive Services	Investments		Corporate Charges & Other
					Portfolio & Reinsurance	Real Estate	
Quarter Ended March 31, 1997							
Operating revenue and income	\$ 222,073	\$ 131,457	\$ 20,648	\$ 60,510	\$ 4,949	\$ 4,831	\$ (322)
Operation and other expense	164,447	94,872	14,046	47,856	537	3,844	3,292
Depreciation and amortization expense	17,961	11,163	3,177	3,510	-	38	73
Interest expense	17,308	5,381	2,700	2,355	255	297	6,320
Income from equity investment	4,042	-	-	-	4,042	-	-
Operating income (loss)	26,399	20,041	725	6,789	8,199	652	(10,007)
Distributions on redeemable preferred securities of subsidiary	1,509	420	-	-	-	-	1,089
Income tax expense (benefit)	8,796	7,399	314	3,589	2,891	317	(5,714)
Net income (loss)	\$ 16,094	\$ 12,222	\$ 411	\$ 3,200	\$ 5,308	\$ 335	\$(5,382)
Total assets	\$2,216,534	\$ 982,630	\$ 342,832	\$ 540,093	\$ 263,746	\$ 85,409	\$ 1,824
Accumulated depreciation	\$ 670,881	\$ 541,863	\$ 121,214	\$ 7,804	-	-	-
Accumulated amortization	\$ 10,512	-	-	\$ 9,425	-	\$ 1,087	-
Construction work in progress	\$ 32,842	\$ 11,447	\$ 10,866	\$ 10,529	-	-	-
Quarter Ended March 31, 1996							
Operating revenue and income	\$ 202,676	\$ 131,501	\$ 19,227	\$ 39,693	\$ 3,869	\$ 8,676	\$ (290)
Operation and other expense	147,249	95,307	11,518	34,202	523	3,213	2,486
Depreciation and amortization expense	16,216	10,499	3,137	2,550	-	30	-
Interest expense	14,160	5,598	3,287	1,291	1	2	3,981
Income from equity investment	3,777	-	-	-	3,777	-	-
Operating income (loss)	28,828	20,097	1,285	1,650	7,122	5,431	(6,757)
Distributions on redeemable preferred securities of subsidiary	201	77	-	-	-	-	124
Income tax expense (benefit)	10,324	7,773	450	662	1,969	2,363	(2,893)
Net income (loss)	\$ 18,303	\$ 12,247	\$ 835	\$ 988	\$ 5,153	\$ 3,068	\$(3,988)
Total assets	\$2,027,708	\$ 990,018	\$ 340,312	\$ 429,604	\$ 210,973	\$ 55,225	\$ 1,576
Accumulated depreciation	\$ 631,694	\$ 518,311	\$ 110,536	\$ 2,847	-	-	-
Accumulated amortization	\$ 4,195	-	-	\$ 3,398	-	\$ 797	-
Construction work in progress	\$ 55,491	\$ 12,835	\$ 14,880	\$ 27,776	-	-	-

## Note 2. Regulatory Matters

FPSC Refund Order in Connection with 1991 Rate Case. Responding to a Florida Supreme Court decision addressing the issue of retroactive ratemaking with respect to another company, in March 1996 the FPSC voted to reconsider an October 1995 order (Refund Order) which would have required Florida Water to refund about \$13 million, which includes interest, to customers who paid more since October 1993 under uniform rates than they would have paid under stand-alone rates. Under the Refund Order, the collection through a surcharge of the \$13 million from customers who paid less under uniform rates was not permitted. The Refund Order was in response to the Florida First District Court of Appeals (Court of Appeals) reversal in April 1995 of the 1993 FPSC order which imposed uniform rates for most of Florida Water's service areas in Florida. With "uniform rates," all customers in the uniform rate areas pay the same rates for water and wastewater services. Uniform rates are an alternative to "stand-alone" rates which are calculated based on the cost of serving each service area. The FPSC reconsidered the Refund Order, but in August 1996 upheld by a 3 to 2 vote its decision to order refunds without offsetting surcharges. Florida Water filed an appeal of this decision with the Court of Appeals. A decision on the appeal is anticipated by the end of 1997. The Company continues to believe that it is improper for the FPSC to order a refund to one group of customers without permitting recovery of a similar amount from the remaining customers since the Court of Appeals affirmed the Company's total revenue requirement for operations in Florida. No provision for refund has been recorded. The Company is unable to predict the outcome of this matter.

Florida Water's 1995 Rate Case. Florida Water requested an \$18.1 million rate increase in June 1995. On October 30, 1996 the FPSC issued its final order in the Florida Water rate case. The final order established water and wastewater rates for all customers of Florida Water regulated by the FPSC. The new rates, which became effective on September 20, 1996, resulted in an annualized increase in revenue of approximately \$11.1 million. This increase included, and was not in addition to, the \$7.9 million increase in annualized revenue granted as interim rates effective on January 23, 1996. The FPSC approved a new rate structure called "capband," which replaces uniform rates. With capband rates, areas with similar cost of service are grouped into one of a number of rate bands, and all customers within a given band are charged the same rate. This rate structure is designed so that a customer's bill will not exceed a certain "cap" unless the customer's usage exceeds an assumed level. On November 1, 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 with the Court of Appeals regarding the FPSC's final order. The Company is unable to predict the outcome of this matter. Florida law provides that the new rates be implemented, subject to refund, while the order is under appeal.

Florida Jurisdictional Issues. In June 1995 the FPSC issued an order assuming jurisdiction over Florida Water facilities statewide following an investigation of all of Florida Water's facilities. Several counties in Florida appealed this FPSC decision to the Court of Appeals. In December 1996 the Court of Appeals issued an opinion reversing the FPSC order. In January 1997 the Court of Appeals denied motions for rehearing. No further appeals were filed.

Hernando County Rates. On February 14, 1997 the FPSC issued an order which requires Florida Water to charge rates to customers in Hernando County based on a modified stand-alone rate structure instead of the uniform rate structure set by the FPSC in the 1991 rate case and currently in effect. The imposition of this rate structure would reduce Florida Water revenue by \$1.6 million on a prospective annual basis. On February 28, 1997 Florida Water filed a motion with the FPSC for reconsideration of this order. Florida Water's February 28, 1997 request for reconsideration of this order was heard on May 6, 1997, at which time the FPSC indicated the request would be denied. Florida Water plans on appealing this denial when the written order is received. Since the order involves a rate reduction, Florida Water believes that, under FPSC rules, the FPSC must grant a stay of this rate reduction pending the outcome of any appeals. The Company is unable to predict the outcome of this matter.

Since Hernando County has assumed jurisdiction over Florida Water's rates within the county, Florida Water filed a rate increase in April 1997 as requested by Hernando County. Final rates resulting in \$8 million in annualized revenues for water and wastewater services, if approved by Hernando County, would result in a \$124,000 net annual increase from current revenue levels. By law, the County must take action by June 1997 on Florida Water's request for interim rates.



Note 3. Square Butte Purchased Power Contract

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

The cost of the power and energy is a proportionate share of Square Butte's fixed obligations and variable operating costs, based on the percentage of the total output purchased by the Company. The annual fixed obligations of the Company to Square Butte are \$20.1 million from 1997 through 2001. The variable operating costs are not incurred unless production takes place. The Company is responsible for paying all costs and expenses of Square Butte if not paid by Square Butte when due. These obligations and responsibilities of the Company are absolute and unconditional whether or not any power is actually delivered to the Company.

Note 4. Income Tax Expense

Schedule of Income Tax Expense (Benefit)	Quarter Ended	
	1997	March 31, 1996
-----		
In Thousands		
Current tax		
Federal	\$ 8,208	\$ 8,859
Foreign	(353)	(101)
State	1,872	2,931
	-----	-----
	9,727	11,689
	-----	-----
Deferred tax		
Federal	(149)	(12)
State	(289)	(730)
	-----	-----
	(438)	(742)
	-----	-----
Deferred tax credits	(493)	(623)
	-----	-----
Total income tax expense	\$ 8,796	\$ 10,324
	-----	-----

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

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

Earnings per share of common stock for the quarter ended March 31, 1997 were 52 cents compared to 61 cents for the quarter ended March 31, 1996. Earnings in 1997 reflect a significant increase in automotive services due to the expansion of ADESA's automobile auction operations and AFC's dealer floor plan financing business. 1997 earnings also reflect a solid performance from electric operations, consistent performance by the portfolio and reinsurance part of the investments segment, and a decrease in earnings from water services due to a loss incurred by ISI. Corporate charges and other reflect increased debt service costs due to the higher balance of commercial paper in 1997 and a full quarter of distributions with respect to the Cumulative Quarterly Income Preferred Securities issued in March 1996. Earnings in 1996 reflect a gain from the sale of water assets and a significant gain from the sale of a real estate joint venture interest by the real estate part of the investments segment.

Earnings Per Share	Quarter Ended March 31, 1997	1996
Electric Operations	\$ .40	\$ .41
Water Services	.01	.03
Automotive Services	.11	.03
Investments		
Portfolio and reinsurance	.18	.18
Real estate	.01	.11
	.19	.29
Corporate Charges and Other	(.19)	(.15)
Total Earnings Per Share	\$ .52	\$ .61

Consolidated Financial Comparison of the Quarters Ended March 31, 1997 and 1996.

Operating Revenue and Income. Electric operations operating revenue and income was down slightly compared to 1996 due to a 2 percent decrease in total kilowatthour sales. The decrease is attributed to a decline in sales to other power suppliers due to the fact that less power was available for resale. The decrease was partially offset by an increase in sales to large power taconite and paper customers because of more favorable winter weather conditions allowing higher production of taconite pellets compared to 1996 and an increased demand for paper.

Water services operating revenue and income was 7 percent higher in 1997 primarily because of increased rates approved by the FPSC in September 1996. A \$1.1 million pre-tax gain from the sale of water assets was included in 1996.

Automotive Services. The addition of eight automobile auction sites during 1996 was the primary factor that contributed to the 52 percent increase in automotive services operating revenue and income and the 29 percent increase in the number of cars sold. The expansion of AFC's dealer financing business also contributed to higher operating revenue and income.

Investments operating revenue and income was lower in 1997 because 1996 included \$3.7 million from the sale of Lehigh's joint venture investment in a resort and golf course.

Operations expenses were \$18.6 million higher in 1997. The increase reflects \$8.7 million of expenses from the eight automobile auction sites added by ADESA in 1996. The expansion of AFC, and the 1996 additions of ISI and Palm Coast, increased operations expense \$4.9 million in 1997.

Interest expense was higher in 1997 due primarily to a higher balance of commercial paper used to fund the expansion of automotive services.

Distributions on redeemable preferred securities of subsidiary are higher in 1997 because the securities were outstanding for the entire quarter in 1997 compared to less than one month in 1996.

#### Business Segment Comparison of the Quarters Ended March 31, 1997 and 1996.

**Electric Operations.** Operating revenue and income from electric operations was down slightly compared to 1996 due to a 2 percent decrease in total kilowatthour sales. The decrease is attributed to a decline in sales to other power suppliers due to the fact that less power was available for resale. The decrease was partially offset by an increase in sales to large power taconite and paper customers because of more favorable winter weather conditions allowing higher production of taconite pellets compared to 1996 and an increased demand for paper.

Revenue from electric sales to taconite customers accounted for 32 percent of electric operating revenue in 1997 compared to 31 percent in 1996. Electric sales to paper and other wood-products companies accounted for 12 percent of electric operating revenue in 1997 and 11 percent in 1996. Sales to other power suppliers accounted for 3 percent of electric operating revenue in 1997 compared to 5 percent in 1996.

**Water Services.** Operating revenue and income from water services was higher in 1997 primarily because of increased rates approved by the FPSC in 1996 for Florida Water customers. The increase was offset by less revenue following the sale of two water systems by Heater in 1996. The first quarter of 1996 included a \$1.1 million pre-tax gain on the sale of one water system in South Carolina. ISI, which was acquired in April 1996, increased revenue by \$1.0 million and operating expenses by \$1.6 million in 1997.

**Automotive Services.** The addition of eight automobile auction sites during 1996 was the primary factor that contributed to the 52 percent increase in operating revenue and income and the 29 percent increase in the number of cars sold. The expansion of AFC's dealer financing business also contributed to higher operating revenue and income. The eight additional automobile auction sites increased operating expenses by \$8.7 million in 1997.

#### Investments.

- Securities Portfolio and Reinsurance. The Company's securities portfolio and reinsurance earned an annualized after tax return of 10.1 percent in 1997 compared to 9.2 percent in 1996.
- Real Estate Operations. Revenue was down in 1997 as a result of fluctuations in sales from quarter to quarter. Revenue in 1996 included \$3.7 million from the sale of Lehigh's joint venture investment in a resort and golf course. Also, the April 1996 acquisition of Palm Coast increased 1997 operating expenses by \$1.3 million.

## Liquidity and Financial Position

Reference is made to the Consolidated Statement of Cash Flows for the three months ended March 31, 1997 and 1996, for purposes of the following discussion.

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

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

On May 1, 1997 AFC sold an additional \$25 million of receivables to a third party purchaser, in total \$75 million. Under the terms of the five year agreement, the purchaser agrees to make reinvestments up to \$100 million to the extent that such reinvestments are supported by eligible receivables. Proceeds from the sale of the receivables were used to repay borrowings from the Company.

Capital Requirements. Consolidated capital expenditures for the three months ended March 31, 1997 totaled \$15.1 million. These expenditures include \$7.7 million for electric operations, \$5.7 million for water services and \$1.7 million for automotive services. Internally generated funds were the primary source for funding electric and water operation expenditures. ADESA issued long-term debt to finance its capital expenditures.

New Accounting Standard. In February 1997 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings per Share," effective for financial statements for both interim and annual periods ending after December 15, 1997. Earlier application is not permitted. SFAS 128 specifies the computation, presentation and disclosure requirements for earnings per share (EPS). The objective of the new standard is to simplify the computation of EPS and make the U.S. standard for this computation more compatible with the EPS standards of other countries and with that of the International Accounting Standards Committee. The adoption of SFAS 128 is expected to be immaterial to the Company's results of operations.

PART II. OTHER INFORMATION

Item 5. Other Information

Reference is made to the Company's 1996 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to the Company's 1996 Form 10-K.

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

On May 2, 1997 the MPUC approved a new Large Power contract with Inland Steel Mining Co. (Inland). The agreement provides for Minnesota Power to remain Inland's sole electric supplier through December 31, 2007.

Ref. Page 8. - Fifth Paragraph

On March 14, 1997 the Public Service Commission of Wisconsin approved SWL&P's request to serve potential natural gas customers in the Solon Springs and Bennett, Wisconsin areas. The project is expected to cost \$1.5 million and will be funded in part through a surcharge to new customers in the expansion area over a five-year period.

Ref. Page 14. - Second Paragraph

Since Hernando County has assumed jurisdiction over Florida Water's rates within the county, Florida Water filed a rate increase in April 1997 as requested by Hernando County. Final rates resulting in \$8 million in annualized revenues for water and wastewater services, if approved by Hernando County, would result in a \$124,000 net annual increase from current revenue levels. By law, the County must take action by June 1997 on Florida Water's request for interim rates.

Ref. Page 15. - Sixth Paragraph

On April 14, 1997 the DOJ, on behalf of the EPA, served Florida Water with a complaint in a civil action in the U.S. District Court for the Middle District of Florida (District Court). The suit seeks civil penalties of not to exceed \$25,000 per day for each 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. Florida Water timely filed with the District Court the answer to the complaint on May 5, 1997.

Ref. Page 16. - Fourth Paragraph

On March 31, 1997 ADESA signed a letter agreement to participate in a joint venture to open a new automobile auction in Sacramento, California. The Sacramento site is on 37 acres with five auction lanes. On March 31, 1997 ADESA sold its Sarasota/Bradenton auction facilities in Florida in favor of emphasizing its Jacksonville and South Florida auctions.

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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", "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: (i) prevailing governmental policies and regulatory actions, including those of the FERC, the MPUC, the FPSC, the NCUC, the SCPSC 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 present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs); (ii) economic and geographic factors including political and economic risks; (iii) changes in and compliance with environmental and safety laws and policies; (iv) weather conditions; (v) population growth rates and demographic patterns; (vi) competition for retail and wholesale customers; (vii) pricing and transportation of commodities; (viii) market demand, including structural market changes; (ix) changes in tax rates or policies or in rates of inflation; (x) changes in project costs; (xi) unanticipated changes in operating expenses and capital expenditures; (xii) capital market conditions; (xiii) competition for new energy development opportunities; and (xiv) legal and administrative proceedings (whether civil or criminal) and settlements that influence the business and profitability of the Company.

Any forward-looking statements 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.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

4 Second Supplemental Indenture, dated as of March 31, 1997, between Southern States Utilities, Inc.(now Florida Water Services Corporation) and Nationsbank of Georgia, National Association (now SunTrust Bank, Central Florida, N.A.), as Trustee.

27 Financial Data Schedule

(b) Reports on Form 8-K.

Report on Form 8-K dated and filed March 19, 1997 with respect to Item 7. Financial Statements and Exhibits.

Signatures

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

Minnesota Power & Light Company

-----  
(Registrant)

May 9, 1997

D. G. Gartzke

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

May 9, 1997

Mark A. Schober

-----  
Mark A. Schober  
Controller

Prepared by and Return to:  
Gregory W. Glass  
Sobering, White & Luczak, P.A.  
201 South Orange Ave., Ste. 1000  
Orlando, FL 32801

-----  
FLORIDA WATER SERVICES CORPORATION,  
formerly known as Southern States Utilities, Inc.

to

SUNTRUST BANK, CENTRAL FLORIDA,  
NATIONAL ASSOCIATION,

Successor to NationsBank of Georgia, National  
Association, as Trustee under Indenture dated as  
of March 1, 1993.

-----  
SECOND SUPPLEMENTAL INDENTURE

Relating to up to \$10,000,000 Principal Amount  
of First Mortgage Bonds, 8.137% Series  
due July 31, 2022

-----  
Dated as of March 31, 1997  
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SECOND SUPPLEMENTAL INDENTURE

THIS SECOND SUPPLEMENTAL INDENTURE (the "Second Supplemental Indenture") is made and entered into as of the 31st day of March, 1997 by and between (i) FLORIDA WATER SERVICES CORPORATION, a Florida corporation, formerly known as Southern States Utilities, Inc. (hereinafter called the "Company") and (ii) SUNTRUST BANK, CENTRAL FLORIDA, NATIONAL ASSOCIATION, successor to NationsBank of Georgia, National Association, as Trustee (the "Trustee").

WHEREAS, the Company has executed and delivered that certain Indenture dated as of March 1, 1993 (the "Original Indenture") to Nationsbank of Georgia, National Association, a national banking association (the "Original Trustee") to secure the payment of Securities issued or to be issued under and in accordance with the provisions thereof, which Indenture was recorded in multiple Florida Counties, all as set forth on Composite Exhibit A attached hereto and made a part hereof,

WHEREAS, pursuant to the terms of Section 1701 of the Original Indenture, the Company and the Original Trustee entered into that certain First Supplemental Indenture (the "First Supplemental Indenture") dated as of March 1, 1993, recorded as set forth on Composite Exhibit A, relating to those certain First Mortgage Bonds Variable Rate Series Due December 31, 1993 (the "Securities of the First Series") and those certain First Mortgage Bonds 8.73% Series due January 31, 2013 (the "Securities of the Second Series"). The Original Indenture, as supplemented by the First Supplemental Indenture, is hereinafter referred to as the "Supplemented Indenture"; the Supplemented Indenture, as further supplemented by this Second Supplemental Indenture, is hereinafter referred to as the "Indenture";

WHEREAS, the Securities of the First Series have been fully retired and the Securities of the Second Series in the aggregate principal amount of Forty-Five Million Dollars (\$45,000,000.00) are owned and held by CoBank, ACB, formerly known as National Bank for Cooperatives ("CoBank");

WHEREAS, pursuant to that certain Agreement of Resignation, Appointment and Acceptance dated December 4, 1995, among the Company, the Original Trustee and The Bank of New York (the "Intermediate Trustee"), the Intermediate Trustee succeeded to all of the rights, duties and obligations of the Original Trustee under the Indenture;

WHEREAS, pursuant to that certain Agreement of Resignation, Appointment and Acceptance dated March 31, 1996, among the Company, the Intermediate Trustee and the Trustee, the Trustee succeeded to all of the rights, duties and obligations of the Intermediate Trustee under the Indenture;

WHEREAS, Section 1701 of the Original Indenture provides that the Company and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental to the Original Indenture, for various purposes including to correct or amplify the description of any property at any time subject to the Lien of the Indenture, to subject to the Lien of the Indenture any additional property, to add one or more covenants of the Company and to establish the terms of Securities of any series as contemplated by Section 201 of the Original Indenture;

WHEREAS, the Company now desires to correct the description of certain property subject to the Lien of the Indenture, to subject certain additional property to the Lien of the Indenture, to create a third series of Securities and to add to the covenants contained in the Supplemented Indenture to be observed by the Company;

WHEREAS, the execution and delivery by the Company of this Second Supplemental Indenture, and the terms of the third series of Securities, have been duly authorized by the Company as provided in the Supplemented Indenture;

WHEREAS, Section 1702 of the Original Indenture provides that the Company and the Trustee may, with the consent of the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities of any series so affected, amend or modify any of the covenants or other provisions contained in the Supplemented Indenture;

WHEREAS, the amendments and modifications to the Supplemented Indenture as set forth in this Second Supplemental Indenture have been consented to by the Holder of a majority in aggregate principal amount of the Securities of the Second Series, as evidenced by a consent attached to this Second Supplemental Indenture;

NOW, THEREFORE, THIS SECOND SUPPLEMENTAL INDENTURE WITNESSETH, that, in consideration of the premises and of Ten Dollars (\$10) to it duly paid by the Trustee at or before the ensembling and delivery of this Second Supplemental Indenture, the receipt whereof is hereby acknowledged, and to secure the payment of the principal of and interest on the Securities and the performance of the covenants in the Indenture and herein contained and to declare the terms and conditions on which the Securities are secured, and in consideration of the premises and of the purchase of the Securities by the Holder thereof, the Company by these presents does grant, bargain, sell, alien, remise, release, convey, assign, transfer, mortgage, hypothecate, pledge, set over and confirm to the Trustee, and grant a security interest in, all of the Trust Estate, and including those parcels of the land described on Exhibit B attached hereto and made a part hereof, together with all of the buildings, improvements, plants, systems, works, structures, water, sewer and other property, pipelines, conduits, meters, machinery, materials, supplies, implements, stations, substations, equipment, instruments, house and structure connections and all other appliances, apparatus, fixtures, fittings and equipment of every nature and kind whatsoever, pertaining to or useful in the operation of the Company's utility business, which is placed upon or used in connection with such real property.

TO HAVE AND TO HOLD all said Trust Estate unto the Trustee and its successors and assigns forever.

SUBJECT, HOWEVER, to Permitted Liens and, to the extent permitted by Section 704 of the Original Indenture, as to property hereafter acquired, Prior Liens existing on the date of acquisition or purchase money mortgages.

BUT IN TRUST, NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Supplemented Indenture, this Second Supplemental Indenture being supplemental thereto.

AND IT IS HEREBY COVENANTED by the Company that all terms, conditions, provisos, covenants and provisions contained in the Supplemented Indenture shall affect and apply to the Trust Estate and to the estate, rights, obligations and duties of the Company and the Trustee and the beneficiaries of the trust with respect to said property, and to the Trustee and its successors as Trustee of said property in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Indenture, and had been specifically and at length described in and conveyed to said Trustee, by the Indenture as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustee, and its successors in said trust under the Indenture, as follows:

## ARTICLE FIRST

### Amendment to Indenture

#### SECTION 1.01. Confirmation of Waivers.

The requirements of Section 3.09(B) of the First Supplemental Indenture, pertaining to the Marco Island System Assets, have been waived with the consent of CoBank, as Holder of all of the Securities Outstanding under the Indenture, and such Marco Island System Assets shall continue to constitute Excepted Property, as set forth in paragraph K of the Excepted Property Clause contained in the Original Indenture.

#### SECTION 1.02. Correction of Legal Descriptions - Original Indenture.

Exhibit A attached to and incorporated into the Original Indenture is hereby corrected and revised as set forth on Exhibit C attached hereto and made a part hereof; provided, however, attachment of such revised Exhibit A is intended only to correct certain typographical errors contained in the original Exhibit A attached to the Original Indenture and is not intended to impair the operation or effect of any previously granted partial release with respect to any property identified or referred to therein.

#### SECTION 1.03. Amendments to Original Indenture and First Supplemental Indenture.

(A) All references in the First Supplemental Indenture, including, without limitation, the reference in Section 2.61 thereof, to "8.73%" are hereby amended to read "8.53%."

(B) The references in Section 2.02(B) of the First Supplemental Indenture to "March 31, 1996" is hereby amended to read "July 31, 2000."

(C) Paragraphs J and L of the Excepted Property Clause of the Original Indenture are hereby deleted in their entireties.

(D) With the exception of the amendments to the First Supplemental Indenture and the Original Indenture as expressly set forth in this Second Supplemental Indenture, the Company hereby confirms that the First Supplemental Indenture and the Original Indenture remain in full force and effect, and that there has been no novation of, and that the execution and delivery of this Second Supplemental Indenture shall not constitute a novation of, the indebtedness evidenced by the Securities of the Second Series.

## ARTICLE SECOND

### Securities of the Third Series

#### SECTION 2.01. Description of Series.

There shall be a series of Securities designated "8.137% Series due July 31, 2022" (herein sometimes referred to as the "Securities of the Third Series"), each of which shall also bear the descriptive title "First Mortgage Bond", and the form thereof, which shall be established in an Officer's Certificate as provided in the Indenture, shall contain suitable provisions with respect to the matters hereinafter in this Article specified. The aggregate principal amount of Securities of the Third Series which may be authenticated and delivered under the Indenture is limited to Ten Million Dollars (\$10,000,000.00), except as provided in Sections 205 and 206

of the Original Indenture. Securities of the Third Series shall mature on July 31, 2022 and shall be issued as fully registered Securities in denominations of One Thousand Dollars and, at the option of the Company, in any integral multiple or multiples thereof (the exercise of such option to be evidenced by the execution and delivery thereof); they shall bear interest at the rate of 8.137% per annum, payable on July 31, 1997 for the period from March 31, 1997 to July 31, 1997, and semi-annually on January 31 and July 31 of each year thereafter until Maturity; the principal of, premium, if any, and interest on each said Security to be payable at the office or agency of the Company in Apopka, Florida, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts. Securities of the Third Series shall be dated as in the Indenture provided. Interest on the Securities of the Third Series shall be computed on the actual number of days elapsed on the basis of a year consisting of 360 days. If the Company shall default in the payment of the principal of, or premium or interest on, any Security of the Third Series, the Company shall pay to the Holder of such Security such overdue principal, premium or interest, together with interest on such overdue principal and (to the extent permitted by law) on such overdue premium or interest at the rate borne by such Security immediately prior to such default plus two per centum (2%) per annum.

The Regular Record Date referred to in Section 207 of the Indenture for the payment of the interest on the Securities of the Third Series payable on any Interest Payment Date shall be the first Business Day next preceding such Interest Payment Date.

The Company shall be exempt from filing the Cash Flow Certificate provided in Section 301(d) of the Original Indenture with respect to the issuance of Securities of the Third Series.

#### SECTION 2.02. Optional Redemption of Securities of the Third Series.

(I) Securities of the Third Series shall be redeemable on any Business Day, at the option of the Company, in whole or in part in accordance with Section 903 of the Original Indenture from time to time, prior to maturity, upon notice delivered to each Holder at its last address appearing on the Security Register not less than one Business Day prior to the date fixed for redemption, at a Redemption Price ("Third Series General Redemption Price") (expressed as a percentage of the principal amount of the Securities to be redeemed) equal to the sum of (i) one hundred per centum (100%) plus (ii) a "Third Series Prepayment Surcharge" calculated as hereinafter provided, in each case together with accrued interest to the date fixed for redemption. For purposes of calculating the Third Series General Redemption Price, the Third Series Prepayment Surcharge shall be calculated as follows:

(A) Determine the difference between: (1) eight and 137/1000 per centum (8.137%) minus (2) the Discount Rate, as hereinafter defined, as of the Redemption Date.

(B) Add one half (1/2) of one per centum (1%) to such difference (such that the minimum result shall at all times be 1/2 of 1% if the redemption occurs prior to July 31, 2000; thereafter, no amount shall be added in this step (B) provided that, in any event, the minimum result shall be at least zero).

(C) Divide the result determined in (B) above by 2.

(D) For each semi-annual period or portion thereof during which the principal amount redeemed was scheduled to have been Outstanding, multiply the amount described in (C) above by the portion of the principal amount redeemed that was scheduled to have been Outstanding on the last day of such semi-annual period (such that there is a calculation for each semi-annual

period during which the principal amount redeemed was scheduled to have been Outstanding).

(E) Determine the present value of each semi-annual calculation made under (D) above based upon the scheduled time that interest on the principal amount redeemed would have been payable and the Discount Rate as of the Redemption Date.

(F) Add all of the calculations made under (E) above. The result shall be the Third Series Prepayment Surcharge.

Unless otherwise agreed with a majority of the Holders of the Securities of the Third Series to be Outstanding after a redemption under this Section, the Securities redeemed under this Section may not be used as a credit for the redemption of Securities provided for in Section 2.03 of this Second Supplemental Indenture.

(II) A notice containing the calculation of the Third Series General Redemption Price shall be prepared by the Company and delivered to the Trustee and the Holders of the Securities of the Third Series to be redeemed on the Business Day next preceding the Redemption Date. The calculation set forth in such notice shall be final unless the Holders of the Securities so redeemed notify the Company and the Trustee of an error in such calculations within 30 days after notice of such calculation. If it is determined that the Company has made an error in such calculation and the Company pays the difference to such Holders promptly after such determination, then the Company shall not be deemed to be in default under the Indenture by reason of late payment of such difference.

(III) As pertains to Securities of the Third Series, the "Discount Rate" shall mean an interest rate determined by adding to the yield on treasury bonds having maturities equal to the weighted average life to maturity of the Securities to be redeemed, determined as necessary by interpolation of treasury bonds having the next longer and next shorter maturities ("Treasury Yield"), as reported on the "MMKS" Reuters monitor screen for the Business Day prior to the Redemption Date for such Securities, the following:

(A) the estimated spread of Farm Credit Securities over the Treasury Yield for such day, as reported in a Farm Credit Funding Corporation Interest Rate Summary report, and

(B) the estimated dealer concession, obtained by a polling of Farm Credit Funding Corporation dealers on the Business Day next preceding the Redemption Date, for issuing Farm Credit Securities having a weighted average life equal to the number of days between the Redemption Date and Maturity for Securities of the Third Series to be redeemed.

In the event any fact required for such calculation is not available, the computation of Discount Rate shall be made on the basis of a reasonably equivalent method of determination.

#### SECTION 2.03. Sinking Fund for Securities of the Third Series.

So long as any Securities of the Third Series shall remain Outstanding, the Company shall redeem the principal thereof in accordance with the following schedule, commencing on July 31, 1997 and semi-annually on or before each January 31 and July 31 thereafter, through and including July 31, 2022:

July 31, 1997	\$ 61,241.65	January 31, 1998	\$ 63,733.27
July 31, 1998	\$ 66,326.25	January 31, 1999	\$ 69,024.74

July 31, 1999	\$ 71,833.01	January 31, 2000	\$ 74,755.54
July 31, 2000	\$ 77,796.96	January 31, 2001	\$ 80,962.13
July 31, 2001	\$ 84,256.08	January 31, 2002	\$ 87,684.04
July 31, 2002	\$ 91,251.46	January 31, 2003	\$ 94,964.03
July 31, 2003	\$ 98,827.64	January 31, 2004	\$102,848.44
July 31, 2004	\$107,032.83	January 31, 2005	\$111,387.46
July 31, 2005	\$115,919.26	January 31, 2006	\$120,635.44
July 31, 2006	\$125,543.49	January 31, 2007	\$130,651.23
July 31, 2007	\$135,966.77	January 31, 2008	\$141,498.58
July 31, 2008	\$147,255.45	January 31, 2009	\$153,246.54
July 31, 2009	\$159,481.37	January 31, 2010	\$165,969.87
July 31, 2010	\$172,722.36	January 31, 2011	\$179,749.56
July 31, 2011	\$187,062.68	January 31, 2012	\$194,673.32
July 31, 2012	\$202,593.60	January 31, 2013	\$210,836.13
July 31, 2013	\$219,433.99	January 31, 2014	\$228,340.85
July 31, 2014	\$237,630.90	January 31, 2015	\$247,298.91
July 31, 2015	\$257,360.27	January 31, 2016	\$267,830.97
July 31, 2016	\$278,727.67	January 31, 2017	\$290,067.71
July 31, 2017	\$301,869.11	January 31, 2018	\$314,150.66
July 31, 2018	\$326,931.88	January 31, 2019	\$340,233.10
July 31, 2019	\$354,075.49	January 31, 2020	\$368,481.05
July 31, 2020	\$383,472.70	January 31, 2021	\$399,074.28
July 31, 2021	\$415,310.62	January 31, 2022	\$432,207.53
July 31, 2022	\$449,791.13		

### ARTICLE THIRD

#### Additional Covenants for Third Series

##### SECTION 3.01. Asset Sale Restrictions for the Third Series.

(A) So long as any Securities of the Third Series remain Outstanding, if the Company requests the release of Property Additions pursuant to Section 1003 or 1004 of the Original Indenture (other than for purposes of sales of property pursuant to or under threat, reasonably believed by the Company to be genuine, of the exercise of a power of eminent domain or for tax exempt financing pursuant to Section 1009 of the Original Indenture), the Officer's Certificate filed in connection with such release shall identify the Property Additions that are to be so released.

(B) So long as any Securities of the Third Series remain Outstanding, if the aggregate amount of Property Additions released upon such basis during any calendar year shall exceed ten per centum (10%) of the amount of Net Property Additions shown in the most recent Property Additions Certificate filed with the Trustee, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall within forty-five days thereafter redeem or have otherwise retired (other than pursuant to Section 2.03 of this Second Supplemental Indenture), except to the extent waived by the Holder, an aggregate principal amount of Securities of such Series equal to a pro rata portion of the amount of such excess, such pro rata portion to be based upon the ratio of (a) the then Outstanding aggregate principal amount of Securities of the Third Series, to (b) the then Outstanding aggregate principal amounts of

Securities of the Second Series and of the Third Series; provided however, that to the extent the Holders of the Securities of the Second Series waive any right of redemption under Section 4.01(B) of this Second Supplemental Indenture as provided in Section 4.01(D) hereof, an additional principal amount of Securities of the Third Series, in an amount equal to the amount waived by the Holders of the Securities of the Second Series, shall be redeemed as provided in this Section 3.01(B), except to the extent waived by the Holders of the Securities of the Third Series.

(C) So long as any Securities of the Third Series remain Outstanding, if the aggregate amount of Property Additions released since March 1, 1993 upon such basis shall exceed twenty five per centum (25%) of the amount of Net Property Additions shown in the most recent Property Additions Certificate filed with the Trustee, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall within forty-five days thereafter redeem or have other-wise retired (other than pursuant to Section 2.03 of this Second Supplemental Indenture), except to the extent waived, an aggregate principal amount of Securities of such Series equal to a pro rata portion of the amount of such excess, such pro rata portion to be based upon the ratio of (a) the then Outstanding aggregate principal amount of Securities of the Third Series, to (b) the then Outstanding aggregate principal amounts of Securities of the Second Series and of the Third Series; provided, however, that to the extent the Holders of the Securities of the Second Series waive any right of redemption under Section 4.01(C) of this Second Supplemental Indenture as provided in Section 4.01(D) hereof, an additional principal amount of Securities of the Third Series, in an amount equal to the amount waived by the Holders of the Securities of the Second Series, shall be redeemed as provided in this Section 3.01(C), except to the extent waived by the Holders of the Securities of the Third Series.

(D) With respect to the redemptions described in paragraphs (B) and (C) above, the Company shall receive a credit for any Securities of the Third Series (excluding Securities redeemed pursuant to Section 2.03 of this Second Supplemental Indenture) retired prior to the respective Redemption Date. With respect to the redemptions described in paragraphs (B) and (C) above, the Redemption Price shall be the Third Series General Redemption Price, plus interest accrued to the Redemption Date. Such redemption shall be prorated among Holders of Securities of the Third Series except to the extent waived; any Holder may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(E) Unless otherwise agreed with a majority of the Holders of the Securities of the Third Series to be Outstanding after a redemption under this Section, the Securities redeemed under this Section may not be used as a credit for the redemption of Securities provided for in Section 2.03 of this Second Supplemental Indenture.

#### SECTION 3.02. Ownership by Minnesota Power & Light Company.

So long as any Securities of the Third Series remain Outstanding, if the Company's entire common stock shall cease to be owned, directly or indirectly, by Minnesota Power & Light Company, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, all of the Securities of such Series then Outstanding at the Third Series General Redemption Price, respectively, plus interest accrued to the Redemption Date. Any Holder of such Series may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

SECTION 3.03. Additional Debt Covenants.

(A) So long as any Securities of the Third Series shall remain Outstanding, the Company shall file a Cash Flow Certificate with the Trustee on or before March 31 of each calendar year after 1996 for the period of twelve consecutive calendar months ending December 31 of the immediately preceding calendar year and stating the ratio of its Total Debt divided by its Cash Flow, determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture, as shown by such certificate ("Annual Total Debt/Cash Flow Ratio"). If the annual Total Debt/Cash Flow Ratio shall exceed the maximums specified below for the corresponding period:

Twelve Month Period Ending December 31, -----	Maximum Total Debt/ Cash Flow Ratio -----
1996 and thereafter	15:1

then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, an aggregate principal amount of the Securities of such Series then Outstanding equal to a pro rata portion of the amount sufficient to cause the Annual Total Debt/Cash Flow Ratio to equal the appropriate maximum, such pro rata portion to be based upon the ratio of (a) the then Outstanding aggregate principal amount of Securities of the Third Series to (b) the then Outstanding aggregate principal amounts of the Securities of the Second Series and of the Third Series; provided, however, that to the extent the Holders of the Securities of the Second Series waive any right of redemption under Section 4.03(A) of this Second Supplemental Indenture as provided in such Section 4.03(A), an additional principal amount of Securities of the Third Series, in an amount equal to the amount waived by the Holders of the Securities of the Second Series, shall be redeemed as provided in this Section 3.03(A), except to the extent waived by the Holders of the Securities of the Third Series. The Redemption Price shall be the Third Series General Redemption Price, plus interest accrued to the Redemption Date. The Holders of a majority of the Securities of the Third Series then Outstanding may waive such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(B) So long as any Securities of the Third Series shall remain Outstanding, the Company shall file with the Trustee, on or before March 31 of each calendar year, an Accountant's Certificate showing as of December 31 of the immediately preceding calendar year (1) the aggregate principal amount of Securities then Outstanding and (2) the net book value of property, plant and equipment, determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture, which constitute Property Additions. If such aggregate principal amount of Securities then Outstanding exceeds sixty per centum (60%) of the net book value of such property, plant and equipment then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of the Third Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, a principal amount of the Securities of such Series then Outstanding equal to a pro rata portion of the amount necessary to cause the aggregate principal amount of Securities then Outstanding to equal sixty per centum (60%) of the net book value of such property, plant and equipment, such pro rata portion to be based upon the ratio of (a) the then Outstanding aggregate principal amount of Securities of the Third Series, to (b) the then Outstanding aggregate principal amounts of Securities of the Second Series and of the Third Series; provided, however, that to the extent the Holders of the Securities of the Second Series waive any right of redemption under Section 4.03(B) of this Second Supplemental Indenture as provided in such Section 4.03(B), an additional principal amount of Securities of the



Third Series, in an amount equal to the amount waived by the Holders of the Securities of the Second Series, shall be redeemed as provided in this Section 3.03(B), except to the extent waived by the Holders of the Securities of the Third Series. The Redemption Price shall be the Third Series General Redemption Price, plus interest accrued to the Redemption Date. The Holders of a majority of the Securities of the Third Series then Outstanding may waive such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(C) So long as any Securities of the Third Series shall remain Outstanding, the Company shall file with the Trustee, on or before March 31 of each calendar year, an Accountant's Certificate showing as of December 31 of the immediately preceding calendar year (1) the Total Debt of the Company, and (2) the Company's Capitalization, determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture: If such Total Debt exceeds sixty-five per centum (65%) of Capitalization, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, a principal amount of the Securities of such Series then Outstanding equal to a pro rata portion of the amount necessary to cause Total Debt to equal not more than sixty-five per centum (65%) of Capitalization, determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture, such pro rata portion to be based upon the ratio of (a) the then Outstanding aggregate principal amount of Securities of the Third Series, to (b) the then Outstanding aggregate principal amounts of Securities of the Second Series and of the Third Series; provided, however, that to the extent the Holders of the Securities of the Second Series waive any right of redemption under Section 4.03(C) of this Second Supplemental Indenture as provided in such Section 4.03(C), an additional principal amount of Securities of the Third Series, in an amount equal to the amount waived by the Holders of the Securities of the Second Series, shall be redeemed as provided in this Section 3.03(C), except to the extent waived by the Holders of the Securities of the Third Series. The Redemption Price shall be the Third Series General Redemption Price, plus interest accrued to the Redemption Date. The Holders of a majority of the Securities of the Third Series then Outstanding may waive such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(D) So long as any Securities of the Third Series shall remain Outstanding, the Holders of a majority of the Securities of such Series then Outstanding may, from time to time but not more than once during any calendar year, upon thirty days notice, request that the Company file with the Trustee, as of the end of any calendar month other than December within sixty days after the end of such month, the Cash Flow Certificate provided in Section 3.03(A) hereof and the Accountant's Certificates provided in Section 3.03(B) and 3.03(C) of this Second Supplemental Indenture. The same redemption provisions shall apply as if such Cash Flow Certificate and Accountant's Certificates had been delivered pursuant to such Section 3.03(A), 3.03(B) or 3.03(C) of this Second Supplemental Indenture, using with respect to Section 3.03(A) the maximum for the period ending on the December 31 next preceding such calendar month.

(E) Unless otherwise agreed by a majority of the Holders of the Securities of the Third Series to be Outstanding after a redemption under this Section 3.03, the Securities redeemed under this Section 3.03 may not be used as a credit for the redemption of Securities provided for in Section 2.03 of this Second Supplemental Indenture.

#### SECTION 3.04. Restricted Payments.

So long as any Securities of the Third Series remain Outstanding, the Company shall not declare or pay any Restricted Payments unless the Company files an Accountant's Certificate with the Trustee and, if there is only one Holder of Securities of the Third Series, sends a copy to such Holder, within thirty days prior to such declaration or payment stating that (A) the amount of such payment shall not exceed cumulative net additions to or deductions from Surplus, determined in accordance with generally accepted accounting principles existing as of the date of this Second Supplemental Indenture, made after December 31, 1992 (excluding any gains on sale of Property Additions during the immediately preceding 12 months in excess of twenty per centum (20%) of the net additions to Surplus made during such 12 month period); and (B) that after such payment Capital plus Surplus shall equal at least thirty-five per centum (35%) of Capitalization, determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture.

#### SECTION 3.05. Redemption Upon Taking of Property by Eminent Domain, etc.

So long as any Securities of the Third Series shall remain Outstanding, any Officer's Certificate provided under Section 1006 of the Original Indenture shall also state the net book value of the Mortgaged Property described therein as taken or sold, and shall also state the net book value of such Mortgaged Property that does not constitute Property Additions. Notwithstanding anything to the contrary contained in Section 1006 of the Original Indenture, should the aggregate net book value of Mortgaged Property taken by the exercise of the power of eminent domain or sold to an entity possessing the power of eminent domain, or to its designee, under a threat, reasonably believed by the Company to be genuine, to exercise the same, be in excess of Fifteen Million Dollars (\$15,000,000), the Company shall redeem, within ninety days of such taking or sale and upon at least thirty days' notice, or have otherwise retired, except to the extent waived, an aggregate principal amount of Securities of such Series then Outstanding equal to an amount determined pursuant to the next sentence, at the Redemption Price of par plus interest accrued to the Redemption Date. The principal amount of Securities of the Third Series to be redeemed pursuant to this Section 3.05 shall be calculated by dividing (1) the aggregate amount of Property Additions so taken or sold plus the aggregate net book value of all Mortgaged Property so taken or sold which are not Property Additions by (2) the amount of Net Property Additions shown on the most recent Property Additions Certificate filed with the Trustee and multiplying such ratio by the aggregate principal amount of Securities of such Series then Outstanding; provided, however, that to the extent the Holders of the Securities of the Second Series waive any right of redemption under Section 4.05 of this Second Supplemental Indenture as provided in such Section 4.05, an additional principal amount of Securities of the Third Series shall be redeemed as provided in this Section 3.05 in an amount equal to the amount waived by the Holders of the Securities of the Second Series, except to the extent waived by the Holders of the Securities of the Third Series. Such redemption shall be prorated among Holders of Securities of such Series except to the extent waived; any Holder may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption; such waiver shall not cause a recalculation of the proration.

#### SECTION 3.06. Maintenance of Business.

So long as any Securities of the Third Series remain Outstanding, if the Company ceases to continue substantially in the business of providing water and waste water utility service in the State of Florida, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days and upon at least thirty days notice, all of the Securities of such Series then Outstanding at the Third Series General Redemption Price, plus interest accrued to the Redemption Date. Any Holder may waive its right to such redemption by delivering a written waiver

to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

#### SECTION 3.07. Return of Redemption Moneys upon Waiver.

Upon receipt of any waiver of redemption by any Holder, the Trustee shall return to the Company the redemption money, if any, held by the Trustee for the redemption of such Holder's Securities.

#### SECTION 3.08. Special Merger Provisions.

So long as any Securities of the Third Series remain Outstanding, the Company shall not merge or consolidate with another entity unless the Company shall have filed with the Trustee, and, if there is only one Holder of Securities of such Series, such Holder, an Officer's Certificate stating that (1) the Company or an entity directly or indirectly owned one hundred per centum (100%) by Minnesota Power & Light Company shall be the continuing and surviving corporation and, (2) after such merger or consolidation, there shall exist no Event of Default or event which, with the lapse of time or giving of notice, or both, would constitute an Event of Default, and the Company shall be able to issue at least One Dollar (\$1) of Securities under the provisions of Section 401 or 501 of the Indenture, in each case, using a Cash Flow Certificate stating an Annual Total Debt/Cash Flow Ratio not to exceed the maximums specified in Section 3.03(A) hereof (using the maximum for the period ending on the December 31 next preceding such merger) rather than the Cash Flow Certificate provided in Section 301(d) of the Original Indenture.

#### SECTION 3.09. Bond Purchase Agreement.

So long as CoBank shall be the sole owner of all Securities of the Third Series then Outstanding, the Company shall redeem, within ten days, an aggregate principal amount of Securities of such Series, the redemption of which is demanded, in a certificate, signed by the President, any Vice President or any Assistant Vice President of CoBank, stating that CoBank is entitled to such redemption under the Bond Purchase Agreement dated March 31, 1997 between CoBank and the Company, describing the event giving CoBank such right of redemption, and stating that such redemption is required by terms of such Bond Purchase Agreement. The Redemption Price shall be the Third Series General Redemption Price, plus interest accrued to the Redemption Date.

#### SECTION 3.10. Property Additions Certificates.

So long as any Securities of the Third Series shall remain Outstanding, the Company shall file a Property Additions Certificate with the Trustee at least once during each calendar year.

#### SECTION 3.11. Amendment to Indenture; Acceleration.

So long as the aggregate principal amount of Securities of the Third Series then Outstanding, combined, if and only if the Holder of a majority in aggregate principal amount of the Securities of the Third Series then Outstanding is also the Holder of a majority in aggregate principal amount of the Securities of the Second Series then Outstanding, with the aggregate principal amount of the Securities of the Second Series then Outstanding, exceeds twenty-five per centum (25%) of the aggregate principal amount of Securities of all series then Outstanding, the words "twenty-five per centum (25%)" shall be substituted for the words "thirty-three and one-third per centum (33 1/3%)" in Section 1102 of the Original Indenture. In case any Securities of the Third

Series are paid by reason of a declaration of acceleration pursuant to Section 1102 of the Original Indenture, the Company shall pay to the Holders of such Securities a premium equal to the Prepayment Surcharge, calculated as provided in Section 2.02 of this Second Supplemental Indenture with respect to the Third Series multiplied by the aggregate principal amount of such Securities so accelerated, provided that the payment of such premium does not render the Company insolvent. If the aggregate principal amount of Securities of the Third Series then Outstanding, combined, if and only if the Holder of a majority in aggregate principal amount of the Securities of the Third Series then Outstanding is also the Holder of a majority in aggregate principal amount of the Securities of the Second Series then Outstanding, with the aggregate principal amount of the Securities of the Second Series then Outstanding, exceeds twenty-five per centum (25%) of the aggregate principal amount of Securities of all series then Outstanding and an Event of Default shall exist, then the Holders of the Securities of the Third Series may demand the redemption of such Securities of the Third Series held by them upon ten days written notice to the Company and the Trustee. The Redemption Price shall be the Third Series General Redemption Price, respectively, plus interest accrued to the Redemption Date.

#### SECTION 3.12. Redemptions on a Business Day

In the event any Redemption Date for a redemption required by Section 3.03 hereof shall not be a Business Day, interest on the principal amount then due shall accrue to and be paid on the next Business Day; provided that the Company may, at its option, upon ten (10) days prior notice to the Trustee and the Holders, satisfy a redemption required by Section 3.03 hereof on the Business Day prior to the applicable Redemption Date at a Redemption Price equal to par plus interest accrued to such prior Business Day. Any other Redemption Date for Securities of the Third Series shall be on a Business Day.

#### SECTION 3.13. Amendment or Waiver of Covenants.

The provisions of this Article Third may be waived or amended, at the request of the Company, with the written consent of the Holders of at least a majority of the aggregate principal amount of the Securities of the Third Series then Outstanding. So long as the aggregate principal amount of Securities of the Third Series then Outstanding, combined, if and only if the Holder of a majority in aggregate principal amount of the Securities of the Third Series then Outstanding is also the Holder of a majority in aggregate principal amount of the Securities of the Second Series then Outstanding, with the aggregate principal amount of the Securities of the Second Series then Outstanding, exceeds twenty-five per centum (25%) of the aggregate principal amount of Securities of all series then Outstanding, the provisions of this Article Third may not be waived nor amended without the written consent of the Holders of at least a majority of the aggregate principal amount of Securities of the Third Series then Outstanding, except as otherwise specifically provided herein.

### ARTICLE FOURTH

#### Amended Covenants for Second Series

#### SECTION 4.01. Asset Sale Restrictions for the Second Series.

(A) So long as any Securities of the Second Series remain Outstanding, if the Company requests the release of Property Additions pursuant to Section 1003 or 1004 of the Original Indenture (other than for purposes of sales of property pursuant to or under threat, reasonably believed by the Company to be genuine, of the exercise of a power of eminent domain or for tax exempt financing pursuant to Section 1009 of the

Original Indenture), the Officer's Certificate filed in connection with such release shall identify the Property Additions that are to be so released.

(B) So long as any Securities of the Second Series remain Outstanding, if the aggregate amount of Property Additions released since March 31, 1993 upon such basis during any calendar year shall exceed ten per centum (10%) of the amount of Net Property Additions shown in the most recent Property Additions Certificate filed with the Trustee, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall within forty-five days thereafter redeem or have otherwise retired (other than pursuant to Section 2.03 of the First Supplemental Indenture), except to the extent waived by the Holder, an aggregate principal amount of Securities of such Series equal to a pro rata portion of the amount of such excess, such pro rata portion to be based upon the ratio of (a) the then Outstanding aggregate principal amount of Securities of the Second Series, to (b) the then Outstanding aggregate principal amounts of Securities of the Second Series and of the Third Series; provided, however, that to the extent the Holders of the Securities of the Third Series waive any right of redemption under Section 3.01(B) of this Second Supplemental Indenture as provided in such Section 3.01(D), an additional principal amount of Securities of the Second Series, in an amount equal to the amount waived by the Holders of the Securities of the Third Series, shall be redeemed as provided in this Section 4.01(B), except to the extent waived by the Holders of the Securities of the Second Series.

(C) So long as any Securities of the Second Series remain Outstanding, if the aggregate amount of Property Additions released upon such basis shall exceed twenty five per centum (25%) of the amount of Net Property Additions shown in the most recent Property Additions Certificate filed with the Trustee, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall within forty-five days thereafter redeem or have otherwise retired (other than pursuant to Section 2.03 of the First Supplemental Indenture), except to the extent waived, an aggregate principal amount of Securities of such Series equal to a pro rata portion of the amount of such excess, such pro rata portion to be based upon the ratio of (a) the then Outstanding aggregate principal amount of Securities of the Second Series, to (b) the then Outstanding aggregate principal amounts of Securities of the Second Series and of the Third Series; provided, however, that to the extent the Holders of the Securities of the Third Series waive any right of redemption under Section 3.01(C) of this Second Supplemental Indenture as provided in such Section 3.01(D), an additional principal amount of Securities of the Second Series, in an amount equal the amount waived by the Holders of the Securities of the Third Series, shall be redeemed as provided in this Section 4.01(C), except to the extent waived by the Holders of the Securities of the Second Series.

(D) With respect to the redemptions described in paragraphs (B) and (C) above, the Company shall receive a credit for any Securities of the Second Series (excluding Securities redeemed pursuant to Section 2.03 of the First Supplemental Indenture) retired prior to the respective Redemption Date. With respect to the redemptions described in paragraphs (B) and (C) above, the Redemption Price shall be the Second Series General Redemption Price, plus interest accrued to the Redemption Date. Such redemption shall be prorated among Holders of Securities of the Second Series except to the extent waived; any Holder may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(E) Unless otherwise agreed with a majority of the Holders of the Securities of the Second Series to be Outstanding after a redemption under this Section, the Securities redeemed under this Section may not be used as a credit for the redemption of Securities provided for in Section 2.03 of the First Supplemental Indenture.

SECTION 4.02. Ownership by Minnesota Power & Light Company.

So long as any Securities of the Second Series remain Outstanding, if the Company's entire common stock shall cease to be owned, directly or indirectly, by Minnesota Power & Light Company, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, all of the Securities of such Series then Outstanding at the Second Series General Redemption Price, respectively, plus interest accrued to the Redemption Date. Any Holder of such Series may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

SECTION 4.03. Additional Debt Covenants.

(A) So long as any Securities of the Second Series shall remain Outstanding, the Company shall file a Cash Flow Certificate with the Trustee on or before March 31 of each calendar year after 1996 for the period of twelve consecutive calendar months ending December 31 of the immediately preceding calendar year and stating the ratio of its Total Debt divided by its Cash Flow, determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture, as shown by such certificate ("Annual Total Debt/Cash Flow Ratio"). If the annual Total Debt/Cash Flow Ratio shall exceed the maximums specified below for the corresponding period:

Twelve Month Period Ending December 31, -----	Maximum Total Debt/ Cash Flow Ratio -----
1996 and thereafter	15:1

then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, an aggregate principal amount of the Securities of such Series then Outstanding equal to a pro rata portion of the amount sufficient to cause the Annual Total Debt/Cash Flow Ratio to equal the appropriate maximum, such pro rata portion to be based upon the ratio of (a) the then Outstanding aggregate principal amount of Securities of the Second Series, to (b) the then Outstanding aggregate principal amounts of Securities of the Second Series and of the Third Series; provided, however, that to the extent the Holders of the Securities of the Third Series waive any right of redemption under Section 3.03(A) of this Second Supplemental Indenture as provided in such Section 3.03(A), an additional principal amount of Securities of the Second Series, in an amount equal to the amount waived by the Holders of the Securities of the Third Series, shall be redeemed as provided in this Section 4.03(A), except to the extent waived by the Holders of the Securities of the Second Series. The Redemption Price shall be the Second Series General Redemption Price, plus interest accrued to the Redemption Date. The Holders of a majority of the Securities of the Second Series then Outstanding may waive such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(B) So long as any Securities of the Second Series shall remain Outstanding, the Company shall file with the Trustee, on or before March 31 of each calendar year, an Accountant's Certificate showing as of December 31 of the immediately preceding calendar year (1) the aggregate principal amount of Securities then Outstanding and (2) the net book value of property, plant and equipment, determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture, which

constitute Property Additions. If such aggregate principal amount of Securities then Outstanding exceeds sixty per centum (60%) of the net book value of such property, plant and equipment then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of the Second Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, a principal amount of the Securities of such Series then Outstanding equal to a pro rata portion of the amount necessary to cause the aggregate principal amount of Securities then Outstanding to equal sixty per centum (60%) of the net book value of such property, plant and equipment, such pro rata portion to be based upon the ratio of (a) the then Outstanding aggregate principal amount of Securities of the Second Series, to (b) the then Outstanding aggregate principal amounts of Securities of the Second Series and of the Third Series; provided, however, that to the extent the Holders of the Securities of the Third Series waive any right of redemption under Section 3.03(B) of this Second Supplemental Indenture as provided in such Section 3.03(B), an additional principal amount of Securities of the Second Series, in an amount equal to the amount waived by the Holders of the Securities of the Third Series, shall be redeemed as provided in this Section 4.03(B), except to the extent waived by the Holders of the Securities of the Second Series. The Redemption Price shall be the Second Series General Redemption Price, plus interest accrued to the Redemption Date. The Holders of a majority of the Securities of the Second Series then Outstanding may waive such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(C) So long as any Securities of the Second Series shall remain Outstanding, the Company shall file with the Trustee, on or before March 31 of each calendar year, an Accountant's Certificate showing as of December 31 of the immediately preceding calendar year (1) the Total Debt of the Company, and (2) the Company's Capitalization, determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture. If such Total Debt exceeds sixty-five per centum (65%) of Capitalization, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, a principal amount of the Securities of such Series then Outstanding equal to a pro rata portion of the amount necessary to cause Total Debt to equal not more than sixty-five per centum (65%) of Capitalization, determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture, such pro rata portion to be based upon the ratio of (a) the then Outstanding aggregate principal amount of Securities of the Second Series, to (b) the then Outstanding aggregate principal amounts of Securities of the Second Series and of the Third Series; provided, however, that to the extent the Holders of the Securities of the Third Series waive any right of redemption under Section 3.03(C) of this Second Supplemental Indenture as provided in such Section 3.03(C), an additional principal amount of Securities of the Second Series, in an amount equal to the amount waived by the Holders of the Securities of the Third Series, shall be redeemed as provided in this Section 4.03(C), except to the extent waived by the Holders of the Securities of the Second Series. The Redemption Price shall be the Second Series General Redemption Price, plus interest accrued to the Redemption Date. The Holders of a majority of the Securities of the Second Series then Outstanding may waive such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(D) So long as any Securities of the Second Series shall remain Outstanding, the Holders of a majority of the Securities of such Series then Outstanding may, from time to time but not more than once during any calendar year, upon thirty days notice, request that the Company file with the Trustee, as of the end of any calendar month other than December within sixty days after the end of such month, the Cash Flow Certificate provided in Section 4.03(A) hereof and the Accountant's Certificates provided in Section 4.03(B) and 4.03(C) of this Second Supplemental Indenture. The same redemption provisions shall apply as if such Cash Flow

Certificate and Accountant's Certificates had been delivered pursuant to such Section 4.03(A), 4.03(B) or 4.03(C) of this Second Supplemental Indenture, using with respect to Section 4.03(A) hereof the maximum for the period ending on the December 31 next preceding such calendar month.

(E) Unless otherwise agreed by a majority of the Holders of the Securities of the Second Series to be Outstanding after a redemption under this Section, the Securities redeemed under this Section may not be used as a credit for the redemption of Securities provided for in Section 2.03 of the First Supplemental Indenture.

#### SECTION 4.04. Restricted Payments.

So long as any Securities of the Second Series remain Outstanding, the Company shall not declare or pay any Restricted Payments unless the Company files an Accountant's Certificate with the Trustee and, if there is only one Holder of Securities of the Second Series, sends a copy to such Holder, within thirty days prior to such declaration or payment stating that (A) the amount of such payment shall not exceed cumulative net additions to or deductions from Surplus determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture, made after December 31, 1992 (excluding any gains on sale of Property Additions during the immediately preceding 12 months in excess of twenty per centum (20%) of the net additions to Surplus made during such 12 month period); and (B) that after such payment Capital plus Surplus shall equal at least thirty-five per centum (35%) of Capitalization, determined in accordance with generally accepted accounting principles existing as of the date of the First Supplemental Indenture.

#### SECTION 4.05. Redemption Upon Taking of Property by Eminent Domain, etc.

So long as any Securities of the Second Series shall remain Outstanding, any Officer's Certificate provided under Section 1006 of the Original Indenture shall also state the net book value of the Mortgaged Property described therein as taken or sold, and shall also state the net book value of such Mortgaged Property that does not constitute Property Additions. Notwithstanding anything to the contrary contained in Section 1006 of the Original Indenture, should the aggregate net book value of Mortgaged Property taken by the exercise of the power of eminent domain or sold to an entity possessing the power of eminent domain, or to its designee, under a threat, reasonably believed by the Company to be genuine, to exercise the same, be in excess of Fifteen Million Dollars (\$15,000,000), the Company shall redeem, within ninety days of such taking or sale and upon at least thirty days' notice, or have otherwise retired, except to the extent waived, an aggregate principal amount of Securities of such Series then Outstanding equal to an amount determined pursuant to the next sentence, at the Redemption Price of par plus interest accrued to the Redemption Date. The principal amount of Securities of the Second Series to be redeemed pursuant to this Section 4.05 shall be calculated by dividing (1) the aggregate amount of Property Additions so taken or sold plus the aggregate net book value of all Mortgaged Property so taken or sold which are not Property Additions by (2) the amount of Net Property Additions shown on the most recent Property Additions Certificate filed with the Trustee and multiplying such ratio by the aggregate principal amount of Securities of such Series then Outstanding; provided, however, that to the extent the Holders of the Securities of the Third Series waive any right of redemption under Section 3.05 of this Second Supplemental Indenture as provided in such Section 3.05, an additional principal amount of Securities of the Second Series shall be redeemed as provided in this Section 4.05 in an amount equal to the amount waived by the Holders of the Securities of the Third Series, except to the extent waived by the Holders of the Securities of the Second Series. Such redemption shall be prorated among Holders of Securities of such Series except to the extent waived; any Holder may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption; such waiver shall not cause a recalculation of the proration.



#### SECTION 4.06. Maintenance of Business.

So long as any Securities of the Second Series remain Outstanding, if the Company ceases to continue substantially in the business of providing water and waste water utility service in the State of Florida, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days and upon at least thirty days notice, all of the Securities of such Series then Outstanding at the Second Series General Redemption Price, plus interest accrued to the Redemption Date. Any Holder may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

#### SECTION 4.07. Return of Redemption Moneys upon Waiver.

Upon receipt of any waiver of redemption by any Holder, the Trustee shall return to the Company the redemption money, if any, held by the Trustee for the redemption of such Holder's Securities.

#### SECTION 4.08. Special Merger Provisions.

So long as any Securities of the Second Series remain Outstanding, the Company shall not merge or consolidate with another entity unless the Company shall have filed with the Trustee, and, if there is only one Holder of Securities of such Series, such Holder, an Officer's Certificate stating that (1) the Company or an entity directly or indirectly owned one hundred per centum (100%) by Minnesota Power & Light Company shall be the continuing and surviving corporation and, (2) after such merger or consolidation, there shall exist no Event of Default or event which, with the lapse of time or giving of notice, or both, would constitute an Event of Default, and the Company shall be able to issue at least One Dollar (\$1) of Securities under the provisions of Section 401 or 501 of the Indenture, in each case, using a Cash Flow Certificate stating an Annual Total Debt/Cash Flow Ratio not to exceed the maximums specified in Section 4.03(A) hereof (using the maximum for the period ending on the December 31 next preceding such merger) rather than the Cash Flow Certificate provided in Section 301(d) of the Original Indenture.

#### SECTION 4.09. Bond Purchase Agreement.

So long as CoBank shall be the sole owner of all Securities of the Second Series then Outstanding, the Company shall redeem, within ten days, an aggregate principal amount of Securities of such Series, the redemption of which is demanded, in a certificate, signed by the President, any Vice President or any Assistant Vice President of CoBank, stating that CoBank is entitled to such redemption under the Bond Purchase Agreement dated March 1, 1993 between CoBank and the Company, describing the event giving CoBank such right of redemption, and stating that such redemption is required by terms of such Bond Purchase Agreement. The Redemption Price shall be the Second Series General Redemption Price, plus interest accrued to the Redemption Date.

#### SECTION 4.10. Property Additions Certificates.

So long as any Securities of the Second Series shall remain Outstanding, the Company shall file a Property Additions Certificate with the Trustee at least once during each calendar year.

SECTION 4.11. Amendment to Indenture; Acceleration.

So long as the aggregate principal amount of Securities of the Second Series then Outstanding, combined, if and only if the Holder of a majority in aggregate principal amount of the Securities of the Second Series then Outstanding is also the Holder of a majority in aggregate principal amount of the Securities of the Third Series then Outstanding, with the aggregate principal amount of the Securities of the Third Series then Outstanding, exceeds twenty-five per centum (25%) of the aggregate principal amount of Securities of all series then Outstanding, the words "twenty-five per centum (25%)" shall be substituted for the words "thirty-three and one-third per centum (33 1/3%)" in Section 1102 of the Original Indenture. In case any Securities of the Second Series are paid by reason of a declaration of acceleration pursuant to Section 1102 of the Original Indenture, the Company shall pay to the Holders of such Securities a premium equal to the Prepayment Surcharge, calculated as provided in Section 2.02 of this Second Supplemental Indenture with respect to the Second Series multiplied by the aggregate principal amount of such Securities so accelerated, provided that the payment of such premium does not render the Company insolvent. If the aggregate principal amount of Securities of the Second Series then Outstanding, combined, if and only if the Holder of a majority in aggregate principal amount of the Securities of the Second Series then Outstanding is also the Holder of a majority in aggregate principal amount of the Securities of the Third Series then Outstanding, with the aggregate principal amount of the Securities of the Third Series then Outstanding, exceeds twenty-five per centum (25%) of the aggregate principal amount of Securities of all series then Outstanding and an Event of Default shall exist, then the Holders of the Securities of the Second Series may demand the redemption of such Securities of the Second Series held by them upon ten days written notice to the Company and the Trustee. The Redemption Price shall be the Second Series General Redemption Price, respectively, plus interest accrued to the Redemption Date.

SECTION 4.12. Redemptions on a Business Day

In the event any Redemption Date for a redemption required by Section 4.03 hereof shall not be a Business Day, interest on the principal amount then due shall accrue to and be paid on the next Business Day; provided that the Company may, at its option, upon ten (10) days prior notice to the Trustee and the Holders, satisfy a redemption required by Section 4.03 on the Business Day prior to the applicable Redemption Date at a Redemption Price equal to par plus interest accrued to such prior Business Day. Any other Redemption Date for Securities of the Second Series shall be on a Business Day.

SECTION 4.13. Amendment or Waiver of Covenants.

The provisions of this Article Fourth may be waived or amended, at the request of the Company, with the written consent of the Holders of at least a majority of the aggregate principal amount of the Securities of the Second Series then Outstanding. So long as the aggregate principal amount of Securities of the Second Series then Outstanding, combined, if and only if the Holder of a majority in aggregate principal amount of the Securities of the Second Series then Outstanding is also the Holder of a majority in aggregate principal amount of the Securities of the Third Series then Outstanding, with the aggregate principal amount of the Securities of the Third Series then Outstanding, exceeds twenty-five per centum (25%) of the aggregate principal amount of Securities of all series then Outstanding, the provisions of this Article Fourth may not be waived nor amended without the written consent of the Holders of at least a majority of the aggregate principal amount of Securities of the Second Series then Outstanding, except as otherwise specifically provided herein.

SECTION 4.14. Covenants Superseded.

The provisions of this Article Fourth shall supersede and replace in their entirety the covenants contained in Article Third of the First Supplemental Indenture. Notwithstanding the foregoing, Sections 3.14 and 3.17 of the First Supplemental Indenture shall remain in full force and effect.

ARTICLE FIFTH

Miscellaneous

SECTION 5.01. Definitions.

Subject to the amendments provided for in this Second Supplemental Indenture, the terms defined in the Supplemented Indenture shall, for all purposes of this Second Supplemental Indenture, have the meanings specified in the Supplemented Indenture.

SECTION 5.02. Acceptance of Trust.

The Trustee hereby accepts the trust herein created and agrees to perform the same upon the terms and conditions herein and in the Indenture set forth and upon the following terms and conditions:

The Trustee shall not be responsible in any manner whatsoever for or in respect to the validity or sufficiency of this Second Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company alone. In general each and every term and condition contained in Article Sixteen of the Original Indenture shall apply to and form part of this Second Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Second Supplemental Indenture.

SECTION 5.03. Successors and Assigns.

Whenever in this Second Supplemental Indenture either of the parties hereto is named or referred to, this shall, subject to the provisions of Articles Fifteen and Sixteen of the Original Indenture, be deemed to include the successors and assigns of such party, and all the covenants and agreements in this Second Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustee, or either of them, shall, subject as aforesaid, bind and inure to the respective benefits of the respective successors and assigns of such parties, whether so expressed or not.

SECTION 5.04. Benefit of the Parties.

Nothing in this Second Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the Holders of the Securities Outstanding under the Indenture, any right, remedy or claim under or by reason of this Second Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations promises and agreements in this Second Supplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto and of the Holders of the Securities Outstanding under the Indenture.

SECTION 5.05. Counterparts.

This Second Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Second Supplemental Indenture to be executed in its corporate name by its President or one of its Vice Presidents and its corporate seal to be hereunto affixed and to be attested by its Secretary or one of its Assistant Secretaries, and SunTrust Bank, Central Florida, National Association, to evidence its acceptance hereof, has caused this Second Supplemental Indenture to be executed in its corporate name by a duly authorized officer thereof and its corporate seal to be hereunto affixed and to be attested by a duly authorized officer thereof, in several counterparts, all as of the day and year first above written.

Attest:  
Dona Henry  
-----  
Dona Henry, Assistant Secretary  
-----  
(Print Name)

FLORIDA WATER SERVICES CORPORATION,  
formerly known as Southern States  
Utilities, Inc.  
  
By: Morris Bencini  
-----  
Name: Morris Bencini  
-----  
Title: Vice President - Finance and  
Treasurer  
-----  
Address: 100 Color Place, Apopka, FL 32703  
-----

In the presence of:  
  
Kristi Jung  
-----  
(Witness)  
  
Kristi Jung  
-----  
(Print Name)  
  
Sally Murray  
-----  
(Witness)  
  
Sally Murray  
-----  
(Print Name)

Attest: SUNTRUST BANK, CENTRAL FLORIDA,  
NATIONAL ASSOCIATION, as Trustee

Lisa George

-----  
Lisa George, Assistant Vice  
President  
-----  
(Print Name)

By: M. B. Daiger  
-----  
Name: M. Bruce Daiger  
-----  
Title: Vice President  
-----  
Address: 222 East Robinson Street, Suite 250  
-----  
Orlando, FL 32801  
-----

In the presence of:

Kristi Jung  
-----  
(Witness)  
Kristi Jung  
-----  
(Print Name)

Sally Murray  
-----  
(Witness)  
Sally Murray  
-----  
(Print Name)

STATE OF FLORIDA )  
COUNTY OF ORANGE )

The foregoing instrument was executed before me, an officer duly authorized in the state and county aforesaid to administer oaths and to take acknowledgments, this 27 day of March 1997, by Morris Bencini as Vice President - Finance of FLORIDA WATER SERVICES CORPORATION, formerly known as Southern States Utilities, Inc., a Florida corporation, on behalf of said corporation, who is personally known to me.

[SEAL] Lisa Freeman Schutz  
Notary Public, State of Florida  
Commission No. CC 486829  
My Commission Expires 08/07/99

Lisa Freeman Schutz  
-----  
NOTARY PUBLIC

1-800-3-NOTARY Fla. \_\_\_\_\_ Service  
& Bonding Co.

STATE OF FLORIDA )  
COUNTY OF ORANGE )

The foregoing instrument was executed before me, an officer duly authorized in the state and county aforesaid to administer oaths and to take acknowledgments, this 27 day of March, 1997, by M. Bruce Daiger as Vice President of SUNTRUST BANK, CENTRAL FLORIDA, NATIONAL ASSOCIATION, on behalf of said bank, who is personally known to me.

[SEAL] Lisa Freeman Schutz  
Notary Public, State of Florida  
Commission No. CC 486829  
My Commission Expires 08/07/99

Lisa Freeman Schutz  
-----  
NOTARY PUBLIC

1-800-3-NOTARY Fla. \_\_\_\_\_ Service  
& Bonding Co.

BONDHOLDER CONSENT

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FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the undersigned, CoBank, ACB, f/k/a National Bank for Cooperatives, as holder of all the Securities of the Second Series presently Outstanding, hereby consents to the terms, covenants and conditions of the foregoing Second Supplemental Indenture.

COBANK, ACB, f/k/a National Bank for Cooperatives

By: Thomas A. Smith

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Name: Thomas A. Smith

-----

Title: Senior Vice President

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STATE OF GEORGIA )  
COUNTY OF COBB )

The foregoing instrument was executed before me, an officer duly authorized in the state and county aforesaid to administer oaths and to take acknowledgments, this 31 day of March, 1997, by Thomas A. Smith, Senior Vice President of COBANK, ACB, f/k/a National Bank for Cooperatives, on behalf of said corporation, who is personally known to me or who produced as identification.

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Susan L. South

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NOTARY PUBLIC

Susan L. South

-----

Print Name

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 MARCH 31, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS	DEC-31-1997	JAN-01-1997	MAR-31-1997	PER-BOOK
1,112,143				
398,630				
	420,271			
108,767				
		176,723		
		2,216,534		
			399,185	
	0			
614,578	282,787			
	75,000			
		31,492		
	683,834			
	174,793			
	0			
0				
25,178				
	0			
			0	
554,265				
2,216,534				
	222,073			
		8,796		
	182,408			
	199,716			
	26,399			
		2,533		
33,402				
	17,308			
		16,094		
	487			
15,607				
	15,780			
	0			
	2,785			
			.52	
			.52	

Includes \$4,042,000 of Income from Equity Investment and \$1,509,000 for Distributions on Redeemable Preferred Securities of Subsidiary.