Touch America™

1315 N. Main Street
Helena, MT 59601
406.495-9315

www.tamerica.com

August 23, 2000

Florida Public Service Commission
Division of Records and Reports
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

001233-TI

RE: Application for *Authority to Provide Interexchange Telecommunication Service* between points within the State of Florida.

Dear Commissioners:

The attached document is a return copy. Please date stamp it, enter the Docket number, place it in the return envelope and mail it back to Touch America. All fees will be paid by the recipient. Thank you.

Sincerely,

John S. Fitzpatrick
Executive Director
Governmental and Regulatory Affairs

Enclosure

JSF/kd

RECEIVED & FILED
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
10529 AUG 25 8
FPSC-RECORDS/REPORTING

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Florida Public Service Commission
Division of Records and Reports
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: Application for *Authority to Provide Interexchange Telecommunication Service* between points within the State of Florida.

Dear Commissioners:

Touch America, Inc. hereby submits the enclosed Application, seeking authority to operate as an *Interexchange Telecommunication Service Provider* within the State of Florida. An original and seven (7) copies are provided. Please date stamp one copy and return it in the postage-paid envelope provided by the undersigned. Also enclosed, please find a check in the amount of $250.00 payable to the Florida Public Service Commission in payment of the filing fee.

Should there be any questions or additional information required, please do not hesitate to contact me at (406) 442-9194. Thank you!

Sincerely,

John S. Fitzpatrick
Executive Director
Governmental and Regulatory Affairs

Enclosure

JSF/kd

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check:

DOCUMENT NUMBER-DATE
10529 AUG 25 8
FPSC-RECORDS/REPORTING

** FLORIDA PUBLIC SERVICE COMMISSION **

DIVISION OF TELECOMMUNICATIONS
BUREAU OF CERTIFICATION AND SERVICE EVALUATION

Application Form for Authority to Provide Interexchange Telecommunications Service Between Points Within the State of Florida

001233-TI

Instructions

- This form is used as an application for an original certificate and for approval of assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Appendix A).

- Print or Type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

- Use a separate sheet for each answer which will not fit the allotted space.

- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

  Florida Public Service Commission
  Division of Records and Reporting
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6770

  Note: **No filing fee is required** for an assignment or transfer of an existing certificate to another certificated company.

- If you have questions about completing the form, contact:

  Florida Public Service Commission
  Division of Telecommunications
  Bureau of Certification and Service Evaluation
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6600

DOCUMENT NUMBER-DATE
10529 AUG 25 8
FPSC-RECORDS/REPORTING

1. This is an application for √ (check one):

(x) **Original certificate** (new company).

( ) **Approval of assignment/transfer of existing certificate:**
Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

( ) **Approval of transfer of control:**
Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

Touch America, Inc.

3. Name under which applicant will do business (fictitious name, etc.):

Touch America, Inc.

4. Official mailing address (including street name & number, post office box, city, state, zip code):

130 North Main St.

Butte, MT 59701

5. Florida address (including street name & number, post office box, city, state, zip code):

None

6. Select type of business your company will be conducting √(check all that apply):

(X) **Facilities-based carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.

(X) **Operator Service Provider** - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.

(X) **Reseller** - company has or plans to have one or more switches but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.

( ) **Switchless Rebiller** - company has no switch or transmission facilities but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount but generally below the rate end users would pay for unaggregated traffic.

( ) **Multi-Location Discount Aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers, then offers resold service by enrolling unaffiliated customers.

( ) **Prepaid Debit Card Provider** - any person or entity that purchases 800 access from an underlying carrier or unaffiliated entity for use with prepaid debit card service and/or encodes the cards with personal identification numbers.

7. Structure of organization;

( ) Individual
(X) Foreign Corporation
( ) General Partnership
( ) Other ______________________

( ) Corporation
( ) Foreign Partnership
( ) Limited Partnership

8. **<u>If individual,</u>** provide:

Name: ______________________________

Title: ______________________________

Address: ______________________________

City/State/Zip: ______________________________

Telephone No.: ____________________ **Fax No.:** ____________________

Internet E-Mail Address: ______________________________

Internet Website Address: ______________________________

9. <u>**If incorporated in Florida,**</u> provide proof of authority to operate in Florida:

   (a) **The Florida Secretary of State Corporate Registration number:** ______________________________

10. <u>**If foreign corporation,**</u> provide proof of authority to operate in Florida:

   (a) **The Florida Secretary of State Corporate Registration number:** See Exhibit 1

11. <u>**If using fictitious name-d/b/a,**</u> provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

   (a) **The Florida Secretary of State fictitious name registration number:** ______________________________

12. <u>**If a limited liability partnership**</u>, provide proof of registration to operate in Florida:

   (a) **The Florida Secretary of State registration number:** ____________

13. <u>**If a partnership**</u>, provide name, title and address of all partners and a copy of the partnership agreement.

Name: ______________________________

Title: ______________________________

Address: ______________________________

City/State/Zip:______________________________

Telephone No.:______________ **Fax No.:**______________

Internet E-Mail Address:______________________________

Internet Website Address:______________________________

14. **If a foreign limited partnership,** provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

    (a) **The Florida registration number:**______________________________

15. Provide **F.E.I. Number** (if applicable): 81-0424592

16. Provide the following (if applicable):

    (a) Will the name of your company appear on the bill for your services?
    (x) Yes ( ) No

    (b) If not, who will bill for your services?

Name:______________________________

Title:______________________________

Address:______________________________

City/State/Zip:______________________________

Telephone No.:______________ **Fax No.:**______________

    (c) How is this information provided?

____

____

17. Who will receive the bills for your service?

(x) Residential Customers
(x) PATs providers
(x) Hotels & motels
(x) Business Customers
(x) PATs station end-users
( ) Hotel & motel guests

(x) Universities ( ) Universities dormitory residents
( ) Other: (specify)________________.

18. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: John S. Fitzpatrick

Title: Executive Director: Governmental & Regulatory Affairs

Address: 1315 N. Main St.

City/State/Zip: Helena, MT 59601

Telephone No.: (406) 442-9194 **Fax No.:** (406) 442-8730

Internet E-Mail Address: jfitz@tamerica.com

Internet Website Address: www.in-tch.com

(b) Official point of contact for the ongoing operations of the company:

Name: John S. Fitzpatrick

Title: Executive Director: Governmental & Regulatory Affairs

Address: 1315 N. Main St.

City/State/Zip: Helena, MT 59601

Telephone No.: (406) 442-9194 **Fax No.:** (406) 442-8730

Internet E-Mail Address: jfitz@tamerica.com

Internet Website Address: www.in-tch.com

(c) Complaints/Inquiries from customers:

Name: Mr. Brent Booth

Title: Manager of Customer Service

Address: 1903 South Russell St., P.O. Box 5207

City/State/Zip: Missoula, MT 59806

Telephone No.: 1-800-823-4664 **Fax No.:** (406) 523-3606

Internet E-Mail Address: bbooth@tamerica.com

Internet Website Address: www.in-tch.com

19. List the states in which the applicant:

(a) has operated as an interexchange telecommunications company.

MT, WA, WY, ND, MN, CO, ID, OR, UT, AZ, NM, NV, CA, IL, WS, NE, IA, SD

(b) has applications pending to be certificated as an interexchange telecommunications company.

OH, KS, MI, NY, TX, MO

(c) is certificated to operate as an interexchange telecommunications company.

See Item 19(a) above

(d) has been denied authority to operate as an interexchange telecommunications company and the circumstances involved.

No

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

No.

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

No

20. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

No

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

Not Applicable

21. The applicant will provide the following interexchange carrier services √ (check all that apply):

a._______ **MTS with distance sensitive per minute rates**

_______ Method of access is FGA
_______ Method of access is FGB
_______ Method of access is FGD
_______ Method of access is 800

b.______ **MTS with route specific rates per minute**

_______ Method of access is FGA
_______ Method of access is FGB
_______ Method of access is FGD
_______ Method of access is 800

c.___X___ **MTS with statewide flat rates per minute (i.e. not distance sensitive)**

_______ Method of access is FGA
_______ Method of access is FGB
___X___ Method of access is FGD
_______ Method of access is 800

d.______ **MTS for pay telephone service providers**

e.___X___ **Block-of-time calling plan (Reach Out Florida, Ring America, etc.).**

f.___X___ **800 service (toll free)**

g.___X___ **WATS type service (bulk or volume discount)**

___X___ Method of access is via dedicated facilities
___X___ Method of access is via switched facilities

h.___X___ **Private line services (Channel Services)**
(For ex. 1.544 mbs., DS-3, etc.)

I.___X___ **Travel service**

_______ Method of access is 950
___X___ Method of access is 800

j.______ **900 service**

k.___X___ **Operator services**

___x___ Available to presubscribed customers
___x___ Available to non presubscribed customers (for example, to patrons of hotels, students in universities, patients in hospitals).
______ Available to inmates

I. **Services included are:**

___x___ Station assistance
___x___ Person-to-person assistance
___x___ Directory assistance
___x___ Operator verify and interrupt
___x___ Conference calling

22. Submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485 (example enclosed).

See Exhibit 2

23. Submit the following:

A. Financial capability. See Exhibit 3

The application **<u>should contain</u>** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated. Only two years of audited financial statements are available.
The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer <u>affirming that the financial statements are true and correct</u> and should include:

1. the balance sheet;

2. income statement; and

3. statement of retained earnings.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **<u>A written explanation</u>** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served. See Exhibits 4 and 5

2. **<u>A written explanation</u>** that the applicant has sufficient financial capability to maintain the requested service.
See Exhibits 4 and 5

3. **<u>A written explanation</u>** that the applicant has sufficient financial capability to meet its lease or ownership obligations.
See Exhibits 4 and 5

B. Managerial capability; give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

See Exhibit 7

C. Technical capability; give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

See Exhibit 8

** APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

[signature]	August 14, 2000
Signature	Date
President	(406) 497-5199
Title	Telephone No.
Address: 130 N. Main St.	(406) 497-2150
Butte, MT 59701	Fax No.

ATTACHMENTS:

A - CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
B - CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
C - CURRENT FLORIDA INTRASTATE NETWORK
D - AFFIDAVIT

** APPENDIX A **

CERTIFICATE TRANSFER, OR ASSIGNMENT STATEMENT

I, (Name) Not Applicable ,

(Title)______________________________ of

____
(Name of Company)

and current holder of Florida Public Service Commission Certificate Number

______________, have reviewed this application and join in the petitioner's request for a:

( ) transfer

( ) assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

Signature ______________________________ Date August 14, 2000

Title President

Telephone No. (406) 497-5199

Address: 130 N. Main St.
Butte, MT 59701

Fax No. (406) 497-2150

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be provided in one of the following ways (applicant, please √ check one):

(x) The applicant will **not** collect deposits nor will it collect payments for service more than one month in advance.

( ) The applicant intends to collect deposits and/or advance payments for more than one month's service and will file and maintain a surety bond with the Commission in an amount equal to the current balance of deposits and advance payments in excess of one month. (The bond must accompany the application.)

UTILITY OFFICIAL:

______________________ Signature	August 14, 2000 Date
President Title	(406) 497-5199 Telephone No.
Address: 130 N. Main St.	(406) 497-2150 Fax No.
Butte, MT 59701	

CURRENT FLORIDA INTRASTATE SERVICES

Applicant **has** ( ) or **has not** (X) previously provided intrastate telecommunications in Florida.

If the answer is has, fully describe the following:

a) What services have been provided and when did these services begin?

____

____

____

____

b) If the services are not currently offered, when were they discontinued?

____

____

____

____

UTILITY OFFICIAL:

______________________	August 14, 2000
Signature	Date
President	(406) 497-5199
Title	Telephone No.
Address: 130 N. Main St.	(406) 497-2150
	Fax No.
Butte, MT 59701	

**** APPENDIX D ****

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

______________________ August 14, 2000
Signature Date

President (406) 497-5199
Title Telephone No.

Address: 130 N. Main St. (406) 497-2150
Fax No.

Butte, MT 59701

FORM PSC/CMU 31 (12/96)
Required by Commission Rule Nos. 25.24-470, 25-24.471, and 25-24.473, 25-24.480(2).

EXHIBIT 1

REGISTRATION AS A FOREIGN CORPORATION WITH THE STATE OF FLORIDA

State of Florida

Department of State

I certify from the records of this office that TOUCH AMERICA, INC., is a corporation organized under the laws of Montana, authorized to transact business in the State of Florida, qualified on August 4, 2000.

The document number of this corporation is F00000004449.

I further certify that said corporation has paid all fees due this office through December 31, 2000, and its status is active.

I further certify that said corporation has not filed a Certificate of Withdrawal.

Given under my hand and the
Great Seal of the State of Florida
at Tallahassee, the Capitol, this the
Eighth day of August, 2000

GREAT SEAL OF THE STATE OF FLORIDA
IN GOD WE TRUST

Katherine Harris

Katherine Harris
Secretary of State

CR2EO22 (1-99)

EXHIBIT 2

TARIFF

TITLE PAGE

TARIFF CONTAINING REGULATIONS AND RATES
For END USER

INTRASTATE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

Of

TOUCH AMERICA, INC.
130 N. Main Street
Butte, Montana 59701
Phone: (406) 496-5100
Toll-Free: (800) 823-4874

Within

THE STATE OF FLORIDA

For Customer Inquiries and Complaints, Please Write to or Call the Following:

TOUCH AMERICA, INC.
Customer Service Center
1903 S. Russell
P.O. Box 5207
Missoula, Montana 59806
Phone: (406) 523-3605
Toll-Free: (800) 823-4664
Facsimile: (406) 523-3606
Toll-Free Fax: (800) 823-3299

NOTES:

CHECK SHEET

Pages 1 through 166 inclusive of this Tariff are effective as of the date shown at the bottom of the respective page(s). Revised pages as named below contain all changes from the original filing that are in effect on the date listed.

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Michael J. Meldahl, President
TOUCH AMERICA, INC.
130 N. Main Street
Butte, Montana 59701
(406) 496-5100

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Michael J. Meldahl, President
TOUCH AMERICA, INC.
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EXPLANATION OF SYMBOLS

(C) To signify changed conditions or regulation

(D) To signify discontinued rate, regulation or condition

(I) To signify increase

(M) To signify that material has been transferred from another sheet or place in the tariff

(N) To signify new rate, regulation, condition or sheet

(R) To signify reduction

(T) To signify a change in text for clarification

Michael J. Meldahl, President
TOUCH AMERICA, INC.
130 N. Main Street
Butte, Montana 59701
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TARIFF FORMAT

1. Page Numbering - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new pages are occasionally added to the Tariff. When a new page is added between pages already in effect, a decimal is added. For example, a new page added between page 14 and 15 would be 14.1.

2. Page Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the Florida Public Service Commission ("FPSC"). For example, the 4th revised page 14 cancels the 3rd revised page 14. Consult the check page for the page currently in effect.

3. Paragraph Numbering Sequence - While there are several possible levels of paragraph coding exemplified below, only the 1st four levels are currently used in this tariff. Each level of coding is subservient to its next higher level:

   1.
   1.A.
   1.A.(1).
   1.A.(1).(a).
   1.A.(1).(a).(i).

4. Check Pages -- When a tariff filing is made with the FPSC an updated check page accompanies the tariff filing. The check page lists the pages contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check page is changed to reflect the revision. All revisions made in the given filing are designated by an asterisk (*). There will be no other symbols used on this page if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages).

Michael J. Meldahl, President
TOUCH AMERICA, INC.
130 N. Main Street
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CONCURRING CARRIERS

None

CONNECTING CARRIERS

AT&T - American Telephone and Telegraph Company
MCI Communications
US Sprint Communications
US WEST Communications
WTCI Communications
Local Exchange Carriers
and
other Carriers who, in the future, may provide
Telecommunications Services in the State of
Florida

OTHER PARTICIPATING CARRIERS

None

Michael J. Meldahl, President
TOUCH AMERICA, INC.
130 N. Main Street
Butte, Montana 59701
(406) 496-5100

SECTION 1 - DEFINITIONS

Account Number: Number defined by COMPANY for customer identification purposes to which all respective long distance and associated charges are assigned, billed and collectable from the customer. Associated charges are applicable install fees, monthly recurring service charges. PICC charges, long distance itemized call charges, late payment finance fees and applicable Federal, State, County, Municipal and/or Local taxes and Federal and/or State universal service charges.

Advance Payment: Partial or full payment required before the start of service.

Affiliate: Any entity (including any natural person or entity such as a corporation or partnership) controlling, under the control of or under common control with another entity.

Aggregator: Any person or entity that, in the ordinary course of its operations, makes telephones available to the public or to End Users of its premises for telephone calls using a provider of operator services.

Answer Supervision: Switch capability to detect, by hardware LEC signal or by switch software detection, the dialed number's answer event and the disconnect event. Answer Supervision deletes dialing, ring time and busy signal time from billable talk or communication time.

AT&T: American Telephone and Telegraph Company.

Authority Network Management System (Authority NMS): A system which provides customers on-line access to receive management reports as required applicable to utilization statistics per data line circuit interface (frame relay address), performance statistics for trunks and circuit lines and port statistics on a per frame relay port basis.

Authorization code: A customer identification and security code assigned by COMPANY that enables customer to access Company's long distance network.

Authorized User: A person, firm, corporation or any other entity authorized by the Customer to be connected to the service of the Customer.

Automatic Number Identification ("ANI"): The automatic transmission of a caller's billing account telephone number to a local exchange company, interexchange carrier or a third party customer. The primary purpose of ANI is for billing toll calls.

Auto Reconfiguration (ARC): Automatic alternate destination routing to provide automatic re-routing of data to a predefined alternate destination for disaster recovery and local loop redundancy applications.

Band 0: Intrastate calls; All calls placed within the State.

SECTION 1 - DEFINITIONS (Cont'd)

Basic Digital Service (BDS): A dedicated digital private line service that may be utilized to support voice frequency, data, video and facsimile applications.

Burst Information Rate (BIR): A short duration transmission that can relieve momentary congestion in the Local Area Network.

Business Customer: A customer whose use of service is primarily or substantially of a professional, business, institutional, occupational, or other commercial nature.

Cancellation of Order: A customer initiated request to discontinue processing a service order or request, either in part or in its entirety, prior to its completion.

Carrier: TOUCH AMERICA Services, unless specifically stated otherwise.

Channel or Circuit: A communications path between two or more points.

Collect Call: A billing arrangement whereby the charge for a call may be charged to the called party, provided the called party verbally accepts the charge or keys in a positive response acknowledging acceptance of the charges.

Commission: The Florida Public Service Commission ("FPSC").

Committed Information Rate (CIR): A rate assigned to each Private Virtual Circuit (PVC) by the TA FramePlus subscriber. CIRs represent the "guaranteed" transmission rates between two network ports. CIRs are available in 8 Kbps increments from Zero to 1024K.

Company: TOUCH AMERICA Services, unless specifically stated otherwise.

Completed Calls: Completed calls are calls answered on the distance end or, where necessary, positively accepted by the called party. (i.e., Person-to-Person and Collect calls).

Connecting Carrier: A telecommunications company, which may be either an interexchange or a Local Exchange Carrier, that supplies COMPANY with facilities to originate, transport and/or terminate Company's long distance services, including Operator Services.

Customer: The person, firm, corporation or other entity which orders service -- either for its own use or as a non-profit manager of a sharing group -- and which is responsible for the payment of charges as explained herein and for compliance with Company's price list regulations. For billing purposes, a customer is considered to be an account. If a person, firm, corporation or other entity orders the service in more than one originating city, or requests the assignment of more than one account number in a particular city, each such "customer" may include one or more locations of commonly owned or operated business.

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SECTION 1 - DEFINITIONS (Cont'd)

Customer Dialed Calling Card Calls: Calling Card Calls which are handled on an automated basis such that they do not require intervention by an attended operator position (i.e. a "live" operator) to complete.

Customer Provided Equipment: Terminal equipment provided by a customer.

Directory Assistance ("DA"): Service consisting of supplying listed telephone numbers to requesting customers.

Dedicated Access Lines: Dedicated Access lines used between the customer's premises and Company's Points-of-Presence for origination or termination of telecommunication traffic.

Deposit: Cash or equivalent of cash security held as a guarantee for payment of the charges.

Disconnection: The disconnection of a circuit, dedicated access line or port connection being used for existing service.

Expedited Service Order: A service order, which, in compliance with a customer request, is completed in a time period shorter than the Company's standard service interval.

Extended Digital Service (EDS): A dedicated digital private line service that may be utilized to support voice frequency, data, video and facsimile applications. EDS is available in increments of 64 Kbps up to 512 Kbps for higher speed data applications.

FCC: Federal Communications Commission.

High Speed Digital Service (HDS) (Touch America Direct (DS-3)): A dedicated digital private line service that may be utilized to support voice frequency, data, video and facsimile applications. HDS transports full duplex digital signals over terrestrial facilities at the rate of 44.736 Mbps or the equivalency of 28 DS-1's or 672 DS-0's.

Holidays: The following are the COMPANY recognized national holidays determined at the location of the originator of the call. Unless a specific date is noted, the date of the holiday is the federal observed date:

New Year's Day (January 1)
Independence Day (July 4)
Memorial Day
Labor Day
Thanksgiving Day (Last Thursday in November)
Christmas Day (December 25)

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SECTION 1 - DEFINITIONS (Cont'd)

Individual Case Basis ("ICB"): A service arrangement in which the regulations, rates and charges are developed based on the specific circumstances of the customer.

Installation: The connection of a circuit, or dedicated access line, or other dedicated facility for new or additional service.

Interconnection Facilities: Circuits and/or dedicated access arrangements provided by the Customer or a third party supplier to interconnect the Customer with the Company's service. The Customer shall have sole responsibility for the ordering, installation, maintenance, and payment of such facilities.

InterLATA Call: An InterLATA call is any call that originates and terminates in a different LATA.

IntraLATA Call: An intraLATA call is any call that originates and terminates within the same LATA.

LATA - (Local Access and Transport Area): A geographical area established as required by the Modified Final Judgment in the government's antitrust suit against the Bell System for the provision and administration of communications services.

LEC: Local Exchange Carrier.

Local Calling Area: Denotes a geographical area in which a Local Exchange Company end user may complete a call without incurring long distance charges.

Local Facilities: Any facility providing interconnection between a customer's premises and COMPANY terminal location.

Measured Charge: A charge assessed on a per minute basis in calculating a portion of the charges due for a completed Operator Assisted Call.

Minimum Service Period: The minimum period of time during which Customer is obligated to pay for services provided by the Company.

Monthly Recurring Charge ("MRC"): Monthly charges to the customer for services, facilities or equipment, which continue and are billed to the customer each month for the duration of the service.

Nonrecurring Charge ("NRC"): The initial charge, usually assessed on a one-time basis, to install equipment and facilities to establish service.

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SECTION 1 - DEFINITIONS (Cont'd)

Operator Assisted Calls: Calls requiring assistance for completion, usually by dialing 0+(area code)+(exchange)+ (line number); or by dialing "0" or "00", with all subsequent dialing being performed by Operator Services. The following are examples of calls normally placed in this manner:

Calling Card Calls - Calls for which charges are billed, not to the originating telephone number, but to a telephone calling card issued either by a local exchange or long distance telephone company for this purpose. At the caller's option, and depending upon the services available at a particular location, calling card calls may entail intervention of an attended operator position (i.e. a "live" operator) or may be made on an automated basis. The latter are termed "Customer Dialed Calling Card Calls" for purposes of this tariff.

Credit Card Calls - Calls for which charges are billed, not to the originating telephone number, but to a credit card, such as VISA, MasterCard, or American Express.

Person-to-Person Calls - Calls that are placed under the stipulation that the caller will speak only to a specific called party.

Order: A single request by a customer subscribing to a service or facilities, or both, to any number or circuits to any number of locations where the services or facilities, or both, are provided by the carrier.

Other Carrier: A person, firm, corporation, or entity, which provides communication services or facilities, or both, including but not limited to, exchange carriers, electronic message service carriers, resellers, and interconnect companies.

Permanent Virtual Circuit (PVC): A logical connection between port connections. PVC's are defined on the basis of simplex (or asymmetrical) transmission, which allows the user to establish different data transmission rates in each direction.

Person-to-Person Call: A call whereby the caller specifies to the Company operator a particular person to be reached, or a particular station, room number, department or office to be reached though a PBX attendant.

Point-of-Presence: Company's physical presence in a LATA (as defined herein). Locations where COMPANY maintains operations centers for purpose of providing long distance services.

Point of Destination: The area code and telephone number called in a location other than the point of origination.

Point of Origination: The station form which the customer initiates a call through the Carrier's switch.

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SECTION 1 - DEFINITIONS (Cont'd)

Port: Connection to the Company's switching network with one or more voice grade or DS-1 level communications channels, each with a unique network address (telephone number), dedicated to the customer. Each port is equipped with a Terminal Interface.

Premises: The space designated by a customer at its place or places of business for Company's service, whether for its own communications needs or for the use of its resale customers.

Presubscription: A service arrangement whereby the Customer authorizes the local telephone company to route all InterLATA calls to the Company.

Project Codes: Customer and/or COMPANY defined, verified and/or non-verified codes that can be used to: 1. Identify specific customer authorized user(s) and/or project(s) and 2. Allocate the cost of the long distance communication to the respective customer account number for billing purposes.

Rate Periods: Unless otherwise noted, the following rate periods are applicable to all products in this tariff:

Day:	8:00 AM-4:59 PM (Monday thru Friday).
Evening:	5:00 PM-10:59 PM (Sunday thru Friday).
Night/Weekend:	11:00 PM-7:59 AM (Sunday thru Friday, all day Saturday and Sunday from 8:00 AM -4:59 PM).

Reseller: A company that purchases a big block of long distance calling minutes for resale in smaller blocks to its customers.

Residential Customer: A Customer whose use of the Company's services is substantially of a social and domestic nature.

Responsible Organization ("Resp. Org."): Responsible Organization is the entity that maintains the routing for 800 numbers in the National database.

Service Date: The date on which Customer begins to utilize the Service or the date on which Service is made available for use by the Customer or its authorized users, whichever is sooner.

Service Location: A Service Location shall mean a single Customer premise location either owned or leased by the Customer, which location has its own, unique mailing address and which is used principally by the Customer to conduct is business. A Customer may have more than one (1) Service Location.

Special Promotional Offerings: Special discounts or modifications of its regular service offerings which COMPANY may, from time to time, offer to new customers for a particular service. Such offerings may be limited to certain dates, times and locations.

SECTION 1 - DEFINITIONS (Cont'd)

Subscription Agreement: A Standard COMPANY form that includes all pertinent LOA (Letter of Agency), billing, technical and other descriptive information that will enable COMPANY to provide the long distance service required.

Telecommunications - The transmission of voice communications or, subject to the transmission capabilities of the service, the transmission of data, facsimile, signaling, metering, or other similar communications.

Termination Service: During the Term, the COMPANY agrees to provide call termination services for all call placed through the Digital Switching System (excluding international calls). The COMPANY will provide Terminating Service for all calls via its Services offered in the tariff.

Terminal Equipment: Devices, apparatus and their associated wiring, such as teleprinters, telephone handsets or data sets.

Terminal Interface: The method of physical connection between a Company-provided service and a Customer's transmission cable, inside wiring, or terminal equipment. Depending upon the service ordered by the Customer, there might be a choice of terminal interfaces. The Customer is responsible for ordering a terminal interface that is compatible with the Customer's terminal equipment. All terminal interfaces will be provided by industry-standard connectors as specified in or authorized by Subpart F of Part 68, Title 47, Code of Federal Regulations.

Terrestrial Digital Service (TDS) (Touch America Direct (DS-1)): A dedicated digital private line that may be utilized to support voice frequency, data, video and facsimile applications. TDS transports full duplex digital signals over terrestrial facilities at the rate of 1.544 Mbps or the equivalency of 24 DS-0's.

Third Party Billed Call: A billing arrangement by which the charges for a call may be billed to a number that is different from the calling number and the called number.

TOUCH AMERICA Services: COMPANY or Carrier, unless specifically indicated otherwise.

Transmission: The sending of electrical or optical signals over a line to a destination.

Trunk: Communications path connecting two switching systems in a network, used in the establishment of an end-to-end communication.

Two-Way Transmission: The capability of transmission in either direction or in both directions at once.

Underlying Carrier: Refers to any interexchange carrier that provides long distance services resold by the Company.

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SECTION 1 - DEFINITIONS (Cont'd)

Volume Discount: A pricing concept that rewards large volume users.

WATS: Wide Area Telecommunications Service.

800/888/877 Number, Added, Changed, Deleted

A customer-initiated request to:

1. Replace an 800/888/877 number with a new 800/888/877 number.
2. Add an 800/888/877 number to an existing 800/888/877 circuit.
3. Delete an 800/888/877 number from an existing 800/888/877 circuit.

800/888/877 Subscriber: An 800/888/877 Subscriber is the person, firm, corporation or other entity that, in accordance with SMS/800/888/877 procedures, controls an 800/888/877 number and has the right to designate its responsible organization (Resp. Org.) for that 800/888/877 number.

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SECTION 2 - RULES AND REGULATIONS

1. DESCRIPTION OF SERVICE

A. COMPANY is a switched resale common carrier providing intrastate long distance message toll telecommunications and operator services to customers throughout the State of Florida for their direct transmission and reception of voice, data and/or other types of communication. Long distance services are provided through Local Exchange and/or other Connecting Carriers. Operator services are provided either directly by COMPANY or under contract with a certified operator service provider.

B. Communications begin when COMPANY's switch, located in Helena, Montana, detects the Answer Event as signaled from Local Exchange Carriers and/or other Connecting Carriers. Communications cease when COMPANY's switch detects the Disconnect Event that occurs by the hanging up of either the calling or called party.

C. Intrastate telecommunications service is the furnishing of COMPANY services for the communications between specified locations under the terms contained herein. Channels will be those of COMPANY alone, or COMPANY in conjunction with those of other participating, concurring or connecting carriers.

D. COMPANY, when acting at the customer's request and as his/her authorized agent, will make reasonable efforts to arrange for service requirements which may include terminal equipment and circuit conditioning.

E. COMPANY bills customers on a monthly basis for itemized call charges and appropriate recurring service charges as outlined in this tariff, including all applicable PICC charges, Federal, State, County, Municipal and/or Local taxes and Federal and/or State universal service charges, unless credit considerations or other circumstances require special agreements for more frequent billing.

F. Subject to availability, the customer may use Project Codes to identify the users or user groups on an account. The numerical composition of such codes shall be set by COMPANY to assure compatibility with its accounting and automation systems and to avoid duplication of codes.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

2. LOCATIONS OF SERVICE

Communications may originate and terminate in any area within the State of Florida.

3. LIMITATIONS OF SERVICE

A. Service is offered subject to the availability of the necessary facilities and/or equipment and subject to provisions of this tariff and/or price list. COMPANY reserves the right not to provide service to or from location(s) where the necessary facilities or equipment are not available.

B. Service may be disconnected, upon written notice, when necessitated by conditions beyond COMPANY's control. These conditions include, but are not limited to, a customer's call volume or calling pattern that results or may result in network blockages or other service degradation which adversely affect service to the calling party, customer, or other customers of COMPANY. COMPANY also reserves the right to discontinue furnishing service, upon written notice, when the customer is using the service in violation of the provisions contained herein, or in violation of the law.

C. Service may be discontinued by COMPANY, without notice to the customer, by blocking traffic to or from certain cities, NXX exchanges, or individual telephone stations, by blocking call origination for 500, 800 or 900 service(s), or by blocking calls using certain customer authorization codes, when COMPANY deems it necessary to take such action to prevent unlawful use of, or nonpayment for its service. COMPANY will restore service as soon as it can be provided without undue risk, and will, upon request by the customer affected, assign a new authorization code to replace the one that has been deactivated. In addition, COMPANY may, at the request of the customer institute blocking of telephone stations in order to prevent telephone calls made to annoy, abuse, threaten or harass any person at the called number. COMPANY will, upon written request by the customer, remove the block. COMPANY reserves the right to limit the number of requests for blocking per customer. In order to control fraud, COMPANY may refuse to accept Calling Card, Collect Calling and/or Third Number calls which it determines to be invalid and/or may limit the use of these billing options to or from certain areas, including all or part of the State of Florida.

D. COMPANY reserves the right to discontinue furnishing service when necessitated by conditions beyond its control or when the customer is using the service in violation of the law or provisions of this tariff.

E. COMPANY offers customers operator assisted calls (0+ or 0-), credit card calls, collect calls, person to person calls, and third party calls. 911 emergency calls and 976 numbers are not directed to COMPANY, but will be completed by Local Exchange and/or other Connecting Carriers.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

3. LIMITATIONS OF SERVICE (Cont'd)

F. COMPANY reserves the right to change the rates, terms or conditions of its services as permitted by the Florida Public Service Commission.

G. A customer shall not use any service mark or trademark of COMPANY or refer to TOUCH AMERICA in connection with any product, equipment, promotion or publication of the customer without the approval of COMPANY.

H. Title to all facilities provided by COMPANY under these regulations remains with COMPANY.

4. TERMS AND CONDITIONS

A. Unless credit considerations or other circumstances require special agreements for more frequent billing, service is provided on a basis of a minimum period of at least one month. Individual call charges are calculated to the nearest 1/100th cent and then rounded up to the next whole cent. Billing begins on the date that service becomes effective and continues to be provided until canceled by the customer or COMPANY

B. Service is offered on a monthly basis, unless otherwise agreed upon by the customer and COMPANY, seven (7) days per week, twenty-four (24) hours per day.

C. The name(s) of the customer(s) desiring to use the service must be stipulated in the Application for Subscription or Service Agreement.

D. The customer agrees to operate Company-provided equipment in accordance with instructions of COMPANY or its agent. Failure to do so will void COMPANY's liability for interruption of service and may make the customer responsible for damage to equipment.

E. The customer agrees to return to COMPANY all COMPANY-provided equipment delivered to the customer within five (5) days of termination of the service in connection with which the equipment was used. Said equipment shall be in the same condition as when delivered to the customer, normal wear and tear only are excepted. The customer shall reimburse COMPANY, upon demand, for any costs incurred by COMPANY due to the customer's failure to comply with this provision.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

5. USE OF SERVICE

A. Service may be used for the transmission and reception of communications by the customer.

B. Service may not be used for any unlawful purpose or for any purpose for which any payment or other compensation is received by the customer, except when the customer is a duly authorized and regulated common carrier. This provision does not prohibit an arrangement between the customer, authorized user, or joint user to share the cost of the service so long as the arrangement generates no profit for any participant in the arrangement.

6. INTERCONNECTION

A. Service furnished by COMPANY may be interconnected with services or facilities of other authorized communications common carriers and with private systems, subject to the technical limitations established by COMPANY. Service furnished by COMPANY is not part of a joint undertaking with such carriers. Any special interface equipment of facilities necessary to achieve compatibility between the facilities of COMPANY and other participating carriers shall be provided at the customer's expense.

B. Interconnection with the facilities or services of other Connecting Carriers shall be under the applicable terms and conditions of the other Connecting Carriers' tariffs. The customer is responsible for taking all necessary legal steps for interconnecting customer-provided terminal equipment or communications system with COMPANY's facilities. The customer shall secure all licenses, permits, rights-of-way, and other arrangements necessary for such interconnection.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

7. LIABILITY/CREDIT ALLOWANCES

A. COMPANY shall not be liable for any failure of performance due to causes beyond its control, including, but not limited to, acts of God, fires, floods or other catastrophes, national emergencies, insurrections, riots of wars; strikes, lockouts, work stoppages or other labor difficulties, Connecting Carrier operating problems; and any law order, regulation or other action of any governing authority or agency thereof.

B. COMPANY's liability for willful misconduct, if established as a result of judicial or administrative proceedings, is not limited by this tariff. With respect to any other claim or suit, by a customer or any others, for damages associated with ordering (including reservations of any specific number(s) for use with a service), installation (including delays thereof), provision, termination, maintenance, repair, interruption, or restoration of any service and/or facilities offered under this tariff, COMPANY's liability, if any, shall be limited as follows:

(1). With respect to any service provided by COMPANY, which involves dedicated access, COMPANY's liability shall not exceed an amount equal to the proportionate monthly recurring charges -- including any service charges, monthly minimum charges, basic feature package charges, monthly charges for option features, charges for dedicated access facilities and any other monthly charges -- for the period during which the service was affected.

(2). With respect to any toll free Inbound Service (800, 888, 877, 866, etc.; hereafter referred to as 800 Inbound Service) provided by COMPANY which involves per minute usage charges, COMPANY's liability shall not exceed an amount equal to the proportionate monthly recurring service charges -- including any monthly fee associated with the service, charges for dedicated termination facilities, and any other monthly charges -- for the period during which the service was affected. COMPANY shall not be liable where 800 Inbound Service was affected. COMPANY shall not be liable where 800 Inbound Service is not made available on the date committed to the customer, or cannot otherwise be made available after COMPANY's acceptance of the customer's order, or where the customer is provided with a number or numbers other than the one(s) committed by COMPANY to the customer or the number or numbers included in the 800 Inbound Service are published by the customer in an incorrect form. It is the customer's responsibility to test all 800 Inbound Service numbers prior to the preparation of advertising materials or the dissemination of the number.

(3). COMPANY shall not be liable at all for the use, misuse, or abuse of a customer's 800 Inbound Service by third parties, including, without limitation, the customer's employees or members of the public who dial the customer's 800 Inbound Service number by mistake or intentionally bother the customer with repeated calls. Compensation for any injury the customer may suffer due to the fault of others than COMPANY must be sought from such other parties.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

7. LIABILITY/CREDIT ALLOWANCES (Cont'd)

(4). Subject to the specific limitations set forth in this paragraph, for all of COMPANY's services for which charges are specified on the basis of per minute of use, or on usage of a fraction of a minute, and in which there may be interruption of any individual call caused by COMPANY which can be remedied by redialing the call.

a. A credit allowance will be made for that portion of a call which is interrupted due to poor transmission (e.g. noisy circuit), one-way transmission (one party is unable to hear the other), or involuntary disconnection caused by COMPANY's service. A customer may also be granted credit for reaching a wrong number. To receive a credit, the customer must notify COMPANY's Customer Service Center and furnish the number from which the call was placed, the number called, the difficulty experienced and approximate time the call was placed. Credit allowances will not be made for (1) interruptions not reported to COMPANY or (2) interruptions that are due to the failure of power equipment, systems or services not provided by COMPANY If the customer elects to use another means of communications after one of the above interruptions, or during a period when they are unable to place a call over COMPANY, the customer must pay the charges for the alternative service used.

b. Where a call has been disconnected, the customer will be given a credit allowance equivalent to the charge for the initial minute of the call made to reestablish communications with the other party. Where a call has been interrupted by poor transmission or one-way transmission, the customer will be given allowance up to an amount equivalent to the charge for the initial minute of the call to the wrong number if they report the situation promptly to a COMPANY Customer Service Representative.

(5). For all of COMPANY's services which involve dedicated access for which monthly recurring charges are applied and which may be interrupted for as much as several days, the customer will be given a credit allowance for an interruption of two consecutive hours or more, as follows:

a. When service is interrupted for a period of less than two (2) hours, no credit allowance will be given.

b. When the service's dedicated access line or lines associated with the service are interrupted for a period of two (2) to twenty-four (24) hours, a credit allowance in an amount equal to one-thirtieth (1/30th) of the monthly recurring charge or charges will be given.

c. When the service's dedicated access line or lines associated with the service are interrupted for a period of more than twenty-four (24) hours, a credit allowance in an amount equal to one-thirtieth (1/30th) of the monthly recurring charge or changes will be given for each twenty-four (24) hour period or fraction thereof.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

7. LIABILITY/CREDIT ALLOWANCES (Cont'd)

(6). No credit allowances will be made for:

a. Interruptions caused by the negligence of the customer or others authorized by the customer to use the customer's service.

b. Interruptions due to the failure of power equipment, systems, or services not provided by COMPANY

c. Interruptions during any period during which COMPANY or its agents are not afforded access to the premises where lines associated with the customer's services are located.

d. Interruptions during any period when the customer or user has released the service to COMPANY for maintenance or rearrangement purposes, or for the implementation of a customer order.

e. Interruptions during periods when the customer elects not to release the service for testing or repair and continues to use it on an impaired basis.

f. Interruptions not reported to Carrier.

(7). An interruption period begins when the customer reports to COMPANY that the service has been interrupted and releases it for testing and repair. An interruption period ends when the service is operative again. If the customer reports the service to be inoperative but declines to release it for testing and repair, the service is deemed to be impaired but not interrupted.

(8). If the customer elects to use another means of communicating during the period of interruption, the customer must pay the charges for the alternative service used.

(9). If a facsimile transmission is interrupted due to deficiencies in COMPANY's service, a credit allowance will be given in an amount equal to the charge applicable to the transmission of one (1) page of material at the time the transmission was affected, using the class of service chosen by the customer and the terminal types involved in the transmission.

(10). Not withstanding the foregoing provisions of this paragraph, COMPANY shall not be liable for any consequential, special, indirect or incidental damages.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

7. LIABILITY/CREDIT ALLOWANCES (Cont'd)

C. COMPANY shall be indemnified, defended and held harmless by the customer or by others authorized to use a COMPANY service against all claims of loss or damage arising from the use of furnished service(s) provided herein, including:

(1). claims for libel, slander, invasion of privacy, or infringement of copyright arising out of the material, data, information, or other content transmitted via a COMPANY service;

(2). patent infringement claims arising from combining or connecting a COMPANY service with apparatus and systems furnished by the customer or other; and

(3). all other claims arising out of any act or omission of the customer or other, in connection with any service provided by COMPANY

D. COMPANY shall not be liable for any act or omission of any Connecting Carrier or any other company or companies furnishing a portion of the service, or for the damages associated with service, channels, circuits or equipment which COMPANY does not furnish, or for damages which result from the operation of customer-provided systems, equipment, facilities or services which are interconnected with COMPANY's service.

E. COMPANY does not guarantee or make any warranty with respect to service installations at locations at which there is present an atmosphere that is explosive, prone to fire, dangerous or otherwise unsuitable for such installations. The customer and authorized user shall indemnify and hold COMPANY harmless from any and all loss, claims, demands suits, or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the customer or by any other party, for any personal injury to, or death of, any person or persons, and for any loss, damage, or destruction of any property, whether owned by the customer or others, caused or claimed to have been caused, directly or indirectly by the installation, operation, location or use of service furnished by COMPANY at such locations.

F. COMPANY is not liable for any defacement of, or damage to, the premises of a customer resulting from the furnishing for service, or the attachment of instruments, apparatus and associated wiring by COMPANY on such customer's premises or from the installation or removal thereof, when such defacement or damage is not the result of COMPANY's negligence. No agents, or employees of other participating carriers or Connecting Carriers shall be deemed to be agents or employees of COMPANY.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

7. LIABILITY/CREDIT ALLOWANCES (Cont'd)

G. COMPANY shall not be liable for the customer's failure to fulfill its obligation to take all necessary steps, including, without limitation, obtaining, installing, and maintaining all necessary equipment, materials and supplies for interconnecting the terminal equipment or communications system of the customer, or any third party acting as its agent, to the COMPANY network. The customer shall secure all licenses, permits, rights-of way, and other arrangements necessary for such interconnections. In addition, the customer shall ensure that its equipment and/or system or that of its agent is properly interfaced with COMPANY's service, that the signals emitted into the COMPANY's network are of the proper mode, band width, power, data speed and signal level for the intended use of the customer and in compliance with the criteria established by COMPANY and that the signals do not damage COMPANY's equipment, injure its personnel, or degrade service to other customers. If the customer or its agents fail to maintain and operate its equipment and/or system or that of its agent properly, with resulting imminent harm to COMPANY's equipment, personnel, or the quality of service to other customers, COMPANY may, upon notice to the customer, require the use of protective equipment at the customer's expense. If this fails to produce satisfactory quality and safety, COMPANY may, upon notice to the customer, terminate the customer's service without liability.

8. MINIMUM SERVICE PERIOD

The minimum period for service, unless otherwise stipulated in applicable long-term service agreement(s) or contract(s) or as outlined in paragraph 4. of this Section for more frequent billing, is thirty (30) days.

9. CANCELLATION BY CUSTOMER

A. Service may be canceled by a customer by providing thirty (30) days written notice to COMPANY, or upon expiration date of any applicable long-term service agreement or contract.

B. If a customer orders service requiring special facilities dedicated to the customer's use and then cancels the order prior to the start of any design work or installation of facilities, the customer receives no charges.

C. Where installation of special facilities has been started prior to the cancellation, all non-recoverable charges incurred by COMPANY, expressly on behalf of the customer, shall be borne by the customer.

D. If cancellation is requested after completion of an installation, but before service begins or before completion of the minimum period, or before completion of some other time period mutually agreed upon, the customer shall be liable for all non-recoverable expenditures or liabilities incurred by COMPANY on behalf of the customer and not fully reimbursed by installation and/or monthly service charges.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

10. CANCELLATION BY COMPANY

A. Cancellation Without Prior Notice. COMPANY may, immediately and without notice, discontinue the furnishing of service(s) to a customer, without incurring any liability, for any of the following reasons:

(1). If a condition immediately dangerous or hazardous to life, physical safety, or property exists, or it is necessary to prevent a violation of federal, state or local safety or health codes;

(2). If COMPANY is ordered to terminate service by any court, the Commission, or any other duly authorized public authority;

(3). COMPANY's service(s) was (were) obtained, diverted or used without the authorization or knowledge of the telephone company;

(4). The customer provides false information to COMPANY regarding the customer's identity, address, credit-worthiness, past or current use of common carrier communications services or its planned use of service(s);

B. Cancellation Upon Written Notice. COMPANY may, upon reasonable notice, discontinue the furnishing of service(s) to a customer, without incurring any liability, for any of the following reasons:

(1). If COMPANY deems that such action is necessary to prevent or to protect against fraud or to otherwise protect is personnel, agents, facilities or services, COMPANY may discontinue service pursuant to this sub-section if:

(a). The customer refuses to furnish information to COMPANY regarding the customer's credit-worthiness, its past or current use of common carrier communications services or its planned use of service(s);

(b). The customer has been given written notice by COMPANY of any past due amount, which remains unpaid in whole or in part, for any of COMPANY's other common carrier communications services to which the customer either subscribes or had subscribed or used;

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

10. CANCELLATION BY COMPANY (Cont'd)

(4). The customer uses, or attempts to use, service with the intent to avoid payment, either whole or in part, of other charges for the service stated in this tariff:

(a). Using or attempting to use the service by rearranging, tampering with, or making connections to COMPANY's service not authorized by this tariff; or

(b). Using tricks, schemes, false or invalid number, false credit devices, electronic devices; or

(c). Any other fraudulent means or devices;

(5). Upon written notice to the customer of any sum thirty (30) days past due; or

(6). After failure of the customer to comply with a request by COMPANY to comply with a request by COMPANY for security or the payment of service pursuant to Section 20.A.;

(7) Thirty (30) days after sending the customer written notice of noncompliance with any other provision of this tariff if the noncompliance is not corrected within thirty (30) day period.

(C) The discontinuance of service(s) by COMPANY pursuant to this Section does not relieve the customer of any obligation to pay COMPANY for charges due and owing for service(s) furnished up to the time of discontinuance.

11. INTERRUPTION OF SERVICE

A. COMPANY will avoid and restore interruptions of service in compliance with Florida Public Service Commission rules and regulations.

B. Credit allowance for interruptions of service which are not due to COMPANY'S testing or adjusting, the negligence of the customer, or the failure of channels, equipment, and/or the communications system provided by the customer, are subject to the general "Liability" provisions set forth in paragraph 7 herein. It shall be the obligation of the customer to notify COMPANY of any interruptions in service. Before giving such notice, the customer shall ascertain that the trouble is not being caused by an action or omission of the customer, is not within the customer's control, or is not in the wiring or equipment connected to the terminal of COMPANY

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

12. RESTORATION OF SERVICE

The use and restoration of service in emergencies shall be in accordance with Part 64, subpart D, of the Federal Communications Commission's Rules and Regulations, which specifies the priority system for such activities.

13. INSPECTIONS

COMPANY may, upon reasonable notice, make such tests and inspections as may be necessary to determine that the requirements contained herein are observed.

14. TESTING AND ADJUSTING

Upon reasonable notice, the circuits provided by COMPANY and/or its Connecting Carriers shall be made available to COMPANY and/or its Connecting Carriers for such tests and adjustments as may be necessary to maintain them in satisfactory condition. COMPANY shall have no liability to customers for time during which such tests and adjustments are/were made.

15. SPECIAL CUSTOMER ARRANGEMENTS

In cases where a customer requests special arrangements which may include engineering, installation, construction, facilities, assembly, purchase or lease of facilities, and/or other special services not offered under this tariff, COMPANY, at its option, may provide the requested services. Appropriate recurring and/or non-recurring charges will be developed accordingly.

16. RESERVED

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

17. CUSTOMER INQUIRIES AND COMPLAINTS

A. Customer inquiries regarding service or billing may be made in writing or by telephone to COMPANY's Customer Service Center at the following address and toll-free telephone number:

Touch America, Inc.
P.O. Box 5207
Missoula, Montana 59806
Toll-Free Customer Service Telephone - (800) 823-4664

B. COMPANY Customer Service Personnel will respond either in person or via telephone as soon as possible but no later than 24 hours from receipt of inquiry.

C. Any unresolved disputes may be directed to the attention of: Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850 or call during regular business hours (8:00 am to 5:00 pm) at 850.413.6100 or 800.342.3552.

D. In the event of a dispute concerning an invoice, the customer must pay a sum equal to the amount of the undisputed portion of the bill and notify the Company of the disputed portion.

18. NOTICES

A. Consistent with the notice requirements in Paragraph 10.B of this Section, any notice COMPANY may give to a customer may be given orally either to the customer or his/her authorized representative, or by written notice mailed to the customer's billing address or to any such address as may be subsequently given by the customer to COMPANY.

B. Unless otherwise provided by these rules, any notice from any customer may be given to COMPANY orally by the customer, or any authorized representative, at COMPANY's business offices, or by written notice mailed to the address given in paragraph 17.A. of this Section.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

19. PAYMENT AND BILLING

A. Service is provided and billed on a Monthly (30-day) basis unless certain conditions apply as cited in paragraphs 1.E. and 4.A. of this Section. Service continues to be provided until canceled by the customer or COMPANY pursuant to paragraphs 9. and 10. of this Section.

B. The customer is responsible for payment of all charges for services furnished to the customer or its authorized users. Non-recurring charges are payable when the service(s) for which they are specified have been performed. If an entity other than COMPANY, e.g., another carrier or supplier, imposes charges on COMPANY in addition to its own internal costs, in connection with a service for which a COMPANY non-recurring charge is specified, those charges will be passed on to the customer. Usage charges are billed after each usage cycle, on not less than a monthly basis based on billing cycles designated by COMPANY, unless certain conditions apply as cited in paragraphs 1.E. and 4.A. of this Section.

C. A customer of COMPANY 800 Inbound Service is responsible for payment for all calls placed on or via the customer's 800 Inbound Service number(s). This responsibility is not changed by virtue of any use, misuse, or abuse of the customer's service or customer-provided systems, equipment, facilities or services interconnected to the customer's 800 Inbound Service, which use, misuse or abuse may be occasional by third parties, including, without limitation, the customer's employees and members of the public who dial the customer's 800 Inbound Service by mistake or in an effort to illegally use the service.

D. The customer will be billed for and is liable for payment of all applicable Federal, State, County, Municipal and/or Local taxes which will be listed as separate line items and which are not included in the quoted rates.

E. ALL COMPANY bills are due and payable upon receipt and are considered past due thirty (30) days after issuance.

F. No deposits are required for services provided under this tariff unless COMPANY determines that a security deposit or advance payment is necessary pursuant to Section 20.

G. The customer is responsible for any and all charges for services not provided by COMPANY.

H. Calls that begin in one rate period and end in another will be billed in each rate period respectively, except for international calls, which calls are billed at the rate applicable to the originating time period.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

19. PAYMENT AND BILLING (Cont'd)

I. A late payment finance charge of 1.5% will be assessed on all bills not paid within thirty (30) days of the date on the billing statement. This finance charge shall appear on all subsequent statements and accrue accordingly until paid in full.

J. While charges set forth herein for installation work contemplate installations in normal locations under normal conditions, installations to be made under other circumstances may be subject to additional charges. For dedicated facilities, installation charges may vary depending upon the Local Exchange Company and the location of the customer. In any event, all installation charges, including Local Exchange Company charges to be passed through to the customer, will be established and itemized in writing, acknowledge and authorized by customer signature prior to installation. The customer may verify and all pass through LEC facility charges by contracting respective Local Exchange Company. As outlined in paragraph twenty-one (21) of this Section, COMPANY will pass actual LEC facility charges through to the customer.

K. One (1) copy of each monthly billing will be supplied to each customer without charge. An additional copy will also be supplied upon the customer's request without charge if the additional copy is mailed by COMPANY in the same envelope with the original bill. Upon customer's request, COMPANY will also mail copies of its bill to one or more additional addresses at a charge of $5.00 per bill per month.

L. If a customer whose account has been closed has a credit balance showing due to overpayment, COMPANY will transfer the credit to another account of the customer, if there is one. If not, COMPANY will mail a check for the balance to the customer if it believes it has a valid address. If COMPANY is not certain it has a valid address, it will either include a notice with the final invoice, which will be mailed to the customer's last known address, asking the customer to verify the address so that a refund can be processed; or, it will contact the customer at the address and request verification. Such verifications can be made by calling a designated telephone number or by writing to a specified address. Upon receiving verification, a check for the balance will be mailed. If the final invoice or notification letter is returned by the post office as undeliverable, or if no response is received within thirty (30) days of mailing, COMPANY will begin a closed account maintenance charge of $2.50 per month in the second monthly billing period following the month in which the account was closed. COMPANY will continue to apply that charge until the customer requests a refund or the balance is exhausted.

M. A charge of $15.00 per item will be applied to any check returned for insufficient funds, no signature, account closed or if payment is stopped.

N. The name(s) of the customer(s) desiring to use the service must be set forth in the application for service or the Service Agreement.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

20. SECURITY DEPOSIT/ADVANCE PAYMENT

A. Security Deposit. Applicants for service or existing customers whose financial condition is not acceptable to COMPANY, or is not a matter of general knowledge, may be required at any time to provide COMPANY a security deposit, in cash or equivalent of cash, up to any amount equal to the applicable installation charges, if any, and/or up to two (2) months' actual or estimated usage charges for the service to be provided. If actual usage data is available for the customer at the same or similar premises, the deposit amount shall be calculated using the customer's average bill for the most recent twelve (12) month period. If actual usage data is not available, the deposit amount shall be based on the average bills of similar customers and premises in the system. In no event, however, will a deposit exceed two (2) month's actual or estimated usage as calculated above. In all cases, applicants and existing customers shall be treated uniformly for the determination and application of deposits. If a customer fails to pay for service or equipment, the deposit will be applied to the outstanding balance.

B. Advance Payment. Applicants or customers required to provide a security deposit pursuant to paragraph 20.A. may also be required, at any time, whether before or after the commencement of service, to provide such other assurances of, or security for, the payment of COMPANY's charges for its services as COMPANY may deem necessary, including, without limitation, advance payments for service, third party guarantees of payment, pledges or other grants of security interests in the customer's assets, and similar arrangements. The required deposit or other security may be increased or decreased by COMPANY as seems appropriate in the light of changing conditions. In addition, COMPANY shall be entitled to require such payments in cash or the equivalent of cash.

C. Interest. In case of a cash deposit, simple interest at the rate of six percent (6%) annually will be paid for the period during which the deposit is held by COMPANY, unless a different rate has been established by the appropriate legal authority in the jurisdiction in which the COMPANY service is provided. At COMPANY's option, such deposit may be refunded to the customer's account at any time. In any event, deposits or remaining balance thereof will be returned upon termination of service.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

21. TOLL FREE SERVICE

A. A call begins when call termination is received by or passes through customer premises equipment. It is the customer's responsibility to pass appropriate answer supervision back to the COMPANY point of connection.

B. If a customer of COMPANY's Toll Free service is found to be non-compliant in passing back appropriate answer supervision, COMPANY reserves the right to suspend and/or deny service. COMPANY shall give the customer 3 days notice of intent to suspend or deny service due to such non-compliance.

C. The customer shall be liable for all costs and toll charges associated with their 800 service, including unauthorized calls associated with the use of 800 service obtained from COMPANY including, but not limited to, calls made using COMPANY's Toll Free service when such calls are in any way routed through the customer's location. Customers shall maintain sole responsibility for the security of 800 number(s) issued to them.

D. Nothing in this section, or in any other provision of this tariff, or in any marketing materials issued by the company, shall give any customers who have reserved 800 telephone numbers hereunder or customers who subscribe to and use COMPANY Toll Free services, or their transferees or assignees, any ownership interest or proprietary right in any particular 800 service telephone number.

E. Customers (including carrier customers) are prohibited from using any telephone numbers beginning with an 800 service code, or any other number advertised or widely understood to be toll free, in a manner that would result in; (a) the calling party or the subscriber originating line being assessed by any fee or charge virtue of completing the call; (b) the calling party being connected to a pay-per-call service; (c) the calling party being charged for information conveyed during the call unless the calling party has a pre-subscription or comparable arrangement; or (d) the calling party being called back collect for the provision of audio or data services, simultaneous voice conversation services, or products. The customer shall be afforded a period of no less than seven (7) days and no more than fourteen (14) days during which a violation may be brought into compliance. 800 service not in compliance with the above regulations at the expiration of such period may be terminated immediately.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

21. TOLL FREE SERVICE (Cont'd)

F. The customer must obtain an adequate number of access lines associated with COMPANY's Toll Free services to handle the customer's expected demand in order to prevent interference or impairment of this service or any other service provided by COMPANY taking into account (1) call volume; (2) average call duration; (3) time-of-day characteristics; and (4) peak calling periods. The company, without incurring any liability, may disconnect or refuse to furnish COMPANY's Toll Free services to any customer that fails to comply with these conditions. In case of disconnection, the customer will be notified at lease five (5) days in advance of the disconnect. The customer will be responsible for all charges incurred as well as any access charges COMPANY may incur as a result of the customer's failure to comply within the above conditions.

G. A customer is responsible for all charges for use of the COMPANY network arising from calls placed to the Customer's COMPANY Toll Free service. An applicant for COMPANY 800 service may be required to supply the following when requesting service: an initial traffic forecast, identification of its geographical marketing target areas, and a schedule of marketing and promotional activities. A new tariff forecast shall be submitted quarterly after service is initiated. Customers of COMPANY Toll Free service may not use Automatic Number Identification (ANI), provided by COMPANY incidental to the furnishing of COMPANY Toll Free service, to invoice, either directly or indirectly, their customer in connection with their furnishing of other than common carrier services.

H. The new prefixes "888" and "877" for the purpose of this tariff, apply to all COMPANY's existing 800 services, rates, and rules and regulations that governs all COMPANY's 800 service.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

22. ADMINISTRATION OF TOLL FREE NUMBERS

A. COMPANY will accept a prospective customer's request for a particular COMPANY 800 service telephone number. Up to a total of ten (10) such numbers may be requested. COMPANY will accommodate each request to the extent possible. If a requested number(s) can be assigned to a prospective customer, COMPANY will so notify the customer and will reserve it for the customer's use for a 59-day period. If, at the end of the 59-day period, the prospective customer has not subscribed to COMPANY's 800 service using a reserved number(s), COMPANY in accordance with its procedures, may make the reserved number available for use by another customer.

B. In its capacity as Resp. Org., COMPANY will reserve, assign, activate or change, upon receipt of a verified request, 800 numbers for a customer or prospective and will administrator 800 numbers, in accordance with customary industry standards and practices, the terms of this tariff, and the effective procedures of the 800 Service Management System (SMS) database administration. Customers may request, reserve, or assign or activate 800 numbers on their own behalf, or a customer which resells COMPANY inbound transmission services may request, reserve, assign, or activate 800 numbers on behalf of a customer or prospective customer of such reseller. A customer who resells COMPANY inbound transmission services must provide to any customer or potential customer, upon reasonable request therefore, concerning the status of a particular 800 number or numbers in which the customer or potential customer has interest and, if applicable and available the identity of the Resp. Org.(s) for the 800 numbers. If an existing or prospective COMPANY customer decides not to utilize the reserved, assigned, or activated 800 number(s), the customer must notify COMPANY within 48 hours so that COMPANY may release the 800 number to the pool of numbers available for assignment in accordance with industry practice and standards.

C. 800 numbers are incidental to the inbound calling service with which they are associated and, as such, may not be sold, transferred or otherwise conveyed independent of inbound transmission service. The assignment of an 800 telephone number(s) for use with company-provided inbound transmission service confers on the customer no proprietary interest what so ever in the number(s) assigned. It shall be a violation of this tariff if the customer seeks to acquire, or does acquire, any 800 numbers associated with inbound service provided by the company for the primary purpose of selling, brokering, bartering, or releasing for a fee (or other consideration) to another party that 800 number, independent of the COMPANY service with which it is associated. In any instance in which the company learns that a customer or prospective customer is attempting to sell or otherwise transfer or assign an 800 number to another person, in violation of this tariff, COMPANY may immediately and without notice release the number from reserved status, or it may immediately upon written notice to the customer discontinue the furnishing of service via the 800 number. The COMPANY telephone number forfeited as a result of the impermissible or reassigned to the undertaking will not be reserved for the prospective customer or reassigned to the customer under any condition or circumstance by COMPANY.

D. Each 800 service telephone number must be placed in actual and substantial use by the customer.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

23. OPERATOR SERVICES – COMPANY OBLIGATIONS

When COMPANY provides operator services to aggregators, it ensures via contract or tariff that:

A. Aggregators comply with the obligations in Paragraph 24.; and

B. All 0- or 911 emergency calls will be immediately defaulted to the originating LEC for proper handling.

24. OPERATOR SERVICES – AGGREGATOR OBLIGATIONS

A customer acquiring operator service from COMPANY, which, in the ordinary course of its operations, makes telephones service available to the public or to transient user of its premises for placing intrastate telephone calls, must:

A. Post on or near the telephone instrument, in plain view of consumers; the name, address, and toll-free telephone number of the provider of operator services;

B. Post a written disclosure that the rates for all operator-assisted calls are available on request, and that consumers have a right to obtain access to the intrastate common carrier of their choice; and may contact their preferred intrastate common carriers for on accessing that carrier's service using the telephone; and the name and address of the enforcement of the Common Carrier Bureau of the Federal Communications Commission, to which the consumer may direct complaints regarding operator services; ensure that each of its telephones presubscribed to a provider of operator services allows consumers to use "800" and "950" access code numbers or any other carrier identification code (10XXX) to obtain access to the provider of operator service desired by the consumer; and

C. Ensure that no charge by such customer to the consumer for using an "800 or 950" access code number, or any other access code number, is greater than the amount the aggregator charges for calls placed using the customer's presubscribed provided of operator services.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

25. OPERATOR SERVICES - BILLING ARRANGEMENTS

A. Collect, Calling Card, and Charge Third Party Calls

Charges for calls of this type will be included on the user's or called or third party's regular home or business telephone bill pursuant to billing and collection agreements established by COMPANY or its intermediary with the applicable telephone company.

B. Credit Card Calls

Charges for credit card calls will be included on the user's regular monthly statement from the card-issuing company.

C. Room Charge Calls

When requested by the user, and authorized by the subscriber, the charges may be provided for inclusion on the hotel or motel bill of the user. In such cases, COMPANY will provide a record of the call detail and charges to the hotel or motel for such billing purposes.

D. Validation of Credit

COMPANY reserves the right to validate the credit worthiness of users through available credit card, calling card, call number, third party telephone number and room number verification procedures. Where a requested billing method cannot be validated, the user may be required to provide an acceptable alternate billing method or COMPANY may refuse to place the call.

E. Contested Charges

For consideration of any disputed charge, a user must submit in writing to COMPANY, within 30 days of the date the bill is issued, the call details and the bases for any requested adjustment. COMPANY will promptly investigate and advise the user as to its findings and disposition. Any undisputed charges must be paid an a timely basis.

F. Billing Entity Condition

When billing functions on behalf of COMPANY are performed by local exchange telephone companies, credit card companies or others, the payment of charge conditions and regulations of such companies apply, including any applicable interest and/or late payment charge conditions.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

26. DIRECTORY ASSISTANCE

A. Domestic directory assistance is available for all services. The directory assistance charge will be applied to each call for as to any telephone number in the United States, Puerto Rico, and the U.S. Virgin Islands. The Directory Assistance charge applies to each call regardless of whether the requested Directory Assistance telephone number is furnished. In addition, Directory Assistance calls will not count toward, nor be calculated as part of, the customer's service volume discounts unless otherwise indicated. Directory Assistance customers calls may be placed with the assistance of an operator, and they may be billed to commercial credit cards.

B. A credit allowance will be given or the charge that would otherwise apply will be waived when:

(1). The customer experiences poor transmission or is cut-off during the call to Directory Assistance.

(2). The customer is given an incorrect telephone number by the Directory Assistance operator.

(3). The customer has inadvertently miss-dialed and has reached Directory Assistance for the wrong area code. To obtain such a credit/waiver, the customer must notify an COMPANY customer service representative within twenty-four (24) hours.

C. Customers who are pre-subscribed to COMPANY service and have been certified in writing to be unable to access or use a manual directory because of a visual or other physical impairment are eligible to receive a credit which will be applied against the per-call charge and any applicable operator-assistance surcharges specified in this tariff for domestic Directory Assistance calls made by dialing Area Code + 555-1212. This certification must be made by a licensed physician, optometrist, appropriate federal or state agency, or appropriate approved private agency.

The written certification of visual or other physical impairment must be provided to an COMPANY Customer Service Center, or, at COMPANY's election, proof of certification, as defined above, may be provided to, and maintained on file with, the Customer's Local Exchange Carrier.

Credits may be used by: (i) the visually or otherwise physically impaired customer; (ii) an organization established specifically for the purpose of assisting the visually or otherwise physically impaired; or, (iii) a business where all owner(s) and/or employees of the business on the premises at which a call originates have been certified as visually or otherwise physically impaired. Credits will apply only to Directory Assistance calls made by dialing Area Code + 555-1212, that originate from and are billed to the telephone number of the certified visually or otherwise physically impaired person or organization. Only one telephone number per location is entitled to this credit. A maximum of fifty Directory Assistance calls, including operator-assistance surcharges, per monthly billing period will be eligible for the credit.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

27. ROUNDING METHODS

A. Term Definitions:

(1). Charge Element Rounding: The rounding of *seconds* for the initial and incremental periods of one call.

(2). Call Rounding: The rounding of *cents* for the initial and incremental periods of one call.

B. Rounding methods for computing charges:

(1). Bulk Rounding: Bulk rounding method rounds to the nearest fraction of a number, and retains those fractions from call to call until a whole number is accumulated, then that number is added to whatever call is hit when the (call) fractions total one (whole) number.

(2) Rounding Up: Rounding up method rounds the second digit to the right of the decimal point up one value if the value of the third digit to the right of the decimal point is greater than zero.

(3). Standard Rounding: Standard rounding determines if the third digit to the right of the decimal point is greater than 5, then the number will be rounded up; if the number is less than 5, no rounding will occur.

C. Rounding Applications:

(1). All charge elements for new products will be rounded up; all initial seconds and increments will be rounded using the Rounding Up method.

(2). All call rounding will be as follows:

Intrastate Usage	Bulk Rounding
Directory Assistance	Standard Rounding

SECTION 2 - RULES AND REGULATIONS (Cont'd)

28. THIRD PARTY MARKETING PROMOTION

A The Company may from time to time enter into agreements with third parties to market COMPANY services. Subsequent to entering into such agreements, COMPANY may pay commissions to the third party marketing entity for qualifying monthly usage revenues generated by COMPANY customers to whom the third party has marketed COMPANY service(s). The actual level of commissions to be paid will be dependent on the nature and extent of activities engaged in by the third party on COMPANY's behalf including, without limitation, initial sales efforts, order coordination and processing, customer service, service problem determination and resolution, billing coordination, billing dispute resolution, and collection or guarantee of collection of the amounts billed to COMPANY customers enrolled by the third party. The commission payments may be remitted by the third party, in whole or in part, and in its sole discretion, to customers to whom it has marketed COMPANY service(s).

B. Within a Third Party Marketing Promotion, COMPANY may waive its portion of installation charges on voice and data basic digital service and switched long distance services for all customers enrolled by a third party.

29. DEDICATED SERVICE

A. Upon request and signing up for one of COMPANY's dedicated access line services (DAL), the DAL customer will have the option of utilizing one of COMPANY's switched services until such time as the Customer's DAL service is installed and made available.

B. COMPANY will then credit the customer the difference between the switched product rates and the applicable DAL rates after the DAL service is installed and billing. The credit would only be for the period beginning with the first date the customer is willing to accept installation of the DAL and the actual date the DAL is installed. The credit will be given on the customer's second month's DAL bill received from COMPANY.

30. INFORMATION PROVIDER DATA

A Service Bureau shall promptly furnish to COMPANY, and keep current on a continuing basis, the name, address and customer service telephone number(s) of the Providers to whom it provides service. Where an Provider directly subscribes to COMPANY's service, it shall promptly furnish to COMPANY, and keep current on a continuing basis, its name, address and customer service telephone number(s).

31. LINE SEIZURE

No provider of pay-per-call services subscribing to COMPANY's service under this tariff shall use automatic dialing devices which deliver a recorded message to the called party unless the device releases that called party's telephone line promptly but in no event longer than current industry standards.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

32. ANSWER SUPERVISION

Answer supervision must be provided when an COMPANY service offering is connected to switching equipment or a customer-provided communications system. The equipment or system must provide answer supervision so that the measure of chargeable time begins upon the delivery of the customer COMPANY call to the switching equipment or to the equipment connected to the communications system and ends upon termination of the call by the calling party. If a customer's communications system fails to promptly return to COMPANY an idle (on-hook) state upon completion of the call, the customer will be held responsible for all charges that result up until the time the customer's communication system signals COMPANY's network that the call has been terminated or until such a time that COMPANY's own system terminates the call.

33. RESTRICTIONS

Providers of pay-per-call services subscribing to COMPANY transmission services, including 900 service, must comply with all requirements of: (a) Titles II and III of the Telephone Disclosure and Dispute Resolution Act (Pub. L. No. 102-556) (TDDRA); and all requirements of: (b) the regulations prescribed by the Federal Communication Commission and the Federal Trade Commission pursuant to those Titles. The company shall terminate programs, which utilize 900 service if the programs are not in compliance, following written notice to the provider. The provider shall be afforded a period of no less than seven (7) days and no more than fourteen (14) days during which a program may be brought into compliance. Programs not in compliance at the expiration of such period shall be terminated immediately.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

34. SPECIAL ACCESS SURCHARGE

A. A monthly special access surcharge, required by the Local Exchange Carrier (LEC), applies to each local channel termination associated with Channel Service and Foreign Exchange Service Capability. This monthly surcharge is applicable when the local channel is connected to a PBX or equivalent device, which is capable of interconnecting the Channel Service or Foreign Exchange Service Capability with local exchange service. When analog or digital high capacity facilities interconnect with the local exchange network, the special access surcharge is applied on a per voice grade equivalent circuit basis as shown in the following example:

Basic digital Facility	Voice Grade Equivalent				Monthly Surcharge
Circuits		X	$25		Per Circuit
Group	12	X	$25	=	$300.00
DSI	24	X	$25	=	$600.00

B. The special access surcharge applies on each local channel termination installed whether the interconnection capability exists in the customer's premise equipment or in a Centrex CO type switch.

C. The customer may be exempt from the monthly special access surcharge if:

(1). The customer certifies in writing that the local channel terminates in a device not capable of interconnecting the service with the local exchange network; or

(2). The customer certifies that the local channel termination, by nature of its operating characteristics, could not make use of LEC common lines; or

(3). The customer certifies that the local channel is connected to a LEC's switched access service that is subject to carrier common line charges.

D. The certification will be in the form of a written notification to the Company. The notification may be provided:

(1). At the time the service is ordered; or

(2). At such time as the service is re-terminated to a device not capable of interconnecting to the local exchange network; or

(3). At such time as the local channel becomes associated with a switched access service that is subject to carrier common line charges.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

34. SPECIAL ACCESS SURCHARGE (Cont'd)

E. If a written certification is not received at the time an order for new service is placed, the special access surcharge will be applied. COMPANY will cease billing the special access surcharge and the exempt status will become effective on the date certification is received by COMPANY on services in place. If the status of the basic digital facility was charged prior to the receipt of the exemption certification, COMPANY will credit the customer's account, not to exceed ninety (90) days, based on the effective date of the change specified by the customer in the letter of certification.

35. GROSS RECEIPTS TAX

A surcharge will be imposed on all charges for outbound service originating at, or inbound service terminating at, addresses in states which levy, or assert a claim of right to levy, a gross receipts tax on COMPANY's operations in any such state, or a tax on interstate access charges incurred by COMPANY for originating access to telephone exchanges in that state. This surcharge is based on the particular state's receipts tax and other states receipts taxes imposed directly or indirectly upon COMPANY by virtue of and measured by the gross receipts or revenues in that state and /or payment of interstate access charges in that state. The surcharges will be shown as a separate line item on the customer's invoice.

36. TELECOMMUNICATIONS SERVICE PRIORITY PROVISIONING AND RESTORATION OF SERVICE

The provisioning and restoration of service in emergencies shall be in accordance with Part 64, Subpart D, Appendix A of the Federal Communications Commission's Rules and Regulations, which specifies the prioritization for such activities.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

37. TOLL-FREE SERVICE ASSURANCE GUARANTEE

A. If a Toll-Free line provided by COMPANY to the Customer is subject to a Service Disruption, COMPANY will, within 15 minutes of the exact time of completion of the Confirmation Process, reroute traffic from the Affected Toll-Free Line to any working number: (i) terminating in forty-eight (48) contiguous United States Domestic U.S.); and, (ii) which is provided by COMPANY to the Customer. If COMPANY fails to reroute such traffic within fifteen (15) minutes after completion of the Confirmation Process (A Toll-Free Line Outage), COMPANY will credit to the Customer's account an amount equivalent to the lesser of: (i) one hundred percent (100%) of the usage for the Affected Toll-Free Line for the entire month in which the Toll-Free Line Outage occurred; or, (ii) one hundred ten percent (110%) of the usage for the Affected Toll-Free Line in the month prior to the month in which the Toll-Free Line Outage occurs.

(1). Service Disruption is defined as a degradation in the performance of a toll-free line provided by COMPANY to the Customer (Affected Toll-Free Line) which completely disallows COMPANY from terminating calls to such Affected Toll-Free Line.

(2). The Confirmation Process is defined as (i) the Customer's telephonic notification to an COMPANY Customer Service Representative of a Service Disruption and the furnishing by the Customer of certain information (including the Customer's name and address, the Customer's COMPANY account number and the Affected Toll-Free Line, the service subscribed to by the Customer and the approximate time the Service Disruption began; and, (iii) acknowledgment from such COMPANY Customer Service Representative that traffic to the Affected Toll-Free Line will, in accordance with the terms of this Guarantee, be rerouted within 15 minutes of the conclusion of the Customer's telephone call to COMPANY.

(3). The credit will be applied within sixty (60) days of the Service Disruption. The credit will be calculated based on all calls to the Affected Toll-Free Line(s) and applied to the Customer's interstate usage.

(4). COMPANY is guaranteeing only that calls will be rerouted within 15 minutes upon completion of the Confirmation Process, not that service will be restored to the main location in that timeframe. COMPANY' only obligation under this Guarantee is to issue the appropriate credit as described above.

(5). A maximum of five (5) affected toll free numbers per Customer, per occurrence will be covered under this Guarantee.

(6). The customer is required to designate and provide to COMPANY a working telephone number with enough capacity to handle the rerouted traffic. COMPANY will not be responsible or liable for uncompleted calls due to problems with the working telephone number or insufficient capacity or number of lines at the working telephone number designated by the Customer.

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

37. TOLL-FREE SERVICE ASSURANCE GUARANTEE (Cont'd)

(7). The Toll-Free Service Assurance Guarantee shall not apply for the following:

(a). a Service Disruption is caused by the negligence, errors, or omission of the affected Customer or others authorized by the Customer to use the Customer's service;

(b). a Service Disruption is caused due to the failure or malfunction of any power, equipment, service, or systems not provided directly by COMPANY;

(c). a Service Disruption occurs during any period in which COMPANY or its agents are not afforded access to the premises where access lines associated with the Affected Toll-Free Line is terminated; provided, however, that such access is needed to prevent Service Disruption;

(d). a Service Disruption occurs during any period when the Customer has released the service to COMPANY for maintenance or rearrangement purposes, or for the installation or de-installation of a Customer order;

(e). a Service Disruption occurs during a period when the Customer elects not to release the service(s) for testing and/or repair and continues to use it on an impaired basis;

(f). a Service Disruption occurs due to network busy conditions;

(g). a Service Disruption non immediately/promptly reported to COMPANY;

(h). a Service Disruption is caused by the failure of an underling local exchange carrier or third party carrier of local, switched and/or dedicated service that COMPANY relies on to provide service to the Customer;

(i). a Service Disruption is caused by the failure of the National SMS 800 database and/or system;

(j). COMPANY is not the Responsible Organization (Resp Org) for the Affected Toll-Free Line;

(k). The on-line portion in a Multi-carrier situation;

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SECTION 2 - RULES AND REGULATIONS (Cont'd)

37. TOLL-FREE SERVICE ASSURANCE GUARANTEE (Cont'd)

(l). The Customer is utilizing COMPANY's Toll-Free Verified and Non-verified PAC, GeoRouting, or Menu Routing services;

(m). a Service Disruption caused by the Customer's use of COMPANY services in any unauthorized or unlawful manner; and/or,

(n). a Service Disruption is caused by or resulting from a *force majeure* event beyond the reasonable control of COMPANY including, but not limited to, an act of God, government regulations, or national emergency.

38. CUSTOMER SATISFACTION GUARANTEE

Customers who have entered into a term agreement for COMPANY service may terminate their agreement with COMPANY prior to the expiration of the term without liability for early termination charges (except as set forth herein) if COMPANY fails to provide billing and/or transmission services in accordance with industry standards within thirty (30) days after receipt of written notification from the customer specifying that an COMPANY billing and/or transmission service deficiency exists and issuance of an COMPANY trouble ticket. If the Customer terminates a term agreement because COMPANY is unable to cure an COMPANY billing and/or transmission service deficiency within thirty (30) days of receipt of the Customer's written notice and issuance of a trouble ticket, the customer will be entitled to receive:

A. A prorated portion of any tariffed discounts and/or credits that the customer would have been entitled to receive based on the portion of the term that has expired; and

B. Reimbursement for actual and applicable installation costs associated with switching it back to its previous long distance carrier. COMPANY will credit Customers utilizing switched access services an amount equal to the applicable Primary Interexchange Carrier (PIC) change charge actually incurred and paid by the Customer up to a maximum of $10.00 per line. COMPANY will credit Customers utilizing dedicated access services an amount equal to the applicable installation charges actually incurred and paid by the Customer up to a maximum of $200.00 per DS-0 line and a limit of 100 DS-0 lines. In order to qualify for this offering, the Customer must, within sixty (60) days of sending written notice of termination to COMPANY, submit invoices documenting the actual installation charges for which it seeks a credit.

SECTION 2 - RULES AND REGULATIONS (Cont'd)

38. CUSTOMER SATISFACTION GUARANTEE (Cont'd)

In order to qualify for this guarantee, the Customer must notify COMPANY in writing of its intent to cancel its COMPANY service thirty (30) days prior to the requested termination date. Written notification must be sent to:

Touch America, Inc.
Attention: Cancellation Notification
1903 South Russell St.
P.O. Box 5207
Missoula, Montana 59806

Note: This guarantee excludes international frame relay and international private line services.

39. MINIMUM USAGE COMMITMENT

A. Where specifically allowed in the tariff, for those COMPANY services which provide a discount based upon the customer's commitment to use a minimum amount of COMPANY services per month, COMPANY will count the customer's total use of COMPANY services, except charges that have been specifically excluded under this tariff, in determining whether the customer satisfies the minimum usage requirement.

SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES

1. AUDIO TELECONFERENCING

A. General Description: Audio Teleconferencing permits three (3) or more customers located within the State to be connected. COMPANY offers its customers the following three (3) Audio Teleconferencing services:

1. Operator Assisted Conferencing Calling
2. 800 Meet Me
3. Local Meet Me

B. New Customer Discount: New Customers who have never used COMPANY's Audio Teleconferencing service will receive a fifty (50) percent discount off of their first thirty (30) days of usage.

C. Rates:

(1). Operator Assisted Conferencing Calling ("OACC")

Bridging Cost*, per bridged minute	$0.43

(2). 800 Meet Me Conferencing

Bridging Cost*, per bridged minute	$0.44

(3). Local Meet Me Conferencing

Bridging Cost*, per bridged minute	$0.28

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

1. AUDIO TELECONFERENCING (Cont'd)

D. Volume Discount: Discount is based on total Audio Conferencing charges.

Retroactive Discount

Total Monthly Usage Charges	Percent Discount
$0.00 - $500	0%
$500.01 - $1,000	4%
$1,000.01 - $2,500	8%
$2,500.01 - $5,000	12%
$5,000.01 - $10,000	16%
$10,000.01 - $15,000	18%
$15,000.01 - $20,000	20%
$20,000.01 - $25,000	22%
$25,000.01 - +	24%

* The Bridging Cost includes the rate associated with the long distance call.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

2. ENHANCED 800/888/877 FEATURES

A. General Description: Enhanced 800/888/877 Features are selected add on enhancements to all of COMPANY's 800 Services: The following enhancements are available:

(1). Time of Day Routing: Customer can accept incoming calls on alternate numbers based on time-of-day.

(2). Day of Week Routing: Customer can accept incoming calls on alternate numbers based on day of week.

(3). Holiday Routing: Customer can accept incoming calls on alternate numbers based on holiday.

(4). Direct Terminal Overflow: Customer can forward incoming calls to predesignated local number if busy; (DAL customers only).

(5). Tailored Call Coverage: Customer can block calls from one 800 origination. Calls may be blocked by area code, area code/exchange, LATA, state, or 10 digit ANI.

(6). Dialed Number Identification: Customer can identify dialed number; (DAL customers only).

(7). % Allocation Routing: Routes calls placed on an 800 number up to 8 different terminating locations based on whole number percentages that add up to 100%.

(8). Alternative Routing: Customer can Activate Alternate Routing Plan.

(9). Real Time ANI: Allows dedicated access customers to receive the ANI of the calling party if the call originates from an equal access end office.

(10). Account Codes: Allows the customer to track usage of its 800 number back to specified user codes and/or to limit use of its 800 number to only those dialing authorized codes. Requires that additional digits be dialed after the regular 10-digit 800-number is dialed. Two types are available: verified and non-verified. With both types of codes, calls cannot be completed without entry of the specified codes. In addition, with the verified codes, calls are not completed until codes are verified for accuracy. As an option, Call Detail can be sorted by either verified or non-verified codes.

(11). Geographical Routing: Allows the customer to arrange for calls to a single 800 service telephone number placed from different groups of originating locations to terminate to different locations. Originating locations may be identified using the NPA or by NPA/NXX*.

* TA Confidence and TA Simple-One Promise customers only (switched & dedicated).

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

2. ENHANCED 800/888/877 FEATURES (Cont'd)

(12). 800 Directory Publication: Allows customers to publish their 800 number(s) in AT&T's 800 directory.

(13). Menu Routing: Plays prerecorded messages in a menu like fashion referring callers to other numbers, explaining service conditions, or other information that a Customer desires to provide to their callers. The call may either terminate after the message announcement, or proceed to a set of interactive voice responses that give additional menu options. These menu options may terminate to a final destination or prompts can be linked to another set of menu options. COMPANY supports two types of Menu Routing:

(a). Basic Menu Routing Plans: Basic Menu Routing will allow one voice announcement message to be followed by a menu of options. Customers may select up to four (4) menu options. These menu options will terminate to a ring-to number based on the menu option selected using the keypad on the telephone.

(b). Advanced Menu Routing Plans: Any plan that does not meet the Basic Menu Routing requirements as described above, will be considered an Advanced Menu Routing Plan. The limitations for Advanced Menu Routing are as follows: (1) no more than nine (9) Menu Options per set or grouping; and, (2) no more than four (4) menu levels.

(14). Quota Call Allocation - Round Robin: Distributes incoming calls to terminating addressed (TA's) or other feature(s) to a fixed number of calls per a designated unit of time (minutes or hours). A Customer will be able to distribute calls to several TA's based on the number of calls per unit of time. The unit of time versus the amount of calls can be adjusted based on what the user specifies, e.g., the number of calls per unit of measure.

B. Availability: Enhanced 800/888/877 Features are available individually or in any combination for both existing and new customers.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

2. ENHANCED 800/888/877 FEATURES (Cont'd)

C. Rates: Rates include an installation charge and a monthly recurring charge.

Monthly Recurring Charges

Tailored Call Coverage	$0.00
Account Codes Verified	$50 per block of 100
Account Codes Non-Verified	$50 per 800 number
Geographical Routing	$.0005 per MOU*
Real Time ANI	$350.00 per trunk group
Dial Number Identification Service (DNIS)	$0.00
Directory Publication	$15.00
All other features	$75.00**
Menu Routing	$0.05 per call
Quota Call Allocation	$50.00

Non-Recurring Charges

Tailored Call Coverage	$25.00
Per option change to 800 number	$25.00
Real Time ANI	$300.00 per trunk group
Account Codes Installation charge	$75.00
Account Codes Change charge	$75.00
Dial Number Identification Service (DNIS)	$500.00
Directory Publication	$15.00
All other features	$50.00***

* The $0.0005 rate per MOU is in addition to the monthly recurring and non-recurring charges.
** Per arrangement (each feature chosen).
*** Per order (one or multiple features).

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

3. NATIONAL TOLL FREE

A. General Description: National Toll Free is a virtual banded inbound service that allows customers to receive 800 calls from throughout the Continental U.S.

B. Billing: Six (6) second increments with a thirty (30) second average minimum.

C. Call Detail: Call detail will provide the following information when the technical capability exists:

(i) Date,
(ii) Number of calling party,
(iii) LATA of calling party,
(iv) Time of call,
(v) Duration of call, and
(vi) Cost of call.

D. Calling Rating: Calls will be rated at the time period where the call terminates.

E. Monthly Recurring Charges

Per Minute of Use

Service Area	Business Day	Evening	Night/Weekend
All Mileage	$0.2200	$0.1800	$0.1673

F. Volume Discount: Volume discounts are applied to the first $.01 of usage and apply on a per account basis. If the customer also subscribes to Touch America Direct Toll Free, Global-Card and/or International Services, his/her combined total monthly usage will be used to determine the National Toll Free volume discount as if all usage had only been on National Toll Free service.

Monthly Usage

Total Monthly Usage Charges	Percent Discount
$0.00 - $100	0%
$100.01 - $350	10%
$350.01 - $1,350	13%
$1,350.01 - $2,500	15%
$2,500.01 - $5,000	18%
$5,000.01 - +	21%

G. Payphone Use Charge: $0.30

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

4. TOUCH AMERICA DIRECT TOLL FREE

A. General Description: Touch America Direct Toll Free is a virtual banded inbound service that allows customers to receive 800 calls from throughout the Continental U.S. via voice frequency or DS-1 terminations.

B. Billing: Six (6) seconds with a thirty (30) second average minimum.

C. Calling Rating: Calls will be rated at the time period where the call terminates.

D. Discounts

If the customer also subscribes to National 800, Global-Card and/or International Services, his/her combined total monthly usage will be used to determine the Touch America Direct Toll Free volume discount as if all usage had only been on Touch America Direct Toll Free service.

E. Actual Monthly Recurring Charges

(1). T1-Termination

(a). Rates:

Per Minute of Use

Service Area	Business Day	Evening	Night/Weekend
All Mileage	$0.1570	$0.1300	$0.1098

(b). Applicable Discounts:

Monthly Usage	Volume Discount
$0.00 - $1,000	0%
$1,000.01 - $10,000	12%
$10,000.01 - $30,000	15%
$30,000.01 - +	20%

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

4. TOUCH AMERICA DIRECT TOLL FREE (Cont'd)

E. Actual Monthly Recurring Charges (Cont'd)

(2). VF Termination

(a). Rates:

Per Minute of Use

Service Area	Business Day	Evening	Night/Weekend
All Mileage	$0.1800	$0.1547	$0.1290

(b). Applicable Discounts:

Monthly Usage	Volume Discount
$0.00 - $1,000	0%
$1,000.01 - $10,000	12%
$10,000.01 - $30,000	15%
$30,000.01 - +	20%

(c). Payphone Usage Charge: $0.30 per call

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

5. PERSONAL 800 SERVICE

A. *General Description:* Personal 800 is a switched nationwide 800 product that can be used by the customer anywhere in the domestic United States, Alaska and Hawaii. To use Personal 800, the customer will dial a designated 1-800-XXX-XXXX number (the same 800 number will be used by all subscribers). The customer will then enter their six digit authorization code (there will be no voice response requesting the customer to enter his/her authorization code). Once the six digit authorization code has been verified, the call will be completed.

B. Billing: Full minute

C. Availability: Personal 800 is available to both residential and small business customers. The service will only be sold to customers that have COMPANY as their long distance carrier on their billed-to telephone number.

D. Rates:

Rates Per Minute of Use	Rate
Day	$0.22
Evening	$0.19
Night/Weekend	$0.19

E. Charges: Payphone Use Charge $0.30

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

6. USA PLAN SERVICE

A. General Description: USA PLAN Service provides facilities to complete interLATA, intraLATA, and calls between any two points. Service is available on a full-time basis, twenty-four (24) hours a day, seven (7) days a week.

B. Billing: Full minute

C. Time Periods:

Mon, Tue, Wed, Thu, Fri, Sat, Sun	8:00am to 5:00pm*	Day
Mon, Tue, Wed, Thu, Fri, Sat, Sun	5:00pm to 11:00pm*	Evening
Mon, Tue, Wed, Thu, Fri, Sat, Sun	11:00pm to 8:00am*	Night/Weekend

* Up to but not including, the times shown.

The evening rate applies to the following Holidays unless a lower rate would normally apply: Christmas Day, New Year's Day, July 4th, Labor Day and Thanksgiving, Memorial Day, Veteran's Day, Martin Luther King Day, President's Day, and Columbus Day.

D. Recurring Rates

DAY		
	Initial Period	Additional Increment
All Mileage	$0.2500	$0.2500
EVENING		
	Initial Period	Additional Increment
All Mileage	$0.1800	$0.1800
NIGHT/WEEKEND		
	Initial Period	Additional Increment
All Mileage	$0.1500	$0.1500

E. Nonrecurring Charges

	Per Circuit	**Per Order**
Administrative Charge	$0.00	$0.00
Service Conversion	$0.00	$0.00
Billing Record Charge	$0.00	$0.00

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

7. GLOBAL-CARD CALLING CARD

A. General Description: Global-Card Calling Card allows customers to make domestic calls away from home anywhere in the United States. Additionally, the Global-Card provides International origination from over 50 countries worldwide. To initiate a Global-Card call, the customer dials a toll free number. When the call is acknowledged, the customer then inputs their card number and security code.

B. Billing: Six (6) second increments.

C. Time Periods:

Mon, Tue, Wed, Thu, Fri, Sat, Sun	8:00am to 5:00pm*	Day
Mon, Tue, Wed, Thu, Fri, Sat, Sun	5:00pm to 11:00pm*	Evening
Mon, Tue, Wed, Thu, Fri, Sat, Sun	11:00pm to 8:00am*	Night/Weekend

* Up to but not including, the times shown.

D. Rates:

(1). There is a surcharge per call when utilizing the Global-Card Calling Card in addition to the charge in (2) below: $.25

(2). There is a charge per minute of use for the Global-Card calling card:

Day	Evening	Night/Weekend
$0.25	$0.18	$0.18

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

8. GLOBAL-CARD + CALLING CARD

A. General Description: Global-Card + Calling Card is designed for residential services. Global-Card + allows customers to make domestic and international call away from home anywhere in the United States.

To initiate a Global-Card + call, the customer dials a toll free 800 number. The voice response unit ("VRU") then instructs the customer to input the authorization code, which is the customer's billed to number plus four (4) digits. After the proper verification of the authorization code, the VRU guides the customer through the available options.

B. Billing: Full minute

C. Availability: Global-Card + is restricted to the following MTS 1+ services: USA PLAN and Radiance +.

D. Rates:

Per Minute Rates	
All Time Periods	$0.40
Surcharge	
Per Call	$0.99
Operator Surcharge Per Call	$2.25
Payphone Use Charge	$0.25

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

9. RADIANCE + SERVICE

A. General Description: Radiance + ("Radiance") provides facilities to complete InterLATA, intraLATA calls between two (2) points. The customer will be assigned an authorization code that will authorize the use of Radiance by that customer. Service is available twenty-four (24) hours a day, seven (7) days a week.

Radiance rates are stated in terms of initial minutes and additional minutes.

B. Billing: Full minute.

C. Availability: Radiance is available to any customer. Additionally, casual callers who utilize COMPANY's service via 10XXX, will be billed Radiance rates.

D. Time Periods:

Monday thru Friday	8:00am to 4:59pm	Day Rate Period
Sunday thru Friday	5:00pm to 10:59pm	Evening Rate Period
Monday thru Friday	11:00pm to 7:59am	Night Weekend Period
Sunday	11:00pm to 4:59pm	
Saturday	All Day	

E. Rates:

Per Minute Usage Rates

Day	Evening	Night/Weekend
$0.27	$0.15	$0.12

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

10. CHOICE VIRTUAL NETWORK SERVICE (CVNS)

A. General Description: Choice Virtual Network Service (CVNS) allows geographically dispersed companies with different usage volumes to combine their private networks with portions of the public switched network. With CVNS, users can create their own private network by utilizing the intelligence embedded in the COMPANY network.

B. Choice Virtual Network – FramePlus: FramePlus frame relay service is a public, fast-packet data network offering. Customers access Frame Plus at COMPANY's closest Points of Presence (POPs). Within the POP, COMPANY designs and installs Network Node connections on the FramePlus network. A Network Node is comprised of a Port Connection and Permanent Virtual Circuits (PVCs) that define the connections between customers' ports. COMPANY dynamically allocates capacity across these logically assigned PVCs, supporting multiple customer data networks. FramePlus supports a variety of simultaneous data applications over a single integrated facility. It is optimal for applications requiring transmission between multiple locations that need high speed connectivity with low latency or delay.

C. Billing: Six (6) second increments

D. Time Periods:

8:00 AM – 4:59 PM Monday through Friday	Peak
All other times	Non-Peak

E. Availability: CVNS is available on a nationwide basis for both switched and dedicated access.

F. Usage Rates:

Usage Rates (per minute of use)

Switched Access		Dedicated Access	
Peak	$0.2261	Peak	$0.1378
Non-Peak	$0.1805	Non-Peak	$0.1311

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

10. CHOICE VIRTUAL NETWORK SERVICE (CVNS) (Cont'd)

F. Discounts:

	Month to Month	1 Year	2 Years	3 Years
$25,000-$49,999	5.00%	10.50%	14.40%	16.30%
$50,000-$99,999	13.50%	22.50%	25.40%	27.30%
$100,000-$149,999	18.00%	26.50%	29.40%	31.30%
$150,000-$249,999	19.50%	30.50%	33.40%	35.30%
$250,000-$349,999	22.00%	32.50%	35.40%	37.30%
$350,000-$499,999	22.25%	32.75%	35.65%	37.55%
$500,000-plus	22.50%	33.00%	36.00%	38.00%

G. Enhanced 800/888/877 Features: The monthly recurring and non-recurring charges for Enhanced 800/888/877 apply. See Section 3, paragraph 2 for details.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

11. DEDICATED SERVICES

Generally: Dedicated services provide an analog or digital special access line going from a caller's own equipment directly to a long distance company's switch or POP. The line may go through the local exchange Central Office, but the local exchange carrier does not switch calls on this line. COMPANY offers the following dedicated access services:

A. PRIVATE LINE SERVICES

1. General Description: Voice Grade Service is offered in increments of one or more voice grade channels. Such voice grade systems may be utilized for voice service, data service, facsimile service, off-premise extension, foreign exchange, automatic ring down, tie line service(s) or any combination thereof, and may be interconnected with the facilities of other communication carriers and users for a customer's communication needs.

Analog Data Service provides dedicated service for interstate, intrastate, and InterLATA end to end communications between cities. This data is capable of full duplex (simultaneous two-way transmission) operation utilizing a four-wire voice grade circuit on a point-to-point basis.

B. TOUCH AMERICA DIRECT (DS-1) (DS-1, 1.544 MBPS) (T-1)

1. General Description: Touch America Direct, DS-1, 1.544 Mbps (also known as T-1 or Terrestrial Digital Service) is a high-speed digital communications service with a transmission rate of 1.544 million bits per second, or the equivalent of 24-voice channels transmitting at 64 thousand bits each per second.

C. Billing: Billing for COMPANY's Dedicated Services ("Private Line and T-l/DS-1 Services") will be done on a fixed and per mile basis.

D. Local Access: For customers who elect to have COMPANY bill them for Local Exchange Access Service, COMPANY will pass through the applicable rates set forth in the Local Exchange Carrier's tariff at the time service is provided to the customer. The customer will continue to be billed for local loops at the rate charged by the LEC at the time the customer received service, unless adjusted by COMPANY to reflect rate changes instituted by the LEC.

E. Availability: COMPANY's Dedicated Services (Private Line and T-1/DS-1 Services) are available to any customer and are only available on an intrastate basis when the customer has signed up for the interstate Private Line or T-1/DS-1 Service(s).

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

11. DEDICATED SERVICES (Cont'd)

F. Definitions – The following definitions are applicable to COMPANY's Dedicated Services:

Basic Digital Service (BDS): A dedicated digital private line service that may be utilized to support voice frequency, data, video and facsimile applications.

Burst Information Rate (BIR): A short duration transmission that can relieve momentary congestion in the Local Area Network.

Channel or Circuit: A communications path between two or more points.

Central Office Connection (COC) Charge: A charge assessed on dedicated service customers on a non-recurring and monthly basis for the cost of connecting the customer's dedicated access line to the carrier's Central Office.

Committed Information Rate (CIR): A rate assigned to each Private Virtual Circuit (PVC) by the TA FramePlus subscriber. CIRs represent the "guaranteed" transmission rates between two network ports. CIRs are available in 8 Kbps increments from Zero to 1024K.

Dedicated Access Lines: Dedicated Access lines used between the customer's premises and Company's Points-of-Presence for origination or termination of telecommunication traffic.

Extended Digital Service (EDS): A dedicated digital private line service that may be utilized to support voice frequency, data, video and facsimile applications. EDS is available in increments of 64 Kbps up to 512 Kbps for higher speed data applications.

High Speed Digital Service (HDS) (Touch America Direct (DS3)): A dedicated digital private line service that may be utilized to support voice frequency, data, video and facsimile applications. HDS transports full duplex digital signals over terrestrial facilities at the rate of 44.736 Mbps or the equivalency of 28 DS-1's or 672 DS-0's.

Permanent Virtual Circuit (PVC): A logical connection between port connections. PVC's are defined on the basis of simplex (or asymmetrical) transmission, which allows the user to establish different data transmission rates in each direction.

Terrestrial Digital Service (TDS)(Touch America Direct (DS1)): A dedicated digital private line that may be utilized to support voice frequency, data, video and facsimile applications. TDS transports full duplex digital signals over terrestrial facilities at the rate of 1.544 Mbps or the equivalency of 24 DS-0's.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

11. DEDICATED SERVICES (Cont'd)

G. Charges:

(1) Dedicated Leased Line Charges:

	Fixed	Per Mile	COC MRC	COC NRC	Bridging
TA Basic Digital Service	$225.00	$0.29	$50.00	$150.00	$17.00
Extended Digital Service 128	$450.00	$0.58	$150.00	$500.00	
Extended Digital Service 192	$675.00	$0.87	$150.00	$500.00	
Extended Digital Service 256	$900.00	$1.16	$150.00	$500.00	
Extended Digital Service 320	$1,125.00	$1.45	$150.00	$500.00	
Extended Digital Service 384	$1,350.00	$1.74	$150.00	$500.00	
Extended Digital Service 448	$1,575.00	$2.03	$150.00	$500.00	
Extended Digital Service 512	$1,800.00	$2.32	$150.00	$500.00	
Extended Digital Service 576+	$1,900.00	$2.30	$150.00	$500.00	
Touch America Direct (DS1)	$1,900.00	$2.30	$150.00	$500.00	
Touch America Direct (DS3)	$16,000.00	$42.00	$500.00	$2,700.00	

(2). FramePlus Charges:

Port Connection	Fixed Rate	Per DSO	Change	Install
Continental US	$100	55	$250	N/A
Authority NMS (per network)	$1,000	N/A	$500	$2,000
ARC	$250	N/A	$250	$250

Permanent Virtual Circuits

	CIR per 8K Simplex	BIR per 8K Simplex
Continental US	$17.00	$3.00

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

11. DEDICATED SERVICES (Cont'd)

H. Discounts

(1). Leased Line and FramePlus:

	MTM	1 Year	2 Year	3 Year
$0 – 25,000	0%	0%	0%	0%
$25,000 - 50,000	0%	10%	12%	15%
$50,000 - 75,000	0%	12%	15%	18%
$75,000 - 100,000	0%	15%	17%	20%
$100,000 - 125,000	0%	16%	18%	21%
$125,000 - 150,000	0%	17%	20%	23%
$150,000 - 250,000	0%	19%	22%	25%
$250,000 - 350,000	0%	20%	23%	26%
$350,000 - 500,000	0%	21%	24%	27%
$500,000 - Plus	0%	22%	25%	28%

(2). HSDS (High Speed Digital Services) - DS-3 IOC (Inter-Office Channel):

	MTM	1 Year	2 Year	3 Year
$0 – 25,000	0%	0%	0%	0%
$25,000 - 50,000	0%	15%	16%	17%
$50,000 - 75,000	0%	17%	18%	19%
$75,000 - 100,000	0%	18%	19%	20%
$100,000 - 200,000	0%	19%	21%	22%
$200,000 - 350,000	0%	21%	23%	24%
$350,000 - 500,000	0%	25%	27%	28%
$500,000+	0%	32%	35%	38%

12. RESERVED FOR FUTURE USE

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

13. CAMPUS TALK SWITCHED

A. General Description: Campus Talk Switched is a calling card service, which provides long distance service via switched access, and will be marketed to various types of educational institutions, training facilities and/or housing entities that want to provide a long distance service to their residents and employees. Campus Talk Switched is designed for students 18 years or older that want the benefit of a calling card service.

B. Billing: Thirty (30) seconds initial minimum and one (1) second increments thereafter.

C. Time Periods:

Mon, Tue, Wed, Thu, Fri, Sat, Sun	8:00am to 5:00pm*	Day
Mon, Tue, Wed, Thu, Fri, Sat, Sun	5:00pm to 11:00pm*	Evening
Mon, Tue, Wed, Thu, Fri, Sat, Sun	11:00pm to 8:00am*	Night/Weekend

* Up to but not including, the times shown.

D. Credit Limit: There will be a $75 credit limit (no deposit based on possible credit check). Once the student exceeds $75 they are prohibited from making additional 1+ calls until balance is less than $75.

E. Rates: The rates are the same for calls made from within a customer's specified NPA. Also, there is a fee to reinstate services disconnected due to non-payment, abuse to or improper use of the service.

(1). Payphone Surcharge: $0.30

(2). Calls made from within and outside school's NPA:

Day	**Evening**	**Night/Weekend**
$0.15	$0.15	$0.15

(3). Reconnect Fee: $5.00

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

14. CAMPUS TALK DEDICATED SERVICE

A. General Description: Campus Talk Dedicated Service is a student billing service which will be marketed to various types of educational institutions, training facilities and/or housing entities that want to provide a long distance service to their residents. Campus Talk Dedicated Service provides long distance service to the all types of students that are 18 years or older. This service requires dedicated access to either the school's or training center's PBX or Centrex Site and will require the use of authorization codes.

Campus Talk Options provides the educational institution; training facility; and/or housing entity with the ability to select the end-user rate based on what is most appropriate for their particular environment.

B. Credit Limit: There will be a $75 credit limit (no deposit based on possible credit check). Once the student exceeds $75 they are prohibited from making additional calls until balance is less than $75. Students will be notified that they have exceeded their credit limit via an automated recording on their phone. The recording will provide a toll free number to call COMPANY.

C. Billing: Initial thirty (30) second minimum and one (1) second increments thereafter.

D. Time Periods:

Mon, Tue, Wed, Thu, Fri, Sat, Sun	8:00am to 5:00pm*	Day
Mon, Tue, Wed, Thu, Fri, Sat, Sun	5:00pm to 11:00pm*	Evening
Mon, Tue, Wed, Thu, Fri, Sat, Sun	11:00pm to 8:00am*	Night/Weekend

* Up to but not including, the times shown.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

14. CAMPUS TALK DEDICATED SERVICE (Cont'd)

E. Rates: Per Minute Rates for Intrastate

Day Rates		
Rate Mileage	**First Minute**	**Additional Minute**
1-10	$0.1800	$0.1080
11-16	$0.2040	$0.1320
17-22	$0.2040	$0.1680
23-30	$0.2760	$0.1920
31-40	$0.3240	$0.2280
41-55	$0.3600	$0.2640
56-70	$0.3776	$0.2950
71-124	$0.3776	$0.3000
125-196	$0.3900	$0.3000
197-292	$0.4200	$0.3200
293 +	$0.4500	$0.3400
Evening Rates		
Rate Mileage	**First Minute**	**Additional Minute**
1-10	$0.1170	$0.0702
11-16	$0.1326	$0.0858
17-22	$0.1560	$0.1092
23-30	$0.1794	$0.1248
31-40	$0.2106	$0.1482
41-55	$0.2340	$0.1716
56-70	$0.2496	$0.1950
71-124	$0.2730	$0.2184
125-196	$0.3042	$0.2340
197-292	$0.3276	$0.2496
293 +	$0.3510	$0.2652
Night/Weekend Rates		
Rate Mileage	**First Minute**	**Additional Minute**
1-10	$0.0720	$0.0432
11-16	$0.0816	$0.0528
17-22	$0.0960	$0.0672
23-30	$0.1104	$0.0768
31-40	$0.1296	$0.0912
41-55	$0.1440	$0.1056
56-70	$0.1536	$0.1200
71-124	$0.1680	$0.1344
125-196	$0.1872	$0.1440
197-292	$0.2064	$0.1536
293 +	$0.2258	$0.1632

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

14. CAMPUS TALK DEDICATED SERVICE (Cont'd)

F. Campus Talk Options - Usage Rates

Option X

Time Period	Per Minute Rate
8:00am to 2:59pm Monday – Friday	$0.20
3:00pm to 8:59pm Monday – Friday	$0.12
9:00pm to 7:59am Monday – Friday	$0.10
All Day Saturday and Sunday	$0.10

Option 1

Time Period	Per Minute Rate
8:00am to 2:59pm Monday – Friday	$0.22
3:00pm to 8:59pm Monday – Friday	$0.14
9:00pm to 7:59am Monday – Friday	$0.10
All Day Saturday and Sunday	$0.10

Option 2

Time Period	Per Minute Rate
8:00am to 2:59pm Monday – Friday	$0.22
3:00pm to 8:59pm Monday – Friday	$0.19
9:00pm to 7:59am Monday – Friday	$0.13
All Day Saturday and Sunday	$0.13

Option 3

Time Period	Per Minute Rate
8:00am to 2:59pm Monday – Friday	$0.22
3:00pm to 8:59pm Monday – Friday	$0.22
9:00pm to 7:59am Monday – Friday	$0.12
All Day Saturday and Sunday	$0.12

Option 4

Time Period	Per Minute Rate
8:00am to 2:59pm Monday – Friday	$0.22
3:00pm to 8:59pm Monday – Friday	$0.20
9:00pm to 7:59am Monday – Friday	$0.17
All Day Saturday and Sunday	$0.17

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

14. CAMPUS TALK DEDICATED SERVICE (Cont'd)

F. Campus Talk Options - Usage Rates (Cont'd)

Option	Time Period	Per Minute Rate	MRC
5	All Time Periods	$0.10	N/A
6	All Time Periods	$0.10	N/A
7	All Time Periods	$0.10	N/A
8	All Time Periods	$0.10	N/A
9	All Time Periods	$0.10	N/A
10	All Time Periods	$0.13	N/A
11	All Time Periods	$0.11	$2.50

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE

A. General Description: TA Confidence is a multi-service product that includes inbound and outbound telecommunications services on a switched or dedicated basis, directory assistance, calling card service, Frame Relay service, Audio Teleconferencing, voice private line and high speed digital services.

B. Terms and Conditions

(1). Term Plans – Three term option plans: TA Confidence is available month-to-month and in 1-, 2-, and 3- year term contracts.

(2). Early Termination Penalties

(a). If customer fails to provide written notice of termination to COMPANY, the customer will be charged the applicable contract's Monthly Minimum for the remainder of the contract and all subsequent renewals until such written notice is received by COMPANY.

(b). If a customer provides COMPANY written notice terminating its service subsequent to the expiration of the Customer Satisfaction Guarantee, See Section 2, paragraph 38, the customer will be assessed the following termination penalty:

1 Year Contract

Early termination charges for customers who terminate service prior to expiration of their one (1) year term are calculated by taking the months remaining on the contract and multiplying by the monthly commitment level.

2 Year Contracts

If the contract is in the first 12 months, the customer will be responsible to COMPANY for: The remaining number of months of the first 12 months multiplied by the commitment level plus 35% of months remaining in the second 12 months.

If the customer is in their 2nd 12 months, the customer will be responsible to COMPANY for:

The remaining number of months multiplied by the monthly commitment

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE (Cont'd)

B. Terms and Conditions (Cont'd)

(2). Early Termination Penalties

3 Year Contracts

If the contract is in the first 24 months, the customer will be responsible to COMPANY for:

The remaining number of months of the first 24 months multiplied by the commitment level plus 35% of months remaining in the last 12 months.

If the customer is in their 3rd 12 months, the customer will be responsible to COMPANY for:

The remaining number of months multiplied by the monthly commitment.

(3). Minimum Usage Requirements: There is a minimum monthly usage commitment per month (Monthly Commitment). COMPANY will count Customer's total TA Confidence usage set forth in the customers term commitment; less taxes, monthly recurring charges (MRCs), Audio Teleconferencing, and non-recurring charges (NRCs) to determine whether a customer satisfies the Monthly Commitment requirement designated. Minimum monthly usage will based on total usage before discounts and promotions. If, during any month of the customer's term commitment for TA Confidence, usage falls below the customer's Monthly Commitment, the customer shall pay the actual amount billed for that service plus the difference between that amount and the customer's Monthly usage commitment. Customers are required to meet their monthly minimum commitments beginning on their fourth invoice.

(4). Contract Renewal: Upon expiration of the initial term and subsequent renewal term(s), the customer's agreement will automatically renew for a like period, unless either party notifies the other in writing of its intention not to renew 30 days before the end of the agreed term. The automatic renewal will be for the same contract length and the current tariff rates in effect at the time of such renewal associated with the term and volume of the original contract.

Either Customer or COMPANY may terminate an Agreement at the end of the initial term or renewal term by providing not less than thirty (30) days written notice. If no written notification is submitted to COMPANY's Billing Department not less than thirty (30) days prior to expiration of an Agreement and COMPANY has not given notice of termination to Customer, the Agreement shall automatically renew at the same Monthly Commitment level and Term and at the tariffed rates in effect at the time of such renewal.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE (Cont'd)

B. Terms and Conditions

(5). Guarantees:

(a). Rate Guarantee: In consideration of customer's commitment to use COMPANY's TA Confidence service, COMPANY agrees to provide switched services for the duration of the Agreement at the tariffed rates in effect at the time the Agreement is executed by customer; provided, however, that if the tariffed rates for switched services used by customer decrease during the term of the Agreement, such rate decreases will be passed through to customer. Customer's switched services will not be subject to any rate increases during the term of the Agreement. COMPANY also agrees to provide private line services ordered or installed at the time the Agreement is executed by customer; provided, however, that if the rates for private line services decrease during the term of the Agreement, such rate decreases will be passed through to the specific private line circuits used by customer. Customer's private line circuits installed prior to any rate increase will not be subject to the rate.

(b). Private Line and Frame Relay Guarantee: All subsequent dedicated leased lines and/or frame relay ports and permanent virtual circuits (PVCs) that are ordered and installed under an existing TA Confidence agreement will be rated at the rates which were in effect at the time the initial contract was executed. All circuits and/or frame relay ports are guaranteed for the length of the term contract. Month-to-month circuits and/or frame relay ports will be subject to rate increases as these increases are implemented. Locations and services can be added/deleted/changed throughout the term and still be covered under the original package.

(6). Volume Discounts: Volume discounts apply where specifically indicated.

C. Billing: Billing will be done in initial six (6) seconds and additional one (1) second increments. All minutes of use will be rounded up to the next increment (All rates are quoted in full minutes).

D. Time Periods

8:00 AM – 4:59 PM Monday through Friday	Peak
All other times, including Holidays	Non-Peak

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE (Cont'd)

E. Products, Rates and Charges:

(1). TA CONFIDENCE Switched Outbound and Inbound 1+ Long Distance:

(a). Outbound

InterLATA		Peak	$0.2100
		Off-Peak	$0.2100
IntraLATA			
Option 1		Peak	$0.2100
		Off-Peak	$0.2100
Option 2	Monthly Subscription Fee		$20.00
		Peak	$0.2100
		Off-Peak	$0.2100

(b). Inbound

InterLATA		Peak	$0.2100
		Off-Peak	$0.2100
IntraLATA			
Option 1		Peak	$0.2100
		Off-Peak	$0.2100
Option 2	Monthly Subscription Fee		$20.00
		Peak	$0.2100
		Off-Peak	$0.2100
Directory Assistance			
	Intrastate - All calls		$0.95 per call

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE (Cont'd)

E. Products, Rates and Charges (Cont'd):

(2). TA CONFIDENCE Dedicated Long Distance Service:

(a). Outbound

InterLATA		Peak	$0.1508
		Off-Peak	$0.1508
IntraLATA			
Option 1		Peak	$0.1508
		Off-Peak	$0.1508
Option 2	Monthly Subscription Fee		$20.00
		Peak	$0.1508
		Off-Peak	$0.1508

(b). Inbound

InterLATA		Peak	$0.1508
		Off-Peak	$0.1508
IntraLATA			
Option 1		Peak	$0.1508
		Off-Peak	$0.1508
Option 2	Monthly Subscription Fee		$20.00
		Peak	$0.1508
		Off-Peak	$0.1508
Directory Assistance			
	Interstate All Calls		$0.85 per call

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE (Cont'd)

E. Products, Rates and Charges (Cont'd):

(3). TA CONFIDENCE Global-Card Travel Card Service

Card	
Peak	$0.270
Off-Peak	$0.270
Surcharge per call	$0.50
Operator Surcharge per call	$2.25

(4). TA CONFIDENCE Frame Plus Frame Relay:

(a). Description: FramePlus frame relay service is a public, fast-packet data network offering. Customers access Frame Plus at COMPANY's closest Points of Presence (POPs). Within the POP, COMPANY designs and installs Network Node connections on the FramePlus network. A Network Node is comprised of a Port Connection and Permanent Virtual Circuits (PVCs) that define the connections between customers' ports. COMPANY dynamically allocates capacity across these logically assigned PVCs, supporting multiple customer data networks.

FramePlus supports a variety of simultaneous data applications over a single integrated facility. It is optimal for applications requiring transmission between multiple locations that need high speed connectivity with low latency or delay.

(b). TA CONFIDENCE FramePlus Rates:

Port Connection	Fixed Rate	Per DSO	Change	Install
Intrastate	$106	$58	$250	N/A
Authority NMS (per network)	$1,000	N/A	$500	$2,000
ARC	$250	N/A	$250	$250

Permanent Virtual Circuits

	CIR per 8K Simplex	BIR per 8K Simplex
Intrastate	$18.00	$3.00

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE (Cont'd)

E. Products, Rates and Charges (Cont'd):

(5). TA CONFIDENCE Private Line Service:

(a). DS-0

Analog/Voice Grade	
Central Office Coordination	$36.00 per channel
Bridging Charge	$17.00 per bridgepoint
Digital Access Cross	
Connects Charge (DACs)	$15.00 per channel

(b). DDS/BDS – Basic Digital Service

Analog/Voice Grade	
Central Office Coordination	$90.00 per channel
Bridging Charge	$25.00 per bridgepoint
Digital Access Cross	
Connects Charge (DACs)	$15.00 per channel

(c). DS-1

Central Office Coordination	$120.00 per channel

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE (Cont'd)

E. Products, Rates and Charges (Cont'd)

(6). TA CONFIDENCE Dedicated Services: See Section 3, paragraph 11 for details.

(a). Rates and Charges:

	Fixed	Per Mile	COC MRC	COC NRC	Bridging
TA Basic Digital Service	$225.00	$0.29	$50.00	$150.00	$17.00
Extended Digital Service 128	$450.00	$0.58	$150.00	$500.00	
Extended Digital Service 192	$675.00	$0.87	$150.00	$500.00	
Extended Digital Service 256	$900.00	$1.16	$150.00	$500.00	
Extended Digital Service 320	$1,125.00	$1.45	$150.00	$500.00	
Extended Digital Service 384	$1,350.00	$1.74	$150.00	$500.00	
Extended Digital Service 448	$1,575.00	$2.03	$150.00	$500.00	
Extended Digital Service 512	$1,800.00	$2.32	$150.00	$500.00	
Extended Digital Service 576+	$1,900.00	$2.30	$150.00	$500.00	
Touch America Direct (DS1)	$1,900.00	$2.30	$150.00	$500.00	
Touch America Direct (DS3)	$16,000.00	$42.00	$500.00	$2,700.00	

(b). Dedicated Local Loops: Tariffed LEC local loop rates will be passed on to the customer.

(7). TA CONFIDENCE Audio Teleconferencing:

(a). Base Rates:

Meet Me	$0.28
800 Meet Me	$0.44
Operator Assisted	$0.43

(8). Enhanced 800/888/877 Features: The monthly recurring and non-recurring charges for Enhanced 800/888/877, discussed in Section 3, paragraph 2, apply.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE (Cont'd)

F. Discounts:

(1). Discounts available to TA CONFIDENCE Audio Conferencing Usage: Only Audio Conferencing contributes to these volume levels and only Audio Conferencing receives these discounts.

Volume Level	Volume Discount	Volume Level	Volume Discount
$0-499.99	0%	$ 20000 - $ 24999.99	22%
$500 - 999.99	4%	$ 25000 - $ 49999.99	24%
$1000 - 2499.99	8%	$ 50000 - $ 74999.99	31%
$2500 - 4999.99	12%	$ 75000 - $ 99999.99	45%
$5000 - 9999.99	16%	$100000 - $149999.99	47%
$10000 - 14999.99	18%	$150000 - Plus	49%
$15000 - 19999.99	20%		

(2). Discounts Applicable to Leased Line and FramePlus Frame Relay:

TA Confidence Monthly Volume Discount Level	1 YEAR	2 YEAR	3 YEAR
$0-$9,999.99	0%	0%	0%
$10,000.00-$14,999.99	10%	11%	12%
$15,000.00-$19,999.99	11%	12%	13%
$20,000.00-$29,999.99	15%	17%	19%
$30,000.00-$39,999.99	16%	18%	20%
$40,000.00-$49,999.99	17%	19%	21%
$50,000.00-$74,999.99	18%	20%	22%
$75,000.00-$99,999.99	19%	21%	23%
$100,000.00-$149,999.99	20%	22%	24%
$150,000.00- PLUS	21%	23%	25%

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE (Cont'd)

F. Discounts:

(3). TA CONFIDENCE Package Discounts: The following services contribute to the monthly volume level and receive the associated volume discount based on the term agreement: Domestic Outbound/ Inbound, International inbound/outbound, Port and PVC charges on FramePlus, Dedicated Services (IXC & COC only), Canadian Inbound/Outbound, Domestic Global-Card, Directory Assistance, Domestic TA Multi-Fax (NOTE: Global-Card Surcharge is also discounted).

Monthly Volume Discount Level	1 YEAR	2 YEAR	3 YEAR
\$0-\$9,999.99	0%	0%	0%
\$10,000.00-\$14,999.99	10%	11%	12%
\$15,000.00-\$19,999.99	11%	12%	13%
\$20,000.00-\$29,999.99	15%	17%	19%
\$30,000.00-\$39,999.99	16%	18%	20%
\$40,000.00-\$49,999.99	17%	19%	21%
\$50,000.00-\$74,999.99	18%	20%	22%
\$75,000.00-\$99,999.99	19%	21%	23%
\$100,000.00-\$149,999.99	20%	22%	24%
\$150,000.00- PLUS	21%	23%	25%

G. Monthly Recurring Charges

(1). Standard Service: There is a subscription fee of \$25.00 for all TA Confidence accounts billing less than \$100.00 per month.

(2). WATS Access Line (WAL): Per WAL \$40.00

(3). Dedicated Local Loops: Tariffed LEC local loop rates will be passed on to the customer.

(4). Port Access Charge: Per active voice channel, per month; \$6.00 (DS-1 only).

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

15. TA CONFIDENCE (Cont'd)

H. Payphone Use Charge: A charge will apply to calls that originate from any payphone used to access COMPANY services. This charge, which is in addition to standard tariffed usage charges and any applicable surcharges associated with COMPANY service, applies for the use of the instrument used to access COMPANY service and is unrelated to the COMPANY service accessed from the payphone. Customers will be charged the payphone use charge for each call which is placed from payphones with the exception of: (i) calls placed by inserting coins during the progress of the call; (ii) calls using Telecommunications Relay service; or, (iii) calls originated by customers with qualified hearing or speech impairments who are certified.

(1). Payphone Use Charge: $0.30

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

16. TA PURELY BUSINESS

A. General Description: TA Purely Business is a service line consisting of switched outbound, switched inbound and card services. The services have flat rates, which are based on term and minimum usage commitments. TA Purely Business is intended for the small business segment billing a total of $100 to $2,500 in telecommunications services monthly. This service works well with both single locations and multiple location businesses.

(1). Option D: There is no minimum monthly usage commitment for customers receiving service under month-to-month plans. There is a minimum monthly usage commitment of $35 for customers receiving service under term plans. If the customer's invoiced usage charges are less than the required minimum monthly usage commitment, the customer will be billed and required to pay a short fall charge equal to the difference between the monthly commitment and the actual amount billed. This short fall charge will be applied beginning with the customer's first full month's invoice.

(2). TA Enterprise: There is no minimum monthly usage commitment for customers receiving service under month-to-month plans. There is a minimum monthly usage commitment of $25 for customers receiving service under term plans. If the customer's invoiced usage charges are less than the required minimum monthly usage commitment, the customer will be billed and required to pay a short fall charge equal to the difference between the monthly commitment and the actual amount billed. This short fall charge will be applied beginning with the customer's first full month's invoice.

B. Billing/Rounding: Intrastate rates are quoted in full minutes. Call rounding is thirty (30) second initial and one (1) second incremental. Call duration is calculated on a per call basis rounding up to the full increment. Call rating is on a bulk basis (all call duration totaled and then rated). Total is rounded to the nearest full cent.

(1). Global-Card Billing: The Global-Card is billed in initial thirty (30) seconds, then in six (6) second additional increments.

C. Time Periods:

8:00 AM – 4:59 PM Monday through Friday	Peak
All other times	Non-Peak

D. Terms and Agreements: TA Purely Business is available in month to month, twelve (12) and twenty-four (24) month term plans.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

16. TA PURELY BUSINESS (Cont'd)

E. Renewals: Upon expiration of the initial term and subsequent renewal term(s), the Customer's Agreement will automatically renew for a like period, unless either party notifies the other in writing of its intention not to renew 30 days before the end of the agreed term. The automatic renewal will be for the same length and at the current tariffed rates in effect at the time of such renewal associated with the term and volume of the original Agreement.

F. Early Termination Charges

(1). COMPANY will allow a customer to terminate its TA Purely Business Option D term Agreement prior to its expiration date provided the Customer is converting to another COMPANY product with equal or greater term and volume commitment levels.

(2). If a Customer terminates their service without cause prior to the expiration date of their term Agreement, the Customer will be billed and required to pay the minimum monthly usage charge for the remainder of the term Agreement.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

16. TA PURELY BUSINESS (Cont'd)

G. Rates and Charges:

(1). Monthly Recurring Charges

(a). Outbound and Inbound Usage Rates:

(i).

Option D		
	Monthly	**Term**
InterLATA	$0.1860	$0.1720
InraLATA	$0.1860	$0.1720

(ii).

TA Enterprise		
	Monthly	**Term**
All time periods	$0.1580	$0.15

(b). Global-Card Travel Card:

Option D and TA Enterprise			
All time periods			$0.30
Surcharge per call			$0.00
Operator surcharge per call			$2.25
Payphone Use Charge			$0.30

(c). Inbound 800 Numbers:

Option D and TA Enterprise	
First toll free number	$0.00
Each add'l toll free number (for up to a maximum of seven)	$5.00

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

17. TA SIMPLE-ONE PROMISE

A. General Description: TA Simple-One Promise is a voice and data service offering flat rated inbound, outbound, international, Global-Card, private line and frame relay products. TA Simple-One Promise is designed for new businesses with monthly revenue between $200 and $25,000. It is available on a month-to-month basis or a term contract (1 or 2 year). The terms have seven interstate commitment levels ($200, $750, $2,500, $4,000, $7,000, $12,000, and $20,000). TA Simple-One Promise is available in two Options – Option 1 has no monthly fee and Option 2 has a monthly fee.

B. TA Simple-One Promise – FramePlus: FramePlus frame relay service is a public, fast-packet data network offering. Customers access Frame Plus at COMPANY's closest Points of Presence (POPs). Within the POP, COMPANY designs and installs Network Node connections on the FramePlus network. A Network Node is comprised of a Port Connection and Permanent Virtual Circuits (PVCs) that define the connections between customer's ports. COMPANY dynamically allocates capacity across these logically assigned PVCs, supporting multiple customer data networks. FramePlus supports a variety of simultaneous data applications over a single integrated facility. It is optimal for applications requiring transmission between multiple locations that need high speed connectivity with low latency or delay.

C. Billing and Rounding: Rates are quoted in full minutes. Call rounding is six (6) second initial and one (1) second incremental.

D. Key Features

Guaranteed Rates
Flat rate pricing
Switched and dedicated, outbound and inbound access
Data offerings including private line and frame relay
No surcharge, flat rated Global-Card

E. Minimums: There is a minimum monthly usage commitment per month ("Monthly Commitment"). The Customer's minimum monthly commitment will be based upon the Customer's monthly combined gross domestic and international usage and surcharges (not including taxes, any non-recurring, and monthly recurring or directory assistance charges). If, at the end of the fourth billing cycle, a customer has not met the minimum monthly commitment, the Customer must pay the difference between the actual eligible volume and its monthly volume commitment.

F. Availability: This service is only offered when customers sign up for TA Simple-One Promise at the interstate level.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

17. TA SIMPLE-ONE PROMISE (Cont'd)

G. Rate Guarantees

(1). Switched and Dedicated: In return for the Customer's volume and term commitment, COMPANY will provide TA Simple-One Promise switched and dedicated services for the duration of the customer's term at the tariffed rates in effect at the time the customer's agreement is executed by Customer. If the tariffed rates for switched and/or dedicated services used by Customer decrease during the customer's term, such rate decreases will be passed through to Customer. Customer's TA Simple-One Promise switched and dedicated services will not, during the initial Term, exceed the rates in effect at the time the agreement is executed by Customer.

(2). Private Line and Frame Relay: All subsequent dedicated leased lines and/or frame relay ports and permanent virtual circuits (PVCs) that are ordered and installed under an existing TA Simple-One Promise agreement will be rated at the rates which were in effect at the time the initial contract was executed. All circuits and/or frame relay ports are guaranteed for the length of the term contract. Month-to-month circuits and/or frame relay ports will be subject to rate increases as these increases are implemented. Locations and services can be added/deleted/changed throughout the term and still be covered under the original package.

H. Renewals: Upon expiration of the initial term and subsequent renewal term(s), the customer's agreement will automatically renew for a like period, unless either party notifies the other in writing of its intention not to renew 30 days before the end of the agreed term. The automatic renewal will be for the same contract length and the current tariff rates associated with the term and volume of the original contract.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

17. TA SIMPLE-ONE PROMISE (Cont'd)

I. Early Termination Charges: Either Customer or COMPANY may terminate an Agreement at the end of the initial Term by providing not less than thirty (30) days written notice. If no written notification is submitted to COMPANY's Billing Department not less than thirty (30) days prior to expiration of an Agreement and COMPANY has not given notice of termination to Customer, the Agreement shall automatically renew at the same Monthly Commitment level and Term and at the tariffed rates in effect at the time of such renewal.

If Customer commits to a one (1) year Term and terminates this Agreement prior to the expiration of the Term, Customer agrees to pay an early termination charge equal to one hundred percent (100%) of the Monthly Commitment times the number of months remaining in the unexpired Term of this Agreement. If Customer commits to a two (2) year Term and terminates this Agreement prior to the expiration of the Term, Customer agrees to pay an early termination charge equal to one hundred percent (100%) of the Monthly Commitment times the number of months remaining in the first year of the Term PLUS thirty-five percent (35%) of the Monthly Commitment for each month (i.e., 12) of the second year of the Term of this Agreement. If Customer commits to a two (2) year Term and terminates this Agreement after the first year of the Term but prior to the expiration of the second year, Customer agrees to pay an early termination charge equal to one hundred percent (100%) of the Monthly Commitment times the number of months remaining in the unexpired Term of this Agreement. The foregoing early termination charges shall not apply in instances where Customer terminates this Agreement by converting to a new TA Simple-One Promise commitment that is equal to or greater than its current term and Monthly Commitment.

If Customer disconnects any or all of its TA Simple-One Promise Service, Customer is responsible for contacting its local exchange carrier to cancel its dedicated circuits and to notify COMPANY in writing within thirty (30) days of such cancellation.

J. TA Simple-One Promise Domestic Global-Card: A flat rated card, with no surcharge, 1-800-860-4444 access number, voice prompting, speed dialing and customer defined BTN+4. Rates are quoted in full minutes. Call rounding is sixty (60) second initial and six (6) second incremental.

K. Time Periods:

8:00 AM – 4:59 PM Monday through Friday	Peak
All other times	Non-Peak

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

17. TA SIMPLE-ONE PROMISE (Cont'd)

L. TA Simple-One Promise Rates:

Option 1				
	Switched		Dedicated	
	MTM	Term*	MTM	Term
InterLATA	$0.242	$0.225	$0.143	$0.128
IntraLATA	$0.242	$0.225	$0.143	$0.128
Option 2				
Monthly Subscription Fee				$20.00
	Switched		Dedicated	
	MTM	Term*	MTM	Term
InterLATA	$0.242	$0.225	$0.143	$0.128
IntraLATA	$0.242	$0.225	$0.143	$0.128

M. TA Simple-One Promise Domestic Global-Card Rates:

All Time Periods

Flat Rate	$0.25
Operator Surcharge per call	$2.25
Payphone Use Charge	$0.30

* Term (1 or 2 year contracts)

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

17. TA SIMPLE-ONE PROMISE (Cont'd)

N. TA Simple-One Promise Data Services: See Section 3, paragraph 11 for details and definitions.

(1). TA Simple-One Promise Dedicated Service Rates:

	Fixed	Per Mile	COC MRC	COC NRC	Bridging
TA Basic Digital Service	$225.00	$0.29	$50.00	$150.00	$17.00
Extended Digital Service 128	$450.00	$0.58	$150.00	$500.00	
Extended Digital Service 192	$675.00	$0.87	$150.00	$500.00	
Extended Digital Service 256	$900.00	$1.16	$150.00	$500.00	
Extended Digital Service 320	$1,125.00	$1.45	$150.00	$500.00	
Extended Digital Service 384	$1,350.00	$1.74	$150.00	$500.00	
Extended Digital Service 448	$1,575.00	$2.03	$150.00	$500.00	
Extended Digital Service 512	$1,800.00	$2.32	$150.00	$500.00	
Extended Digital Service 576+	$1,900.00	$2.30	$150.00	$500.00	
Touch America Direct (DS1)	$1,900.00	$2.30	$150.00	$500.00	
Touch America Direct (DS3)	$16,000.00	$42.00	$500.00	$2,700.00	

O. TA Simple-One Promise – FramePlus Rates:

Port Connection	Fixed Rate	Per DSO	Change	Install
Intrastate	$100	$55	$250	N/A
Authority NMS (per network)	$1,000	N/A	$500	$2,000
ARC	$250	N/A	$250	$250

Permanent Virtual Circuits

	CIR per 8K Simplex	BIR per 8K Simplex
Intrastate	$17.00	$3.00

P. Discounts: Monthly Discounts (Applies to total fixed, DS0, CIR, and BIR)

Volume Level	1 Year	2 Year	Volume Level	1 Year	2 Year
$200	2%	3%	$7,000	7%	9%
$750	3%	4%	$12,000	8%	10%
$2,500	4%	5%	$20,000	10%	12%
$4,000	6%	8%			

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE

A. Description: TA PROMISE is a voice and data service offering flat rates based on term and minimum usage commitments. TA PROMISE is designed for new businesses with a monthly revenue between $100 to $100,000. It is available on a month-to-month basis, one year, two year, or three year term commitment and the terms have thirteen (13) commitment levels.

B. Billing and Rounding: Rates are quoted in full minutes. Call rounding is six (6) second initial and one (1) second incremental.

C. Minimum Monthly Usage: There is a minimum monthly usage commitment per month (Monthly Commitment) for all Customers. COMPANY will count the Customer's total TA PROMISE service usage set forth in the Customer's term commitment; less taxes, monthly recurring charges, and non-recurring charges to determine whether a customer satisfies the Monthly Commitment requirement. If, during any month the Customer's invoiced usage charges are less than the required Monthly Commitment, the Customer will be billed and required to pay the difference between the Monthly Commitment and the actual amount billed. For Month-to-Month Customers, this requirement will be applied beginning with the Customer's first full month's invoice. For those Customers who sign a one, two, or three year term commitment, this requirement will be applied with their fourth full month's invoice.

E. Automatic Renewals: The Customer or COMPANY may terminate the term commitment at the end of the initial term by providing not less than thirty (30) days written notice. If written notification is not submitted to COMPANY at least thirty (30) days prior to the expiration of the term commitment, and COMPANY has not given notice of termination to the Customer, this term commitment shall automatically renew based on the same terms and conditions, at the same monthly commitment level and initial term, and at the tariffed rates in effect at the time of such renewal.

F. Term Commitments: TA PROMISE is available month-to-month and in 1-, 2-, and 3-year term contracts.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

G. Early Termination Charges: Customers who terminate their term commitment prior to the expiration date and do not provide written notification to COMPANY, will be billed and required to pay termination charges equal to the number of months remaining in the term multiplied by the monthly commitment level.

Customers who terminate their term commitment prior to the expiration date and do provide written notification to COMPANY, will be responsible for the following charges, payable upon receipt:

(1). 1 Year Contract - Early termination charges for Customers who terminate service prior to the expiration of their one (1) year term are calculated by taking the months remaining on the contract and multiplying by the monthly commitment level.

(2). 2 Year Contract -

+ If the contract is in the first 12 months, the Customer will be responsible to COMPANY for:

The remaining number of months of the first 12 months multiplied by the commitment level plus 35% of months remaining in the second 12 months.

+ If the contract is in the 2nd 12 months, the Customer will be responsible to COMPANY for:

The remaining number of months multiplied by the monthly commitment level.

(3). 3 Year Contract

+ If the contract is in the first 12 months, the Customer will be responsible to COMPANY for:

The remaining number of months of the first 12 months multiplied by the commitment level plus 35% of months remaining in the second and third 12 months.

+ If the contract is in the second 12 months, the Customer will be responsible to COMPANY for:

The remaining number of months of the second 12 months multiplied by the monthly commitment level plus 35% of months remaining in the third 12 months.

+ If the contract is in the third 12 months, the Customer will be responsible to COMPANY for:

The remaining number of months multiplied by the monthly commitment level.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

H. Guarantees: TA PROMISE Customers are eligible to receive the following guarantees:

(1). Rate Guarantee: COMPANY guarantees that if tariffed usage rates increase or tariffed discounts decrease beyond the tariff in effect at the time the Customer begins a term commitment, these usage rate increases or discount decreases will not be passed on to the Customer during the length of the Customer's term. This guarantee does not apply to rate modifications instituted by COMPANY in response to the actions of any regulatory agency, legislative body or court of competent jurisdiction.

(2). Customer Satisfaction Guarantee: See Section 2, paragraphs 38 for a detailed description of this guarantee.

(3). Toll Free Service Assurance Guarantee: See Section 2, paragraphs 37 for a detailed description of this guarantee.

(4). Performance Guarantees:

(a). The following three performance guarantees are only available to those Customers who commit to a monthly volume level of $7,000 or greater:

1. Installation Guarantee - COMPANY guarantees that it will install the Customer's TA PROMISE service, switched and/or dedicated, including frame relay, by the date promised to the Customer, or the Customer is entitled to receive a $500 credit (if commitment level is between $7,000 and $20,000) or a $1,000 credit (if commitment level is between $35,000 and $100,000). This credit will be applied on the Customer's subsequent month's invoice.

2. Quarterly Account Review Guarantee - COMPANY guarantees that the assigned COMPANY account team will review all new TA PROMISE Customer's accounts on a quarterly basis for the entire length of the Customer's term commitment.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

H. Guarantees (Cont'd)

(4). Performance Guarantees (Cont'd):

3. Service Outage Resolution Guarantee - COMPANY guarantees that it will restore any service outages the Customer may incur on their end-to-end TA PROMISE service within four (4) hours or less or the Customer is entitled to receive a $500 credit (if commitment level is between $7,000 and $20,000) or a $1,000 credit (if commitment level is between $35,000 and $100,000). This credit will be applied on the Customer's subsequent month's invoice. The Service Outage Resolution Guarantee shall not apply for the following reasons:

(i). Interruptions caused by the negligence of the Customer or others authorized by the customer to use the customer's service.

(ii). Interruptions due to failure of power, equipment, service, or systems not provided by COMPANY.

(iii). Interruptions during any period in which COMPANY or its agents are not afforded access to the premises where the access line is terminated.

(iv). During any period when the Customer elects not to release the service(s) for testing and/or repair and continues to use it on an impaired basis.

(v). Interruptions not immediately/promptly reported to COMPANY.

(vi). Interruptions during any period when the Customer or user has released service to COMPANY for maintenance or rearrangement purpose, or for the installation of a Customer service order.

(vii). *Force majeure* events beyond the reasonable control of COMPANY including, but not limited to, acts of God, government regulation, national emergency, failure of power, system failure, or service not supplied by COMPANY or the access provider.

(viii). Labor strikes.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

H. Guarantees (Cont'd)

(4). Performance Guarantees (Cont'd):

(b). The following three performance guarantees are available to all Customers regardless of monthly volume commitment levels:

1. Network/Service Availability Guarantee: COMPANY guarantees for all TA Basic Digital Service, Extended Digital Service, Touch America Direct (DS1), and Touch America Direct (DS3) circuits that it will provide an average of 99.9% Customer network availability and 99.85% end-to-end availability (when access is ordered by COMPANY on behalf of the Customer) per month for all TA PROMISE Customers or the Customer is entitled to receive a credit equal to 10% of the Customer's network port and PVC/CIR monthly recurring charges for that month. This credit will be applied on the Customer's subsequent month's invoice and shall be in lieu of any service interruption or outage credit(s) that Customer might have been entitled to receive as set forth in this tariff. This credit is applicable on a per account basis per month and is based on the average availability across all of Customer's circuits throughout the given month. This guarantee shall not apply to COMPANY Access Service or COMPANY Private Line Service.

Network availability is measured as the total number of minutes in a calendar month during which private line circuits are available to exchange data between two network end points, divided by the total number of minutes in a calendar month. For the purposes of this guarantee, a lapse in network availability is calculated commencing with the date on which the Customer informs COMPANY of service non-availability and ends on the date of service restoration. For purposes of this measurement, the private line circuit will be measured from Point of Presence to Point of Presence and will not include customer premise equipment or local access facilities.

No credit allowances will be made for:

(i). Circuits provisioned within the last 30 days.

(ii). Interruptions caused by the negligence of the Customer or others authorized by the customer to use the customer's service.

(iii). Interruptions due to failure of power, equipment, service, or systems not provided by COMPANY.

(iv). Interruptions during any period in which COMPANY or its agents are not afforded access to the premises where the access lines associated with the Customer's service are terminated.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

H. Guarantees (Cont'd)

(4). Performance Guarantees (Cont'd):

(v). Interruptions during any period when the Customer or user has released service to COMPANY for maintenance or rearrangement purpose, or for the installation of a Customer service order.

(vi). Interruptions during any period when the Customer elects not to release the service(s) for testing and/or repair and continues to use it on an impaired basis.

(vii). *Force majeure* events beyond the reasonable control of COMPANY including, but not limited to, acts of God, government regulation, national emergency, failure of power, system failure, or service not supplied by COMPANY or the access provider.

(viii). Labor Strikes.

End-to-end availability is measured as the total number of minutes in a calendar month during which private line circuits are available to exchange data between two network end points, divided by the total number of minutes in a calendar month. For the purposes of this guarantee, a lapse in network availability is calculated commencing with the date on which the Customer informs COMPANY of service non-availability and ends on the date of service restoration. For purposes of this measure, the private line circuit will be measured from demarcation point to demarcation point, and will not include customer premise equipment.

Calculation: Monthly Network Availability Time (%) - 1- [Total minutes of network non-availability per month / (Total number of private line circuits x days in month x 24 hours x 60 minutes)].

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

H. Guarantees (Cont'd)

(4). Performance Guarantees (Cont'd):

2. Frame Delivery: COMPANY guarantees to achieve a Frame Delivery rate of 99.9% for CIR frames (end-to-end CIR packet delivery only applies to frame slot marked discard eligible). COMPANY guarantees to achieve a Frame Delivery rate of 99% for non-CIR frames. If COMPANY does not meet this guarantee, the Customer is entitled to a credit equal to 10% of the Customer's network port and PVC/CIR monthly recurring charges for that month.

Definition: Frame Delivery is the percentage of frames which are successfully delivered over the COMPANY network, excluding frames which are not delivered due in whole or in part to factors unrelated to the COMPANY network.

Calculation: Frame Delivery (Throughput) is measured as the percentage of frames presented to the COMPANY network by the Customer versus those which are successfully delivered by the COMPANY network. The percentage is based on Frame Delivery (Throughput) across the Customer's entire network, not on an individual location or PVC basis.

Exclusions: Frame Delivery (Throughput) measurements shall not include periods of non-availability resulting in whole or in part from one or more of the following causes:

(i). Any act or omission causing interruptions by negligence on the part of the customer, its contractors, any local access provider, or any other entity over which the customer exercises control or has the right to exercise control.

(ii). Interruptions during any period in which COMPANY or its agents are not afforded access to the premises where the access lines associated with the Customer's service are terminated.

(iii). Interruptions during any period when the Customer elects not to release the service(s) for testing and/or repair and continues to use it on an impaired basis.

(iv). Any circuits provisioned within the last 30 days.

(v). Scheduled maintenance interruptions and outages.

(vi). Labor strikes.

(vii). *Force majeure* events beyond the reasonable control of COMPANY including, but not limited to, acts of God, government regulation, national emergency, failure of power, system failure, or service not supplied by COMPANY or the access provider.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

H. Guarantees (Cont'd)

(4). Performance Guarantees (Cont'd):

(viii). Frames dropped at infrastructure egress due to improper customer specifications of customer port speeds.

(ix). Interruptions due to failure of power, equipment, service, or systems not provided by COMPANY.

3. Network Transit Delay: COMPANY guarantees to achieve a one-way Network Transit Delay within the State for 100 byte frames at 35 milliseconds or less, 500 byte frames at 95 milliseconds or less, and 1,600 byte frames at 250 milliseconds or less (including protocol overhead). Network Transit Delay (Latency) measures only delay on the COMPANY network, external factors which may cause delay (e.g., access serialization, access link congestion) are excluded from the measurement. If COMPANY does not meet this guarantee, the Customer is entitled to a credit equal to 10% of the Customer's network port and PVC/CIR monthly recurring charges for that month.

Definition: Network Transit Delay (Latency) measures one-way delay between the origination and destination infrastructure ports. It is defined as the period of time commencing with transmission of the last bit of a packet from the origination infrastructure.

Exclusions: Network Transit Delay (Latency) measurements shall not include periods of non-availability resulting in whole or in part from one or more of the following causes:

(i). Any act or omission causing interruptions by negligence on the part of the customer, its contractors, any local access provider, or any other entity over which the customer exercises control or has the right to exercise control.

(ii). Interruptions during any period in which COMPANY or its agents are not afforded access to the premises where the access lines associated with the Customer's service are terminated.

(iii). Interruptions during any period when the Customer elects not to release the service(s) for testing and/or repair and continues to use it on an impaired basis.

(iv). Any circuits provisioned within the last 30 days.

(v). Scheduled maintenance interruptions and outages.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

H. Guarantees (Cont'd)

(4). Performance Guarantees (Cont'd):

(vi). Labor strikes.

(vii). *Force majeure* events beyond the reasonable control of COMPANY including, but not limited to, acts of God, government regulation, national emergency, failure of power, system failure, or service not supplied by COMPANY or the access provider.

(viii). During periods in which a major network component (e.g., backbone link or gateway switch) is not functioning and the network is in an emergency reroute configuration.

(ix). Interruptions due to failure of power, equipment, service, or systems not provided by COMPANY.

Credit Limitation: If the Customer experiences network or service performance for COMPANY FramePlus Frame Relay at levels below those stated herein for two or more elements (Network Availability, Frame Delivery, and Network Transit Delay) in the same month, the Customer is entitled to receive credits pursuant to one of the applicable credit sections only. In addition, COMPANY will not issue credits pursuant to the Service Level Guarantee for more than six months in any twelve month period.

Availability: Tariffed COMPANY FramePlus Frame Relay service elements may not be available at or between all service points.

I. Plus Program: If a term Customer's usage charges meet or exceed any other higher monthly commitment level, the Customer will be credited the difference between the rates at the level/term it committed to and the rates it would have received if it had committed to the next immediate commitment level with the same term length. The credit will be applied in the actual month in which the usage occurred. Month-to-Month Customers are not eligible for the Plus Program.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

J. Products/Services and Rates:

(1). Switched Long Distance –

(a). Group 1 - Commitment Levels of $100, 250, $500, and $1,000

MTM	1 Year	2 Year	3 Year
$0.165	$0.142	$0.141	$0.139

(b). Group 2 - Commitment Levels of $2,000, $4,000, $7,000, and $12,000

MTM	1 Year	2 Year	3 Year
$0.148	$0.140	$0.139	$0.137

(c). Group 3 - Commitment Levels of $20,000, $35,000, $50,000, $75,000, and $100,000

MTM	1 Year	2 Year	3 Year
$0.148	$0.137	$0.136	$0.135

(2). Dedicated Long Distance -

(a). Group 1 - Commitment Levels of $100, 250, $500, and $1,000

MTM	1 Year	2 Year	3 Year
$0.110	$0.096	$0.093	$0.091

(b). Group 2 - Commitment Levels of $2,000, $4,000, $7,000, and $12,000

MTM	1 Year	2 Year	3 Year
$0.110	$0.093	$0.091	$0.089

(c). Group 3 - Commitment Levels of $20,000, $35,000, $50,000, $75,000, and $100,000

MTM	1 Year	2 Year	3 Year
$0.110	$0.091	$0.089	$0.087

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

J. Products/Services and Rates:

(3). TA PROMISE Global-Card: TA PROMISE Global-Card is a flat, per minute rated calling card service, with a per call surcharge. Rates are quoted in full minutes. Call rounding is six (6) second initial and six (6) second increments.

Rate:	$0.17
Per Call Surcharge	$0.65
Per Call Operator Surcharge	$2.25

(4). TA PROMISE Enhanced Toll Free Features: TA PROMISE offers Enhanced Toll Free Features for all TA PROMISE Customers. If the Customer signs a term commitment, the Customer is eligible to receive selected features at a packaged rate or the Customer can subscribe to features individually. See Section 3, paragraph 2 for details.

(a). Basic Features - Standard: Available to month-to-month and term customers:

Feature	**Monthly Charge**	**Non Recurring And Change Charge**
Extended Call Coverage	$0.00	$0.00
Two-way DALs	$0.00	$0.00
International Toll Free Service	$0.00	$0.00
Industry Toll Free Directory Assistance (per 800 number)	$25.00	$25.00
Industry Toll Free Directory Assistance Expedite (per toll Free number)	$0.00	$35.00
Project Accounting Codes (per blocks of 100/both Verified and non-verified, switched and dedicated)	$15.00	$15.00
Tailored Call Coverage (per 800 number)	$0.00	$50.00
Day of Year (Holiday) Routing (per 800 number)	$0.00	$50.00
Time of Day Routing (per 800 number)	$50.00	$50.00
Day of Week Routing (per 800 number)	$50.00	$50.00
Percent Allocation Routing (per 800 number)	$50.00	$50.00
Alternate Call Routing (per 800 number)	$50.00	$50.00
Geo Routing (per 800 number) ($0.0005 per MOU)	$50.00	$50.00
Direct Termination Overflow (per trunk group)	$50.00	$50.00
Real Time ANI (per trunk group)	$0.00	$350.00
DNIS (per trunk group)	$0.00	$350.00
Menu Routing – Per Call Surcharge	$0.05/call	
Quota Call Allocation	$50.00	$50.00

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

J. Products/Services and Rates:

(4). TA PROMISE - Enhanced Toll Free Features:

(b). Toll Free Feature Package - Available to term customers only:

Package includes the following features:

Time of Day Routing
Day of Week Routing
Day of Year (Holiday) Routing
Percentage Allocation Routing
Industry Toll Free Directory Assistance

(c). Package Rates (for all features listed above)

Monthly Charge	$100.00
Non-Recurring Charge	$140.00

The first toll free number is free, each additional toll free number is $5.00 per month, per toll free number.

(5). TA PROMISE – FramePlus: FramePlus frame relay service is a public, fast-packet data network offering. Customers access FramePlus at COMPANY's closest Points of Presence (POPs). Within the POP, COMPANY designs and installs Network Node connections on the FramePlus network. A Network Node is comprised of a Port Connection and Permanent Virtual Circuits (PVCs) that define the connections between customer's ports. COMPANY dynamically allocates capacity across these logically assigned PVCs, supporting multiple customer data networks.

FramePlus supports a variety of simultaneous data applications over a single integrated facility. It is optimal for applications requiring transmission between multiple locations that need high speed connectivity with low latency or delay.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

J. Products/Services and Rates:

(5). TA PROMISE - FramePlus Rates:

Port Increment In Kbps	Monthly Charge	Install Charge	Change Charge
64	190	150	150
128	355	250	250
192	395	250	250
256	420	250	250
320	580	250	250
384	625	250	250
448	720	250	250
512	790	250	250
576	890	250	250
640	940	250	250
704	970	250	250
768	990	250	250
832	1111	250	250
896	1118	250	250
960	1220	250	250
1020	1265	250	250
1088	1330	250	250
1152	1370	250	250
1216	1410	250	250
1280	1450	250	250
1344	1500	250	250
1408	1530	250	250
1472	1560	250	250
1536	1595	250	250

Port Connection	Fixed Rate	Per DSO	Change	Install
Intrastate	$100	$55	$250	N/A
Authority NMS (per network)	$1,000	N/A	$500	$2,000
ARC	$250	N/A	$250	$250

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

J. Products/Services and Rates:

(5). TA PROMISE - FramePlus Rates (Cont'd):

Permanent Virtual Circuits

CIR per 8K Simplex Fees	Install Fees
$6.00	$25.00

	Monthly Recurring	Install Fees	Change Fees
Automatic Reconfiguration*	$250	$250	$250
Authority	$1,000	$2,000	$500

* Per disaster recovery site.

(6). TA PROMISE - COMPANY Dedicated Access Data Services: See Section 3, paragraph 11 for details and definitions.

	Fixed	Per Mile	COC MRC Per End	COC NRC Per End	Bridging
TA Basic Digital Service	$207.00	$0.29	$50.00	$220.00	$17.00
Extended Digital Service 128	$414.00	$0.58	$150.00	$500.00	
Extended Digital Service 192	$621.00	$0.87	$150.00	$500.00	
Extended Digital Service 256	$828.00	$1.16	$150.00	$500.00	
Extended Digital Service 320	$1,035.00	$1.45	$150.00	$500.00	
Extended Digital Service 384	$1,242.00	$1.74	$150.00	$500.00	
Extended Digital Service 448	$1,449.00	$2.03	$150.00	$500.00	
Extended Digital Service 512+	$1,550.00	$2.30	$150.00	$500.00	
Touch America Direct (DS1)	$1,550.00	$2.30	$150.00	$500.00	
Touch America Direct (DS3)	$16,000.00	$42.00	$500.00	$2,700.00	

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

J. Products/Services and Rates:

(7). TA PROMISE - Audio Teleconferencing Rates:

(a). Month-to-Month Rates:

	Standard	Automated
Meet Me	$0.250	$0.190
800 Meet Me	$0.400	$0.280
Operator Assisted	$0.400	N/A

(b). 1, 2, and 3 Year Term Rates

(i). Group 1 - Commitment Levels of $100, $250, $500, and $1,000

	Standard	Automated
Meet Me	$0.238	$0.181
800 Meet Me	$0.380	$0.266
Operator Assisted	$0.380	N/A

(ii). Group 2 - Commitment Levels of $2,000, $4,000, $7,000, and $12,000

	Standard	Automated
Meet Me	$0.213	$0.162
800 Meet Me	$0.340	$0.238
Operator Assisted	$0.340	N/A

(iii). Group 3 - Commitment Levels of $20,000, $35,000, $50,000, $75,000 and $100,000

	Standard	Automated
Meet Me	$0.200	$0.152
800 Meet Me	$0.320	$0.224
Operator Assisted	$0.320	N/A

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

J. Products/Services and Rates:

(8). TA PROMISE - TA Multi-Fax: Multi-Fax is a business facsimile service that enables customers to simultaneously fax documents to multiple recipients any time of day or night without tying up phone lines, computers or people.

(a). Month-to-Month Rate $0.250

(b). 1, 2, and 3 Year Term Rates:

Group 1 ($100, 250, 500, and $1,000)	$0.238
Group 2 ($2,000, $4,000, $7,000 and $12,000)	$0.213
Group 3 ($20,000, $35,000, $50,000 $75,000, and $100,000)	$0.200

K. Discounts:

(1). These discounts will be applied to TA PROMISE - Dedicated Services and TA PROMISE - FramePlus only:

Volume Level	1 Year	2 Year	3 Year
$100	10%	12%	14%
$250	11%	13%	15%
$500	12%	14%	16%
$1,000	13%	15%	17%
$2,000	14%	16%	18%
$4,000	16%	18%	20%
$7,000	17%	19%	21%
$12,000	18%	20%	22%
$20,000	20%	22%	24%
$35,000	21%	23%	25%
$50,000	22%	24%	26%
$75,000	23%	25%	27%
$100,000	24%	26%	28%

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

L. American Trucker's Association ("ATA") Program: COMPANY will offer the following program to nationwide associations that:

- Promote COMPANY services on an exclusive basis to their current and prospective membership;
- Actively market COMPANY services to their entire current and prospective membership; and,
- Generate total usage of at least $500,000 per month from all enrolled members by the 24th month of the program.

Members of Associations enrolled in this Program and who execute the appropriate enrollment form will receive the TA PROMISE rates set forth in this Tariff for switched, dedicated and Global-Card services and the rates set forth in this Tariff for all other services. The rates will apply in accordance with the Customer's term commitment and associated Monthly Commitment level. If a Customer's actual monthly usage of TA PROMISE services falls below its Monthly Commitment, the Customer will be charged the rates based on its actual usage level. Customers will not be billed and required to pay underutilization charges if their monthly usage falls below their original Monthly Commitment. If a Customer ceases to be an Association Member enrolled in this Program, the Customer will no longer receive the rates associated with this Program and will be converted to standard TA PROMISE rates in accordance with the terms of this tariff. COMPANY reserves the right to terminate from this Program, on twelve (12) months written notice, any Association that fails to comply with all of the qualifications as described above.

(1). Switched - Outbound and Inbound Per Minute Rates:

(a). Group 1 - Commitment levels of $100, $500, and $1,000

One Year	Two Year	Three Year
$0.143	$0.140	$0.137

(b). Group 2 - Commitment levels of $2,000, $4,000, $7,000, and $12,000

One Year	Two Year	Three Year
$0.139	$0.136	$0.133

(c). Group 3 - Commitment levels of $20,000, $35,000, $50,000+

One Year	Two Year	Three Year
$0.136	$0.133	$0.130

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

L. American Trucker's Association Program (Cont'd)

(2). Dedicated - Outbound and Inbound Per Minute Rates:

(a). Group 1 - Commitment levels of $1,000 and $1,500

One Year	Two Year	Three Year
$0.110	$0.107	$0.105

(b). Group 2 - Commitment levels of $2,000, $4,000, $7,000, and $12,000

One Year	Two Year	Three Year
$0.105	$0.103	$0.101

(c). Group 3 - Commitment levels of $20,000, $35,000, $50,000+

One Year	Two Year	Three Year
$0.101	$0.099	$0.097

(3). TA PROMISE - Global-Card:

Per Minute Rate $0.170

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

18. TA PROMISE (Cont'd)

L. American Trucker's Association Program (Cont'd)

(4). Discounts: These discounts will be applied to TA PROMISE - Dedicated Services and TA PROMISE - FramePlus only:

Volume Level	1 Year	2 Year	3 Year
$0 – $99	0%	0%	0%
$100 – $499	10%	12%	14%
$500 – $999	11%	13%	15%
$1,000 – $1,499	12%	14%	16%
$1,500 – $1,999	13%	15%	17%
$2,000 – $3,999	14%	16%	18%
$4,000 – $6,999	16%	18%	20%
$7,000 – $11,999	17%	19%	21%
$12,000 – $19,999	18%	20%	22%
$20,000 – $34,999	20%	22%	24%
$35,000 – $49,999	21%	23%	25%
$50,000 – Plus	22%	24%	26%

(5). Payphone Use Charge $0.30

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

19. TOUCH AMERICA ONE

A. General Description: TOUCH AMERICA ONE is a package of inbound and outbound toll and calling card services in the contiguous United States. The plan is designed for small, switched business customers that generate less than $150 in telecommunication costs per month. Touch America One service requires a minimum of $20 dollars in monthly usage. If the customer bills less than $20 per month, they will be billed for the difference between the $20 minimum monthly requirement and the amount actually billed.

The first 800 number is free, each additional 800 number is five dollars ($5.00) per month, per number. This service limits customers to a total of three (3) 800 numbers.

B. Billing: Intrastate rates are quoted in full minutes. Call rounding is thirty (30) second initial and one (1) second incremental. Call duration is calculated on a per call basis rounding up to the full increment. Call rating is on a bulk basis (all call duration totaled and then rated). Total is rounded to the nearest full cent.

(1). Global-Card Billing: The Global-Card is billed in initial thirty (30) seconds, then in six (6) second additional increments.

C. Optional Features: Account Codes (outbound and inbound) and Directory Assistance.

D. Time Periods: All day, every day

E. Rates:

(1). Inbound\Outbound (Contiguous 48 states): Flat rate: $0.25

There is a $20 monthly minimum required.

(2). Calling Card – (Global-Card):

Global-Card - Touch America One

Per Minute All Times	$0.25
Surcharge Per Call	$0.35
Operator Surcharge Per Call	$2.25

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

19. TOUCH AMERICA ONE (Cont'd)

E. Rates (Cont'd)

(3). Enhanced 800/888/877 Features: See Section 3, paragraph 2 for details.

Feature	**Monthly Charge**	**Non Recurring And Change Charge**
Extended Call Coverage	$0.00	$0.00
Two-way DALs	$0.00	$0.00
Industry Toll Free Directory Assistance (per 800 number)	$25.00	$25.00
Industry Toll Free Directory Assistance Expedite (per toll Free number)	$0.00	$35.00
Project Accounting Codes (per blocks of 100/both Verified and non-verified, switched and dedicated)	$15.00	$15.00
Tailored Call Coverage (per 800 number)	$0.00	$50.00
Day of Year (Holiday) Routing (per 800 number)	$0.00	$50.00
Time of Day Routing (per 800 number)	$50.00	$50.00
Day of Week Routing (per 800 number)	$50.00	$50.00
Percent Allocation Routing (per 800 number)	$50.00	$50.00
Alternate Call Routing (per 800 number)	$50.00	$50.00
Geo Routing (per 800 number) ($0.0005 per MOU)	$50.00	$50.00
Direct Termination Overflow (per trunk group)	$50.00	$50.00
Real Time ANI (per trunk group)	$0.00	$350.00
DNIS (per trunk group)	$0.00	$350.00
Menu Routing – Per Call Surcharge	$0.05/call	
Quota Call Allocation	$50.00	$50.00

(4). Payphone Use Charge: $0.30

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

20. TOUCH AMERICA CHOICE

A. General Description: Touch America Choice is a package of inbound and outbound toll and calling card services designed for small business customers billing between $50 and $500 a month in switched long distance service. Customers must subscribe to a one, two or three year term commitment. Touch America Choice Customers will be billed a monthly recurring charge per Service Location, as defined herein. If, during any month the Customer's invoiced usage charges are less than the monthly fee, the Customer will be billed and required to pay the difference between the monthly fee and the actual amount billed.

B. Billing/Rounding: Initial thirty (30) second minimum and additional one (1) second increments thereafter for all domestic Touch America Choice calls. Call duration is calculated on a per call basis rounding up to the full increment. Call rating is on a bulk basis (all call duration totaled and then rated). Total is rounded to the nearest full cent.

C. Directory Assistance: Directory Assistance is available for all Touch America Choice Customers.

D. Renewals: The Customer or COMPANY may terminate the term commitment at the end of the initial term by providing not less than thirty (30) days written notice. If written notification is not submitted to COMPANY at least thirty (30) days prior to the expiration of the term commitment, and COMPANY has not given notice of termination to the Customer, this term commitment shall automatically renew based on the same terms and conditions and at the tariffed rates in effect at the time of such renewal.

E. Early Termination Charges

(1). COMPANY will allow a Customer to terminate its Touch America Choice term agreement prior to its expiration date provided the Customer is converting to another COMPANY product with equal or greater term and volume commitment levels.

(2). Customers who terminate their term commitment prior to the expiration date and provide written notification to COMPANY, will be billed and required to pay on their next full month's invoice a single charge calculated by taking the monthly fee multiplied by the number of service locations multiplied by the number of months remaining in the term contract.

(3). Customers who terminate their term commitment prior to the expiration date and do not provide written notification to COMPANY, will be billed and required to pay each month for the remainder of the contract a charge calculated by taking the monthly fee multiplied by the number of service locations.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

20. TOUCH AMERICA CHOICE (Cont'd)

F. Guarantees: Touch America Choice Customers are eligible to receive the following guarantees:

Toll Free Service Assurance Guarantee - See Section 2, paragraph 37.

Customer Satisfaction Guarantee - See Section 2, paragraph 38.

G. Touch America Choice – Global-Card: Touch America Choice Global-Card is a flat, per minute rated calling card service, with a per call surcharge. Rates are quoted in full minutes. Call rounding is initial thirty (30) second increments and additional six (6) second increments

H. Enhanced Toll Free Features: Touch America Choice offers Enhanced Toll Free Features for all Customers. See Section 3, paragraph 2 for details and definitions.

I. Availability: Touch America Choice is available on a full-time basis, twenty-four (24) hours a day, seven (7) days a week. All Customers must have at least two (2) business lines subscribed to Touch America Choice.

J. Touch America Choice Rates and Charges:

(1). Per Minute Rates

Term Commitment	All Time Periods
One Year	$0.156
Two Year	$0.153
Three Year	$0.150

(2). Monthly Recurring Charge

Per Service Location: $4.95

K. Touch America Choice - Global-Card Plus Calling Card Rates and Charges:

All Time Periods	$0.30
Surcharge	$0.00
Operator Surcharge, per call	$2.25

L. Payphone Use Charge: $0.30

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

20. TOUCH AMERICA CHOICE (Cont'd)

M. Enhanced Toll Free Features Charges: See Section 3, paragraph 2 for details.

Feature	Monthly Charge	Non-Recurring Charge	Change Charge
Industry Toll Free Directory Assistance (per toll free number)	$25.00	$25.00	$25.00
Industry Toll Free Directory Assistance Expedite (per toll free number)	$0.00	$35.00	$0.00
Outbound Project Accounting Codes – Verified	$0.00	$10.00	$10.00
Outbound Project Accounting Codes - Non-Verified	$0.00	$5.00	$5.00
Inbound Project Accounting Codes – Verified (per block of 100 numbers)	$50.00	$75.00	$75.00
Inbound Project Accounting Codes - Non-Verified (per toll free number)	$50.00	$25.00	$25.00
Alpha (Name) Project Accounting Codes (per toll free number)	$50.00	$35.00	$35.00
Tailored Call Coverage (per toll free number)	$0.00	$25.00	$25.00
Day of Year (Holiday) Routing (per toll free number)	$75.00	$50.00	$0.00
Time of Day Routing (per toll free number)	$75.00	$50.00	$0.00
Day of Week Routing (per toll free number)	$75.00	$50.00	$0.00
Percent Allocation Routing (per toll free number)	$75.00	$50.00	$0.00
Geo Routing (per toll free number)	$75.00	$50.00	$0.00
Menu Routing (per toll free number)	$0.00	$50.00	$25.00
Menu Routing (per call surcharge)	$0.05/call		
TA Logic (Floppy Disk)	$50.00	$50.00	$35.00
TA Logic (CD-ROM)	$55.00	$55.00	$35.00
Account Codes Setup/Change	N/A	$75.00	N/A

The first two (2) toll free numbers will incur a $4.95 per number monthly charge. The third toll free number will be free. Each additional toll free number; four (4) up to a maximum of seven (7), will also incur a $4.95 per number monthly charge.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

21. 800 CALLING CARD SERVICE

A. General Description: 800 Calling Card Service is a user-initiated service whereby End Users access the Company's network by dialing a designated 800 access number with completion through an access code used by the End User with billing to a pre-established account. Calls can be placed with the assistance of an automated or live operator. This service is subscribed to by End Users and allows them to access the Company's network at their option rather than placing calls through the pre-subscribed long distance carrier of the originating telephone.

This service and the designated 800 access number(s) are not marketed or made available to the general public and any usage by End Users will be incidental. The rates and surcharges apply to intrastate calls placed by End Users traveling from states in the Company's wholesale customer's geographic region.

B. Per Minute Rates:

Mileage	**Day**		**Evening**		**Night/Weekend**	
Band	1st Min	Add'l Min	1st Min	Add' Min	1st Min	Add'l Min
0-9999	$0.45	$0.45	$0.45	$0.45	$0.45	$0.45

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

22. 800 DIRECTORY ASSISTANCE

A. General Description: 800 Directory Assistance is an enhancement for COMPANY's 800 customers. COMPANY customers can have all of their 800 numbers listed in the AT&T 800 directory (AT&T maintains a nationally published directory of 800 numbers. 800 numbers obtained from alternate carriers may be listed in the AT&T 800 directory if a customer chooses to subscribe to the listing service).

B. Access: Customer dials 800-555-1212 and receives directory assistance on all 800 numbers listed in the AT&T 800 directory.

C. Rates

(1). Monthly Recurring Charge — $25.00 per 800 number listed

(2). Non-Recurring Charge:

(a). One time set-up/cancellation charge	$25.00
(b). Expedite fee	$35.00
(c). Add, change, delete	$25.00 per record

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

23. "800 T-1" - FLAT RATE SERVICE

A. Intrastate Domestic Traffic (Rate Per Minute)

Day	Evening	Night
$.1515	$.1515	$.1515

B. Billing: 18 second minimum billing, with 6 second billing increments thereafter

C. Monthly Charge Per 800 Number: $3.50

D. Discounts: No volume discounts apply

E. Minimum Monthly Usage: A monthly minimum usage of $9.50 is required of all accounts. A shortfall charge equivalent to the difference between the minimum monthly charge and actual usage may be assessed.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

24. DEDICATED LEASED LINE SERVICE RATES

A. General Description: Dedicated Leased Line Service is offered to specific customers for the purpose of Intercity communications facilities that are billed at pre-determined fixed monthly rates. The customer is responsible for charges associated with local exchange carrier or alternative access provider provided special access.

B. Dedicated Leased Line service is available in the following options:

(1). Voice Grade Service: is an analog point to point dedicated circuit used for simultaneous two-way transmission and is available in increments of one or more voice grade channels, each with a nominal bandwidth of 4khz. Voice Grade Channels may be used for voice, data, facsimile, or any combination thereof.

(a). Nonrecurring charge: $150/voice grade channel.

(b). Monthly Charges: Monthly charges are assessed per voice grade channel based on channel mileage. A minimum monthly charge of $100 per channel will apply.

Miles	Fixed	Per Mile
0-100	$90.00	$1.36
101+	$198.57	$0.37

(c). Local Access Charges: Any and all charges associated with Local Access will be charged to the customer by the providing carrier at their prevailing rates.

(d). $50.00 per loop side for a port activation fee.

(2). Digital Data Service: is a digital point to point dedicated circuit used for simultaneous two-way transmission and is available in increments of one or more channels.

(a). Nonrecurring charge: $150/voice grade channel.

(b). Monthly Charges: are assessed per channel based on channel mileage. A minimum monthly charge of $100 per channel will apply.

Miles	Fixed	Per Mile
0-100	$126.00	$1.90
101+	$278.00	$0.50

(c). Local Access Charges: Any and all charges associated with Local Access will be charged to the customer by the providing carrier at their prevailing rates.

(d). $50 per loop side for port activation fee.

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

24. DEDICATED LEASED LINE SERVICE RATES (Cont'd)

(3). 56 Kbps Digital Private Line Service: 56 Kbps Digital Service is a digital point to point dedicated circuit used for simultaneous two-way transmission and is available in increments of one or more channels. Service will accommodate voice and data communications at speeds of up to 56 Kbps.

(a). Nonrecurring charge: $150/channel

(b). Monthly Charges: are assessed per channel based on channel mileage. A minimum monthly charge of $100 per channel will apply.

Miles	Fixed	Per Mile
0-100	$90.00	$1.36
101+	$198.57	$0.37

(c). Local Access Charges: Any and all charges associated with Local Access will be charged to the customer by the providing carrier at their prevailing rates.

(d). $50 per loop side for port activation fee.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

25. TA FLASH

A. General Description: TA Flash will allow a customer to complete calls between any two points within the State. Calling Card and Home 800 service is also available to Customers subscribing to TA Flash. A monthly fee will be applied beginning with the customer's first full month's invoice. Service is available on a full-time basis, twenty-four (24) hours a day, seven (7) days a week.

B. Billing - Billing will be done in initial sixty (60) second increments and additional sixty (60) second increments.

C. Rates - The per minute usage rates are as follows:

	InterLATA	IntraLATA
All Time Periods	$0.15	$0.15

D. Monthly Fee: $4.95

E. Calling Card:

All Time Periods	$0.49
Surcharge	$0.99

F. Home 800:

All Time Periods	$0.10

G. Operator Surcharge: $2.25/per call

H. Payphone Use Charge: $0.25/per call

I. Availability: TA Flash is available to all residential customers who have no more than five (5) lines. TA Flash is only available on an intrastate basis when the customer has subscribed to the interstate TA Flash service.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

26. TA COMMUNICATIONS PACKAGE

A. General Description: TA Communications Package will allow a customer to complete calls between any two points within the State. Calling Card and Home 800 service is also available to Customers subscribing to TA Communications Package. A monthly fee will be applied beginning with the customer's first full month's invoice. Service is available on a full-time basis, twenty-four (24) hours a day, seven (7) days a week.

Customers must enroll in the offer via a company-designated Internet address. Upon enrollment in the offer, the Customer must designate to the Company a valid commercial credit card through which the Customer will be automatically billed for usage under the offer. Customers may review billing details via Company on-line Customer Service using the Internet.

B. Billing - Billing will be done in initial sixty (60) second increments and additional sixty (60) second increments.

C. Rates - The Customer will not be charged for the first two hundred fifty (250) minutes of domestic dial "1" usage per month. After these initial 250 minutes have been used, the Customer will be charged the following per minute rate:

	InterLATA	IntraLata
All Time Periods	$0.15	$0.15

D. Monthly Fee: $24.95

E. Calling Card:

All Time Periods	$0.49
Surcharge	$0.99

F. Home 800:

All Time Periods	$0.10

G. Operator Surcharge: $2.25/per call

H. Payphone Use Charge: $0.25

I. Availability: TA Communications Package is available to all residential customers who have no more than five (5) lines. TA Communications Package is only available on an intrastate basis when the customer has subscribed to the interstate TA Communications Package.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

27. TA SAVINGS PACKAGE

A. General Description: TA Savings Package will allow a customer to complete calls between any two points within the State. Calling Card and Home 800 service is also available to Customers subscribing to TA Savings Package as well as other non-tariffed offerings. A monthly fee will be applied beginning with the customer's first full month's invoice. Service is available on a full-time basis, twenty-four (24) hours a day, seven (7) days a week.

B. Billing - Billing will be done in initial sixty (60) second increments and additional sixty (60) second increments. The Customer must designate to the Company a valid commercial credit card through which the Customer will be automatically billed when subscribing to TA Savings Package in conjunction with other non-tariffed offerings.

C. Rates - The per minute usage rates are as follows:

	InterLATA	IntraLata
All Time Periods	$0.15	$0.15

D. Monthly Fee: $4.95

E. Calling Card:

All Time Periods	$0.49
Surcharge	$0.99

F. Home 800:

All Time Periods	$0.10

G. Operator Surcharge: $2.25/per call

H. Payphone Use Charge: $0.25

I. Availability: TA Savings Package is available to all residential customers with no more than five (5) lines. TA Savings Package is only available on an intrastate basis when the customer has subscribed to the interstate TA Savings Package.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

28. TA 1500 PACKAGE

A. General Description: TA 1500 Package will allow a customer to complete calls between any two points within the State. Calling Card and Home 800 service is also available to Customers subscribing to the TA 1500 Package. A monthly fee will be applied beginning with the customer's first full month's invoice. Service is available on a full-time basis, twenty-four (24) hours a day, seven (7) days a week.

B. Billing - Billing will be done in initial sixty (60) second increments and additional sixty (60) second increments.

C. Rates - The Customer will not be charged for the first fifteen hundred (1500) minutes of off-peak domestic dial "1" usage per month. The Customer will be charged the following per minute usage rates for peak and off-peak (after the 1500 minutes have been used):

	InterLATA	IntraLata
All Time Periods	$0.15	$0.15

D. Time Periods
Peak 7am –7pm, Monday through Friday
Off-Peak All other times

E. Monthly Fee: $24.95 per line
$4.95 per additional line

F. Calling Card:
All Time Periods $0.49
Surcharge $0.99

G. Home 800:
All Time Periods $0.10

H. Operator Surcharge: $2.25/per call

I. Payphone Use Charge: $0.25

J. Availability: TA 1500 Package is available to all residential customers with no more than five (5) lines. TA 1500 Package is only available on an intrastate basis when the customer has subscribed to the interstate TA 1500 Package.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

29. OPERATOR SERVICES

This section sets forth the rates and charges applicable to the Carrier's Operator Assisted Service offerings. The total charge for each completed operator assisted call consists of two charge elements: a one-time fixed operator service charge added to the first minute of each operator service call, which will be dependent on the type of billing selected (i.e. Calling Card, Third Party) and/or the completion restriction selected (i.e. Person-to-Person); and a measured usage charge dependent on the duration, distance, and time of day of the call. The usage charge element is specified as duration, with a minimum charge for each call of one minute, and with fractional minutes of use thereafter counted as full minutes.

The user will be charged according to the rate schedules set forth below:

Option A – COMPANY's Standard Operator Service - allows calls to be placed with the assistance of an operator from: (i) phones which are presubscribed to COMPANY; or, (ii) phones where the caller first dials an COMPANY's carrier identification code.

Option B – COMPANY's Collect Call Service Rates - allows calls to be placed with the assistance of an operator from phones where the caller first dials an COMPANY-provided access number.

B. OPTION A

(1). Operator Service Surcharges - The one time operator surcharge will be added to the first minute of each operator service call in addition to the per minute rates in (2), following.

Calling Card	**Surcharge**
Customer Dialed	$1.20
Operator Assisted (0+)	$1.20
Operator Assisted (0-)	$2.25
Operator Station	**Surcharge**
Third Party (0+)	$2.35
Third Party (0-)	$2.35
Collect (0+)	$2.25
Collect (0-)	$2.25
Person-to-Person (0+)	$4.90
Person-to-Person (0-)	$4.90

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

29. OPERATOR SERVICES (Cont'd)

B. OPTION A (Cont'd)

(2). Operator Services Per Minute Usage Charges – The following are the per minute rates that the customer will incur when using COMPANY's Operator Services. These rates will apply in addition to the applicable operator surcharge outlined in (1), preceding. These usage charges apply to all classes of service.

(a). ORIGINATING U S WEST TO TERMINATING U S WEST

	DAY		EVENING		NIGHT	
Bands/Miles	1st Min.	Add'l Min.	1st Min.	Add'l Min.	1st Min.	Add'l Min..
0-10	$0.1800	$0.1100	$0.1300	$0.8000	$0.1200	$0.0600
11-16	$0.2000	$0.1300	$0.1400	$0.9000	$0.1300	$0.0700
17-22	$0.2400	$0.1400	$0.1600	$0.1100	$0.1500	$0.1000
23-30	$0.2700	$0.1600	$0.1800	$0.1200	$0.1700	$0.1100
31-40	$0.3200	$0.2000	$0.2100	$0.1400	$0.1900	$0.1300
41-55	$0.3500	$0.2300	$0.2300	$0.1700	$0.2100	$0.1600
56-70	$0.3700	$0.2600	$0.2400	$0.1900	$0.2200	$0.1800
71-124	$0.3700	$0.2900	$0.2700	$0.2100	$0.2500	$0.2000
125-196	$0.3900	$0.3000	$0.3000	$0.2300	$0.2700	$0.2200
197-292	$0.4200	$0.3200	$0.3200	$0.2500	$0.2900	$0.2300
293 +	$0.4500	$0.3400	$0.3400	$0.2600	$0.3100	$0.2400

(b). ORIGINATING U S WEST TO TERMINATING INDEPENDENT

	DAY		EVENING		NIGHT	
Bands/Miles	1st Min.	Add'l Min.	1st Min.	Add'l Min.	1st Min.	Add'l Min.
0-10	$0.2500	$0.1700	$0.2100	$0.1400	$0.1800	$0.1100
11-16	$0.2800	$0.1900	$0.2200	$0.1600	$0.1900	$0.1200
17-22	$0.3000	$0.2200	$0.2400	$0.1800	$0.2200	$0.1500
23-30	$0.3500	$0.2500	$0.2700	$0.2000	$0.2500	$0.1700
31-40	$0.3800	$0.2800	$0.3000	$0.2200	$0.2700	$0.2000
41-55	$0.4200	$0.3200	$0.3200	$0.2400	$0.2800	$0.2200
56-70	$0.4300	$0.3500	$0.3300	$0.2500	$0.3000	$0.2400
71-124	$0.4400	$0.3600	$0.3500	$0.2800	$0.3300	$0.2700
125-196	$0.4600	$0.3600	$0.3800	$0.2900	$0.3600	$0.2900
197-292	$0.4800	$0.3800	$0.4000	$0.3000	$0.3800	$0.3000
293 +	$0.4900	$0.3900	$0.4200	$0.3200	$0.4100	$0.3100

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

29. OPERATOR SERVICES (Cont'd)

C. OPTION B

(1). Collect Call Surcharges

Surcharge Type	Per Call
Operator Station	$1.28
Person-to-Person	$2.83

(2). Collect Call Per Minute Usage Charges

	DAY		EVENING		NIGHT	
Bands/Miles	1st Min.	Add'l Min.	1st Min.	Add'l Min.	1st Min.	Add'l Min.
0-10	$0.1900	$0.1100	$0.1235	$0.0715	$0.0950	$0.0550
11-16	$0.2100	$0.1400	$0.1365	$0.0910	$0.1050	$0.0700
17-22	$0.2500	$0.1700	$0.1625	$0.1105	$0.1250	$0.0850
23-30	$0.2800	$0.2000	$0.1820	$0.1300	$0.1400	$0.1000
31-40	$0.2900	$0.2100	$0.1885	$0.1365	$0.1450	$0.1050
41-55	$0.3000	$0.2200	$0.1950	$0.1430	$0.1500	$0.1100
56-70	$0.3100	$0.2300	$0.2015	$0.1495	$0.1550	$0.1150
71-124	$0.3200	$0.2400	$0.2080	$0.1560	$0.1600	$0.1200
125-196	$0.3300	$0.2500	$0.2145	$0.1625	$0.1650	$0.1250
197-292	$0.3400	$0.2600	$0.2210	$0.1690	$0.1700	$0.1300
293+	$0.3600	$0.2700	$0.2340	$0.1755	$0.1800	$0.1350

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

30. ALTERNATIVE OPERATOR SERVICES

A. GENERAL DESCRIPTION: This section sets forth the rates and charges applicable to Carrier's Alternative Operator Service offering. The total charge for each completed operator assisted call consists of two charge elements (except as otherwise provided herein): fixed operator service charge, which will be dependent on the type of billing selected (i.e., calling card, charge third party or other) and/or the completion restriction selected (i.e., station-to-station or person-to-person); and for toll calls a measured usage charge dependent on the duration, distance and time of day of the call. The usage charge element is specified as a rate per minute, which applies to each minute of call duration, with a minimum charge for each call of one minute, and with fractional minutes of use thereafter counted as one full minute.

The rates set forth in this section are applicable to calls originating and terminating within the State. Charges may be billed to a local telephone number, major credit card or to the called party.

B. CALCULATION OF DISTANCE: Usage charges for all mileage sensitive usage are based on the airline distance between rate centers associated with the originating and terminating points of the call. The airline mileage between rate centers is determined by applying the formula below to the vertical and horizontal coordinates associated with the rate centers involved. COMPANY uses the rate centers and associated vertical and horizontal coordinates that are produced by Bell Communications Research in their NPA-NXX V & H Coordinates Tape and NECA Price list F.C.C. No. 4.

FORMULA =

$$\sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

30. ALTERNATIVE OPERATOR SERVICES (Cont'd)

C. RATE CATEGORIES: The rates and charges set forth in this section are applicable to all intrastate calls originating and terminating within the State provided by COMPANY. Charges may be billed to a valid local telephone number or major credit card; collect calls are not permitted to locations outside the United States Mainland, Alaska, and Hawaii. Definitions of the types of charges that appear on the preceding Rate Tables are as follows:

Per Minute Charges

This charge represents the charges per minute billed to end users for the actual time of the call. Determination of rate table used at each location is made by the customer.

Service Charges

Otherwise known as Operator assistance charges, these are fixed charges assessed on each call based upon the billing method selected by the end user.

Commission or Property Surcharge

This charge is assessed to the end user and provided in its entirety to the customer. The amount of each customer's charge is determined individually by the customer, and incorporated into the contract between COMPANY and the customer. This surcharge must fall within the Surcharge limit imposed by COMPANY.

The rate tables and subscriber surcharges shown herein may be used with any listed option.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

30. ALTERNATIVE OPERATOR SERVICES (Cont'd)

OPTION A

Allows for calls placed with the assistance of a live or automated operator from Pay Telephones presubscribed to COMPANY.

a. Per Minute Charges: InterLATA/IntraLATA

Mileage	1st min.*	Add'l min.*
0 to 9999	$0.9800	$0.9800

* Rates are in Cents per Minute.

b. Service Charges: InterLATA/IntraLATA

0 + Calling Card	$4.90
0 + Calling Card (Op)	$5.66
0 - Calling Card (Op)	$5.66
0 + Credit Card	$4.90
0 + Credit Card (Op)	$5.66
0 – Credit Card (Op)	$5.66
0 + Bill to third Party	$5.66
0 – Bill to third Party	$6.81
0 + Collect	$6.21
0 – Collect	$7.36
0 + Person to Person	$7.30
0 – Person to Person	$7.30
Public Payphone Surcharge	$0.30
Non-Subscriber Surcharge	$2.45

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

30. ALTERNATIVE OPERATOR SERVICES (Cont'd)

OPTION B

Allows for calls placed with the assistance of a live or automated operator from Hotel/Motel telephones presubscribed to COMPANY.

a. Per Minute Charges: InterLATA/IntraLATA

Mileage	1st min.*	Add'l min.*
0 to 9999	$0.7100	$0.7100

* Rates are in Cents per Minute.

b. Service Charges: InterLATA/IntraLATA

0 + Calling Card	$5.31
0 + Calling Card (Op)	$6.88
0 - Calling Card (Op)	$6.88
0 + Credit Card	$5.31
0 + Credit Card (Op)	$6.88
0 – Credit Card (Op)	$6.88
0 + Bill to third Party	$5.30
0 – Bill to third Party	$6.45
0 + Collect	$5.85
0 – Collect	$5.85
0 + Person to Person	$7.30
0 – Person to Person	$7.30
Non-Subscriber Surcharge	$2.45

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

30. ALTERNATIVE OPERATOR SERVICES (Cont'd)

OPTION C

Allows for calls placed with the assistance of a live or automated operator from (i) business or residential telephones not presubscribed to COMPANY; and (ii) aggregator telephones where the caller first dials a COMPANY access code.

a. Per Minute Charges: InterLATA/IntraLATA

Mileage	1st min.*	Add'l min.*
0 to 9999	$0.8100	$0.8100

* Rates are in Cents per Minute.

b. Service Charges: InterLATA/IntraLATA

0 + Calling Card	$5.31
0 + Calling Card (Op)	$6.88
0 - Calling Card (Op)	$6.88
0 + Credit Card	$5.31
0 + Credit Card (Op)	$6.88
0 – Credit Card (Op)	$6.88
0 + Bill to third Party	$5.30
0 – Bill to third Party	$6.45
0 + Collect	$5.85
0 – Collect	$7.00
0 + Person to Person	$7.30
0 – Person to Person	$7.30
Public Payphone Surcharge	$0.30

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

30. ALTERNATIVE OPERATOR SERVICES (Cont'd)

OPTION D

Allows for calls placed with the assistance of an automated operator only from Inmate/Correctional Facility telephones presubscribed to COMPANY.

a. Per Minute Charges: InterLATA/IntraLATA

Mileage	1st min.	Add'l min.
0 to 9999	$1.15	$1.15

b. Service Charges: InterLATA/IntraLATA

0 + Collect	$6.21

OPTION E

Allows for calls placed with the assistance of a live or automated operator from Hospital telephones presubscribed to COMPANY.

a. Per Minute Charges: InterLATA/IntraLATA

Mileage	1st min.*	Add'l min.*
0 to 9999	$0.7100	$0.7100

* Rates are in Cents per Minute.

b. Service Charges: InterLATA/IntraLATA

0 + Calling Card	$5.31
0 + Calling Card (Op)	$6.88
0 - Calling Card (Op)	$6.88
0 + Credit Card	$5.31
0 + Credit Card (Op)	$6.88
0 – Credit Card (Op)	$6.88
0 + Bill to third Party	$5.30
0 – Bill to third Party	$6.45
0 + Collect	$5.85
0 – Collect	$5.85
0 + Person to Person	$7.30
0 – Person to Person	$7.30
Non-Subscriber Surcharge	$2.45

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

30. ALTERNATIVE OPERATOR SERVICES (Cont'd)

OPTION F

Allows for calls placed with the assistance of a live or automated operator from University/Education telephones presubscribed to COMPANY.

a. Per Minute Charges: InterLATA/IntraLATA

Mileage	1st min.*	Add'l min.*
0 to 9999	$0.7100	$0.7100

* Rates are in Cents per Minute.

b. Service Charges: InterLATA/IntraLATA

0 + Calling Card	$5.31
0 + Calling Card (Op)	$6.88
0 - Calling Card (Op)	$6.88
0 + Credit Card	$5.31
0 + Credit Card (Op)	$6.88
0 – Credit Card (Op)	$6.88
0 + Bill to third Party	$5.30
0 – Bill to third Party	$6.45
0 + Collect	$5.85
0 – Collect	$5.85
0 + Person to Person	$7.30
0 – Person to Person	$7.30
Non-Subscriber Surcharge	$2.45

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

30. ALTERNATIVE OPERATOR SERVICES (Cont'd)

D. NON-SUBSCRIBER SURCHARGE - A Non-Subscriber Surcharge is applicable to intrastate Operator Station (Collect, Billed to Third Party, and Person-to-Person) calls billed to residential telephone lines which are presubscribed to an interexchange carrier other than COMPANY. This charge is in addition to the usage rates applicable to such calls and is also in addition to any applicable service charges for Operator Station calls as specified in this Tariff.

The Non-Subscriber Surcharge does not apply to: calls billed to calling cards or credit cards, conference calls, calls to directory assistance, calls billed to residential telephone lines which have discontinued presubscription to COMPANY but for whom an active billing record still exists in the Company's billing system or to collect calls accessing COMPANY's network via 800 access methods.

COMPANY will credit any Non-Subscriber Surcharges reported by newly-presubscribed COMPANY customers during the period between presubscription and administrative processing of the new Customer. The Company will also credit any Non-Subscriber Surcharges reported by Customers during a FCC reportable incident of service outage by another interexchange carrier. To receive either of these credits, Customers must contact the Company through an 800 number designated for billing inquiries. The credit will be issued in the form of a bill credit to be processed electronically through the customer's LEC.

The Non-Subscriber Surcharge applies in all local exchange areas where billing is available and will be implemented in all remaining Local Exchange areas as billing becomes available.

Non-Subscriber Surcharge: $2.45

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

31. TA PREPAID CARD SERVICE - SERIES I

TA Prepaid Card Service - Series I is an outbound voice grade communications service which allows Card Holders to charge telephone calls to a TA Prepaid Card - Series I. Under this arrangement, charges for calls are deducted from the Customer's prepaid account balance. Customers may purchase a Prepaid Calling Card directly from COMPANY or from an authorized representative of the Company. Prepaid Calling Cards are valid until the Customer's balance is depleted or until the expiration date displayed on the card, whichever occurs first. Except as may be specifically referenced therein, calls made utilizing TA Prepaid Card Service - Series I are not included in any other Company services or promotions. The following types of calls may not be completed with the TA Prepaid Card Service - Series I:

Calls to 500 numbers
Calls to 700 numbers
Calls to 800 numbers
Calls to 900 numbers
Directory Assistance calls
Operator Services calls
COMPANY Conference calls
COMPANY Busy Line Verification and Interrupt Services
Calls requiring the quotation of time and charges
High Seas Service

Availability

TA Prepaid Card Service - Series I is available twenty-four hours a day, seven days a week from locations in the United States and its territories. Provision of the service and the number of available TA Prepaid Card Service - Series I may be subject to technical limitations. TA Prepaid Card Service - Series I is offered to Customers on a first come, first served basis and is provided to the holder of the card.

Regulations

The following regulations are applicable to this service:

1. TA Prepaid Card Service - Series I is accessed using the COMPANY toll free number printed on the card.

2. All calls must be charged against a Series I card that has a sufficient balance.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

31. TA PREPAID CARD SERVICE - SERIES I (Cont'd)

3. Calls in progress will be terminated by the Company if the balance on the Series I card is insufficient to continue the call. Customers will hear an announcement when the Prepaid Card balance is about to be depleted. This announcement will occur ten minutes and one minute prior to the estimated time that the balance will be depleted. This estimate is based upon the unit rate associated with the terminating location of the call.

4. Prior to the disconnection of a call in process, the Customer will be requested to enter another valid TA Prepaid Card – Series I number or to activate a recharge transaction in order to continue the call.

5. Series I cards are non-refundable and will expire on the date specified on the card or the carrier or package in which the card is included. The acquisition of a card entitles the customer or the authorized user of the card holder to make calls from the time of card activation until the available card balance either is depleted or until the card expires, whichever first occurs

Credit Allowances for Interruptions: Customers who experience call interruption due to poor transmission, one-way transmission, or involuntary disconnection of the call may obtain a credit allowance. The credit allowance will be equal to the unit or dollar value for the duration of the call that is interrupted. In order to receive a credit allowance, the Customer must notify the Company at the designated Customer Service Number printed on the Card within 30 days from the date the interruption was experienced. The Customer must also furnish the called number, the trouble experienced (i.e., cut-off, noisy circuit, etc.), and the approximate time the call was placed, and the duration of the interruption. The Prepaid Card will then be credited with the appropriate unit or dollar amount as set forth herein.. Credit allowances are not issued for interruptions that are due to the failure of power, equipment or systems not provided by the Company nor for interruptions that are not properly reported to the Company.

Recharging Feature: Customers may increase a Prepaid Card balance using a valid commercial credit card, which is accepted by the Company. This feature is only available to holders of unexpired cards and such transactions must be handled through a COMPANY provided telephone number and representative. All additional Prepaid Card units or dollars will be charged to the cardholder at the prevailing tariffed rate in effect on the date of recharging. A minimum of 30 units must be purchased in order to take advantage of this recharge feature.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

31. TA PREPAID CARD SERVICE - SERIES I (Cont'd)

Service Description: Series I Cards are distributed in unit denominations ranging from 15 to 300 units per card, or as otherwise specified by the Company. The Prepaid Card will be decremented the appropriate number of units for each minute the card is used. A per minute unit price is established for each terminating location. Calls are timed and debited in one minute increments, fractional minutes will be rounded up to the nearest whole minute. When the value of a Card is less than the lowest unit price for a one minute call, the card will be retired and the unused balance forfeited. Prepaid Cards can be recharged pursuant to the provisions set forth herein.

Taxes and Other Charges

a. Taxes: Charges for TA Prepaid Card Service - Series I are inclusive of federal, state and local taxes imposed on the provision of telecommunications service, but exclusive of the general retail sales, use and other similar taxes that may be imposed on the sale of the Card at the time and point-of-sale.

b. Payphone Use Charge: An undiscountable two unit per call charge is applicable to Qwest Prepaid Unit Card calls originating from domestic payphones. An undiscountable two minutes will be deducted from the Dollar Option Cards for each call made from domestic payphones). This charge, which is in addition to standard tariffed usage charges and any applicable surcharges associated with COMPANY service, applies to the use of the instrument used to access COMPANY service and is unrelated to TA Prepaid Card - Series I. Customers of TA Prepaid Card Service - Series I will be charged the payphone use charge for each completed call made from a domestic payphone.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

31. TA PREPAID CARD SERVICE - SERIES I (Cont'd)

TA Prepaid Card – Series I Rate Plans

1. Standard Variable Plan Rate Plan

The Standard Variable Plan Rate Plan is plan that offers Series I Cards in denominations ranging from 15 units to 300 units per card, as shown below. Prices are inclusive of all taxes, but do not include the general retail sales, use and other similar taxes that may be imposed at the time and point-of-sale of the Prepaid Card.

Card Denomination	Unit Price	Purchase Price
10	$0.35	$3.50
20	$0.35	$7.00
30	$0.35	$10.50
60	$0.35	$21.00
120	$0.30	$36.00
240	$0.28	$67.20
300	$0.25	$75.00

2. Single Rate Plan

The Single Rate Plan makes Prepaid Cards available to Customers in various unit denominations at a single unit rate. Prices are inclusive of all taxes, but do not include the general retail sales, use and other similar taxes that may be imposed at the time and point-of-sale of the Prepaid Card. Single Rate Prepaid Cards will be sold at prices rounded to the nearest cent. Service is provided at a rate of $.25 per unit.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

31. TA PREPAID CARD SERVICE - SERIES I (Cont'd)

3. Volume Discount Plan

The Volume Discount Plan is available to Customers who purchase several calling units in a single purchase. Customers that commit to a specified purchase level for a 12-month period will receive the discounted rates based upon the annual commitment level as shown below.

Level		Annual Purchase	Unit Denominations	Price Per Unit
A	1	0 to 1,259	20, 30, 60, 90	$0.50
	2		120, 240, 300	$0.50
B	1	1,260 to 41,000	20, 30, 60, 90	$0.24
	2		120, 240, 300	$0.23
C	1	41,001 to 206,000	20, 30, 60, 90	$0.23
	2		120, 240, 300	$0.22
D	1	206,001 to 1,100,000	20, 30, 60, 90	$0.22
	2		120, 240, 300	$0.21
E	1	1,100,001 to 4,700,000	20, 30, 60, 90	$0.21
	2		120, 240, 300	$0.20
F	1	4,700,001 to 25,000,000	20, 30, 60, 90	$0.20
	2		120, 240, 300	$0.19
G	1	25,000,001 to 50,000,000	20, 30, 60, 90	$0.19
	2		120, 240, 300	$0.18
H	1	Over 50,000,001	20, 30, 60, 90	$0.15
	2		120, 240, 300	$0.15

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

31. TA PREPAID CARD SERVICE - SERIES I (Cont'd)

4. TA Prepaid Promotional Program

The TA Prepaid Promotional Program allows Customers to purchase Prepaid Cards to be distributed to their clients, patrons, and others for promotional purposes. Each Promotional Prepaid Card purchased by the Customer will reflect the number of calling minutes that are available to the Card Holder. The following restrictions are applicable to this program: 1) Promotional Prepaid Cards can only be used to place calls within the US Mainland; 2) Unless otherwise specified, Promotional Prepaid Cards expire six months from the date of activation or until the Card Holder's Prepaid balance is depleted, whichever occurs first; 3) Promotional Prepaid Cards cannot be used to place calls from payphones; and, Promotional Prepaid Cards are for promotional use only, distributors of Promotional Prepaid Cards are prohibited from charging Card Holders any additional fees for the use or activation of a Promotional Prepaid Card. Charges for Promotional Prepaid Cards are based upon the total number of units purchased by the Customer as set forth below.

Units Purchased			Rate Per Minute
250	to	500	$0.19
501		1,000	$0.18
1,001		15,000	$0.17
15,001		25,000	$0.16
25,001		50,000	$0.15
50,001		100,000	$0.14
100,001		250,000	$0.12
250,001		500,000	$0.10
500,001		1,000,000	$0.09
1,000,001		1,500,000	$0.08
Over 1,500,001			$0.07

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

32. TA PREPAID CARD SERVICE – SERIES II

General Description

TA Prepaid Card Service – Series II, herein referred to as Card or Pin interchangeably, allows Customers to prepay for cards or Personal Identification Numbers (PINs)[1] for domestic long distance calling either on a per unit or per minute basis. To use the card, callers must dial an access number. When the call is acknowledged, the caller then enters the PIN. At this point, the caller is notified of the amount of units remaining on the card. The caller then enters the telephone number to be called.

Billing Increments

The Series II Prepaid Card is debited as follows:

Option A	60/6
Option B	60/6
Option C	60/60

Rates

Series II Cards are available in various unit or dollar denominations.[2] There is a minimum of 10 units per card per order.

Option A	1 unit = 1 minute = $0.50
Option B	$0.50 per minute
Option C	$0.50 per minute

1 All Cards when used in connection with TA Prepaid Card, shall also be interpreted to include PINs.

2 For all dollar-denominated cards, the number of units on the card will be determined by dividing the dollar value appearing on the card by the per unit rate and rounding up to the next whole unit.

Recharge Rate

The following is the rate for adding additional units to a card by charging the cost to designated commercial credit cards accepted by COMPANY:

Rate: $0.50 (per unit)

There is a minimum re-charge requirement of 40 units on each prepaid card.

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

32. TA PREPAID CARD SERVICE – SERIES II (Cont'd)

Surcharge

The following surcharge will be assessed for each call made using an Series II Prepaid card, which originates and terminates between any two points within the state. This surcharge will be applied irrespective of the length of the call.

Option A	$0.00
Option B	$0.25
Option C	$0.49

Features

A. Recharging: COMPANY may permit customers to add units to unexpired cards by charging the cost of additional units to a commercial credit card accepted by COMPANY. Such additional units will be charged at the prevailing per-unit rate on the date of recharging. In the event that the customer's credit card is later denied or otherwise uncollectible, COMPANY will delete any remaining minutes related to the recharge and may render the card unavailable for future recharges.

B. Card Customizing: The physical appearance of cards may be designed by mutual agreement of COMPANY and the customer or the customer may order preprinted cards from COMPANY. Card customizing and associated charges are determined on an individual case basis.

C. Card Delivery and Printing: Card delivery and printing charges are determined on an individual case basis.

D. Taxes: The Series II Prepaid card per unit charge is inclusive of federal, state and local taxes imposed on the provision of telecommunications service, but exclusive of the federal excise Tax and the general retail sales, use and similar taxes that may be imposed on the sales of the Series II Prepaid card at the time and point-of-sale. The COMPANY shall only be liable for the payment of federal, state and local telecommunications service taxes at the time a Series II Prepaid call is made on the net amount received by COMPANY for each Series II Prepaid card unit.

E. Directory Assistance: A charge of four (4) units per call for Option A; or, four (4) minutes per call for Option B and Option C, will apply for each call requesting Directory Assistance for numbers in the U.S. (including Puerto Rico and the U.S. Virgin Islands).

SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

32. TA PREPAID CARD SERVICE – SERIES II (Cont'd)

F. Payphone Use Charge: A charge of two (2) units per call for Option A; or, $0.29 per call for Option B and Option C, will apply to calls that originate from any payphone used to access COMPANY services. This charge, which is in addition to standard tariffed usage charges and any applicable surcharges associated with COMPANY service, applies for the use of the instrument used to access COMPANY service and is unrelated to the COMPANY service accessed from the payphone. Customers will be charged the payphone use charge for each call which is placed from payphones with the exception of: (i) calls placed by inserting coins during the progress of the call; (ii) calls using Telecommunications Relay service; or, (iii) calls originated by customers who are certified as hearing and/or speech impaired.

Conditions of Service

A. Only the entity in whose name the original qualifying purchase was made shall be deemed to be the customer. Related entities, such as affiliates and subsidiaries, spouses and relatives, shall not be treated as the customer.

B. Calls to 500, 700, 800, 900 and 950 numbers will not be completed using the Series II Prepaid card.

C. Calls may only be charged against a Series II Prepaid card that has a sufficient available balance within the time period for expiration.

D. Series II Prepaid card balances will be reduced and depleted based upon usage. A verbal warning is provided to the caller when the amount of units remaining on the card reaches a certain level. A call will be disconnected upon depletion of all available units on the card.

E. Series II Cards will expire on the date specified on the card or package in which the card is included. The acquisition of a card will entitle the customer or the authorized user of the customer to make calls from the time of first use until the available card balance either is depleted or until the card expires, whichever first occurs. Once a card has expired it can not be recharged. If a customer chooses to recharge a Series II Prepaid card, the card will remain active for one (1) year from the date that it is recharged. Every time the card is recharged the one year expiration period is reset for another year, however, the card will expire if it is not recharged again during that one year period, regardless of the remaining minutes or units on the card. Series II Cards are non-refundable.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

32. TA PREPAID CARD SERVICE – SERIES II (Cont'd)

F. Neither COMPANY nor any of its authorized agents or contractors shall be liable or responsible for theft, loss or unauthorized use of any Series I Cards or card numbers. COMPANY will not refund or issue credit for unused units (minutes) on any Series II Prepaid card.

G. End Users shall be responsible for all use of activated Units (including calls to wrong numbers), regardless of whether such use occurred by the End User, a person authorized by the End User to use the Series I Cards, or by a person who obtained the activated Prepaid card from the End User by theft or other unauthorized means; provided that End Users shall not be responsible for improper activation by COMPANY of incorrect Unit amounts, improper devaluation by COMPANY, transmission difficulty, or improper use by COMPANY or Distributor of Series II Prepaid card information.

Unused inventory (with a minimum of at least five (5) cards) of Series II stock Prepaid cards may be returned to COMPANY within 30 days for a credit of original purchase price less a 25% restocking fee; provided that such cards are undamaged, unused and/or unopened. The COMPANY reserves the right to refuse to credit Distributor for any Prepaid cards returned in the event COMPANY determines, in its sole discretion that such cards are in any way unusable.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

33. TA PREPAID CARD SERVICE – SERIES III

General Description

The Series III Card is a travel card/credit card product, which allows the customer to pre-pay for units of domestic long distance calling minutes for a flat rate (1-unit = 1-minute). To use the debit card, the customer dials a toll free number. When the call is acknowledged, the customer then enters the personal identification number of the debit card. At this point, the user is notified of the amount of units remaining on the debit card. The caller then enters the telephone number they want to call. A verbal warning is provided when the amount of units remaining on the card is reduced to a low level. A call will be disconnected upon depletion of all available units on the debit card.

The calling card is debited in full minute increments. Debiting does not begin until the call is answered by the called party.

Orders for the debit card require a cash payment in advance either via check or wire transfer.

Recharge Feature:

A customer has the option of selecting the re-charge feature when they purchase a debit card. The recharge feature allows the customer to add additional units to their card by charging the cost to various credit cards.

Rates: The following is based on the units of each debit card. (1-unit = 1-minute). Series III Prepaid Debit Card rate is $0.30 per unit. There is a minimum of 10 units per card per order.

Recharge Rate: The following is the rate for adding additional units to a debit card by charging the cost to various credit cards:

Rate: $0.40 (per unit)

There is a minimum re-charge requirement of 30 minutes (units) on each debit card. The maximum number of units that can be re-charged is 120 minutes.

Expiration: A card is active for one (1)year after a customer re-charges a minimum of 30 units (minutes). Once a card has expired it cannot be re-activated. Every time the card is re-charged the clock is set for another year, however, the card will expire if it is not recharged again during that one year period regardless of the remaining minutes on the card.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

34. TA PREPAID CARD SERVICE – SERIES IV

The service enables business and residential customers to place prepaid long distance telephone calls. Customers access the Company's network using a 1-800 access code arrangement. A voice prompt will instruct the caller to dial the called telephone number and authorization code displayed on the card. Upon validation of the information, the call will be completed.

Service is available in all locations throughout Minnesota, subject to the availability of facilities. Customers may access this service seven (7) days per week, twenty four (24) hours per day. Customers may subscribe to the service by purchasing a prepaid card from the Company or an authorized representative. Charges for use of the Company's facilities will be deducted from the Customer's prepaid account balance as the card is used. Prepaid calling cards will be valid until the Customer's prepaid balance is completely depleted or until the expiration date displayed on the card, whichever occurs first. Callers receive a verbal notification stating the account balance each time the card is used.

Service is offered on a first come, first serve basis and may be subject to technical limitations. Service is provided to the holder of the card. All calls are charged against a prepaid calling card, which has a sufficient balance to cover the amount of the call in process. Under some arrangements, callers may utilize a commercial credit card to increase a prepaid balance or renew the prepaid card. Failure of the card holder to maintain a positive balance or to input the authorization code of another valid prepaid calling card may result in the disconnection of a call in process; an announcement will advise the caller immediately prior to the disconnection of the call.

Rates and charges vary depending upon the arrangement selected by the Customer. Call duration will be measured in whole minute increments, unless otherwise specified. Credit for interruptions are limited to one minute; no other refunds, credit, or other remittances shall be permitted. All applicable state and federal taxes and fees, including, but not limited to, sales tax, gross receipts tax, municipal tax, and other similar assessments are the responsibility of the card holder. Such charges may be deducted from the Customer's prepaid calling card balance. Prepaid calling cards are provided at the unit prices and fees set forth herein. Under some arrangements, a separate fee or unit value may also be imposed by the distributor of the card.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

34. TA PREPAID CARD SERVICE – SERIES IV (Cont'd)

Calls placed using Prepaid Calling Card Service are charged against the cardholder's balance as set forth below. Complimentary Calling Card service may be distributed from time to time to customers, businesses, user groups, or others to permit the cardholder to utilize the Company's prepaid service at no charge. Unit prices vary depending upon the Prepaid Calling Card being used by the caller. For rating purposes, one unit is equal to one minute. The following schedules are available:

(1). Frequent Caller Calling Card service is designed for high volume users of the Company's prepaid calling card services. Calls are rated at $0.25 per unit.

(2). Executive Calling Card service is designed for executives and business travelers. Calls are rated at $0.35 per unit.

(3). RoadRunner Prepaid Calling Card service is designed for the trucking and air transportation industry. Calls are rated at $0.40 per unit.

(4). MetroServer Calling Card service is a calling card for users whose prepaid calls primarily terminate in major metropolitan areas. Calls are rated at $0.50 per unit.

(5). Standard Prepaid Calling Card service is a one-way Multi-point service designed for moderate call volume users. Calls placed pursuant to this option are rated at $0.60 per unit.

(6). Collector Series Calling Card service features a unique picture, motif, theme, or design on the calling card, or series of calling cards. Calls placed pursuant to this option are rated at $0.75 per unit.

(7). Superior Image Calling Card service displays high quality photographs, computer enhanced images, designs, and other visual effects on the calling card. Calls are rated at $0.80 per unit.

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SECTION 3 – SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

35. DIRECT OPTIMUM

A. Service Description: Direct Optimum is a switched 1+ outbound package of long distance services available to residential customers. The Direct Optimum package includes the following services: 1+ outbound, toll-free inbound 800/888/877, and calling card services.

B. Switched 1+ Outbound Long Distance Service:

(1). Time Periods:

Period	Times	Days
Peak	8:00 AM – 5:00 PM	Monday through Friday
Off-Peak	All other times	

(2). Billing increments: Full minute

(3). Rates:

Period	Rates
Peak	$0.12
Off-Peak	$0.09

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

35. DIRECT OPTIMUM (Cont'd)

C. Domestic Switched Toll Free Inbound 800/888/877 Service:

(1). Time periods:

Period	Times	Days
Day	8:00 AM – 5:00 PM	Monday through Friday
Evening	5:00 PM – 11:00 PM	Monday through Friday Sunday
Night	11:00 PM – 8:00 AM	Monday through Friday
	All day	Saturday
	11:00 PM – 5:00 PM	Sunday

(2). Billing increments: Full minute

(3). Rates:

Period	Rates
Day	$0.199
Evening	$0.168
Night	$0.139

(4). Charges:

Monthly Service Charge: $2.50 per month
Payphone Use Charge: $0.30 per call

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

35. DIRECT OPTIMUM (Cont'd)

D. Domestic Calling Card Service:

(1). Time periods:

Period	Times	Days
Day	8:00 AM – 5:00 PM	Monday through Friday
Evening	5:00 PM – 11:00 PM	Monday through Friday Sunday
Night	11:00 PM – 8:00 AM	Monday through Friday
	All day	Saturday
	11:00 PM – 5:00 PM	Sunday

(2). Billing increments: Full minute

(3). Rates:

Period	Rates
Day	$0.250
Evening	$0.225
Night	$0.200

(4). Charges:

Payphone Use Charge: $0.30 per call

E. Directory Assistance – The following interstate and intrastate charges apply to Directory Assistance calls placed by Direct Optimum subscribers:

Directory Assistance	
Interstate	$0.60 per minute or fraction
Intrastate	$0.37 per minute or fraction

SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

36. SIMPLICITY

A. Service Description: Simplicity is a switched 1+ outbound package of long distance services available to commercial/business customers. The Simplicity package includes the following services: 1+ outbound, toll-free inbound 800/888/877, and calling card services. Where specified, volume usage discounts apply to the base rate for customers committed to meeting certain monthly usage requirements. Rates apply 24 hours a day, 7 days a week.

B. Base Rate Discounts available:

Monthly Usage		Volume Discount
$0.00 -	$499.99	0%
$500.00 -	$999.99	5%
$1,000.00 -	$1,999.99	10%
$2,000.00 -	$4,999.99	15%
$5,000.00 -	$9,999.99	20%
$10,000.00 -	$14,999.99	25%
$15,000.00 -	$19,999.99	30%
$20,000.00 -	$29,999.99	35%
$30,000.00 -	+	40%

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

36. SIMPLICITY (Cont'd)

C. Switched 1+ Outbound Long Distance:

(1). Time Periods: All day, every day

(2). Billing Increments: Calls billed in 6-second periods

(3). Rates: Base Rate - $0.0085 per Period

(4). Usage Discounts Apply

D. Switched Toll-Free Inbound 800/888/877 Service:

(1). Time Periods: All day, every day

(2). Billing Increments: Calls billed in 6-second periods

(3). Rates: Base Rate - $0.010 per Period

(4). Usage Discounts Apply

(5). Charges:

Monthly Service Charge:	$2.50
Payphone Use Charge:	$0.30 per call

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

36. SIMPLICITY (Cont'd)

E. Calling Card Service:

(1). Time Periods: All day, every day

(2). Billing Increments: Calls billed in 6-second periods

(3). Rates: Base Rate - $0.014 per Period

(4). Usage Discounts Apply

(5). Charges:
Payphone Use Charge: $0.30 per call

F. Directory Assistance: The following interstate and intrastate charges apply to Directory Assistance calls placed by Simplicity subscribers:

Directory Assistance	
Interstate	$0.60 per minute or fraction
Intrastate	$0.37 per minute or fraction

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

37. LATITUDES I

A. Service Description: Latitudes I is a switched 1+ outbound package of long distance services available to commercial/business customers. The Simplicity package includes the following services: 1+ outbound, toll-free inbound 800/888/877, and calling card services. Where specified, volume usage discounts apply to the base rate for customers committed to meeting certain monthly usage requirements. Peak and Off-Peak rates apply.

B. Base Rate Discounts available:

Monthly Usage		Volume Discount
$0.00 -	$499.99	5%
$500.00 -	$999.99	10%
$1,000.00 -	$1,999.99	15%
$2,000.00 -	$4,999.99	20%
$5,000.00 -	$9,999.99	25%
$10,000.00 -	+	30%

C. Switched 1+ Outbound Long Distance:

(1). Time Periods:

Period	Times	Days
Peak	8:00 AM – 5:00 PM	Monday through Friday
Off-Peak	All other times	

(2). Billing Increments: Calls billed in 6-second Periods

(3). Rates:

Period	Base Rates
Peak	$0.0125 per Period
Off-Peak	$0.0115 per Period

(4). Usage Discounts Apply

SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

37. LATITUDES I (Cont'd)

D. Switched Toll-Free Inbound 800/888/877 Service:

(1). Time Periods: All day, every day

(2). Billing Increments: Calls billed in 6-second periods

(3). Rates: Base Rate - $0.01299 per Period

(4). Usage Discounts Apply

(5). Charges:
Payphone Use Charge: $0.30 per call

E. *Calling Card Service:*

(1). Time Periods: All day, every day

(2). Billing Increments: Full minute

(3). Rates: Base Rate - $0.20 per minute

(4). Usage Discounts Apply

(5). Charges:
Payphone Use Charge: $0.30 per call

F. Directory Assistance: The following interstate and intrastate charges apply to Directory Assistance calls placed by Latitudes I subscribers:

Directory Assistance	
Interstate	$0.60 per minute or fraction
Intrastate	$0.37 per minute or fraction

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

38. LATITUDES II

A. Service Description: Latitudes II is a dedicated long distance calling plan available to commercial/business customers. The Latitudes II plan includes the following services: Dedicated 1+ outbound, dedicated toll-free inbound 800/888/877, and calling card services. Where specified, volume usage discounts apply to the base rate for customers committed to meeting certain monthly usage requirements. Peak and Off-Peak rates apply.

B. Base Rate Discounts available:

Monthly Usage		Volume Discount
$0.00 -	$499.99	5%
$500.00 -	$999.99	10%
$1,000.00 -	$1,999.99	15%
$2,000.00 -	$4,999.99	20%
$5,000.00 -	$9,999.99	25%
$10,000.00 -	+	30%

C. Dedicated 1+ Outbound Long Distance:

(1). Time Periods:

Period	Times	Days
Peak	8:00 AM – 5:00 PM	Monday through Friday
Off-Peak	All other times	

(2). Billing Increments: Calls billed in 6-second Periods

(3). Rates:

Period	Base Rates
Peak	$0.0100 per Period
Off-Peak	$0.0095 per Period

(4). Usage Discounts Apply

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

38. LATITUDES II (Cont'd)

D. Dedicated Toll-Free Inbound 800/888/877 Service:

(1). Time Periods: All day, every day

(2). Billing Increments: Calls billed in 6-second periods

(3). Rates: Base Rate - $0.0110 per Period

(4). Usage Discounts Apply

(5). Charges:
Payphone Use Charge: $0.30 per call

E. Calling Card Service:

(1). Time Periods: All day, every day

(2). Billing Increments: Full minute

(3). Rates: Base Rate - $0.20 per minute

(4). Usage Discounts Apply

(5). Charges:
Payphone Use Charge: $0.30 per call

F. Directory Assistance: The following interstate and intrastate charges apply to Directory Assistance calls placed by Latitudes II subscribers:

Directory Assistance	
Interstate	$0.60 per minute or fraction
Intrastate	$0.37 per minute or fraction

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

39. MILLENIUM I

A. Service Description: Millennium I is a switched 1+ outbound package of long distance services available to residential customers. The Millennium I package includes the following services: 1+ outbound, toll-free inbound 800/888/877, and calling card services and comes in the following three options:

(1). Option 1 – No Monthly Service Charge Applies
(2). Option 2 – A $2.50 Monthly Service Charge Applies
(3). Option 3 – A $4.95 Monthly Service Charge Applies

B. Time Periods and Billing: All Millennium I Option plans are billed in full minute increments and the rates are available 24 hours a day, 7 days a week.

C. Services, Rates and Charges:

Millennium I Options	Service	Rate	Monthly Service Charge
Option 1	1+ Outbound	$0.09	None
	Toll-Free Inbound	$0.14	
	Calling Card	$0.20	
Option 2	1+ Outbound	$0.08	$2.50
	Toll-Free Inbound	$0.12	
	Calling Card	$0.18	
Option 3	1+ Outbound	$0.07	$4.95
	Toll-Free Inbound	$0.10	
	Calling Card	$0.16	

D. Payphone Use Charge applies to Calling Card and Toll-Free Inbound calls originating from payphones:

Payphone Use Charge: $0.30 per call

E. Directory Assistance: The following interstate and intrastate charges apply to Directory Assistance calls placed by Millennium I subscribers:

Directory Assistance	
Interstate	$0.60 per minute or fraction
Intrastate	$0.37 per minute or fraction

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

40. MILLENIUM II

A. Service Description: Millennium II is a switched 1+ outbound package of long distance services available to business/commercial customers. The Millennium II package includes the following services: 1+ outbound, toll-free inbound 800/888/877, and calling card services. Where specified, volume usage discounts apply to the base rate for customers committed to meeting certain monthly usage requirements.

B. Base Rate Discounts available:

Monthly Usage		Volume Discount
$0.00 -	$499.99	5%
$500.00 -	$999.99	10%
$1,000.00 -	$1,999.99	15%
$2,000.00 -	$4,999.99	20%
$5,000.00 -	$9,999.99	25%
$10,000.00 -	+	30%

C. Switched 1+ Outbound Long Distance:

(1). Time Periods: All day, every day

(2). Billing Increments: Calls billed in 6-second periods

(3). Rates: Base Rate - $0.008075 per Period

(4). Usage Discounts Apply

SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

40. MILLENIUM II (Cont'd)

D. Switched Toll-Free Inbound 800/888/877 Service:

(1). Time Periods: All day, every day

(2). Billing Increments: Calls billed in 6-second periods

(3). Rates: Base Rate - $0.0095 per Period

(4). Usage Discounts Apply

(5). Charges:

Monthly Service Charge: $2.50
Payphone Use Charge: $0.30 per call

E. Calling Card Service:

(1). Time Periods: All day, every day

(2). Billing Increments: Calls billed in 6-second periods

(3). Rates: Base Rate - $0.0133 per Period

(4). Usage Discounts Apply

(5). Charges:

Payphone Use Charge: $0.30 per call

F. Directory Assistance: The following interstate and intrastate charges apply to Directory Assistance calls placed by *Millennium II subscribers:*

Directory Assistance	
Interstate	$0.60 per minute or fraction
Intrastate	$0.37 per minute or fraction

SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

41. MILLENIUM III

A. Service Description: Millennium III is a dedicated long distance calling plan available to commercial/business customers. The Millennium III plan includes the following services: Dedicated 1+ outbound, dedicated toll-free inbound 800/888/877, and calling card services. Where specified, volume usage discounts apply to the base rate for customers committed to meeting certain monthly usage requirements.

B. Base Rate Discounts available:

Monthly Usage		Volume Discount
$0.00 -	$499.99	5%
$500.00 -	$999.99	10%
$1,000.00 -	$1,999.99	15%
$2,000.00 -	$4,999.99	20%
$5,000.00 -	$9,999.99	25%
$10,000.00 -	+	30%

C. Dedicated 1+ Outbound Long Distance:

(1). Time Periods: All day, every day

(2). Billing Increments: Calls billed in 6-second periods

(3). Rates: Base Rate - $0.005225 per Period

(4). Usage Discounts Apply

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

41. MILLENIUM III (Cont'd)

D. Dedicated Toll-Free Inbound 800/888/877 Service:

(1). Time Periods: All day, every day

(2). Billing Increments: Calls billed in 6-second periods

(3). Rates: Base Rate - $0.005225 per Period

(4). Usage Discounts Apply

(5). Charges:

Monthly Service Charge:	$2.50
Payphone Use Charge:	$0.30 per call

E. Calling Card Service:

(1). Time Periods: All day, every day

(2). Billing Increments: Full minute

(3). Rates: Base Rate - $0.099 per minute

(4). Usage Discounts Do Not Apply

(5). Charges:

Payphone Use Charge: $0.30 per call

F. Directory Assistance: The following interstate and intrastate charges apply to Directory Assistance calls placed by Millennium III subscribers:

Directory Assistance	
Interstate	$0.60 per minute or fraction
Intrastate	$0.37 per minute or fraction

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SECTION 3 - SERVICE DESCRIPTIONS, RATES AND CHARGES (Cont'd)

42. SPECIAL RATES FOR THE HANDICAPPED

A. There shall be no charge for up to fifty directory assistance calls per billing cycle from lines or trunks serving individuals with disabilities. The Company shall charge the prevailing tariff rates for every call in excess of 50 within a billing cycle.

B. Intrastate toll message rates for TDD users shall be evening rates for daytime calls and night rates for evening and night calls.

C. For intrastate toll calls received from the relay service, the Company will when billing relay calls discount relay service calls by 50% off of the otherwise applicable rate for a voice nonrelay call except that where either the calling or called party indicates that either party is both hearing and visually impaired, the call shall be discounted 60 percent off of the otherwise applicable rate for a voice nonrelay call. The above discounts apply only to time-sensitive elements of a charge for the call and shall not apply to per call charges such as a credit card surcharge.

EXHIBIT 3

FINANCIAL STATEMENTS

NOTE: ONLY TWO YEARS OF AUDITED FINANCIAL STATEMENTS ARE AVAILABLE

Financial Statements

Touch America™

December 31, 1999

TOUCH AMERICA, INC.

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1300 SW Fifth Avenue
Suite 3100
Portland OR 97201-5638
Telephone (503) 478 6000
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Report of Independent Accountants

To the Board of Directors of
Touch America, Inc.

In our opinion, the accompanying balance sheet and the related statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of Touch America, Inc. at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As more fully discussed in Note 1 to the financial statements, as of July 1, 1999, the Company changed its method of accounting for dark fiber transactions.

PricewaterhouseCoopers LLP

May 3, 2000

TOUCH AMERICA, INC.

BALANCE SHEET

ASSETS

	December 31 1999	December 31 1998
	(Thousands of Dollars)	
Current assets:		
Cash and cash equivalents	$ 35	$ 118
Accounts and notes receivable:		
Trade, net of allowance for doubtful accounts	20,021	6,769
Related parties	4,527	30,536
Inventory	4,167	3,350
Deferred income taxes	1,082	4,107
Prepaid expenses and other assets	601	556
	30,433	45,436
Other assets:		
Investments	39,690	30,895
Other	218	395
	39,908	31,290
Deferred income taxes	96,491	-
Property, plant, and equipment:		
Land	579	476
Buildings and structures	3,762	3,053
Fiber-optic network	48,995	52,503
Communications equipment	55,195	51,804
Office furniture and equipment	1,182	825
Vehicles	684	586
Construction work-in-progress	129,772	15,431
	240,169	124,678
Less – accumulated depreciation and amortization	21,360	12,314
	218,809	112,364
	$ 385,641	$ 189,090

The accompanying notes are an integral part of these financial statements.

TOUCH AMERICA, INC.

BALANCE SHEET

LIABILITIES AND SHAREHOLDER'S EQUITY

	December 31 1999	December 31 1998
	(Thousands of Dollars)	
Current liabilities:		
Accounts payable:		
Trade	$ 29,241	$ 6,103
Related parties	55,345	107,051
Income taxes payable	23,233	5,270
Deferred revenue	25,479	1,039
Other	157	7
	133,455	119,470
Deferred credits and long-term liabilities:		
Deferred revenue	215,195	15,734
Deferred income taxes	-	2,300
Other deferred credits	164	56
	215,359	18,090
Commitments and contingencies		
Shareholder's equity:		
Common stock, (no par value; 50,000 shares authorized; 430 shares issued and outstanding)	43	43
Additional paid-in capital	9,654	9,654
Retained earnings, per accompanying statement	27,130	41,833
	36,827	51,530
	$ 385,641	$ 189,090

The accompanying notes are an integral part of these financial statements.

TOUCH AMERICA, INC.

STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended December 31	
	1999	1998
	(Thousands of Dollars)	
Revenues:		
Revenues from operations	$ 83,080	$ 87,592
Earnings from equity investments	10,435	10,758
	93,515	98,350
Operating expenses:		
Operations and maintenance	33,367	26,044
Selling, general, and administrative	11,708	11,327
Taxes other than income taxes	3,762	3,203
Depreciation and amortization	9,046	6,953
	57,883	47,527
Income from operations	35,632	50,823
Other income – net	627	819
Income before income taxes	36,259	51,642
Income taxes	13,962	20,392
Net income	22,297	31,250
Retained earnings, beginning of year	41,833	10,583
Dividends paid	(37,000)	-
Retained earnings, end of year	$ 27,130	$ 41,833

The accompanying notes are an integral part of these financial statements.

TOUCH AMERICA, INC.

STATEMENT OF CASH FLOWS

	Year Ended December 31	
	1999	1998
	(Thousands of Dollars)	
Net cash flows from operating activities:		
Net income	$ 22,297	$ 31,250
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,046	6,953
Deferred income taxes	(95,766)	(6,211)
Earnings from equity investments	(10,435)	(10,758)
Changes in assets and liabilities:		
Accounts and notes receivable – trade	(13,252)	1,519
Accounts and notes receivable – related parties	26,009	(28,954)
Inventory	(817)	(427)
Accounts and taxes payable – trade	23,138	(1,134)
Accounts and taxes payable – related parties	(51,706)	41,093
Income taxes payable	17,963	5,225
Deferred revenue	233,368	(2,441)
Other assets and liabilities	390	803
Net cash provided by operating activities	160,235	36,918
Net cash flows from investing activities:		
Capital expenditures	(115,491)	(31,011)
Investment in partnerships	(26,141)	(5,910)
Distributions from investments	18,314	-
Net cash used for investing activities	(123,318)	(36,921)
Net cash flows from financing activities:		
Dividends paid	(37,000)	-
Net cash used for financing activities	(37,000)	-
Net decrease in cash and cash equivalents	(83)	(3)
Cash, beginning of year	118	121
Cash, end of year	$ 35	$ 118
Supplemental disclosures of cash flow information:		
Cash paid during year for:		
Income taxes	91,765	21,378

The accompanying notes are an integral part of these financial statements.

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TOUCH AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF BUSINESS

Touch America, Inc. is a wholly owned subsidiary of Entech, Inc. (Entech), which is a wholly owned subsidiary of The Montana Power Company (Montana Power). We are a fully integrated telecommunications company providing private-line, long-distance, Internet, and other telecommunications products and services. We design, develop, construct, own, operate, maintain, and manage a fiber-optic network and wireless facilities. Our fiber-optic network spans 14 states and consists of approximately 11,000 operational and approximately 12,000 under-construction route miles at the end of 1999. We either hold title to, or have contractual fiber-use rights in, these route miles. The fiber-use rights are granted through Indefeasible Rights-of-Use (IRU) agreements, which allow the holder sole use of the route.

We are focused on expanding our fiber-optic network and increasing network traffic through a combination of relationships with major customers (large-volume commercial or wholesale customers), investments with third parties, and acquisitions. We provide wholesale services through leases of lit (fully operational) or dim (regeneration equipment but no optical equipment) fiber capacity, and dark (no optical or regeneration equipment) fiber-use rights to other telecommunications companies. We are able to create the "last-mile" connection with our Personal Communication Services (PCS) and Local Multi-Point Distribution Services (LMDS) technologies, which allow us to connect our customers to our fiber network via wireless applications.

We have four divisions: 1) private-line services division, which through our broadband fiber network, provides dedicated voice, data, video, ATM, and frame-relay services, and leases network capacity to other telecommunications companies principally through IRU agreements; 2) long-distance services division, which provides retail, wholesale, carrier, and Internet services; 3) equipment services division, which installs and maintains digital switching equipment, ready for complete integration into networks, the Internet, voice messaging, call centers, and e-business; and 4) local-access services division, which provides wireless services to create "last-mile" connections to customers through our PCS and LMDS technologies.

We have staffed offices in Minneapolis, Minnesota; Fargo, North Dakota; Billings, Bozeman, Helena, Butte, Great Falls, Kalispell, and Missoula, Montana; Boise, Idaho; Spokane and Seattle, Washington; Portland and Eugene, Oregon; Casper, Wyoming; and Denver, Colorado.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Use of Estimates

Our accounting policies and preparation of these financial statements conform with Generally Accepted Accounting Principles, which require the use of estimates based on information available. Actual results may differ from our accounting estimates as new events occur or we obtain additional information.

Cash and Cash Equivalents and Temporary Investments

We consider all liquid investments with original maturities of three months or less as cash equivalents, and investments with original maturities over three months and up to one year as temporary investments.

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Accounts Receivable

Accounts receivables are presented net of allowance for doubtful accounts of $744,000 in 1999 and $540,000 in 1998. We evaluate and provide for our allowance for doubtful accounts based upon a percentage of historical revenues.

Inventory

We state our inventory at cost, as determined on an average-cost basis, which does not exceed market value. Inventory consists primarily of materials held for resale, partially assembled components, and material used in the maintenance of our fiber-optic network. When appropriate, we have made provisions to reduce obsolete or unusable inventory to estimated useful or scrap values.

Property, Plant, and Equipment

We record property, plant, and equipment at cost. We charge maintenance and repairs to operations expense as incurred, and we capitalize improvements. We classify costs associated with uncompleted portions of our fiber-optic network as construction work in progress and, upon completion, classify the costs as network systems. For joint-build construction contracts, we record the total costs of construction reduced by reimbursements received, resulting in a net cost of the asset constructed. We record exchanges of fiber-use rights (swaps) as the cost of the asset transferred plus cash paid, if any, or, if cash is received, as the cost of the asset transferred less cash received. We recognize gains or losses upon the sale or disposition of property, plant, and equipment.

We depreciate and amortize our property, plant, and equipment on a straight-line basis over the estimated useful lives of the assets as follows:

Classification	Years
Buildings and structures	30
Fiber-optic network	20
Communications equipment	10
Office furniture and equipment	5
Vehicles	5

Asset Impairment

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," we periodically review long-lived assets for impairment whenever events or changes in circumstances indicate that we may not recover the carrying amount of an asset.

Deferred Revenues

We defer revenues to account for the timing differences between when a customer is billed and revenues are earned and reflect these amounts on the Balance Sheet in "Deferred Revenue." We classify the current portion of these amounts as "Current Liabilities" on the Balance Sheet. For further information on our deferred revenues, see Note 4, "Deferred Revenue."

Fair Value of Financial Instruments

We have estimated the fair value of our financial instruments using available market information and appropriate valuation methodologies in accordance with Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments." All of our material financial instruments, mainly current assets and liabilities, are recognized on the Balance Sheet as of December 31, 1999 and 1998. The value reflected on the Balance Sheet (carrying value) approximates fair value for our financial assets and liabilities as they have short maturities or are invested in financial instruments with short maturities.

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Revenue and Expense Recognition

We record revenues monthly on the basis of consumption or service rendered. To match revenues with associated expenses, we accrue unbilled revenues for services delivered to customers but not yet billed at month-end.

In conjunction with our efforts to expand our fiber-optic network, we entered into agreements to grant and exchange fiber-use rights, principally through IRU agreements. Prior to July 1, 1999, we recognized revenues of fiber-use rights that qualified for sales-type lease accounting at the time of delivery and acceptance of the dark fiber by the customer. For those transactions, we determined cost of revenue by allocating the total estimated costs of the network to the specific fibers granted to the customer.

We have changed our revenue recognition policy, effective July 1, 1999, with the Financial Accounting Standards Board issuance of Interpretation No. 43, "Real Estate Sales," an Interpretation of Statement of Financial Accounting Standards No. 66. This interpretation was effective for transactions entered into after June 30, 1999 and requires entities to recognize revenues on fiber-use right agreements, or similar agreements, over the period of the agreement rather than at the time of execution if title to the fiber does not transfer to the customer by the end of the agreement term. In granting fiber-use rights, therefore, we record these transactions as operating leases and recognize revenues over the term of the agreement. The effect of this change in accounting resulted in approximately $7,000,000 of revenues that we did not record in 1999 from fiber-use right transactions entered into after June 30, 1999.

Income Taxes

We are included in the consolidated federal income tax return of Montana Power. However, income tax expense is provided as if we filed a separate consolidated income tax return. The provision for income taxes includes both amounts payable currently as well as amounts deferred as a result of differences between the financial reporting basis and tax basis of our assets and liabilities.

Deferred income taxes are provided for temporary differences that are reported in different years for financial accounting and income tax purposes. The deferred income taxes are calculated using the income tax rates which will be in effect when the temporary differences reverse. For additional information on income taxes, see Note 3, "Income Taxes."

Regulatory

In providing interstate telecommunications services, we comply with federal telecommunications laws and regulations prescribed by the Federal Communications Commission. At the state level, we are subject to regulations by the various state public service commissions. We do not expect actions by these regulatory agencies to adversely affect our operations.

NOTE 2 – INVESTMENTS:

We record our initial investment at cost and have accounted for these investments under the equity method because we maintain a 20 to 50 percent ownership interest, or we otherwise have the ability to exercise significant influence over the financial and operating policies. Our investments consist of the following:

	December 31	
	1999	1998
	(Thousands of Dollars)	
FTV Communications LLC (FTV)	$ 16,355	$ 30,565
TW Wireless LLC (TWW)	13,626	-
Northern Colorado Telecommunications LLC	9,276	-
Other investments	433	330
	$ 39,690	$ 30,895

FTV: In 1997, we formed a company with Williams Communications, Inc. and Enron Broadband Services to construct, own, operate, and maintain an approximately 1,700-mile fiber-optic network from Portland to Los Angeles.

TWW: In August 1999, we and US WEST Wireless formed a company to provide "one-number" wireless telephone service in an eight-state region of the Pacific Northwest and Upper Midwest. That service provides a customer with one directory number for PCS phone and home or business phone.

Northern Colorado Telecommunications LLC: In August 1999, we and New Century Energies (NCE) formed a company to provide a full range of telecommunication services, including private-line service, to enterprises in the Denver metropolitan area by the middle of 2000.

Iowa Telecommunications Services, Inc. (ITS): In June 1999, we and Iowa Network Services, Inc. (INS) formed ITS. ITS plans to will purchase from a third party 280,422 domestic access lines connected to 296 telephone exchanges in Iowa. As of December 31, 1999, we did not record an initial investment in ITS as we have not made our initial equity contribution. However, in 1999, we did loan ITS approximately $2,700,000 which is payable to us upon demand. See Note 9, "Subsequent Events," for additional discussion regarding our investment.

NOTE 3 – INCOME TAXES:

Income taxes charged (credited) to income are as follows:

	Year Ended December 31	
	1999	1998
	(Thousands of Dollars)	
Current		
Federal	$ 93,560	$ 22,414
State	16,168	4,189
	109,728	26,603
Deferred		
Federal	(81,403)	(5,237)
State	(14,363)	(974)
Total deferred	(95,766)	(6,211)
Total provision	$ 13,962	$ 20,392

Deferred income taxes liabilities (assets) are comprised of the following:

	December 31	
	1999	1998
	(Thousands of Dollars)	
Plant – depreciation, amortization, and dispositions	$ 5,329	$ 3,887
Other temporary differences	3,963	93
Gross deferred tax liabilities	9,292	3,980
Tax revenues	(105,080)	(1,066)
Book revenues	(965)	(3,987)
Book expenses	(820)	(734)
Gross deferred tax assets	(106,865)	(5,787)
Net deferred assets	$ (97,573)	$ (1,807)

Expected income taxes, calculated by multiplying net income before income taxes by the United States income tax rates of 35 percent, are reconciled to actual income taxes as follows:

	Year Ended December 31	
	1999	1998
	(Thousands of Dollars)	
Expected income taxes	$ 12,691	$ 18,075
Adjustments for the tax effects of:		
State income taxes net of federal benefit	1,227	2,305
Other	44	12
Actual income taxes	$ 13,962	$ 20,392

NOTE 3 – INCOME TAXES (CONTINUED):

Deferred income taxes consist of the following:

	Year Ended December 31	
	1999	1998
	(Thousands of Dollars)	
Depreciation and amortization	$ 1,442	$ 620
Deferred revenues	(100,993)	(6,620)
Deferred expenses	(78)	(309)
State	3,863	98
	$ (95,766)	$ (6,211)

NOTE 4 – DEFERRED REVENUE:

Deferred revenue for 1999 relates primarily to a $257,000,000 prepayment received in January 1999, representing all amounts due for the remaining initial term (twelve years) of a telecommunications contract. We are recognizing this revenue ratably over the remaining term of the contract.

NOTE 5 – CONCENTRATION OF CREDIT RISK AND SIGNIFICANT CUSTOMERS:

Because we derive a portion of our revenues from services provided to other telecommunications companies, we have some concentration of credit risk among our customer base. We perform ongoing credit evaluations of the financial condition of our larger customers, but we have not required significant collateral to support our receivables.

A small number of customers account for a significant amount of our total revenues. For the years ended December 31, 1999 and 1998, the customer that exercised the prepayment option in January 1999, discussed in Note 4, represented approximately 24 percent and 46 percent of our total revenues, respectively.

NOTE 6 – RETIREMENT PLANS:

Under Montana Power's Pension Plan, we maintain trusteed, noncontributory retirement plans covering substantially all of our employees. Prior to 1998, retirement benefits were based on salary, years of service, and social security integration levels. In 1998, the retirement plan's benefit provisions were amended, and retirement benefits are now based on salary, age, and years of service.

Plan assets consist primarily of domestic and foreign corporate stocks, domestic corporate bonds, and United States Government securities.

Certain senior management executives participate in an unfunded, nonqualified Montana Power benefit plan. In December 1998, benefits earned were frozen, and this plan was curtailed.

Under Montana Power's Flexible Benefits Plan, we provide certain health care and life insurance benefits for eligible retired employees.

In conjunction with the retirement plan, we have a voluntary retirement savings plan. We contribute a matching percentage comprised of shares from a leveraged Employee Stock Ownership Plan arrangement and shares purchased on the open market.

NOTE 6 – RETIREMENT PLANS (CONTINUED):

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 1999, and a statement of the funded status as of December 31 of both years, relating to our employees and retirees:

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
	(Thousands of Dollars)			
Change in benefit obligation:				
Benefit obligation at January 1	$ 2,043	$ 1,545	$ 246	$ 207
Service cost on benefits earned	236	163	35	33
Interest cost on projected benefit obligation	153	119	19	17
Plan amendments	-	401	-	8
Actuarial gain	(515)	(185)	(52)	(19)
Gross benefits paid	(21)	-	-	-
Benefit obligation at December 31	$ 1,896	$ 2,043	$ 248	$ 246
Change in plan assets:				
Fair value of plan assets at January 1	$ 1,366	$ 1,179	$ -	$ -
Actual return on plan assets	90	187	-	-
Gross benefits paid	(21)	-	-	-
Fair value of plan assets at December 31	$ 1,435	$ 1,366	$ -	$ -
Reconciliation of funded status:				
Funded status at end of year	$ (461)	$ (677)	$ (248)	$ (246)
Unrecognized net:				
Actuarial gain	(892)	(424)	(115)	(74)
Prior service cost	399	433	25	27
Transition obligation	15	18	55	59
Net amount recognized at December 31	$ (939)	$ (650)	$ (283)	$ (234)

An accrued pension benefit cost of $939,000 and $650,000 and an accrued other benefit cost of $283,000 and $234,000 for the years 1999 and 1998, respectively, were recognized on the Balance Sheet.

The following tables provide the components of net periodic benefit cost for the pension and other postretirement benefit plans, for fiscal years 1999 and 1998:

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
	(Thousands of Dollars)			
Service cost on benefits earned	$ 236	$ 163	$ 35	$ 33
Interest cost on projected benefit obligation	153	119	19	17
Expected return on plan assets	(122)	(106)	-	-
Amortization of:				
Transition obligation	3	3	4	4
Prior service cost	34	34	2	2
Actuarial gain	(15)	(8)	(2)	(3)
Net periodic benefit cost	$ 289	$ 205	$ 58	$ 53

NOTE 6 – RETIREMENT PLANS (CONTINUED):

The following assumptions were used in the determination of actuarial present values of the projected benefit obligations:

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
Weighted average assumptions as of December 31				
Discount rate	7.75%	6.75%	7.75%	6.75%
Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	4.40%	3.75%	4.40%	3.75%

Assumed health care costs trend rates have a significant effect on the amounts reported for the health care plans. A change in assumed health care cost trend rates of one percent would have the following effects:

	1% Increase	1% Decrease
	(Thousands of Dollars)	
Effect on total of service and interest cost component of net periodic postretirement health care benefit cost	$ 2	$ (2)
Effect on the health care component of the accumulated postretirement benefit obligation	10	(9)

The assumed 2000 health care cost trend rates used to measure the expected cost of benefits covered by the plans is seven percent. The trend rate decreases through 2004 to five percent.

NOTE 7 – RELATED PARTY TRANSACTIONS:

Receivables and Payables

Related party receivables primarily result from either services we provide to, or payments we make on behalf of, our affiliated companies and joint ventures. Related party payables primarily result from services that we receive from our affiliated companies and joint ventures.

	December 31 1999	December 31 1998
	(Thousands of Dollars)	
Accounts and notes receivable – Montana Power	$ 211	$ 180
Accounts and notes receivable – Entech	1,008	1,799
Accounts and notes receivable – FTV	-	28,519
Accounts and notes receivable – TWW	315	-
Accounts and notes receivable – ITS	2,953	-
Accounts and notes receivable – Other	40	38
	$ 4,527	$ 30,536
Accounts payable – Montana Power	$ 1,007	$ 776
Accounts payable – Entech.	46,404	105,815
Accounts payable – Northern Colorado Telecommunications LLC	7,772	-
Accounts payable – Other	162	460
	$ 55,345	$ 107,051

Related Party Revenues and Interest Income

During 1999 and 1998, revenues from telecommunications services provided to affiliated companies totaled approximately $768,000 and $849,000, respectively. In addition, during 1999 and 1998, we earned approximately $613,000 and $969,000, respectively, of interest income from outstanding notes receivables from affiliated companies.

Shared Administrative Services

We receive general and administrative services from Montana Power Services Company, a wholly owned subsidiary of Entech. Our direct and allocated expenses incurred for these services were approximately $1,995,000 and $1,119,000 in 1999 and 1998, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENCIES:

COMMITMENTS

Construction Projects

Northern Telecom, Inc.: In 1999 and 1998, we contracted with Northern Telecom, Inc. (Nortel) to install optronics on certain fiber-optic networks. We expect the installations to be completed in the fourth quarter of 2000 at a cost of $51,800,000, of which a total of $28,300,000 was paid in 1999 and 1998. The remaining $23,500,000 is scheduled for payment in 2000 as various segments of the fiber-optic network under construction are completed. In 1999, we also contracted with Nortel to upgrade a telephone switch in the first quarter of 2000 at a cost of $3,000,000. TWW will lease the switch from us for the life of the company. We continue to enter into arrangements with Nortel for installations of optronics on our network, including installations related to our acquisition from Qwest Communications International, Inc. (Qwest) discussed in Note 9, "Subsequent Events," in the "Acquisitions" section.

AT&T: In October 1999, we entered into a contract to construct a high-speed, fiber-optic network for AT&T. The contract allows us to install our own fiber-optic network at the same time and along the same network routes we will construct for AT&T. The network will span more than 4,300 miles and will cover six different routes in the West, Pacific Northwest, Northern Rocky Mountains, and Midwest regions (Minneapolis-Chicago; St. Louis-Plano, Illinois; Sacramento-Salt Lake City; Salt Lake City-Denver; and Denver-Nebraska-Iowa-Chicago). The contract contains capped performance incentives, if we meet, and capped penalties, if we do not meet, aggressive completion targets. The first route is scheduled for completion in the fourth quarter of 2000, and the last route is expected to be completed in the second quarter of 2001. We estimate the cost of the project at $500,000,000, of which approximately one-half will be expended in 2000. We expect AT&T and other third parties to reimburse us for approximately 50 percent of the total cost, as stages of the project are completed.

Investments

FTV: In November of 1999, FTV began an expansion of regeneration sites along its Portland-to-Los Angeles fiber-optic route. The expansion project is expected to be completed by mid-2000, of which our share of the cost will be approximately $3,300,000.

Northern Colorado Telecommunications LLC: In formation of the company, NCE contributed a long-term IRU of its existing fiber-optic network in the Denver metropolitan area. We will contribute approximately $10,000,000 for the construction of six miles of fiber-optic cable and installation of optronics. In 1999, we contributed $1,500,000 in cash toward this construction effort and plan to contribute cash of approximately $7,000,000 in 2000 and $1,500,000 in 2001.

TWW: Over the next two years, we expect to contribute approximately $45,000,000 to establish the wireless infrastructure from which TWW will provide "one-number" wireless service. During 1999, both companies contributed their PCS licenses to the venture, of which our contribution value was approximately $4,400,000.

CONTINGENCIES

We are party to various legal claims, actions, and complaints arising in the ordinary course of business. We do not expect disposition of these matters to have a material adverse effect on our financial position, results of operations, or cash flows.

NOTE 9 – SUBSEQUENT EVENTS:

INVESTMENTS

America Fiber Touch LLC (AFT)

In January 2000, we and AEP Communications LLC, a subsidiary of American Electric Power, formed a company, AFT, to connect national and regional fiber-optic networks. The company's initial project is to construct a 330-mile fiber-optic route between St. Louis, Missouri, and Plano, Illinois, which makes up the Midwest route of the 4,300-mile build-out that we are constructing in tandem with our construction of a fiber-optic network for AT&T. This Midwest route is scheduled for completion in December 2000, at an estimated cost of $25,000,000, of which our portion is $12,500,000.

Minnesota PCS, LP (MPCS)

In January 2000, we acquired a 25 percent interest in MPCS' wireless telephone business, which owns PCS licenses in North Dakota, South Dakota, Minnesota, and Wisconsin. In accordance with the agreement, we made an initial $2,700,000 equity investment in MPCS and, over the next two years, will loan MPCS up to $12,000,000, due on October 1, 2002. We have loaned MPCS approximately $6,000,000. In addition, we have guaranteed payment of $7,000,000 in loans owed by MPCS through the year 2007.

ITS

In April 2000, we sold our equity position in and exited ITS as the emerging organizational and capital structure of ITS does not fit our growth strategy. Under the terms of the exit agreement, we sold our 31 percent interest in ITS to INS, and INS released us from all of ITS' obligations. We will continue to maintain a $14,000,000 letter of credit for ITS until the closing of the third-party purchase transaction. Upon the closing of the third-party purchase transaction, expected to occur in mid-2000, INS will reimburse us approximately $8,000,000 for our cash outlays to ITS, of which approximately $5,000,000 have occurred during 2000.

Sierra Touch America LLC

In May 2000, we and Sierra Pacific Communications, a subsidiary of Sierra Pacific Resources, formed a company, Sierra Touch America LLC, with the purpose to construct a fiber-optic network between Sacramento and Salt Lake City. This network will make up 750 miles of the 4,300-mile build-out that we are constructing in tandem with our construction of a fiber-optic network for AT&T. Sierra Touch America will begin construction of the Sacramento-to-Salt Lake City fiber-optic route immediately and expects to complete the route in mid-2001 at an estimated cost of $100,000,000. Our portion of this estimated cost will be approximately $83,000,000, of which we expect to recover approximately 50 percent from AT&T and other third parties. The terms of the agreement give Sierra Touch America a partial interest in the metropolitan fiber networks that Sierra Pacific Resources operates in Reno and Las Vegas.

CROSS LEASE

PF.Net

In January 2000, we and PF.Net, a privately held telecommunications company, agreed to cross lease fiber and conduit to expand both companies' fiber-optic networks. We will receive approximately 5,900 route miles of fiber from PF.Net, for 4,400 miles of our fiber and a cash payment of $48,500,000. This cross lease will expand our network from Los Angeles to San Diego, Phoenix, El Paso, Dallas, Austin, San Antonio, Houston, New Orleans, Jacksonville, Orlando, Greensboro, Washington D.C., New York City, Tulsa, Kansas City, and St. Louis. We have made an initial payment of $4,850,000 and will pay the remainder as segments of the routes under construction are completed. Segments are scheduled for completion at various times in 2000 and 2001.

NOTE 9 – SUBSEQUENT EVENTS (CONTINUED):

EXCHANGES

Williams Communications

In March 2000, we agreed to exchange dark fiber with Williams Communications, Inc. (Williams) to expand both of our fiber-optic networks. We will receive approximately 1,050 route miles of dark fiber and cash from Williams, in exchange for approximately 1,200 route miles of our dark fiber on our Denver to Dallas route. This exchange will expand our network from Minneapolis to Denver through Des Moines, Iowa and Topeka, Kansas. Both routes are currently operational.

ACQUISITIONS

Century Tel Inc.

In January 2000, we entered into an agreement with Century Tel Inc., whereby we were granted fiber-use rights to 400 route miles of fiber linking Chicago to Detroit for approximately $10,000,000. In January 2000, we made an initial payment of $2,000,000. We expect these routes to be in service by late 2000.

Qwest Acquisition

On March 13, 2000, we signed an agreement with Qwest to acquire, for approximately $193,000,000, subject to certain adjustments, Qwest's wholesale, private-line, long-distance, and other telecommunications services in US WEST's 14-state region, which covers 250,000 customer accounts for voice, data, and video services with multimedia and high-speed data applications. In addition, we will also acquire a fiber-optic network of 1,800 route miles, and associated optronics and switches, which we will connect to our existing fiber-optic network. When the Qwest acquisition is closed, we estimate that related capital expenditures will be an additional $100,000,000. We expect this acquisition to close in mid-2000, subject to the satisfaction of various conditions and the receipt of required regulatory approvals.

MONTANA POWER COMPANY DIVESTITURE

On March 28, 2000, Montana Power announced that it will separate its energy businesses from us through a stock sale(s) of its energy businesses, expected to take six to twelve months to complete, and that it will invest the proceeds from the sale(s) into our business.

EXHIBIT 4

EXPLANATION
OF
APPLICANTS
FINANCIAL CAPACITY

TOUCH AMERICA, INC.

Touch America, Inc. (TA) is the wholly owned, telecommunications subsidiary of the Montana Power Company. The ownership structure is shown in the diagram below.

Montana Power Company

Parent Corporation

↓ owns 100% of

Entech, Inc.

(Holding company for non-regulated subsidiaries)

↓ owns 100% of

Touch America, Inc.

Telecommunication Subsidiary

Exhibit 6 contains a description and history of the company.

FINANCIAL CAPACITY

Touch America was originally incorporated in 1983. It has been financially successful since its inception. In 1999, the company reported gross sales of $93.5 million and net profits of $ 22.3 million.

In July 2000, the Company purchased the long distance assets of Qwest Communications in the 14 states served by U S West. The Qwest acquisition will quintuple the company's customer base and increase both projected revenues and net income as shown below.

Year	Projected Revenue	Project EBITDA
2000	$261 million	$77 million
2001	$453 million	$169 million

Additional information is contained in Exhibit 5, the Annual Report of the Montana Power Company.

FIBER OPTIC NETWORK

Touch America has one of the largest fiber optic networks in the nation and its fiber assets are owned, as opposed to leased, by the company. (See map continued in Exhibit 6). Touch America is in the process of substantially expanding its network, particularly, to areas east of the Mississippi River. We expect to have a completed fiber optic link across Mississippi and Alabama and into Jacksonville, Florida, during 2001. The Company is well respected within the telecommunications industry for its ability to quickly build low cost, fiber optic network. Touch America is currently building 4320 miles of fiber optic network under contract to AT&T.

ABILITY TO FINANCIALLY SUSTAIN FLORIDA OPERATIONS

As shown in the attached financial information, Touch America, Inc. is a successful telecommunications company with a strong record of profitable financial performance. As such, the applicant has:

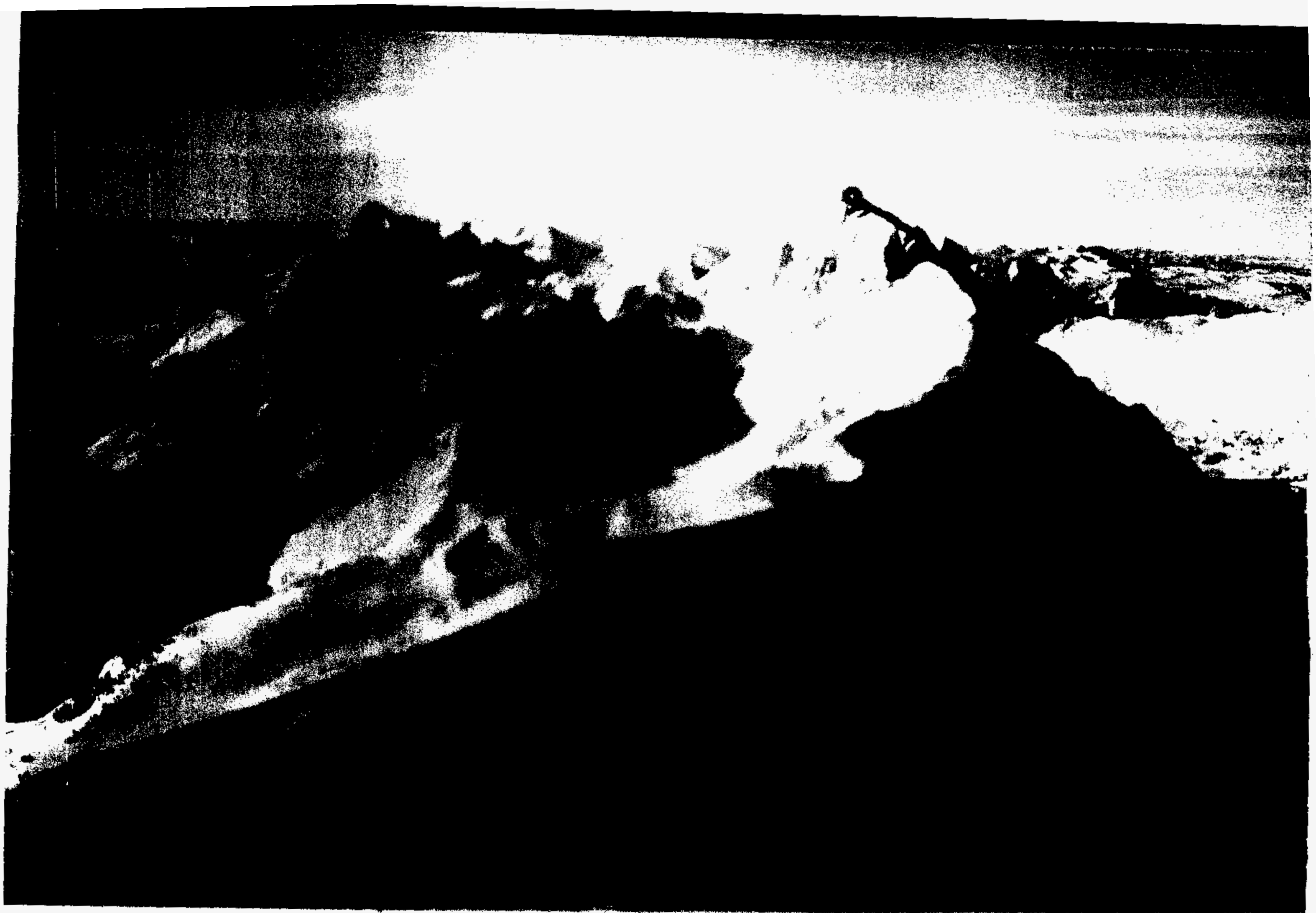
1. Sufficient financial capability to provide the requested service within the State of Florida.

2. Sufficient financial capability to maintain the requested service.

3. Sufficient financial capability to meet its lease or ownership obligations.

EXHIBIT 5

ANNUAL REPORT
OF THE
MONTANA POWER COMPANY



1999 Annual Report The Montana Power Company

Energy,
Telecommunications
and Beyond—

10529-00

THE CORPORATION AT A GLANCE

The Montana Power Company (NYSE: MTP) is a national leader in fiber-optic and wireless telecommunications networks and an innovative energy company based in Butte, Montana.

TELECOMMUNICATIONS

Our growth strategy is focused on growing and adding customers to Touch America's low-cost, national broadband fiber-optic network and regional wireless communications offerings.

The high-speed, fiber-optic network is one of the country's largest in terms of long-haul route miles completed and, with its aggressive construction program, should remain so. The company's telecommunications networks are used for wholesale long-haul voice, data and image transactions as a carrier's carrier, as well as for Touch America's own direct connections to individuals and businesses through its wireless services, metropolitan fiber offerings, and private line, long-distance and Internet applications.

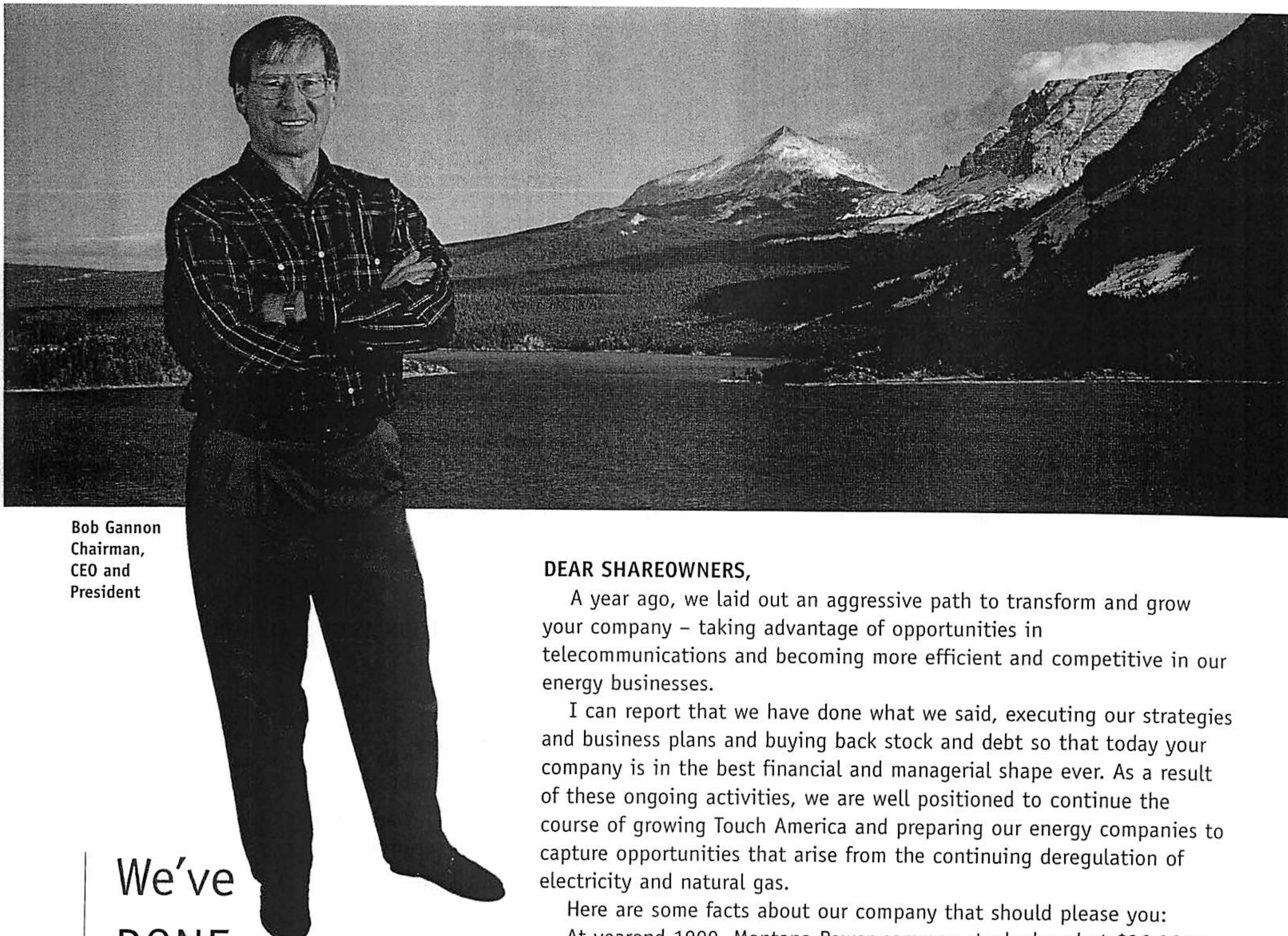
Our wireless licenses in the Pacific Northwest, Rocky Mountain and Upper Midwest regions cover approximately 4.5 million people.

ENERGY

The energy companies provide regulated electric and natural gas transmission and distribution services in the western two-thirds of Montana. Other energy activities include coal mining; natural gas and oil exploration, production and marketing in the United States and Canada; and independent power operations. They are well positioned to take advantage of emerging industry opportunities.

Because we exited regulated energy supply, the transmission and distribution businesses are poised to provide increasing focus and value in a less regulated business environment and to participate actively in the transformation of these parts of the energy delivery industry. With our expertise and experience in energy products and retail choice, we are positioned to capitalize on a broad range of energy applications for industry or the home in today's changing energy environment.

CONTENTS



Bob Gannon
Chairman,
CEO and
President

We've DONE what we SAID we would do.

DEAR SHAREOWNERS,

A year ago, we laid out an aggressive path to transform and grow your company – taking advantage of opportunities in telecommunications and becoming more efficient and competitive in our energy businesses.

I can report that we have done what we said, executing our strategies and business plans and buying back stock and debt so that today your company is in the best financial and managerial shape ever. As a result of these ongoing activities, we are well positioned to continue the course of growing Touch America and preparing our energy companies to capture opportunities that arise from the continuing deregulation of electricity and natural gas.

Here are some facts about our company that should please you:

At yearend 1999, Montana Power common stock closed at $36.06 per share, an increase of 28% from the same close a year ago when shares were trading for $28.28 (adjusted for an August 6, 1999 stock split). Total shareholder return for 1999 was 30%.

Throughout 1999, we said that meeting analysts' consensus figures for earnings of $1.25 per share for the year would be a challenge, especially with winter weather that was much warmer than normal. We not only met the consensus figure; we exceeded it by 9 cents per share.

Our market value comparison shows an increase of $1 billion, going from $3 billion at yearend 1998 to $4 billion at yearend 1999.

The most important development of 1999 was continuing to grow Touch America's low-cost, high-speed, fiber-optic and wireless networks. This has led us to examine the possibility of some type of separation of our telecommunications unit from The Montana Power Company in order to give Touch America a distinct life of its own and to permit more accurate valuation of its worth.

On January 25, 2000, we engaged financial advisors to assist us in evaluating our options for separating Touch America's fiber-optic and wireless telecommunications businesses from Montana Power's energy businesses. I am committed to unlocking any unrealized value in Touch

Financial Highlights

1999 (000)	1998 (000)	*Increase/Decrease* percent	1994 (000)	
				CONSOLIDATED OPERATING RESULTS
$1,342,309	$1,267,271	6%	$1,005,970	Revenues
$146,656	$161,930	-9%	$106,365	Net income available for common stock
$660,183	$255,677	158%	$203,886	Cash flow from operations
$285,307	$213,401	34%	$207,310	Capital expenditures
				PER COMMON SHARE
$1.34	$1.47	-9%	$1.00	Earnings, basic EPS
$.80	$.80	0%	$.80	Dividends paid
60%	54%	11%	80%	Dividend payout ratio
$9.56	$9.88	-3%	$8.91	Book value
				FINANCIAL POSITION AS OF DECEMBER 31
$3,048,743	$2,928,095	4%	$2,512,697	Assets
$1,749,982	$1,909,788	-8%	$1,645,812	Capitalization
				Capital structure
35.3%	36.6%	-4%	35.8%	Long-term debt
3.7%	3.4%	9%	—	Mandatorily redeemable preferred securities
3.3%	3.0%	10%	6.2%	Preferred stock
57.7%	57.0%	1%	58.0%	Common equity
$3,805,923	$3,114,223	22%	$1,232,311	Equity market capitalization*
				OTHER STATISTICS
109,795	109,962	0%	106,250	Common shares (average in thousands)
$24.56 - 42.63	$14.53 - 28.56	—	$10.88 - 12.94	Range of common stock
2,416	2,906	-17%	3,686	Employees

***Equity market capitalization:** *the number of outstanding shares of common stock multiplied by the closing price per share.*

I am committed to UNLOCKING any unrealized VALUE in Touch America consistent with the BEST interests of shareowners.

America consistent with the best interests of shareowners. When our board of directors has determined the appropriate course of action, we will make a public announcement.

Comparing 1998 to 1999, our continued success is the result of hard work by our employees, creative thinking by our management team, solid decisions by our board, and consistent execution of our business plans. We are ready, eager and positioned to provide the growth and wealth creation you expect for the 21st century.

The future is bright not only because we are confidently moving forward to create our future, but also because we are achieving our short-term goals.

Although greater detail is provided throughout this annual report, the following are a few highlights of what we accomplished in 1999:

We said we would complete the sale of our electric generating assets in Montana. We did that, receiving $759 million in cash, with possible additional payments as other related transactions close.

We said we would expand Touch America's fiber-optic network from 10,000 miles in 1998 to 12,000 miles in 1999 and to 18,000 miles by yearend 2000. We met 1999's target and have contracts to attain this year's goal.

We said we would begin developing related wireless businesses along our network, using federal licenses we acquired for local multipoint distribution service (LMDS) and personal communications services (PCS).

We began LMDS service to two cities in 1999, and construction is well under way with U S WEST Wireless to start delivering PCS service in Idaho and Washington in the second quarter of 2000.

We said we would search for opportunities with others to add traffic to our fiber network. We succeeded in Iowa, where we are party to the purchase of GTE's Iowa assets, and in Denver, where we joined with the local energy utility to connect its metropolitan fiber to our network.

We said we would continue to improve the operations of our energy companies. Coal, natural gas and independent power had good earnings performance in 1999.

We said we had board approval to repurchase shares of the company's common stock. To date, we have spent $145 million in a repurchase program, representing approximately 4.7 million, or 4%, of our shares outstanding. The program produced an average repurchase share price of $30.94, well within our buying parameters, versus a yearend share price of $36.06, which presently is outside our repurchase price range.

We said we would use Economic Value Added (EVA) measures to allocate capital, measure risk, and add value for shareholders. Tied with incentive compensation, EVA helps drive change. We have furthered this process throughout the organization as a key strategic tool.

We said we would simplify our activities, maximizing cash flow to invest in faster-growing, sustainable businesses, such as telecommunications. We've succeeded with efficiency measures, through technology applications, and by further aligning our interests with those of our customers.

Through these activities and others like them – such as our 2-for-1 stock split that allows more individual investors to share in our excellent results while producing a deeper market – we have earned recognition as a key player in telecommunications and as a breakout utility in a changing industry.

While there always are uncertainties, such as the role federal and state policy will play in telecommunications and energy, we are excited by our opportunities and ready for the challenges.

Touch America aims to exceed 30% operating income growth in 2000 as we expand and add traffic to our fiber-optic network. Growing revenues on the network is a major goal for 2000.

Our energy companies are making progress wringing out costs in their operations while looking for additional revenue sources. This means doing things differently. At the top of the list for our regulated entities is helping to create a new regulatory model that will better balance the interests of all stakeholders and changing regulation to match a changing industry. Our transmission unit is a leader in open access marketing and will play a lead role in the

IN 1999, Forbes selected us as a "PLATINUM 400" company out of 1,600 companies with sales of at least $750 million. PHB Hagler Bailly, providing strategic advice and analysis to businesses worldwide, selected Montana Power as the "MOST TRANSFORMED AND INNOVATIVE COMPANY" in its annual ranking of energy companies in 14 categories.

development of a more efficient regional electric transmission system.

The coal, natural gas and independent power operations all had a good year in 1999, and this should continue in 2000. Our natural gas unit is looking to improve its midstream gas gathering and processing activities, while de-emphasizing exploration and production. This should stabilize earnings and reduce well-drilling risks. Independent power has two projects in which they have an interest coming online in 2000, and they are pursuing regional opportunities to provide industry a dedicated, low cost source of electric power.

We are preparing our companies for the future, and we will be ready as our businesses evolve and change, creating new models that use e-business applications and new technologies. Our new information technology system will integrate finance, human resources, work management and material management throughout the company in 2000.

I am pleased to tell you that amidst all this change, our employees – supported by The Montana Power Foundation and working within our corporate Hearts and Hands Program – have been consistent in their community volunteer work in the cities where we do business. And we are working safely and with continued positive environmental results. We have cited some of these good results in this report.

I have often said we are committed to competition and bringing the benefits of utility deregulation to all consumers. This environment requires new kinds of regulatory approaches, such as aligning the interests of companies seeking avenues for growth, with customers wanting traditional and new products and services at the lowest possible cost, and with federal and state regulators having the responsibility to create fairness with opportunity in the changing marketplace. We're working hard at this with discussions and filings with regulators. More will follow in 2000.

With increasing telecommunications profitability and cash available, we have the financial strength to support our growth strategies and add additional value for you. This means capturing the tremendous growth potential in Touch America by connecting people around the world using our high-speed, high-tech, low-cost bandwidth, whether fiber or wireless, to create networks for business or personal use.

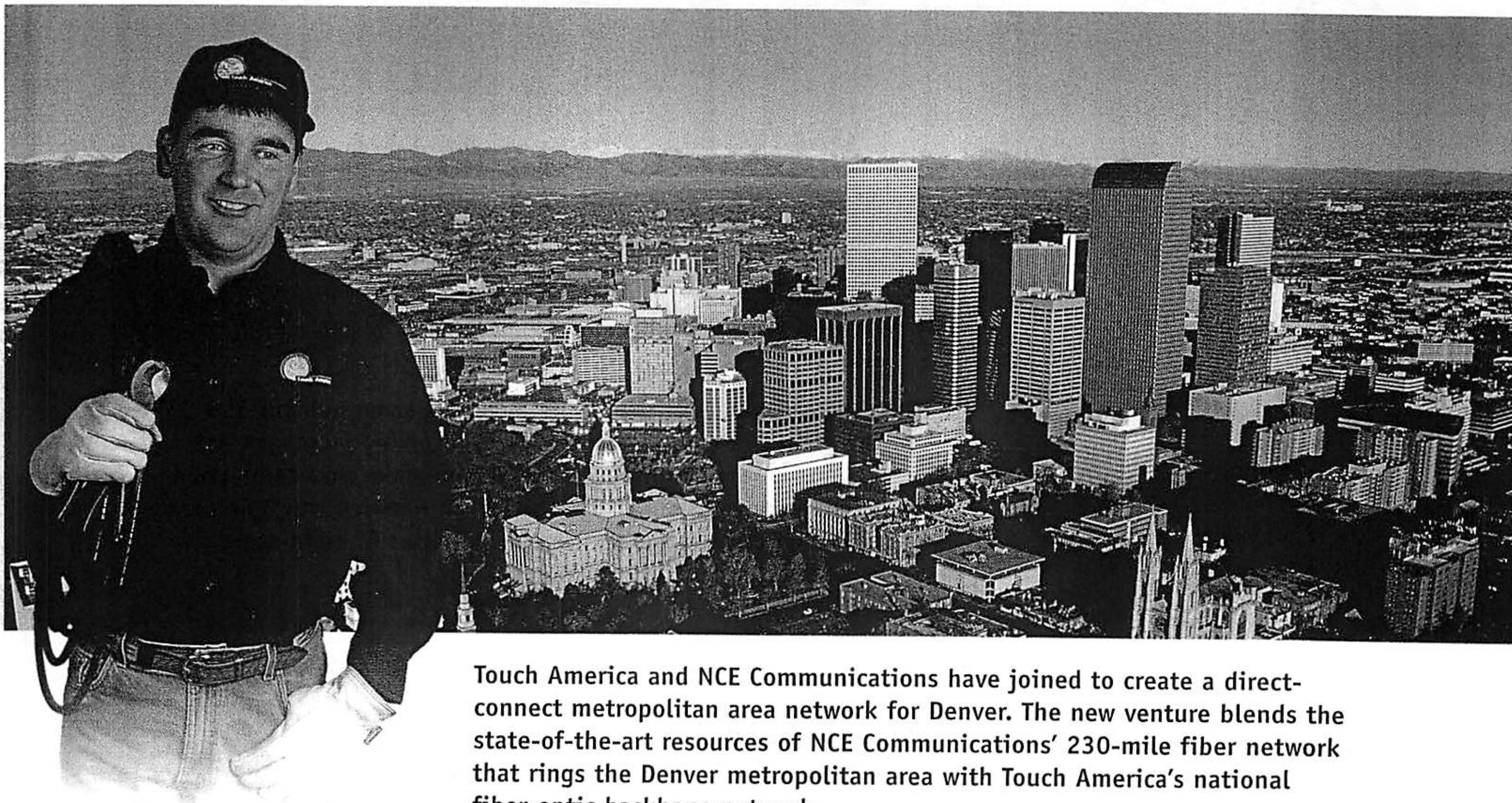
Execution is the key to success, and it is the theme of this year's annual report. Excellence in execution means growing revenues by meeting the needs and expectations of our telecommunications and energy customers. We are committed to fulfilling your expectations.

Bob Gannon

Bob Gannon
Chairman, CEO and President

The Montana Power Company

Telecommunications: EXPANDING horizons, TRANSMITTING information, CONNECTING customers



Touch America and NCE Communications have joined to create a direct-connect metropolitan area network for Denver. The new venture blends the state-of-the-art resources of NCE Communications' 230-mile fiber network that rings the Denver metropolitan area with Touch America's national fiber-optic backbone network.

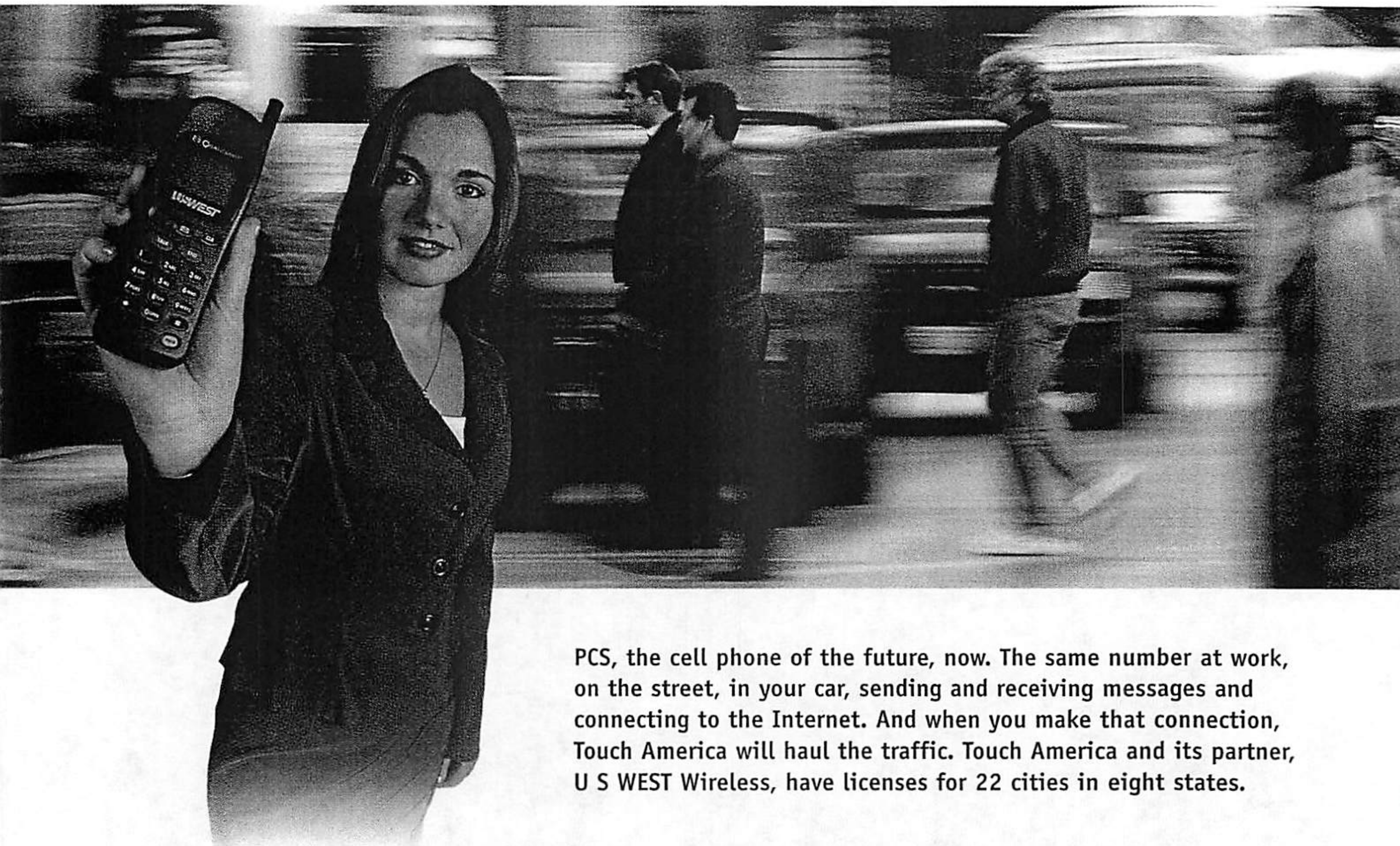
First, it was TECHNOLOGY; then, it was CAPACITY; later, it was SPEED; and now, it's broadband NETWORKS...

CONNECTING AND SATISFYING CUSTOMERS, FILLING THE PIPE, MAKING IT WORK.

Touch America has been there, done that, and is doing more — advancing its high-speed, fiber-optic network nationally, focusing on wholesale services as a premier carrier's carrier, and making last-mile connections to customers through dedicated land lines, through fiber with light, through the air with spectrum.

WHERE WE ARE:

We started 1999 with about 10,000 route miles of fiber-optic network in operation and ended the year with 12,000, mainly in the West, Upper Midwest and South Central areas of the country. The network presently averages 18 fibers per route mile, but this will increase as the network increases. Our map on page 7 will show you where we are... and where we're going.



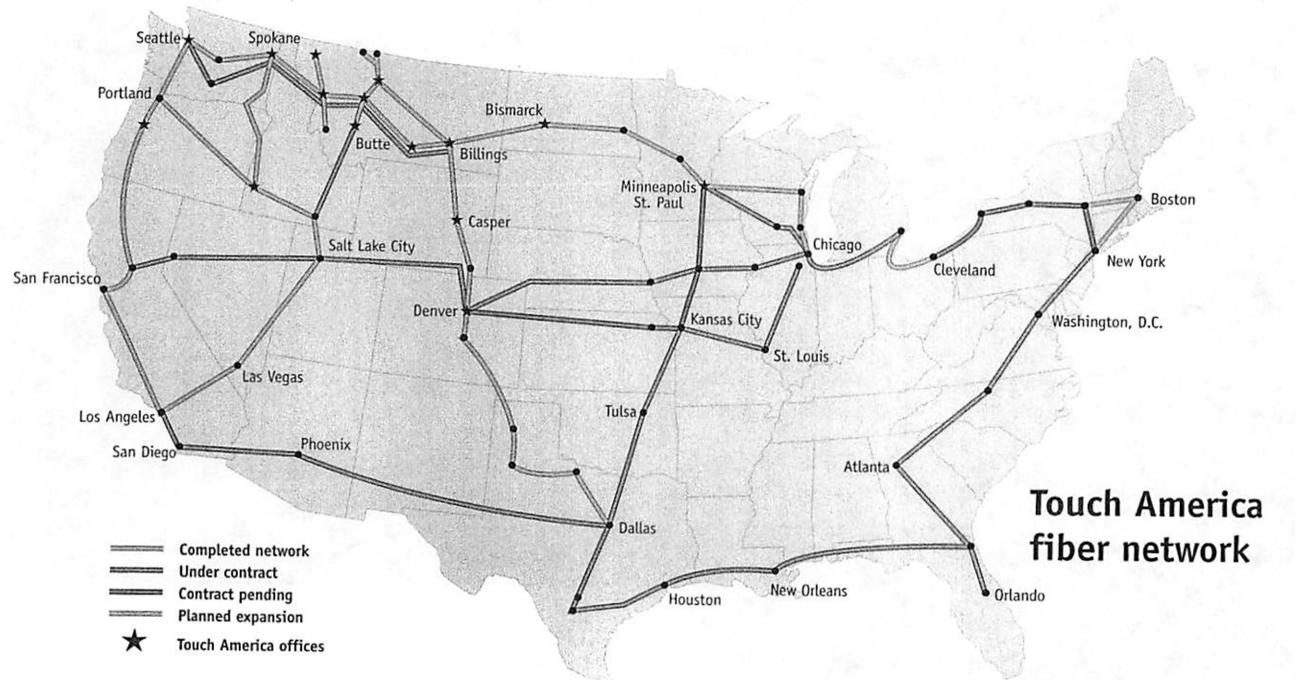
PCS, the cell phone of the future, now. The same number at work, on the street, in your car, sending and receiving messages and connecting to the Internet. And when you make that connection, Touch America will haul the traffic. Touch America and its partner, U S WEST Wireless, have licenses for 22 cities in eight states.

Continued EXPANSIONS will grow our national fiber NETWORK to at least 26,000 miles by the end of 2001.

WHERE WE'RE GOING:
We plan to add 6,000 more route miles this year, ending 2000 with 18,000 miles, stretching from coast-to-coast and border-to-border. In 2001, we will add at least 8,000 more miles to our network, filling in gaps to complete a fully operating, national network spanning at least 26,000 route miles. We have this in our sights.

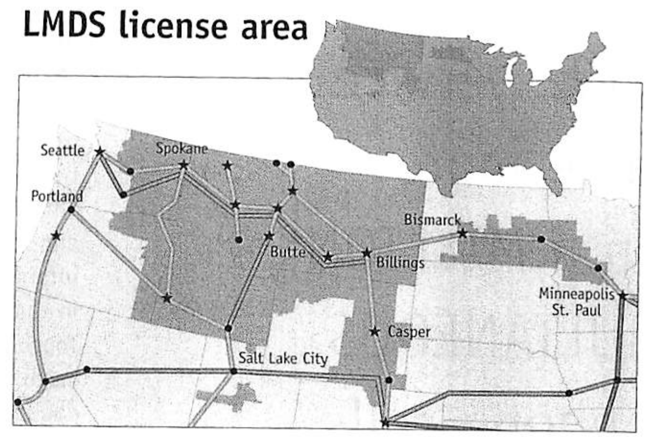
HOW WE'LL DO IT:
Our fiber network is not a "build it and they will come, field of dreams" strategy. System expansions are significantly funded through advance sales of fiber or capacity, which reduce cash investments when expanding the network. For example, our network expansion project with AT&T – which we will manage – is for an estimated $500 million, but reimbursements from AT&T and sales to other third parties could reduce our costs by half. Additional segments are added through swaps or trades. This strategy keeps us a profitable, low-cost network.

If you already know a lot about fiber-optic systems, skip to the ▶ on page 11. If you want to learn more about fiber optics and wireless applications and how they apply to Touch America, read on.



Touch America fiber network

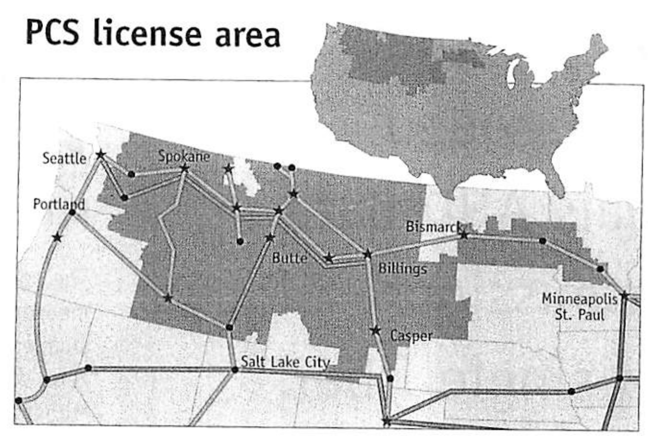
LMDS license area

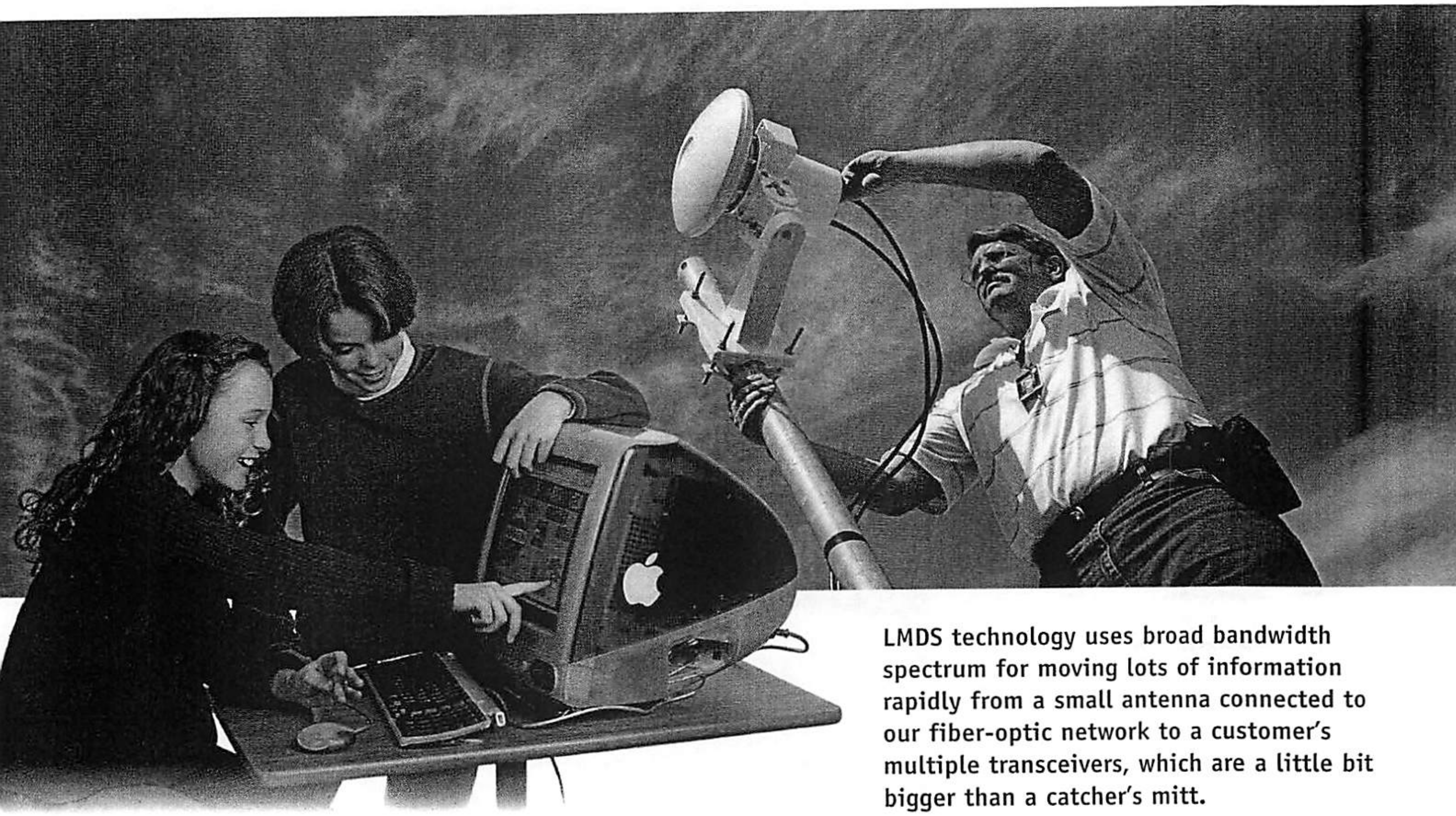


WHAT WE USE:
Touch America uses the latest fiber-optics technology and optronics (optical electronics) installed along the network to transmit pulses of light through the fiber.

HOW IT WORKS:
Light waves can carry a communication signal, but a path and a light source are needed for light-wave communications. Fiber-optic cables provide the path. They are hair-thin strands of glass through which light can travel. A laser, with a minuscule laser resonator (the size of a grain of salt) that can emit a beam of intense light, is aimed at one end of a fiber-optic cable. An electrical charge activates the laser, which flashes on and off hundreds of millions of times each second, creating a digital code. The digitized data, voice and video signals then travel down the cable at the speed of light to a receiver, or detector, which converts the light signal back into electrical impulses that can be read by a computer or can activate a telephone. Improvements in sending and receiving mechanisms, glass chemistry, light sources and switching equipment that directs information have increased the amount of data that can travel over a fiber-optic network. So, it's essential to have the latest technology...

PCS license area





LMDS technology uses broad bandwidth spectrum for moving lots of information rapidly from a small antenna connected to our fiber-optic network to a customer's multiple transceivers, which are a little bit bigger than a catcher's mitt.

OC-192 service can handle more than a MILLION SIMULTANEOUS telephone calls, PLUS Internet access, video signals AND data transmission – all on a single fiber.

SUCH AS:

▶ Dense Wavelength Division Multiplexing (DWDM) that allows fiber-optic systems to carry more information by separating light into multiple frequencies on which data can travel and then transmitting them all at the same time. Think of it as a rainbow in which each hue stretches from end-to-end of a glass strand and can carry its own information stream, except all the colors, or "windows," are in the invisible infrared spectrum. DWDM adds value to Touch America's fiber network because the technology – much like Moore's law in the computer chip industry – keeps doubling the amount of data a single strand of glass can carry. The windows have increased from eight in 1995 to 80-color band systems in 2000, and there is the possibility of 160-color bands and trillion bits-per-second speeds coming in the near future.

▶ And optical carrier (OC) equipment that provides broad "bandwidth" and thus the highest amount of data that can be passed through fiber-optic cables.

The speed at which digitized data flows through a medium is measured in bits per second (bps) with a bit being the smallest measure of digital information, such as a one or a zero. A thousand bits per second is noted as Kbps; a million, Mbps; a billion, Gbps; and a trillion, Tbps.

HOW FAST IS FAST?

Your home Internet service probably has between 28.8 Kbps and 56.6 Kbps, typical "narrowband" bandwidth available over a twisted pair, or the copper telephone line in your house. With more "broadband" bandwidth, you get more information faster. People and businesses like speed. OC speeds start at OC-1, which is 51.84 Mbps. They end at OC-192, or 10 Gbps of bandwidth. This is 192 times faster than OC-1. Researchers are trying now to commercially perfect OC-768, which would be a trillion-bits-per-second service.

EXCUSE ME?

Okay, suppose you want to e-mail a high-quality, five-by-seven photo of the kids to grandparents, aunts and uncles. The photo when digitized contains approximately 200 million bits of information. If you sent the data at 28.8 Kbps, it would take nearly two hours or longer to download it without special digital compression technology. At 1.5 Mbps, it would take 2.2 minutes, and it would take less than a second at Gbps speeds. Now, let's say you want to send a whole roll of 24 photos, including pictures of the new baby, and you can see why people like and want speed.

Ten-billion-bit OC-192 service has enough capacity to handle more than a million simultaneous telephone calls, plus Internet access, video signals and data transmission over one fiber. Data intensive businesses or universities can use OC-192 service, which means they can instantly download to their computers information that normally would take hours over a twisted pair telephone line.

Touch America provides dedicated private line services for people who want or need more bandwidth than a twisted copper pair provided by local telephone companies, such as a regional Bell operating company (RBOC) or a local exchange carrier (LEC) – at times also called a competitive local exchange carrier (CLEC).

HOW DOES DATA TRAVEL?

There are protocols, or processes, for sending and receiving digitized information.

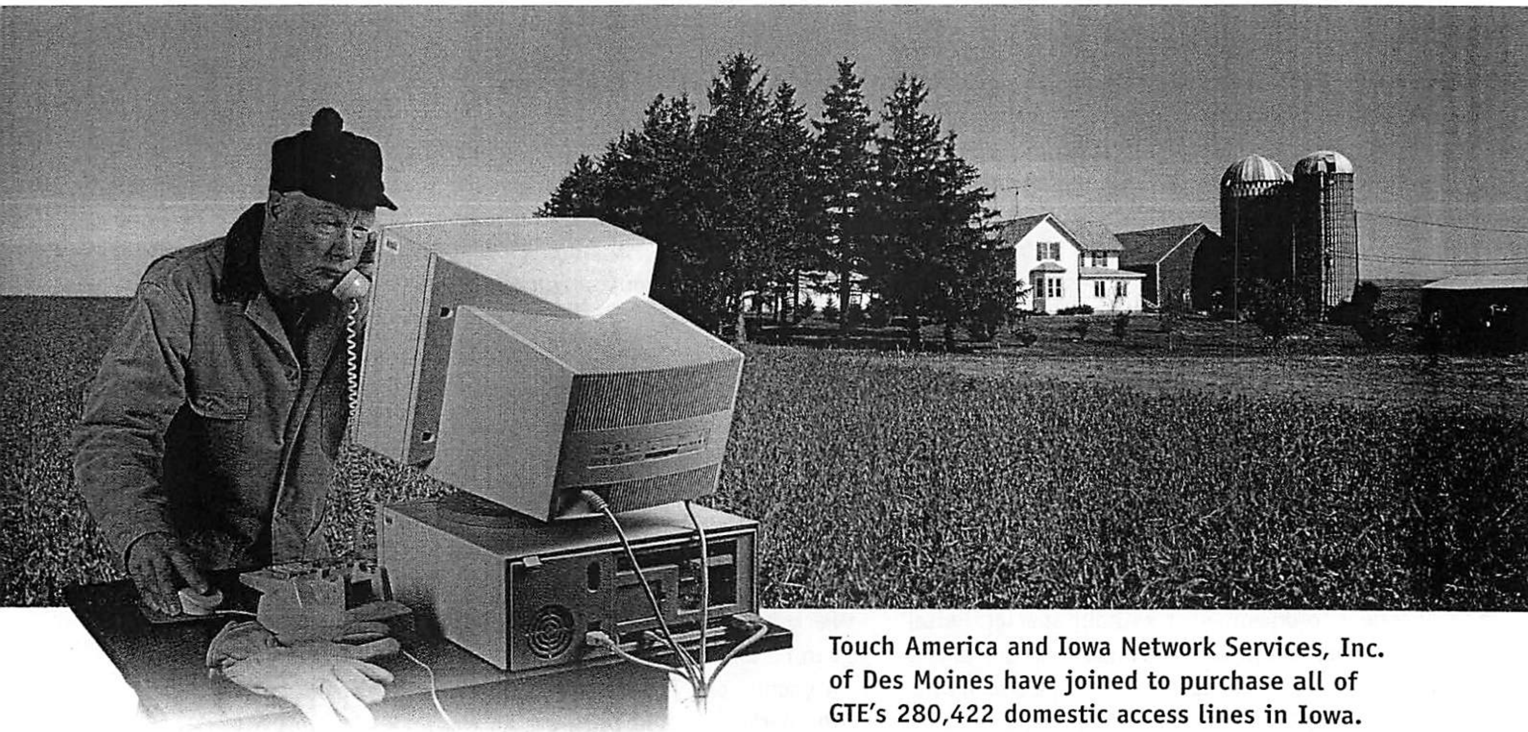
Transmission Control Protocol/Internet Protocol (TCP/IP) is for communicating via the Internet. All computers that send and receive information and routers that direct information use IP addresses and return addresses. This standard protocol makes it possible for many computers and routers on one network to send and receive – or direct and redirect–IP-addressed information to another system that could be next door or on the other side of the world. It's what makes the Internet work.

TCP manages data being sent into tiny "packets," which are then routed through the fiber-optic networks. Think of it as envelopes for the information age with IP addresses riding on light waves instead of being carried by postal trucks and mail carriers.

All packets are delivered to a data switch, which disperses them to the appropriate addresses. The data switch acts like a central post office. This is called packet switching and allows many customers access to large pools of bandwidth without sacrificing speed or investing additional dollars to create individual circuits. Touch America is part of the bandwidth pool.

Packets can be sent in predetermined "frames," which can be large or small. Or packets can be sent by Asynchronous Transfer Mode (ATM). In this instance the packets, called cells, are all the same size, but ATM can transfer multiple information streams – data, voice and images – all at the same time. TCP/IP, Frame Relay and ATM are all packet protocols and each one has its special purpose.

Beneath a stormy Colorado sky, workers prepare fiber-optic cable to be placed in conduit already buried along the Denver to Dallas network route. This, along with other expansions, will extend the network to at least 26,000 route miles by the end of 2001.



Touch America and Iowa Network Services, Inc. of Des Moines have joined to purchase all of GTE's 280,422 domestic access lines in Iowa.

It's called FILLING the PIPE. Touch America's focus is on WHOLESALE services as a PREMIER carrier's carrier, HAULING traffic for others the way they want it hauled.

LET'S CALL HOME:
A voice call is digitized, broken into pieces or packets, sent over the most advantageous fiber circuits and reassembled at the receiving end before being changed back into an analog call at the handset. So part of a call from New York to Los Angeles can go at the speed of light through Chicago and another packet through Houston, and the people talking on the telephone are none the wiser.

"HI, MOM, IT'S ME!"
Touch America provides and uses all of these sending, switching and addressing protocols and technologies to meet growing volumes of diverse needs in data, voice and image traffic. The flexible and scaleable switching allows top speed and capacity on Touch America's fiber network.

OTHER APPLICATIONS:
As we expand our network, we will look for opportunities to link up with companies that have local fiber and a marketing presence in metropolitan areas but don't have a national fiber backbone. We will look for opportunities in the second-tier cities, and we'll haul traffic for the major players from these sizeable towns to larger metropolitan centers.

TOUCH AMERICA ALSO SELLS OR LEASES:
Full capacity – fiber that is lighted with optronics and can carry traffic;

Dim fiber – fiber with regeneration sites that push the light signal along but without terminal equipment; or **Dark fiber** – fiber without any bells or whistles.

AND WIRELESS:
Wireless technology is important because it makes the "last-mile" or direct connection to the customer and in so doing, bypasses local telephone companies. This means more revenues for Touch America, while obtaining that all-important access to customers.

WE LIKE CREATING SHAREHOLDER VALUE:
Sometimes called pipes in the air, wireless two-way communications use a portion of the licensed electromagnetic spectrum called microwave to send digitized voice or Internet data from an antenna to a receiver. With wireless applications we connect to customers; then, we haul the traffic on our fiber network. We look at this as another tool in extending our fiber-optic network.

Local Multipoint Distribution Services (LMDS) technology connects customers at high speeds to our fiber network. LMDS uses broad bandwidth spectrum for moving lots of information rapidly from a small antenna connected to our fiber-optic network to a customer's multiple transceivers, which are a little bit bigger than a catcher's mitt. Some call LMDS point to multipoint communication, which is good for commercial, educational, or governmental applications. And it's quick and easy to install.

Touch America has 25 licenses covering 32 markets in nine western states, which ranks us among the top 20 largest holders of LMDS licenses.

Plus, LMDS has flexibility. Need more bandwidth? You've got it at the stroke of the computer keyboard. With LMDS, you pay for what you use.

HEY, DICK TRACY, LISTEN UP!
Personal Communication Services (PCS) are cell phones of the future, now. The same number at work, on the street, in your car, sending and receiving messages and connecting to the Internet. And when you make that connection, Touch America will haul the traffic. Touch America and its partner, U S WEST Wireless, have licenses for 22 cities in eight states.

ONE LAST ITEM:
When you look at Touch America's network map, you'll see the fiber-optic routes connect to form rings throughout the United States. These will become SONET, or synchronous optical network, rings and they are important for high-speed operating systems and for maintaining system reliability. If fiber is accidentally cut or fails, traffic can be rerouted instantly in another direction – undetected by customers. It is important for customers to know we will have these self-healing systems beginning in 2000.

▶ **ONCE AGAIN:**
It's called filling the pipe. Touch America's focus is on wholesale services as a premier carrier's carrier, hauling traffic for others the way they want it hauled. We do this very well, and we're getting bigger and better. Our customers are names you would recognize: AT&T, MCI WorldCom, Sprint, Global Crossing, Qwest, and more.

Wireless applications mean connecting to customers and hauling traffic as an extension of our network. We also make last-mile connections and offer private line services to customers, most of whom are large data users.

Touch America's telephone equipment services business has alliances with NEC America, Inc., Siemens ICN, Inc. and Cisco Systems, Inc. to design, install and maintain state-of-the-art digital switching equipment for businesses that have five to 10,000 phones. These systems are modular, scaleable and application-ready for complete integration into networks, the Internet, voice messaging, call centers and e-business.

NOW LET US TELL YOU WHAT WE ARE DOING:

Fiber-optic Network EXPANSIONS: More than $1 BILLION in joint projects

▶ Announced a contract with AT&T to build a 4,320-mile, six-route, high-speed, long-haul, fiber-optic network to be completed by yearend 2001. The AT&T contract allows Touch America to install a similar fiber-optic network for itself. Some of the routes will provide access to customers through "last-mile" connections where: (1) the company holds LMDS licenses; (2) the company has agreements to provide Internet and long distance services for local exchange carriers, such as

Iowa Telecommunications Services; and (3) the company has partnered with others to provide high-speed, "direct-connect" broadband for business and government applications, such as Touch America-Colorado.

▶ Announced a fiber exchange project with PF.Net that will add 5,900 miles to Touch America's network by 2001. This exchange will allow Touch America to expand its network from Los Angeles to San Diego; Phoenix; El Paso; Dallas; Austin; San Antonio; Houston; New Orleans; Orlando; Jacksonville; Atlanta; Greensboro; Washington, D.C.; New York City; Tulsa; Kansas City, Missouri; and St. Louis.

▶ Constructed a 1,302-mile Denver to Dallas route, completing the project in December, two months ahead of schedule. The fiber is fully lit and carrying traffic.

▶ Completed a 500-mile Spokane to Boise route.

▶ Announced the completion of a 1,700-mile segment that we built with partners between Portland, Oregon and Los Angeles on an inland route through Idaho, Utah and Nevada, in which Touch America was the construction manager.

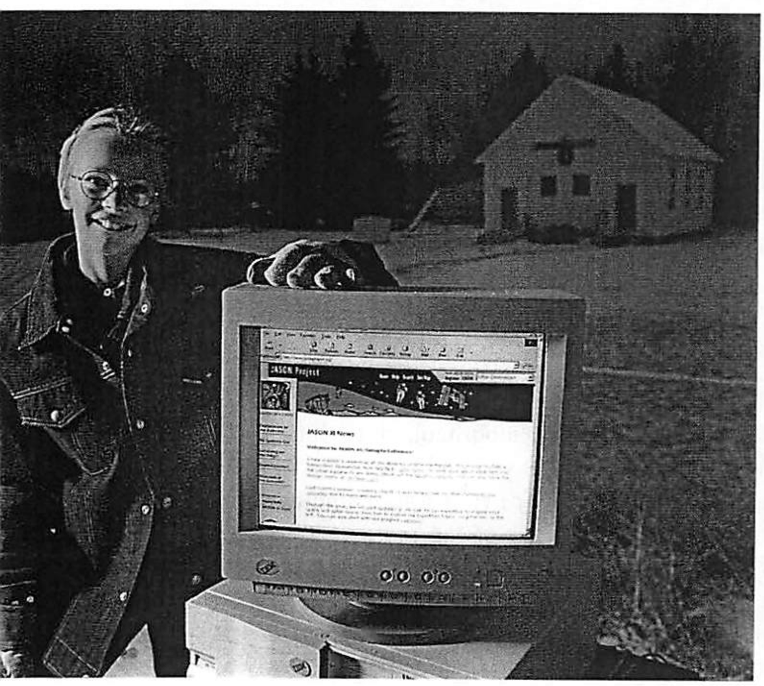
▶ Completed a fiber exchange with Broadwing, giving Touch America 580 miles of Broadwing's dark fiber and conduit currently being constructed from Denver to Salt Lake City in exchange for dark fiber and conduit on Touch America's route from Denver to Dallas. Touch America also received cash for the differences in route miles.

Wireless SERVICES: Covering more than 4.5 MILLION people

▶ Announced buildout of 25 LMDS licenses covering 32 cities and 4.5 million people along Touch America's fiber-optic network in nine western states. (See map on page 7 for LMDS area.) Estimated potential revenues could exceed $100 million annually.

▶ Launched high-speed LMDS service in Billings in September and added Butte in November. Local school districts in these Montana cities were among the first customers. Both systems already have been upgraded to add additional capacity as current and new customers continue to request more bandwidth.

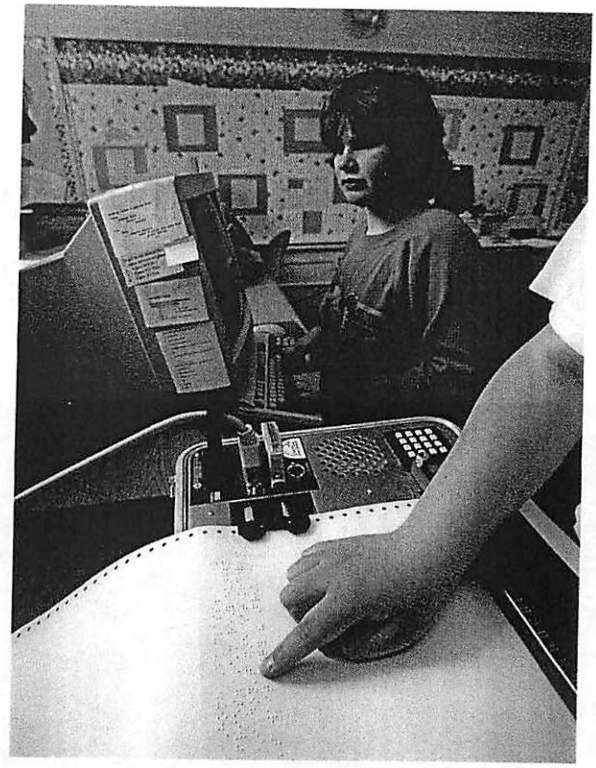
▶ Announced LMDS deployment for Helena, Montana;



Teri Martindale, a 5th grade student at Springhill School, pictured in the background, is one of 11 children who attend the one-room schoolhouse at the foot of the Bridger Mountains near Bozeman, Montana. She is linked to the world through her school computer and a Touch America Internet connection. Springhill students now can participate in distance learning opportunities, such as the nationwide JASON Project that allows students real-time, interactive access to researchers working below the oceans, in the jungles and in outer space. The Burns Telecommunications Center at Montana State University transmits the JASON Project to students throughout Montana. In 1999, The Montana Power Company Foundation gave $200,000 to the university, of which $50,000 was allocated to the Burns Center for the JASON Project. The remainder of the gift will be used for the Montana Power Information Center in MSU's new library.

Boise, Idaho; and Spokane, Washington, to be completed in the first quarter 2000. Total population involved is more than 1 million. Up to six additional cities, to be selected on market potential, will be added this year. Tetragenics, the automation and electronic controls design and manufacturing arm of Montana Power's telecommunications division, is helping to engineer and install the systems. This will keep our LMDS buildout a low-cost, last-mile connection to large data transmission customers.

▶ Began construction in November 1999 on an eight-state PCS network in a joint venture with U S WEST Wireless to provide U S WEST Advanced PCS in 22 western cities by 2002. Spokane and Boise are projected to come online in the second quarter of 2000, with up to ten additional cities by yearend. Potential annual revenues from the TW Wireless venture are estimated to exceed $100 million.



The Montana Power Company foundation gave $20,000 to the Montana School for the Deaf and the Blind. The donation will help make the school's library more accessible by creating a database for Braille and large-print books to visually impaired students and captioned videos to deaf students that eventually can be accessed throughout the nation via the Internet for research projects or to check available resources for interlibrary loans.

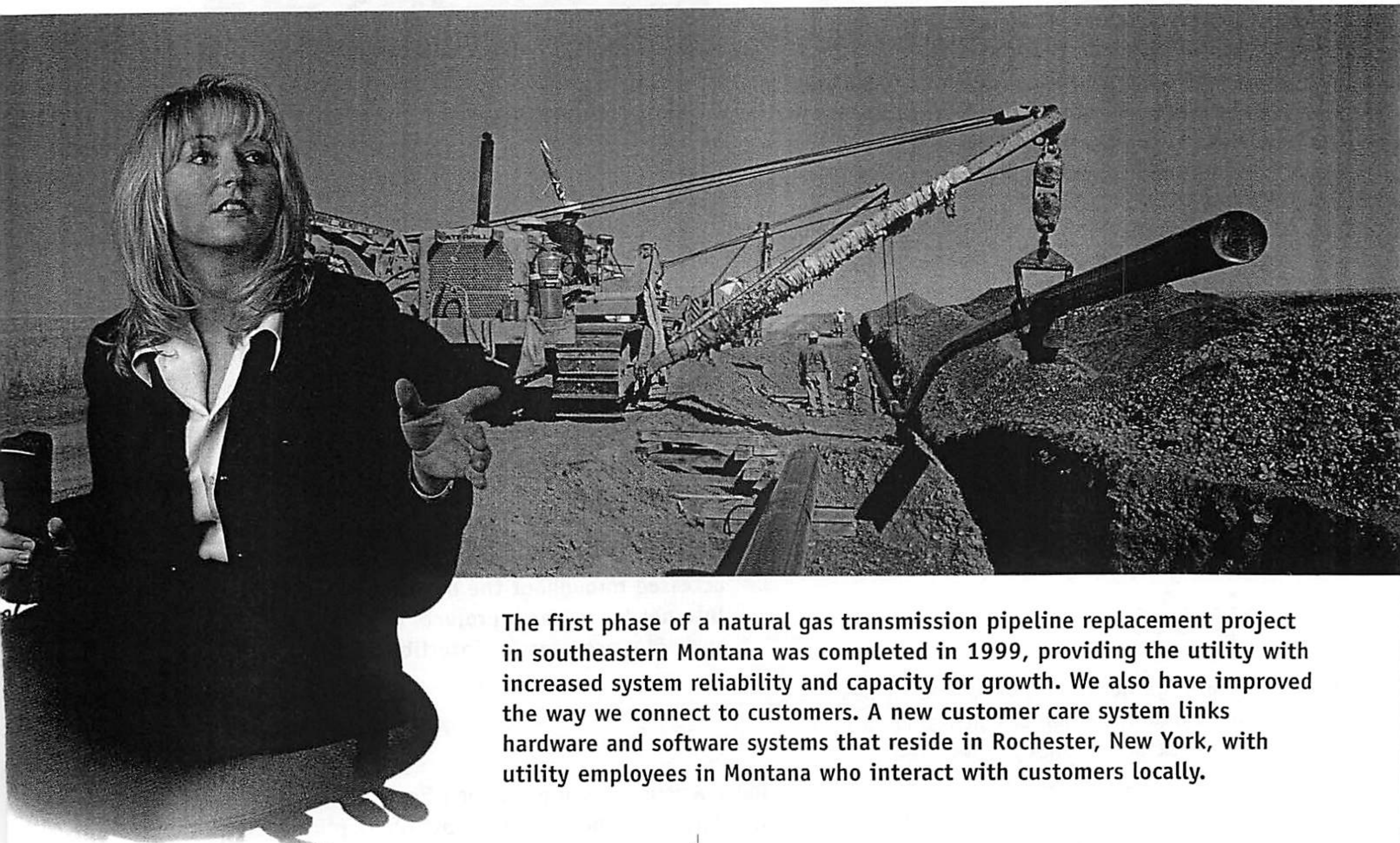
Last-Mile Direct CONNECTIONS: More than $56 MILLION in projects

Touch America and Iowa Network Services, Inc. of Des Moines have joined in anticipation of purchasing all of GTE's 280,422 domestic access lines in Iowa. The purchase involves 296 GTE telephone exchanges and includes rights for Touch America to carry the out-of-state traffic for long-distance and Internet services for 400,000 customers.

Touch America and NCE Communications have joined to create a direct-connect metropolitan area network for Denver. The new venture will blend the state-of-the-art resources of NCE Communications' 230-mile fiber network that rings the Denver metropolitan area with Touch America's national fiber-optic backbone network. NCE Communications is a subsidiary of New Century Energies, the holding company for Public Service Co. of Colorado. Potential annual revenues could exceed $120 million annually. Service is slated to begin in the first quarter of 2000.

Touch America is well positioned financially and strategically to add to its low-cost fiber-optic, wireless and direct-connect businesses. In 2000, the company will be looking for additional opportunities to expand its fiber network, nationally and possibly globally. Touch America will purchase or bid for additional federal wireless licenses that fit its business criteria, as they become available. The company will look for opportunities to make alliances with large data transmission anchor tenants and to create metropolitan or regional fiber connections with partners, as it has done with American Electric Power and CenturyTel. Touch America will watch closely the development of broadband trading, which would provide additional traffic on the network. The focus is to grow the networks, add customers, and increase revenues and profits.

Energy: Simplifying Businesses, ALIGNING with Customers, Creating OPPORTUNITIES



The first phase of a natural gas transmission pipeline replacement project in southeastern Montana was completed in 1999, providing the utility with increased system reliability and capacity for growth. We also have improved the way we connect to customers. A new customer care system links hardware and software systems that reside in Rochester, New York, with utility employees in Montana who interact with customers locally.

It's about COMPETITION.

The vertically integrated utility structure is breaking apart; new ways of providing energy services and new products are emerging – online billing, advanced customer care, smart appliances, distributed generation, fuel cells, and things you haven't even thought about, but you probably will want, at a price you can afford.

The Internet will be key to conducting e-business. Electronic commerce includes business-to-customer (B2C) relationships, which are mainly about choice, and business-to-business (B2B) relationships, which are mainly about cost. Future generations will look back and declare this time a watershed period of change! You can lead or you can follow.

We have CHOSEN to lead.

WHERE WE ARE:

With the sale of almost all of our Montana-based electric generating assets, we no longer are primarily a vertically integrated utility. We are a regulated energy transmission and distribution (T&D) company in Montana with a book value in property, plant and equipment of approximately $1 billion, serving 288,000 electric customers and 151,000 natural gas customers at yearend 1999. Our T&D businesses remain significant activities.

We are committed to open access on our utility delivery systems, enabling all participants access to competitive suppliers for electricity or natural gas, which will promote the lowest cost market. We will add value through our distribution activities by doing the same things better and by doing new things.

Our nonregulated energy businesses, with a book value in property, plant and equipment of approximately $500 million, are in coal, natural gas and oil, and electricity from independent power operations.

Restructured coal contracts will reduce profits but will better align our interests with those of customers in the competitive electric generating business. The contracts will help us share in gains from additional efficiencies as we work together to drive down costs.

With improvement and expansion of our gas gathering and liquids production facilities near Denver, we have strengthened our position in fee-based, gas gathering and liquids production. We are redirecting our focus away from exploration and its associated risk. We continue to trade and market gas, gas liquids and oil, as we have for the past 11 years, to add income and manage price risk associated with our gas and oil activities.

Our independent power operations' main focus is to manage and operate previous investments and to develop turnkey projects with others that sell electricity into the competitive power supply market.

WHAT WE ACCOMPLISHED IN 1999:

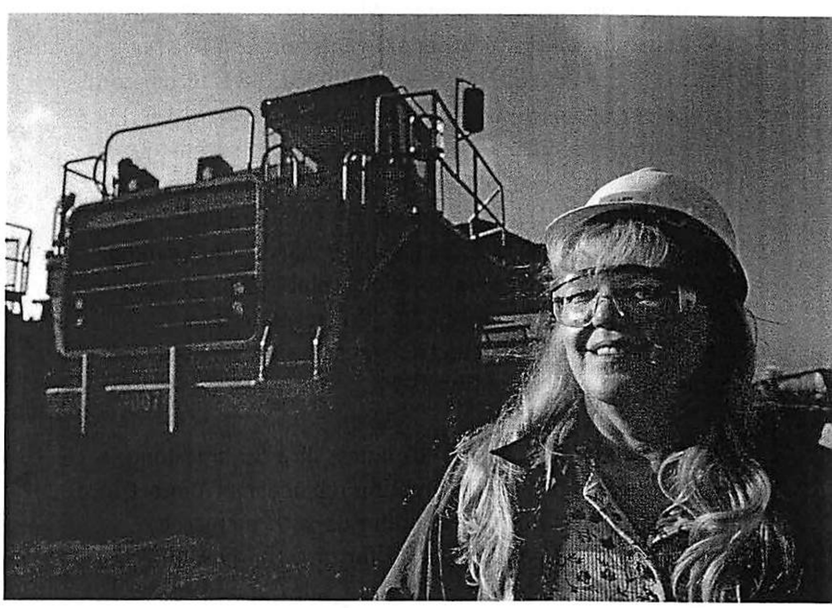
Our Regulated Business: SOLD Generation, Preparing for CHOICE

GENERATION SALE

▶ Completed the sale of almost all of our Montana generating assets for $759 million to PPL Montana, LLC, a subsidiary of PPL Resources of Allentown, Pennsylvania. The transaction included 11 hydroelectric projects, the Hebgen Lake storage reservoir, interests in Colstrip Units 1, 2 and 3 and the Corette Plant in Billings for a total of 1,315 megawatts. If PPL Montana can close with Puget Sound Energy for its Colstrip interests, we will receive another $117 million. If Puget doesn't close, we will sell our Costrip 1, 2 and 3 transmission interest to PPL Montana for $97 million. PPL Montana has expressed continued interest in our Colstrip Unit 4's 241.5-megawatt leased interest.

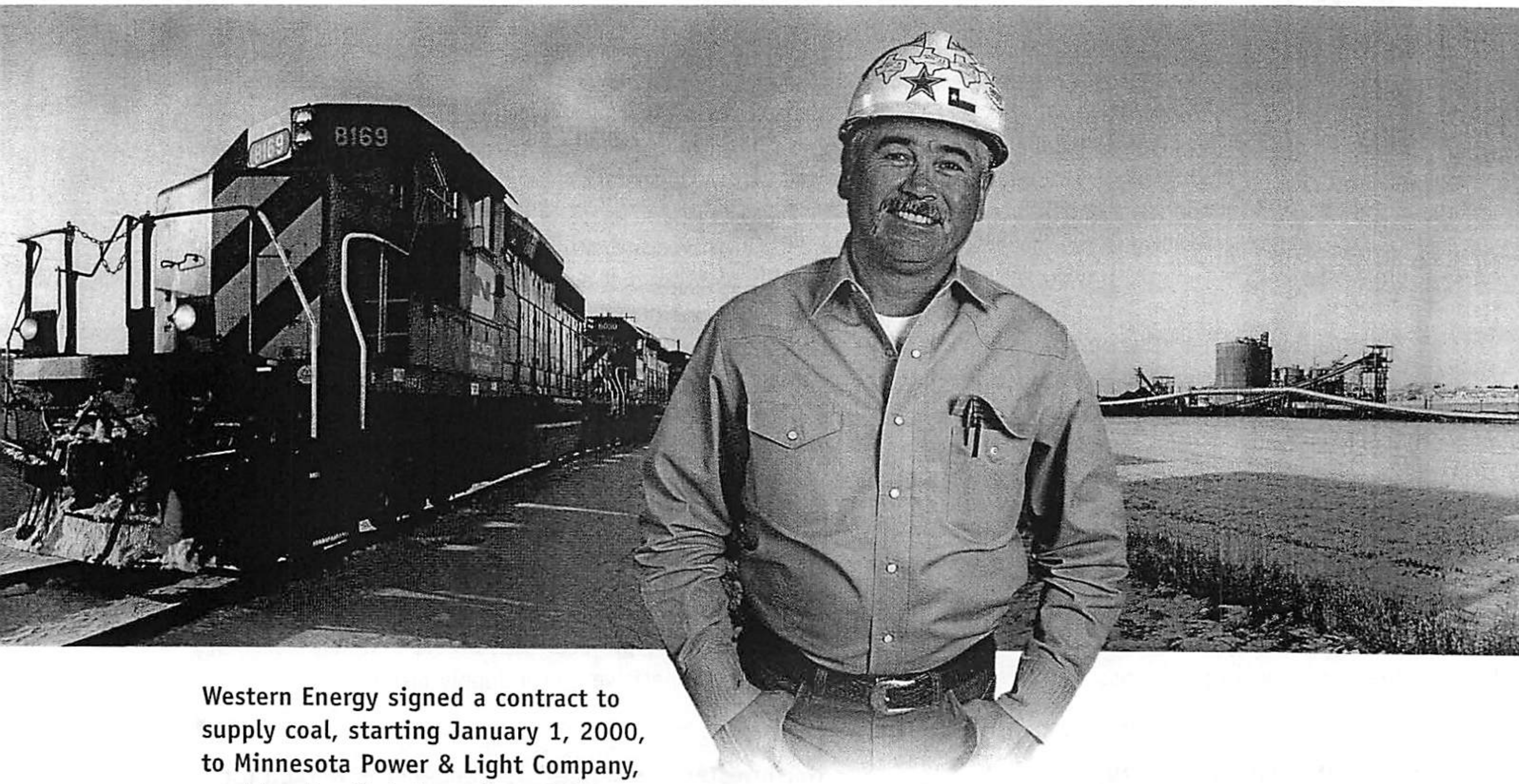
▶ The favorable result of the generation sale reduced stranded costs on sold generation and reduced rates by $16 million per year by eliminating generation-related regulatory assets, such as conservation resource acquisitions and deferred income taxes.

Northwestern Resources' 390 employees worked for more than two-and-a-half years and 2-million man-hours without a lost time accident, a goal reached in 1999 and still going. One of those employees is Ellen Henderson, pictured here, who was a Northwestern accountant before changing jobs to drive a 150-ton coal hauler, seen in the background.



TRANSMISSION & DISTRIBUTION

▶ Continued to provide open access on our gas and electric transmission systems to serve unbundled or competitive energy supply loads. In 1999, 52% of "on-



Western Energy signed a contract to supply coal, starting January 1, 2000, to Minnesota Power & Light Company, marking the first time since 1995 that out-of-state sales have been made.

system" gas volumes were delivered to consumers connected to our delivery system who had elected to choose their own gas supply. When "off-system" volumes — those delivered to other transmission systems for consumption elsewhere — are included, 58% of our total volumes delivered were in the competitive market. Through 1999, 20% of our on-system electric energy was delivered to choice customers, and when off-system deliveries are included, 45% of the total energy transmitted was in the competitive market. By yearend, our on-system deliveries to choice electric customers had increased to roughly 27%. Our revenue from marketing off-system electric transmission services substantially increased in 1999.

▶ Completed Phase I, or 16 miles, of a 55-mile-long natural gas transmission pipeline replacement project in southeastern Montana, providing us with increased system reliability and capacity for growth, as well as additional off-system transmission sales opportunities.

▶ Completed installation of a mobile-read, radio-based automated meter reading system by converting 265,000 electric meters and upgrading 155,000 gas meters for a total of 419,000-meter changes.

▶ Installed a new "over-the-wire" customer care system, whereby telecommunications lines connect customer information hardware and software systems that reside in Rochester, New York with our utility employees in Montana who, interacting with customers locally, can access the information online and answer customers' questions. The new system provided Y2K-ready upgrades and allowed us to comply with Montana's customer choice laws for unbundled bills, which show separate charges for items such as energy supply and transmission and distribution services. The new bills allow customers to better understand where their energy dollar goes and will help them transition to choice of commodity supply by July 1, 2002.

▶ Received a $10.3 million annual natural gas increase to recover increased delivery costs, and filed with Montana's Public Service Commission the next phase of the company's electric restructuring request that addresses transition and stranded generation costs.

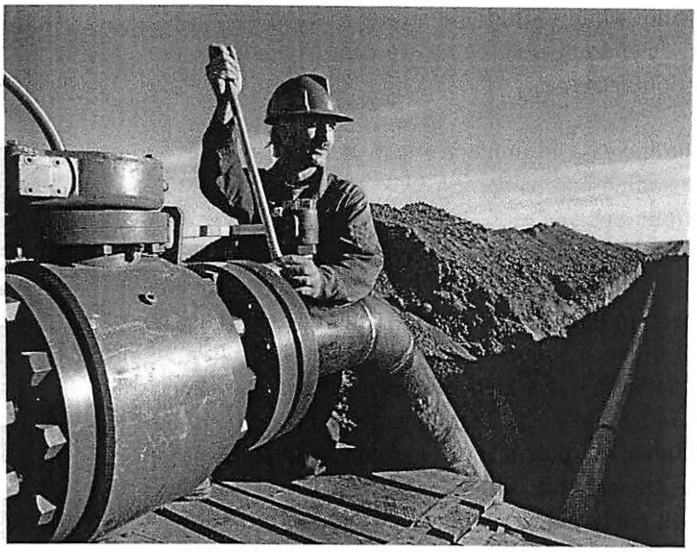
▶ Improved transmission and distribution employee safety performance in 1999 compared to the same period a year ago.

Our Other ENERGY Businesses: Streamlining Operations, ADDING Value

COAL DIVISION

▶ Western Energy Company produced 10.6 million tons of coal and Northwestern Resources Company 8.9 million tons of lignite for a total of 19.5 million tons in 1999. This is an increase of 200,000 tons over 1998.

▶ Western Energy: Produced its 300 millionth ton of coal at the Rosebud Mine, Colstrip, Montana. Signed a contract to supply coal, starting January 1, 2000, to Minnesota Power & Light Company, marking the first time since 1995 that out-of-state, unit-train sales have been made. Succeeded in obtaining, through federal lease, 1,402 acres containing 27.6 million tons of coal. Received an Excellence in Surface Mining Award from the Office of Surface Mining for reestablishment of sharptail grouse dancing grounds.



Montana Power finds additional markets for natural gas. Pictured is Gerry Schnell tightening a valve on our cross border pipeline that went into service in November 1999. The pipeline connects Montana Power's gas production in southern Saskatchewan to the company's existing production, gas gathering and transmission system in northeastern Montana that connects to a pipeline serving the Chicago area.

▶ Northwestern Resources: Mined a monthly record 909,699 tons of lignite in July at the Jewett, Texas mine. Received two Texas Mining and Reclamation Association Awards of Excellence — one for Safety and the other for the Environment. Northwestern's 390 employees worked for more than two and a half years and 2 million man-hours without a lost time accident.

NATURAL GAS AND OIL DIVISION

▶ Consolidated production of U.S. and Canadian oil, natural gas and natural gas liquids reached 34.4 billion cubic feet equivalent in 1999, a 3.9% increase compared to 33.1 billion cubic feet equivalent in 1998. Average oil prices for the year increased 30%, going from $12.28 a barrel in 1998 to $15.93 a barrel in 1999. Average natural gas prices increased 21% for the same period, going from an average of $1.42 per million cubic feet to an average of $1.72 per million cubic feet. Meanwhile, natural gas liquids prices also increased year-to-year by 17% from an average of $0.23 per gallon to $0.27 per gallon.

▶ A 9% increase in natural gas production is the result of successful investments in low-risk development drilling programs. Liquids production decreased 17%, due primarily to property dispositions. Oil production declined 16%, going from 1,660 barrels daily in 1998 to 1,389 barrels in 1999, mainly because of property sales, natural declines, and the division's emphasis on natural gas investments.

▶ Reserve levels at yearend 1999 increased 9% to 459 billion cubic feet equivalents, compared to reserve estimates in 1998, mainly due to successful development drilling operations.

INDEPENDENT POWER OPERATIONS

▶ Recorded operating income of $23.4 million for 1999. Improvements in revenues, after accounting for approximately $71 million in nonrecurring events in 1998, were attributable to higher sales from existing facilities and improved performance at a Continental Energy Services-operated cogeneration plant.

▶ Resolved differences in a power supply contract regarding the sale and delivery of 105 megawatts of electricity from our 241.5-megawatt (gross) leased share of Colstrip Unit 4 to the Los Angeles Department of Water and Power. We received $106 million from LADWP as consideration in the transaction. With this payment we were not adversely impacted and the new agreement has resolved all contractual issues.

Continental Energy Services has a 25% interest in an 830-megawatt gas-fired plant in Grimes County, Texas, which will begin operating by mid-2000. PECO Energy Company of Philadelphia will purchase and resell the output.

WHERE WE'RE GOING IN 2000:

With the successful execution of our business strategies, our energy companies today are focused. Without generation, our utility operations are simpler. Our coal companies continue to concentrate on efficiency measures at the mines. Our oil and gas companies are eliminating risk associated with exploring for new discoveries in favor of developing their known reserves and concentrating on gas gathering and liquids processing.

With experience in marketing transmission services, we are poised to play a leadership role in helping to define a new regional electric transmission model. Our energy distribution business also is poised to add value as it examines additional products and services while transitioning to customer choice of gas and electric supply in Montana in 2002.

Business opportunities are going to develop for those who think strategically about the future and execute a plan that helps customers achieve their goals. This is what we are dedicated to do at Montana Power.

REGULATED TRANSMISSION & DISTRIBUTION

We will continue to champion the benefits of customer choice and open transmission access.

We will continue to seek regulatory reform so that our interest in adding value to our businesses is matched by our customers' desire for the products and services they want at rates that are fair and reasonable.

We have established a proven track record as an open-access natural gas and electric transmission provider, and we are well positioned to play a lead role in the development of an electric regional transmission organization (RTO) that complies with federal guidelines.

We will continue to implement efficiency and technology measures, such as web-based applications that provide distribution customers with electronic bill presentation and payment, and an interactive web page so that they can create service orders, access account information, and activate utility services via the Internet.

OTHER ENERGY ACTIVITIES

We will mine the most economic coal and achieve performance incentives by increasing efficiency, and thereby mitigating as much as possible, adverse impacts of phased-in lower coal prices in 2000. We will continue to add value for shareholders while helping to ensure that the output at our customers' generating plants will be low cost and competitive in the electric supply market.

We will continue to focus on gas gathering and processing, while selling non-strategic oil and gas properties and outsourcing, as we can, exploration and production activities.

With the increase in product prices, natural gas and liquids trading and marketing looks promising for 2000 with strong demand along the Denver Front Range, where we have a large and growing presence.

We expect an 830-megawatt gas-fired merchant electric plant in Grimes County, Texas – in which Continental Energy Services has a 25% interest – to begin commercial operation by mid-2000. PECO Energy Company of Philadelphia will purchase the output, selling the power into the competitive, wholesale market. Continental's focus will continue as a regional niche player, developing nonregulated independent power projects to provide secure, low-cost electricity for site-specific uses or to be sold by others into the competitive power market. The company will operate the plants it develops.

We will invest in energy businesses that have consistent growth, a sustainable future and positive EVA. We will exit or minimize our activities in those energy businesses that do not meet our growth or sustainability targets.

Pictured in order from left:

Robert P. Gannon
Chairman of the Board, President, and Chief Executive Officer, The Montana Power Company, Butte. Elected 1989. **E**

Tucker Hart Adams
Economist, President and Chief Executive Officer, The Adams Group, Inc., Colorado Springs, Colorado. Elected 1995. **A, D**

N.E. Vosburg
President and Chief Executive Officer, Pacific Steel & Recycling, Great Falls. Elected 1988. **A, P**

Carl Lehrkind III
Distributor, President, Lehrkinds, Inc., Yellowstone Country Food & Beverage, Bozeman. Elected 1984. **E, P**

Alan F. Cain
Retired President and Chief Executive Officer, BlueCross and BlueShield of Montana, Helena. Elected 1989. **D, E**

Kay Foster
Owner and President, Planteriors, Unlimited, Billings and Missoula. Elected 1992. **P**

Jerrold P. Pederson
Vice President, Chief Financial Officer, The Montana Power Company, Butte. Elected 1993. **E**

John G. Connors
Senior Vice President, Finance and Administration and Chief Financial Officer, Microsoft Corporation, Redmond, Washington. Elected 1998. **A, D**

Deborah D. McWhinney
President, Internet Profiles Corporation, San Francisco, California Elected 1999. **D, P**

R.D. Corette
Attorney, Owner, Corette Pohlman & Kebe, Butte. Elected 1990. **D, P**

John R. Jester
President, Bargain Street LLC, Seattle, Washington. Elected 1995. **A, P**

Director Changes During the Past Year:
Beverly D. Harris retired from the board on December 31, 1999.

The Montana Power Company board typically meets on the fourth Tuesday of each month, except February, April, July and November, at various locations near principal operating centers of the company. Committees of the board meet as needed throughout the year.

A Members of the Audit Committee
D Members of the Committee on Directors' Affairs
E Members of the Executive Committee
P Members of the Personnel Committee

The board also maintains committees on contributions, retirement, finance, environment and safety, and mergers and acquisitions.

Annual Meeting of Shareholders
1:30 p.m., Tuesday, May 9, at the Mother Lode Theater in Butte, Montana.
■ Formal notice of the meeting, including proxy materials as well as this annual report for 1999, is being provided about 30 days in advance of the meeting to all shareholders of record as of March 3, 2000.

Robert P. Gannon
25 years' service
Chairman of the Board of Directors, Chief Executive Officer and President

Jerrold P. Pederson
34 years' service
Vice President, Chief Financial Officer

W. Stephen Dee
3 years' service
Vice President, Marketing

Pamela K. Merrell
18 years' service
Vice President, Human Resources, and Secretary

Michael E. Zimmerman
20 years' service
Vice President and General Counsel

Ellen M. Senechal
25 years' service
Treasurer

David S. Smith
25 years' service
Controller

Perry J. Cole
19 years' service
Vice President, Corporate Business Development

Daniel J. Sullivan
22 years' service
Chief Information Officer

Harry J. Freebourn
18 years' service
Assistant Treasurer

Ernest J. Kindt
25 years' service
Assistant Controller

Rose Marie Ralph
21 years' service
Assistant Secretary

Susan D. Breining
22 years' service
Assistant Secretary

ENERGY SERVICES OFFICERS

John D. Haffey
27 years' service
Executive Vice President and Chief Operating Officer

David A. Johnson
18 years' service
Vice President, Distribution Services

William A. Pascoe
21 years' service
Vice President, Transmission Services

ENERGY SUPPLY OFFICER

Richard F. Cromer
32 years' service
Executive Vice President and Chief Operating Officer

TELECOMMUNICATIONS OFFICERS

Michael J. Meldahl
18 years' service
Executive Vice President and Chief Operating Officer

Harry J. Freebourn
18 years' service
Treasurer

Perry J. Cole
19 years' service
Vice President, Business Development

Carol Giamona
7 years' service
Controller

Forward-looking information is subject to risk and uncertainty. Portions of this document may constitute "forward looking statements" as defined by federal law. Although the company believes any such statements are based on reasonable assumptions, there is no such assurance that actual outcomes will not be materially different. Any such statements are made in reliance on the "safe harbor" protections provided under the Private Securities Litigation Reform Act of 1995. Additional information about issues that could lead to material changes in performance is contained in the company's annual report on Form 10-K filed with the Securities and Exchange Commission.

energy, telecommunications and beyond

1999 Form 10-K | The Montana Power Company

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PART IV

*Incorporated by Reference

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the fiscal year ended December 31, 1999 OR

[__] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from ________ to ________.

Commission File Number 1-4566

THE MONTANA POWER COMPANY

(Exact name of registrant as specified in its charter)

MONTANA (State or other jurisdiction of incorporation or organization)	**81-0170530** (IRS Employer Identification No.)	
40 East Broadway, Butte, Montana (Address of principal executive offices)	**59701-9394** (Zip code)	**(406) 497-3000** (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange Pacific Exchange, Inc.
8.45% Cumulative Quarterly Income Preferred Securities, Series A of Montana Power Capital I, a subsidiary of The Montana Power Company	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of class
Preferred Stock

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ].

The aggregate market value of the voting stock held by nonaffiliates of the registrant was $4,602,632,651 at March 3, 2000.

On March 3, 2000, the Company had 105,555,466 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Notice of 2000 Annual Meeting of Shareholders and Proxy Statement, pages 1 - 30, is incorporated into Part III of this report.

PART I

When we use the terms "Montana Power," "we," "us," or "our" in this Form 10-K, we mean The Montana Power Company, a Montana corporation, together with its subsidiaries.

WARNINGS ABOUT FORWARD-LOOKING STATEMENTS

We are including the following cautionary statements to make applicable and take advantage of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by us, or on our behalf, in this Form 10-K. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are statements other than those of historical fact. Forward-looking statements may be identified, without limitation, by the use of the words "anticipates," "estimates," "expects," "intends," "believes," and similar expressions. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date that we file this Form 10-K.

Forward-looking statements that we make are subject to risks and uncertainties that could cause actual results or events to differ materially from those expressed in, or implied by, the forward-looking statements. These forward-looking statements include, among others, statements concerning our revenue and cost trends, cost recovery, cost-reduction strategies and anticipated outcomes, pricing strategies, planned capital expenditures, financing needs and availability, and changes in the utility and telecommunication industries and other industries in which we operate. Investors or other readers of the forward-looking statements are cautioned that these statements are not a guarantee of future performance and that the forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. Some, but not all, of the risks and uncertainties include:

- General economic and weather conditions in the areas in which we have operations;
- Competitive factors and the effects of restructuring in the electric, natural gas, and telecommunications industries;
- Sanctity and enforceability of contracts;
- Market prices;
- Environmental laws and policies and federal and state regulatory and legislative actions;
- Drilling successes in oil and natural gas operations;
- Changes in foreign trade and monetary policies;
- Laws and regulations related to foreign operations;
- Tax rates and policies and interest rates; and
- Changes in accounting principles or the application of such principles.

STOCK SPLIT

On June 22, 1999, the Board of Directors approved a two-for-one stock split of our outstanding common stock. As a result of the split, which was effective August 6, 1999, for all shareholders of record on July 16, 1999, 55,099,015 outstanding shares of common stock were converted to 110,198,030 shares of outstanding common stock. Unless otherwise noted, we have adjusted all share and per-share information in this Form 10-K to reflect the split.

ITEM 1. BUSINESS

GENERAL

The Montana Power Company was incorporated in 1961 under the laws of the state of Montana as the successor to a corporation formed in 1912. We engage in a number of diversified energy and communications businesses.

We regularly assess our business units and evaluate opportunities to create, develop, and maximize the value of our diverse businesses. The Board of Directors is considering various options to optimize the value of Touch America, Inc., our telecommunications subsidiary, and maximize shareholder value. On January 25, 2000, we announced that Goldman, Sachs & Co. will assist us in evaluating options with respect to implementing a strategy to separate Touch America from Montana Power. In pursuing this strategy, we will continue to investigate different approaches, including asset purchases and sales, the issuance of securities, and other transactions that may materially affect our results of operations, liquidity, dividends, capital structure, and capital resources. For additional information on how pursuing our strategies may affect our liquidity and capital resources, see Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), "Liquidity and Capital Resources."

Our business is organized as follows:

■ UTILITY

We operate regulated electric and natural gas utilities. Our electric and natural gas service territory covers approximately 107,600 square miles, or approximately 73 percent of Montana, making us one of the country's largest utilities in terms of service territory. Dominant industries operating within our service territory are mining, agriculture, selected manufacturing, railroads, tourism and recreation, and the forest-products industry. We serve approximately 439,000 customers, or approximately 80 percent of the population within our service territory. For information about how weather affects our utility operations, see MD&A, "Utility Operations."

Regulated Electric Utility

Our regulated electric utility purchases, transmits (movement of bulk quantities of energy), and distributes (movement of energy from transmission system to consumer) electric energy. We provide electric energy to 191 communities and their surrounding rural areas throughout Montana. We also provide electric energy to Yellowstone National Park and to cooperatives that serve approximately 76,000 residents.

On December 17, 1999, we sold substantially all of our electric generating assets to PPL Montana, LLC, a subsidiary of PP&L Global, Inc., for approximately $758,600,000. We have used some of the sales proceeds to repurchase shares of our common stock, and we have begun to use some of the proceeds to retire long-term debt. We also intend to use some of the proceeds to expand Touch America.

Pursuant to the terms of our Asset Purchase Agreement with PPL Montana, we would receive another $152,000,000 from PPL Montana if it were to acquire additional gross capacity in the Colstrip Units 1, 2, and 3 generating units located in Colstrip, Montana from Portland General Electric Company (Portland General) and Puget Sound Energy, Inc. (Puget). On February 29, 2000, the Oregon Public Utility Commission denied the application of Portland General for approval to sell Portland General's interest in the Colstrip Units 3 and 4 plants. We cannot predict the ultimate outcome of this proceeding.

For additional information on the sale, its accounting and regulatory implications, and our use of sale proceeds, see Note 5, "Sale of Electric Generating Assets," and MD&A, "Liquidity and Capital Resources."

Regulated Gas Utility

Our regulated natural gas utility purchases, transports, distributes, and stores natural gas. We provide natural gas to 109 communities throughout Montana.

■ NONUTILITY

Our nonutility businesses include telecommunications, coal, independent power, and oil and natural gas operations. We operate these businesses as subsidiary companies of our wholly owned subsidiary, Entech, Inc.

Telecommunications

Through Touch America, our telecommunications operation designs, develops, constructs, operates, maintains, and manages a fiber-optic network and wireless facilities. Touch America's fiber-optic network, which spans 14 states, is described in Item 2, "Properties," under the "Telecommunications Properties" section. Touch America provides wireless services mainly through Personal Communication Services (PCS) and Local Multi-Point Distribution Services (LMDS). Touch America also sells long-distance, Internet, and private-line services and telecommunications equipment.

Coal

Through Western Energy Company, we mine and sell coal at the Rosebud Mine in Colstrip, Montana, primarily to mine-mouth customers. Through Northwestern Resources Co., we mine and sell lignite at the Jewett Mine in central Texas, with all sales to one customer.

Independent Power

Through Continental Energy Services, Inc. (CES), our independent power operation develops, invests in, and operates independent power projects and other energy-related businesses. Through the Colstrip Unit 4 Lease Management Division, it also sells electricity from our leased interest in Colstrip Unit 4.

Oil and Gas

Our oil and natural gas operation explores for, develops, produces, processes, and sells oil and natural gas in the United States and Canada. Through our affiliate, The Montana Power Trading & Marketing Company (MPT&M), it also trades and markets crude oil, natural gas, and natural gas liquids.

Table The following table shows, for the last three years, revenues contributed by any class of similar products or services that accounted for 10 percent or more of consolidated revenues, which includes Earnings from Unconsolidated Investments.

Business Unit	***Percentage Of Revenues Contributed By Any Class Of Similar Products Or Services That Accounted For 10 Percent Or More Of Consolidated Revenues***		
	1999	**1998**	**1997**
Electric Utility	34%	36%	43%
Natural Gas Utility	-	-	12%
Telecommunications	-	-	-
Coal	15%	14%	16%
Independent Power	-	13%	-
Oil and Natural Gas	25%	17%	16%

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

For additional information on the financial results of our segments, including a discussion of revenues earned by Northwestern Resources from sales to a single customer and revenues earned by our independent power operations from sales to two customers, see Note 13, "Information on Industry Segments."

ELECTRIC UTILITY OPERATIONS

■ ELECTRIC TRANSMISSION SYSTEM

Our electric transmission system forms an integral part of the Northwest Power Pool. This pool consists of the major electric suppliers in the Pacific Northwest region of the United States; British Columbia, Canada; and parts of Alberta, Canada.

In April 1996, the Federal Energy Regulatory Commission (FERC) issued Order No. 888 and Order No. 889 requiring utilities to allow open use of their transmission systems by other utilities and power marketers. Since then, a number of companies (including MPT&M when it traded and marketed electricity) have used our transmission system to transmit power across our system under terms, conditions, and rates defined in our FERC open access transmission tariff (OATT), which became effective in July 1996.

In May 1999, FERC began a rulemaking process to establish its authority regarding Regional Transmission Organizations (RTOs). An RTO is an organization that attempts to capture synergies and efficiencies created by combining individually operated transmission systems into a single operation, focusing on operational and strategic transmission issues. On December 20, 1999, FERC issued Order No. 2000, its most recent order regarding RTOs. The goal of Order No. 2000 is the voluntary and timely formation of RTOs by all public utilities that own, operate, or control interstate transmission facilities. In accordance with the FERC Order, we must file a proposal with FERC by October 15, 2000, describing our efforts to participate in an RTO that will be operational by December 15, 2001. If efforts to participate in an RTO are unsuccessful, then we must describe our plans to overcome particular obstacles as we continue to work toward RTO participation.

We are a member of the Western Systems Coordinating Council (WSCC), organized by 84 member systems and 21 affiliates in the 14 western states of the United States; British Columbia, Canada; Alberta, Canada; and Mexico. The WSCC seeks to ensure reliability of the interconnected transmission system.

We participate in an interconnection agreement with Avista Corporation, IdaCorp, Inc., and PacifiCorp (which was acquired by Scottish Power). This agreement provides for the sharing of transmission capacity of certain lines on the interconnected systems. We also operate, in coordination with our own transmission lines and facilities, the Colstrip transmission lines and facilities, which connect to the four Colstrip generating units.

Together with Western Area Power Administration (WAPA), effective July 1, 1999, we terminated a long-standing bilateral transmission arrangement, and replaced it with service agreements under our respective OATTs. While certain details remain to be completed, service has commenced pursuant to those OATT service agreements.

We have been a party to the Pacific Northwest Coordination Agreement (PNCA), which coordinates the hydroelectric operations of the 18 parties' hydroelectric generating facilities in the Columbia River Basin. Pursuant to the Asset Purchase Agreement with PPL Montana and the sale of the Kerr and Thompson Falls hydroelectric facilities (our former facilities that were coordinated under the PNCA), we agreed to assign our interest in the PNCA to PPL Montana. We did not assign this interest at the December 17, 1999, closing of our transaction with PPL Montana because we had not obtained all necessary consents and regulatory approvals by that date. We have now obtained the consent of the other parties to the PNCA for this assignment, which remains subject to FERC approval. On February 25, 2000, we submitted a joint filing with PPL Montana to seek FERC approval of the assignment. We expect FERC to take action on the filings by May 2000.

■ ELECTRIC SUPPLY OBLIGATIONS

Montana's Electric Industry Restructuring and Customer Choice Act (Electric Act) provided our large industrial customers with choice of commodity supply beginning July 1, 1998; pilot supply programs for our residential and small commercial customers beginning November 2, 1998; and choice of supply for all of our customers no later than July 1, 2002. The Electric Act also defined the role of the Montana Public Service Commission (PSC) in licensing suppliers in the state, regulating distribution services, and promulgating rules to prohibit anti-competitive and abusive practices. For additional information on Montana's Electric Act and the regulatory environment in which our electric utility operates, see Note 4, "Deregulation and Regulatory Matters."

Under the Electric Act, we are obligated to continue to supply electric energy to customers in our service territory who have not chosen, or have not had an opportunity to choose, other power suppliers during the transition period. This obligation requires us to have a sufficient power supply to meet these customers' electric needs. Our sales agreement with PPL Montana includes buyback contracts pursuant to which we expect to purchase electric energy from PPL Montana to supply our remaining customers. The buyback contracts are effective through December 31, 2001, and June 30, 2002, after which we may be required to act as a "default supplier" and supply our remaining customers. At that time, we will purchase energy as necessary in the secondary market. We expect to recover any costs related to this electric supply through rates charged to these customers. For additional information on the effects of deregulation, see Note 4, "Deregulation and Regulatory Matters."

■ COMPETITIVE ENVIRONMENT

Our regulated electric utility is now primarily a transmission and distribution services utility, and the PSC continues to regulate our transmission and distribution services and approve the rates that we charge for these services. By selling substantially all of our electric generating assets to PPL Montana, we eliminated a high-risk activity. The buyback contracts entered into with PPL Montana – together with the sale of our assets – eliminate our operational risk. While we may be required to serve as the "default supplier" after the transition period ends on July 1, 2002, we expect to recover costs incurred to serve these customers. For information regarding commodity price risk that we face as a result of the sale of our generating assets, see Note 3, "Commitments," in the "Sales Commitments" section. For additional information on Montana's Electric Act and the regulatory environment in which our electric utility operates, see Note 4, "Deregulation and Regulatory Matters." For information on the sale of substantially all of our electric generating assets, see Note 5, "Sale of Electric Generating Assets."

NATURAL GAS UTILITY OPERATIONS

■ NATURAL GAS REQUIREMENTS

Natural gas supply requirements in 1999 totaled 18,828 thousands of dekatherms (MDkt), of which 6,973 MDkt were purchased from third-party contracts with Montana suppliers and 1,160 MDkt were purchased from third-party contracts with Canadian suppliers. We purchased a total of 10,695 MDkt, or approximately 56.8 percent of the natural gas supply requirements for the year, from our unregulated affiliates. We estimate that our natural gas requirements for 2000 will be approximately 20,230 MDkt.

■ NATURAL GAS RESOURCES

We fulfill our natural gas requirements through our unregulated affiliates, which have access to natural gas in the United States and in Canada, third-party contracts with Montana suppliers, and third-party contracts with Canadian suppliers. We take delivery of all natural gas within the Montana border. Approximately two-thirds of our nonaffiliated gas purchases have contract terms of one year, from November through October. We anticipate that our unregulated businesses and third-party contracts will supply our natural gas requirements for 2000.

■ GAS TRANSPORTATION

We transported natural gas volumes of 24,426 MDkt in 1999, 27,516 MDkt in 1998, and 26,478 MDkt in 1997. We expect to transport approximately 24,000 MDkt in 2000. The reduction in transportation volumes is due primarily to anticipated weaker off-system markets and the loss of a large industrial, on-system transportation customer.

■ COMPETITIVE ENVIRONMENT

Montana's Natural Gas Utility Restructuring and Customer Choice Act (Natural Gas Act) provided that natural gas utilities, such as Montana Power, could offer customers choice of natural gas suppliers and provide open access. Because restructuring is voluntary, no deadline for choice exists. Montana's Natural Gas Act also defined the PSC's role in licensing suppliers in the state, regulating transportation and distribution services, and promulgating rules to prohibit anti-competitive and abusive practices. For additional information on Montana's Natural Gas Act and the regulatory environment in which our natural gas utility operates, see Note 4, "Deregulation and Regulatory Matters."

TELECOMMUNICATIONS OPERATIONS

■ BUSINESS

Touch America is expanding its nationwide fiber-optic network. We expect Touch America's fiber network to extend approximately 23,000 miles by the end of 2001. For information on Touch America's fiber-optic network, see Item 2, "Properties," in the "Telecommunications Properties" section.

Touch America is constructing a fiber network, in conjunction with AT&T, that will span more than 4,300 miles. The network includes new fiber routes from Minneapolis to Chicago; from St. Louis, Missouri to Plano, Illinois; from Sacramento to Salt Lake City; from Salt Lake City to Denver; and from Denver through Nebraska and Iowa to Chicago. We expect various third parties, including AT&T, to cover approximately one-half of our estimated $500,000,000 total project cost.

In January 2000, Touch America announced an exchange of fiber and conduits with PF.Net, a telecommunications company based in New Jersey. Touch America will receive approximately 5,900 route miles from PF.Net, with all segments expected to be complete by the end of 2001.

Touch America is focused on increasing network traffic principally through a combination of relationships with anchor customers (large-volume commercial or wholesale customers), alliances with third parties, and acquisitions. Touch America continues to provide wholesale services through leasing lit (fully operational) or dim (regeneration equipment but no optical equipment) fiber capacity, and selling dark (no optical or regeneration equipment) fiber to other telecommunications companies.

Touch America and New Century Energies entered into a joint venture in 1999, Northern Colorado Telecommunications LLC, to provide a full range of telecommunications services, including private-line services, to enterprises in the Denver metropolitan area. Primarily through its PCS and LMDS technologies, Touch America is creating "last-mile" connections, which connect a fiber network via wireless applications. In 1999, Touch America and US WEST Wireless entered into a joint venture, TW Wireless (TWW), to provide "one number" telephone service in an eight-state region of the Pacific Northwest and Upper Midwest. That service provides a customer with one directory number for cell phone and home or business telephones.

On March 13, 2000, Touch America signed an agreement with Qwest Communications International Inc. to acquire wholesale, private-line, and long-distance telecommunications services, which currently serve approximately 250,000 customers in the Pacific Northwest, Rocky Mountain, and Upper Midwest regions. Touch America also would acquire approximately 1,800 route miles of fiber within these regions.

For additional information on Touch America's alliances and acquisitions, see Note 3, "Commitments," in the "Telecommunications" section.

■ COMPETITIVE ENVIRONMENT

Our low-cost fiber network helps us to compete in national and regional telecommunications markets. We attempt to mitigate the risks inherent in the telecommunications industry by expanding our fiber-optic network and increasing traffic on that network. We also believe that our presence in the telecommunications industry for more than 16 years has provided us with experience that will help reduce our risks.

The trend in telecommunications toward business combinations and alliances is creating new competitors with resources greater than ours. To succeed, we must continually change and improve our products in response to rapid technological developments and changes in operating systems, Internet access and communications, application and networking software, and computer and communications hardware. The development of new, technologically advanced products and services is a complex and uncertain process requiring constant innovation and the ability to anticipate technological and market trends.

We mitigate this risk through our joint-venture alliances with other telecommunications companies. Some of these joint ventures, because they are highly leveraged, expose us to interest rate and financing risk.

In providing interstate telecommunications services, we comply with federal telecommunications laws and regulations prescribed by the Federal Communications Commission. At the state level, we are subject to regulations by the various state public service commissions. We do not expect actions by these regulatory agencies to adversely affect our operations.

COAL OPERATIONS

■ BUSINESS

At our Rosebud Mine in Colstrip, Montana, in the northern Powder River Basin, Western Energy surface-mines coal and, after crushing, sells it without further preparation. Rosebud Mine's primary customers are the owners of the four mine-mouth units in Colstrip, making up approximately 90 percent of Western Energy's 1999 coal sales volumes. During 1999, Western Energy mined and sold 10,601,000 tons, of which 3,295,000 tons were affiliated sales. We estimate production to be 11,415,000 tons in 2000, and 11,413,000 tons in 2001.

Northwestern Resources' Jewett Mine, located in central Texas, supplies surface-mined lignite under a long-term lignite supply agreement (LSA) to the two electric generating units located adjacent to the mine. Reliant Energy (Reliant) owns these electric generating units. Northwestern Resources sold 8,934,702 tons in 1999. We estimate that Northwestern Resources' production for 2000 will be 7,800,000 tons, and approximately 8,000,000 tons annually thereafter.

■ COMPETITIVE ENVIRONMENT

We sell our current production from the Rosebud and Jewett mines under long-term contracts to mine-mouth customers. Western Energy's Rosebud Mine supplies all of the coal requirements of the Colstrip Units under separate contracts for Units 1 and 2 versus Units 3 and 4. The coal supply agreement between Western Energy and the owners of Colstrip Units 1 and 2 provides for a final price re-opener in 2001. An Amended and Restated Coal Supply Agreement dated August 28, 1998, settled coal contract disputes and future coal price re-openers with the owners of Colstrip Units 3 and 4. Prior to mid-2000, Western Energy expects to see a modest profit reduction as a result of the settlement. In mid-2000, the new pricing provisions of the Amended and Restated Coal Supply Agreement take effect. When the new pricing provisions of the Amended and Restated Coal Supply Agreement are fully implemented in 2002, we expect pretax income to decrease from current levels by $12,000,000 per year. We expect this decrease to be partially offset by efficiency and cost-savings measures of $2,000,000. The December 17, 1999, sale of our interests in Colstrip Units 1, 2, and 3 did not affect the terms of the coal supply agreements with Colstrip Units 1 and 2 or Units 3 and 4.

The Rosebud Mine also sells coal to other parties because it has production capacity exceeding the fuel requirements for the Colstrip Units. Competition for these sales comes from Montana and Wyoming Powder River Basin producers located south of the mine. These producers generally experience lower operating costs and lower sulfur content than the coal from the Rosebud Mine. Therefore, we anticipate only modest contract sales and no significant spot market sales for the foreseeable future.

Reliant is the purchaser of lignite produced by Northwestern Resources. The LSA requires Northwestern Resources to produce enough lignite to meet Reliant's demand through July 30, 2015. The LSA provides for cost reimbursement plus approximately $25,000,000 per year from the payment of management and dedication fees charged under the LSA pricing terms.

In late 1998, Reliant and Northwestern Resources settled litigation regarding the pricing terms of the LSA and signed a letter of intent regarding amendments to the LSA. This 1998 letter of intent was superseded by a Settlement Agreement and Amendment of Existing Contracts in 1999. The Settlement Agreement allows Reliant to blend petroleum coke with the lignite at a 20/80 ratio. As of December 31, 1999, Reliant had not obtained certain required permits to implement this change. Recently enacted electric power deregulation in Texas calls for emission reductions for generating units in the state. The effect of these environmental changes on Reliant's ability to use petroleum coke will be assessed in 2000.

Under the terms of the settlement, lignite prices will continue to be set under pre-settlement pricing terms through June 30, 2002. From July 1, 2002, through July 30, 2015, lignite prices will be the lesser of (1) a redetermined price set to be competitive with Powder River Basin coal supplies (subject to an established minimum), or (2) the price that would have otherwise been paid under the pre-settlement pricing terms. Northwestern Resources expects that, if the market value of Powder River Basin coal stays flat until the agreement is fully implemented, the competitive-pricing structure could result in a reduction of annual pretax income of approximately $7,000,000 beginning July 1, 2002, through July 30, 2015. Northwestern Resources plans to mitigate this effect through efficiency and cost-savings measures.

INDEPENDENT POWER OPERATIONS

■ BUSINESS

CES develops and invests in independent power projects. CES' Colstrip 4 Lease Management Division sells the leased share of Colstrip Unit 4 generation principally to the Los Angeles Department of Water and Power (LADWP) and to Puget under contracts with terms coexistent with the lease associated with the 1985 sale-leaseback of our interest in Colstrip Unit 4 (expiring December 29, 2010). In December 1999, an agreement with the LADWP terminated the existing agreement (11 years remaining) and established a new agreement. We received approximately $106,000,000 from the LADWP as a result of the termination of the existing agreement and the establishment of the new agreement and were not adversely affected by the transaction. The LADWP has assigned all of its rights and obligations under the new agreement to a third party.

CES, through a wholly owned subsidiary, holds a managing general partner interest in the 255 MW Encogen One Project located in Sweetwater, Texas. For more information on CES' projects, see Item 2, "Properties," under the "Independent Power Properties" section.

In 1998, CES sold its share of the Lockport Project in the state of New York. CES also participated in the settlement of a power-purchase agreement with respect to a different project in New York. As a result of this settlement, the project owners dismantled the plant and CES exited the partnership in 1999.

■ COMPETITIVE ENVIRONMENT

Most of CES' current revenues are derived from long-term power supply contracts. Some long-term power supply contracts in the nonutility power industry are under pressure from customers to negotiate pricing. CES works with its partners and customers to attempt to mitigate effects of contracts that may reflect pricing higher than current market prices. CES also seeks to target specific industrial customers for future expansion and establish itself as the provider of choice for onsite generation projects.

OIL AND NATURAL GAS OPERATIONS

■ BUSINESS

We conduct our oil and natural gas operations primarily through our United States subsidiaries, which include North American Resources Company, MP Gas Company, and Altana Exploration Co., and our Canadian subsidiaries, which include Altana Exploration Ltd. and Canadian-Montana Gas Company Limited. Effective January 1, 2000, we combined all of the assets, liabilities, and shareholders' equity of Canadian-Montana Gas Company into Altana Exploration Ltd.

MPT&M principally trades crude oil, natural gas, and natural gas liquids commodities and derivatives.

■ COMPETITIVE ENVIRONMENT

Our nonutility oil and natural gas businesses compete with major oil and natural gas companies and other independent and individual producers and operators. For our natural gas operations in the United States, we intend to emphasize development of midstream, fee-based gas gathering and gas processing services in a strategic transition away from the natural gas commodity exploration and production business. We intend to focus our efforts in Canada on natural gas production and developing markets, primarily in southeast Alberta.

We currently sell natural gas production in both the United States and Canada under short-term, spot-market, and long-term contracts. Approximately 9.0 Mmcf, or 4 percent of our United States natural gas reserves, are dedicated to a long-term contract expiring in 2007. Approximately 105,831 Mmcf, or 84 percent of our Canadian natural gas reserves, are dedicated to long-term contracts expiring 2003 through 2005.

Additionally, our affiliate, MPT&M, competes for our former natural gas utility customers who have exercised consumer choice.

ENVIRONMENTAL ISSUES

■ GENERAL

Our diversified businesses subject us to numerous federal, state, and local environmental laws and regulations relating to pollution control and prevention and environmental remediation, including laws and regulations regarding clean air and water and the cleanup of contamination related to past business operations. We accrue an appropriate amount of estimated costs associated with reasonably foreseeable potential environmental cleanup costs. We do not expect these costs to materially affect our consolidated financial position, results of operations, or cash flows.

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), and some of its state counterparts, may require us to remove or mitigate adverse environmental effects resulting from the disposal or release of certain substances at sites that we owned or presently own, or at sites where these substances were disposed. We do not know the amount of costs associated with current site remediation efforts or future remediation because of uncertainties relating to, among other matters, the following:

- We do not know all sites for which we may be alleged or found to be responsible.

- We cannot estimate with any degree of reasonable certainty the total costs for sites that we have identified.

We do not expect the unknown costs to have a materially adverse effect on our consolidated financial position, results of operations, or cash flows.

■ SILVER BOW CREEK/BUTTE AREA SUPERFUND SITE

We are a Potentially Responsible Party (PRP) at the Silver Bow Creek/Butte Area Superfund Site. A Consent Decree recognizing our "de minimis" contributor status is pending approval of the United States District Court for the District of Montana. Upon approval of the Consent Decree, and payment of $100,000, we would receive a release from further liability for cleanup costs. Further, the Consent Decree would provide contribution protection in the event other PRPs claim contribution for cleanup costs they expend. Given the expected approval of the Consent Decree, the substantial financial capability of other PRPs named by the Environmental Protection Agency (EPA), and the limited connection between our property ownership along with the "mining-related" character of the alleged contamination of this site, we do not believe we are exposed to material liability regarding this site.

We will, however, continue to address alleged soils contamination of the 30 acres of this site that we own. We do not expect cleanup costs to be material.

■ MILLTOWN DAM SITE

Toxic heavy metals in the silts resting behind the dam caused the EPA to include Milltown Dam on its list of priority CERCLA sites. The EPA is continuing its study of this situation, and its Record of Decision that will identify remedial actions and the party or parties responsible for them is expected in 2001. We believe that we have no responsibility for any remediation of any alleged releases at the Milltown Dam because of a specific statutory exemption in the CERCLA legislation.

■ THOMPSON FALLS

The Montana Department of Environmental Quality (MDEQ) has listed the reservoir at the Thompson Falls Dam as a Comprehensive Environmental Cleanup and Responsibility Act (CECRA) site – Montana's equivalent of a CERCLA National Priority List site. In 1985 and 1986, researchers found elevated levels of heavy metals in sediments in the reservoir. The EPA declared the site a "No Further Action" site pursuant to CERCLA. The MDEQ identified the site as a "Low Priority Site" because of the low probability of direct human contact and the lack of evidence of migration to groundwater supplies. Given the low priority designation for this site, the risk of material remediation is very low. As discussed in Note 5, "Sale of Electric Generating Assets," we retained pre-closing environmental liability relating to this CECRA listing when we sold the dam to PPL Montana.

■ SALE OF ELECTRIC GENERATING ASSETS

For further information concerning our environmental liabilities associated with the generating assets sold to PPL Montana, see Note 5, "Sale of Electric Generating Assets."

■ SITES OF MANUFACTURED GAS PLANTS

We have voluntarily cleaned up two sites where we operated manufactured gas plants, spending approximately $675,000. We have inspected and assessed a third site. We are required to periodically monitor groundwater at the first two sites and report our results to the MDEQ. We have not completed discussions with the MDEQ and local regulatory agencies regarding the third site. Although we do not expect that we will be required to remediate the third site, we are likely to be required to monitor the groundwater at this site for an indefinite period. We do not expect the costs of monitoring to be material.

■ OIL AND NATURAL GAS

Our Canadian subsidiaries are involved with abandonment and remediation of depleted wells and surface facilities in Alberta, Canada. This work addresses cleanup under the direction of Alberta Environmental and reflects normal activity within the oil and gas industry. Approximately 35 sites are under active reclamation. We have completed cleanup of 70 sites through 1999, of which 31 sites are either awaiting final inspection by Alberta Environmental or are in the final stages of monitoring vegetation growth, which must occur before we can apply for cleanup certification. Since 1995, we have spent approximately $800,000 (United States dollars) for cleanup of the identified sites. We estimate that we will spend an additional $500,000 (United States dollars) for cleanup of affected sites through the year 2004. This estimate may change depending on acquisitions or divestitures of Canadian properties that may occur over the five-year period.

EMPLOYEES

At December 31, 1999, we had 2,416 employees. Of these, 754 are members of collective bargaining units involving 11 unions. Current union contracts will expire at various times during the next three years. The December 17, 1999, sale of our electric generating assets resulted in the transfer of 474 persons to PPL Montana, which we have reflected in the above figures.

FOREIGN AND DOMESTIC OPERATIONS

We believe that financial information relating to the segment information for foreign and domestic operations and export sales, other than the information previously disclosed regarding our Canadian subsidiaries, is immaterial.

ITEM 2. PROPERTIES

ELECTRIC UTILITY PROPERTIES

Our electric transmission system extends through the western two-thirds area of Montana. At December 31, 1999, we owned and operated 6,833 miles of transmission lines and 16,017 miles of distribution lines.

Our electric resource capacity is provided by two power-purchase agreements with PPL Montana, 15 Qualifying Facility (QF) contracts that total 101 MWs of firm winter peak capacity, and Milltown Dam (3 MWs gross capacity). For additional information on our power-purchase agreements, see Note 3, "Commitments," in the "Purchase Commitments" section.

NATURAL GAS UTILITY PROPERTIES

We serve all of our natural gas customers from our transportation system, which extends through the western two-thirds area of Montana. At December 31, 1999, we owned and operated 2,120 miles of natural gas transportation lines and 3,598 miles of distribution mains. We also have four natural gas storage fields, which are an important part of our transportation system. These fields enable us to store natural gas in excess of system load requirements during the summer for delivery during winter periods of peak demand, enhancing system reliability.

While our unregulated businesses now operate the natural gas producing properties, our natural gas utility still produces a small amount of natural gas from fields in southern Montana and Wyoming to maintain our natural gas storage leases. See Item 8, "Financial Statements and Supplementary Data – Oil and Natural Gas Producing Activities," for additional information relating to our net recoverable utility natural gas reserves.

Table Total produced, royalty, and purchased natural gas volumes during the last three years follow, with all volumes in MDkt:

	United States			Canada		
	Produced	Royalty	Purchased	Produced	Royalty	Purchased
1999	-	-	17,668	-	-	1,160
1998	-	-	10,798	-	-	9,440
1997	3,784	294	8,334	3,420	683	7,170

TELECOMMUNICATIONS PROPERTIES

Touch America has staffed offices in Minneapolis, Minnesota; Fargo, North Dakota; Billings, Bozeman, Helena, Butte, Great Falls, Kalispell, and Missoula, Montana; Boise, Idaho; Spokane and Seattle, Washington; Eugene, Oregon; Casper, Wyoming; and Denver, Colorado. Touch America owns 25 LMDS licenses in various marketing areas within nine states in the Pacific Northwest, Rocky Mountain, and Upper Midwest regions of the United States.

■ JOINT VENTURES

Table | Primarily through Touch America, we hold interests in joint ventures as listed below:

Partnership Project	Location	Partnership Owners	Ownership Interest
FTV Communications LLC (FTV)	-	Touch America	33.3%
		Enron Broadband Services	33.3%
		Williams Communications	33.3%
Iowa Telecommunications Services, Inc. (ITS)	Iowa	Touch America	30.7%
		Iowa Network Services	69.3%
Northern Colorado Telecommunications LLC	Denver, CO	Touch America	50.0%
		NCE Communications	50.0%
TW Wireless, LLC (TWW)	-	Touch America	50.0% (Approx.)
		U S WEST Wireless	50.0% (Approx.)
America Fiber Touch, LLC (AFT)	-	Touch America	50.0%
		AEP Communications	50.0%
Minnesota PCS, LP	Minnesota	Touch America	25.0%
		Others	75.0%
New Horizon Technology Energy Services, LLC	Butte, MT	Tetragenics (a)	50.5%
		NCAT (NHT)	37.0%
		Williams	12.5%

(a) Tetragenics is a wholly owned subsidiary of Entech.

FIBER-OPTIC NETWORK

Through Touch America, we own or hold interests in the fiber-optic routes listed below:

OPERATIONAL

Route	Route Miles
Within Montana	1,615
Seattle-Minneapolis	2,033
Denver-Montana-Canadian Border	1,070
Minneapolis-Green Bay-Chicago	544
Denver Metropolitan Area	230
Denver-Colorado Springs-Dallas	1,302
Spokane-Boise	487
Portland-Boise-Salt Lake City-Las Vegas-Los Angeles	1,715
Portland-Seattle	200
Portland-Sacramento-Los Angeles (b)	1,500
Total Operational Route Miles	10,696

(b) The Portland-to-Sacramento section of this route has been delayed due to permitting issues.

Touch America either holds title to, or has contractual rights in, the above operational route miles. Those route miles not owned by Touch America are held principally through Indefeasible Rights-of-Use (IRUs).

UNDER CONSTRUCTION

Route	Route Miles	Anticipated Operational Date
Minneapolis-Des Moines-Topeka-Denver (c)	1,050	2000
Rexburg-American Falls, ID	280	2000
Salt Lake City-Denver	632	2000
Seattle-Yakima-Spokane	400	2000
Spokane-Billings	625	2000
Minneapolis-Madison-Chicago	500	2000
St. Louis-Plano, IL	330	2000
Houston-New Orleans-Jacksonville	1,050	2000
Chicago-Detroit	400	2000
Sacramento-Salt Lake City	770	2001
Denver-Omaha-Des Moines-Chicago	1,100	2001
Los Angeles-San Diego-Phoenix-Dallas-Houston	2,330	2001
Jacksonville-Orlando-Atlanta	560	2001
Atlanta-Washington, DC-New York City	1,140	2001
St. Louis-Kansas City	285	2001
Kansas City-Tulsa	265	2001
Tulsa-Dallas	330	2001
Total Route Miles Under Construction	12,047	

(c) This route will become operational in 2000, pending signing of the contract.

The above tables do not include the 1,800 miles that Touch America expects to acquire as a result of the agreement with Qwest signed on March 13, 2000.

COAL PROPERTIES

Western Energy leases and produces coal from Montana properties, and Northwestern Resources leases and produces lignite from Texas properties. Western Energy's subsidiary, Western SynCoal LLC (Western SynCoal), owns a patented coal-enhancement process and a coal-enhancement process demonstration plant at the Rosebud Mine that Western Energy operates.

Western Energy has coal leases covering approximately 497,686,000 proved, probable, and recoverable tons of surface-mineable coal reserves at Colstrip. These tons average less than 1.6 pounds of sulfur dioxide per MMBTU. Approximately 211,809,000 tons of these reserves are committed to present contracts, relating principally to the Colstrip Units.

Northwestern Resources has lignite leases in central Texas at the Jewett Mine covering approximately 144,500,000 proved, probable, and recoverable tons of surface-mineable lignite reserves. Northwestern Resources has dedicated all of these reserves to Reliant.

INDEPENDENT POWER PROPERTIES

Table Through CES, we partially own or have contract rights in nonutility power generation projects as listed below:

■ PROJECTS IN OPERATION

Project	Location (Commercial Operation)	Ownership Interest	Rated Capacity MW	CES Share MW	Customer Electricity	Customer Thermal
Encogen One (a)	Sweetwater, TX (1989)	49.9%	255	128	Texas Utilities Electric Co.	U.S. Gypsum
Tenaska-Paris (b)	Paris, TX (1989)	10.0%	223	22	Texas Utilities Electric Co.	Campbell Soup Co.
Teesside (c)	United Kingdom (1993)	3.2%	1,725	56	Various U.K. customers	—
Tenaska-Ferndale	Ferndale, WA (1994)	25.1%	245	61	Puget Sound Energy	Tosco Corp.
Doctor Bird	Old Harbour, Jamaica (1995)	17.6%	74	13	Jamaica Public Service	None
Tenaska-Cleburne	Cleburne, TX (1997)	13.4%	258	35	Brazos REA	City of Cleburne
Total CES Share of Rated Capacity MW				315		

(a) CES holds a managing partner interest in this project (through its wholly owned subsidiary, Enserch Development Corporation One, Inc).
(b) This co-generation facility has a long-term contract with North American Resources Company (Entech's subsidiary) to purchase a portion of its natural gas supply.
(c) Interest is the contractual right to utilize one-third of 168 MWs of capacity to produce electricity for sale from a 1,725 MW natural gas-fired electric generating facility.

PROJECTS UNDER CONSTRUCTION

Project	Location (Commercial Operation)	Ownership Interest	Rated Capacity MW	CES Share MW	Customer Electricity	Customer Thermal
Tenaska-Frontier (Grimes County)	Grimes County, TX (2000)	25.0%	830	208	Power Team, a division of PECO Energy Company	None
Uch Power Limited	Uch, Pakistan (2000)	3.2%	586	19	Pakistan Water & Power Department	None
Total Anticipated CES Share of Rate Capacity MW				227		

OIL AND NATURAL GAS PROPERTIES

Table Listed below is information on our nonutility natural gas and oil wells as of December 31, 1999, including the owned or leased properties in which the wells are located.

	United States Leased	United States Owned	Canada Leased
Gross productive natural gas wells	1,515	164	527
Net productive natural gas wells	1,010.08	76.14	55.45
Gross productive oil wells	92	-	68
Net productive oil wells	86.22	-	48.73
Gross producing acres	501,361	41,525	262,353
Net producing acres	338,443	35,197	221,354
Gross undeveloped acres	514,109	14,373	333,577
Net undeveloped acres	322,833	12,797	258,592

Our producing oil and natural gas properties in the United States are principally located in Wyoming, Colorado, Oklahoma, and Montana. Our Canadian properties are principally located in Alberta. One of our subsidiaries has agreements to supply 81 Bcf of natural gas to four co-generation facilities over a period of 5 to 11 years, for which there are sufficient proved, developed, and undeveloped reserves, and controls related sales of production, sufficient to supply all of the remaining natural gas required by those agreements. Approximately 9.0 Bcf are dedicated to supply one of these contracts.

The United States wells listed above include multiple completions of 269 gross productive natural gas wells, or 214 net productive natural gas wells. They also include 3 gross productive oil wells, or 3 net productive oil wells. The wells located in Canada include multiple completions of one gross productive natural gas well, or a 0.5 net productive natural gas well.

Table The following table presents information on our nonutility oil and natural gas exploratory and development wells drilled during the past three years.

	United States			Canada		
	1999	1998	1997	1999	1998	1997
Net productive natural gas exploratory wells	-	0.96	1.86	-	3.34	4.30
Net productive oil exploratory wells	-	-	1.00	-	-	-
Net productive natural gas development wells	52.11	53.84	41.50	122.38	73.50	1.30
Net productive oil development wells	-	-	2.87	-	0.98	15.11
Net dry exploratory wells	2.31	1.13	0.34	-	0.50	1.13
Net dry development wells	10.04	0.45	0.25	7.00	7.00	-

For information on properties acquired, see Item 8, "Supplementary Data – Oil and Natural Gas Producing Activities."

No significant change has occurred and no event has taken place since December 31, 1999, that would materially affect the estimated quantities of proved reserves. For information pertaining to the net recoverable oil and natural gas reserves, see Item 8, "Supplementary Data – Oil and Natural Gas Producing Activities."

Table The following table presents information on produced oil and natural gas average sales prices and production costs in United States dollars for the past three years.

	Year Ended December 31					
	1999		1998		1997	
	United States	Canada	United States	Canada	United States	Canada
Average sales price:						
Per Mcf of natural gas	$ 1.74	$ 1.69	$ 1.45	$ 1.39	$ 1.94	$ 1.38
Per barrel of oil	16.16	15.40	12.96	11.36	20.42	18.77
Per barrel of natural gas liquids	11.81	10.97	9.10	10.12	10.12	15.64
Average production cost:						
Per barrel of oil equivalent	$ 3.79	$ 2.84	$ 3.95	$ 2.95	$ 4.13	$ 3.02

NOTE: We converted natural gas production to barrel-of-oil equivalents based on a ratio of 6 Mcf to 1 barrel of oil.

We sold nonutility oil, natural gas, and natural gas liquids production pursuant to short-term and long-term contracts at posted prices or pursuant to forward-market arrangements. From 1997 to 1999, average sales prices changed due to market fluctuations. Natural gas sales include the sale under a contract with our utility operations to supply customers who have not chosen other natural gas suppliers. This contract expires November 1, 2002. Average production costs in the United States decreased as a result of the prior year inclusion of non-recurring environmental and compliance work required on the processing facilities and operating efficiencies in both the United States and Canada.

MORTGAGE AND DEED OF TRUST

A Mortgage and Deed of Trust (Mortgage) subjects all of our physical properties, except subsidiary company assets and certain specified properties and assets now owned or hereafter acquired, to a first mortgage lien.

ITEM 3. LEGAL PROCEEDINGS

PALADIN ASSOCIATES, INC.

We and North American Resources Company (NARCO), Entech's subsidiary, are defendants in litigation initiated in October 1995 by Paladin Associates, Inc. in the United States District Court for the District of Montana. Paladin, a natural gas broker that transported natural gas on our pipeline system, alleges that Northridge Petroleum Marketing, a Canadian corporation, NARCO and Montana Power violated antitrust law, breached contractual obligations, and committed torts for which Paladin is entitled to collect monetary damages. Paladin is seeking actual damages that it estimates to be approximately $10,000,000, which, if trebled, would amount to $30,000,000. In addition, it seeks unspecified punitive damages regarding its tort claims.

We and NARCO deny Paladin's allegations. Because the alleged wrongful and illegal antitrust actions were subject to state and federal regulation, we and NARCO are asserting a state action defense. Summary judgment motions and motions to limit issues at the trial are pending the court's determination. The previously scheduled January 2000 trial of this matter has been postponed and has not been rescheduled.

TCA BUILDING COMPANY

Entech and Northwestern Resources, its subsidiary, are defendants in litigation initiated by TCA Building Company in 1995 in the 261st Judicial District Court in Travis County, Texas. TCA alleged that Entech and Northwestern Resources breached obligations to assist it in mining its property, that alleged promises underlying these obligations were tainted by fraud, and that our subsidiaries wrongfully interfered with a contract and a business opportunity for TCA to sell lignite. TCA alleges that its damages, in addition to unspecified exemplary damages, are between $8,000,000 and $13,500,000. Entech and Northwestern Resources have asserted counterclaims that would substantially reduce these alleged amounts.

The Texas district court granted motions filed by Entech and Northwestern Resources for summary judgment on all of TCA's claims. We cannot predict whether TCA will appeal or the ultimate resolution of TCA's claims.

For additional information on legal proceedings, see the "Environmental Issues" section of Item 1, "Business," and Note 2, "Contingencies."

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

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

COMMON STOCK INFORMATION

Our common stock is listed on the New York Stock Exchange and the Pacific Exchange, Inc. The following table presents the high and low sale prices of our common stock, as well as dividends declared, for the years 1999 and 1998. The number of common shareholders of record on December 31, 1999, was 31,976, and the number of common shareholders of record on March 3, 2000, was 31,778. As discussed in Part I, the Board of Directors approved a two-for-one stock split of our outstanding common stock, effective August 6, 1999, for all shareholders of record on July 16, 1999, and we have adjusted all share and per-share information to reflect the split.

Table | Common stock information:

1999	High	Low	Dividends Declared Per Share
1st quarter	$ 41.000	$ 24.563	$ 0.20
2nd quarter	42.625	31.563	0.20
3rd quarter	36.313	27.500	0.20
4th quarter	37.375	26.813	0.20

1998	High	Low	Dividends Declared Per Share
1st quarter	$ 18.407	$ 14.532	$ 0.20
2nd quarter	19.250	16.907	0.20
3rd quarter	22.625	16.625	0.20
4th quarter	28.563	20.563	0.20

Table | Balance Sheet Items

	1999	1998	1997	1996	1995
			(Thousands of Dollars)		
Assets:					
Utility plant	**$ 1,466,727**	$ 2,246,847	$ 2,216,198	$ 2,236,309	$ 2,156,959
Less accumulated depreciation and depletion	**464,653**	732,385	684,960	705,119	663,216
Net utility plant	**1,002,074**	1,514,462	1,531,238	1,531,190	1,493,743
Nonutility property	**1,051,997**	864,981	781,406	666,679	633,079
Less accumulated depreciation and depletion	**349,045**	297,933	260,567	256,489	252,612
Net nonutility property	**702,952**	567,048	520,839	410,190	380,467
Total net plant and property	**1,705,026**	2,081,510	2,052,077	1,941,380	1,874,210
Other assets	**1,343,717**	846,585	753,819	756,835	711,881
Total Assets	**$ 3,048,743**	$ 2,928,095	$ 2,805,896	$ 2,698,215	$ 2,586,091
Liabilities and Shareholders' Equity:					
Common shareholders' equity	**$ 1,029,217**	$ 1,112,103	$ 1,037,534	$ 999,657	$ 976,043
Unallocated stock held by trustee for retirement savings plan	**(20,401)**	(23,298)	(25,945)	(28,360)	(30,565)
Preferred stock	**57,654**	57,654	57,654	57,654	101,416
Company obligated mandatorily redeemable preferred securities of subsidiary trust	**65,000**	65,000	65,000	65,000	-
Long-term debt	**618,512**	698,329	653,168	633,339	616,574
Other liabilities	**1,298,761**	1,018,307	1,018,485	970,925	922,623
Total Liabilities and Shareholders' Equity	**$ 3,048,743**	$ 2,928,095	$ 2,805,896	$ 2,698,215	$ 2,586,091

Part II . Item 6 . Selected Financial Data, 1999-1995

Table Income Statement Items

	1999	1998	1997	1996	1995
	(Thousands of Dollars except per-share amounts)				
Income Statement Items:					
Revenues	**$1,342,309**	$ 1,267,271	$ 1,023,597	$ 973,208	$ 953,224
Expenses:					
Operations	**668,521**	541,743	420,032	386,775	426,425
Maintenance	**81,553**	81,064	82,702	75,409	74,593
Selling, general, and administrative	**138,248**	128,741	116,054	104,535	95,212
Taxes other than income taxes	**103,881**	96,181	92,967	84,400	86,599
Depreciation, depletion, and amortization	**111,145**	114,267	95,340	86,403	84,635
Write-downs of long-lived assets	**7,083**	-	-	-	74,297
	1,110,431	961,996	807,095	737,522	841,761
Income from operations	**231,878**	305,275	216,502	235,686	111,463
Interest expense and other income:					
Interest	**43,006**	60,851	54,667	48,770	43,656
Distributions on company obligated mandatorily redeemable preferred securities of subsidiary trust	**5,492**	5,492	5,492	-	-
Other income - net	**(11,029)**	(4,862)	(34,159)	(4,445)	(10,704)
	37,469	61,481	26,000	44,325	32,952
Income taxes	**44,063**	78,174	61,870	71,975	21,574
Net income	**150,346**	165,620	128,632	119,386	56,937
Dividends on preferred stock	**3,690**	3,690	3,690	8,358	7,227
Net income available for common stock	**$ 146,656**	$ 161,930	$ 124,942	$ 111,028	$ 49,710
Basic earnings per share of common stock:					
Utility operations	**$ 0.56**	$ 0.47	$ 0.54	$ 0.56	$ 0.61
Nonutility operations	**0.78**	1.00	0.60	0.45	(0.15)
	$ 1.34	$ 1.47	$ 1.14	$ 1.01	$ 0.46
Diluted earnings per share of common stock	**$ 1.33**	$ 1.47	$ 1.14	$ 1.01	$ 0.46
Dividends declared per share of common stock	**$ 0.80**	$ 0.80	$ 0.80	$ 0.80	$ 0.80
Average shares outstanding-Basic (000)	**109,795**	109,962	109,298	109,268	108,242
Earnings coverage of fixed charges, SEC Method	**3.25x**	3.34x	2.94x	3.21x	1.96x

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Consolidated net income available for common stock was $146,656,000 in 1999, compared with $161,930,000 in 1998 and $124,942,000 in 1997.

Table The following table shows the sources of consolidated net income on a per-share (basic) basis for 1999, 1998, and 1997 and each source's percentage contribution to consolidated earnings per share.

	Year Ended December 31					
	1999	Percent Contribution	1998	Percent Contribution	1997	Percent Contribution
Utility operations	$ 0.56	42%	$ 0.47	32%	$ 0.54	47%
Nonutility operations	0.78	58%	1.00	68%	0.60	53%
Consolidated	$ 1.34	100%	$ 1.47	100%	$ 1.14	100%

1999 Compared With 1998

UTILITY

The utility's net income increased primarily because we recognized as income approximately $18,300,000 in unamortized investment tax credits (ITCs) in the fourth quarter 1999.

- Approximately $10,000,000 of these previously deferred ITCs were associated with the sale of our electric generating assets.
- Approximately $8,300,000 of these previously deferred ITCs were recognized as income in accordance with provisions of the Electric Act, which authorizes accelerated amortizations if the electric utility's return on equity drops below 9.5 percent.

As a result of the sale, we also reversed accrued interest expense related to the Kerr Project. The after-tax effect of this adjustment to interest expense positively affected the utility's 1999 earnings by approximately $3,000,000.

The electric utility's operating income decreased compared with 1998 for the following reasons:

- Revenues increased primarily due to increased volumes of surplus power sold in the secondary markets at higher prices, coupled with revenues earned from transmitting energy for customers who chose other suppliers.
- Higher expenses – especially selling, general, and administrative (SG&A) expenses and electric transmission and distribution expenses – more than offset the increased revenues. Approximately $5,800,000 of the increase in SG&A expenses was attributable to costs associated with implementing new information systems.

The natural gas utility's operating income increased compared with 1998 mainly because of customer growth and a 1998 decrease in revenues to reflect a rate refund under a PSC ruling.

NONUTILITY

The nonutility's net income for 1999 decreased, compared with 1998, primarily because of the effects of one-time favorable events involving our independent power business, Continental Energy Services, Inc. (CES), during 1998. The nonutility businesses had operating results for 1999 as follows:

- Income from telecommunications operations decreased compared with 1998. On January 16, 1999, a customer of Touch America exercised its option to prepay, with a discount, all amounts due for the remaining twelve-year initial term of a capacity agreement. As a result, Touch America received $257,000,000 and Touch America's income from operations for 1999 was approximately $23,200,000 lower than it would have been without the discounted prepayment. Increased private-line and long-distance revenues reduced the operating-income effects of the prepayment.
- Income from coal operations increased due to higher revenues resulting from increased tons sold and the effects in the third quarter 1998 of a one-time refund issued by Western Energy to Colstrip Units 3 and 4 customers, which decreased 1998 revenues.
- Income from independent power operations decreased because of the following events, which had materially positive effects on CES' 1998 income: (1) a contract settlement between the Bonneville Power Administration and an independent power partnership in which CES was a partner; (2) the sale of CES' interest in the Lockport project in New York; and (3) the effects of the buyout of CES' interest in the Encogen Four project in New York.

- Increased income from oil and natural gas operations resulted from higher oil and natural gas prices and increased natural gas volumes sold, which more than offset decreases in oil volumes sold and write-downs of natural gas properties.

1998 Compared With 1997

Consolidated earnings for the year ended December 31, 1998, were $1.47 per share, an increase of $0.33 per share, or approximately 29 percent, over 1997 earnings of $1.14 per share.

Our 1998 financial performance reflects nonutility business successes, which significantly offset the effects of utility deregulation and weak oil and gas prices. Our telecommunications and independent power businesses provided significant increases in annual earnings. Our utility operations suffered not only from the effects of deregulation, but also from weather – which was 6 percent warmer than normal.

Approximately $0.39 per share of the increased earnings resulted from the following events in our independent power business: (1) an arbitration award against the Bonneville Power Administration for breach of a power purchase agreement, resulting in a gain to CES of approximately $42,200,000; (2) a gain of approximately $14,200,000 on the sale of CES' interest in the Lockport, New York project; and (3) a gain of approximately $14,200,000 (including partial sale of plant) as a result of a third-quarter settlement with a power purchaser and the owners of a project, including CES.

Increased rates and increased secondary sales resulted in an increase of approximately $17,600,000 in electric revenues. Natural gas general business revenues decreased by approximately $14,400,000 mainly because of customer choice and warmer weather. Although lower maintenance expenses reduced power-supply costs, our utility also was affected by charges associated with curtailment of a benefit plan and higher depreciation associated with property that we had held for future construction of a generating plant.

Touch America recorded approximately $10,900,000 in earnings from unconsolidated investments as a result of its share of dark-fiber sales through its interest in the FTV joint venture. Revenues from telecommunications operations increased approximately $51,000,000. The increase was primarily attributable to the effects of (1) a full year's operation of Touch America's expanded fiber-optic network linking Seattle to Minneapolis-St. Paul and Denver to Canada, resulting in dark-fiber sales, and (2) increased long-distance revenues.

Oil and natural gas earnings declined when compared with 1997. Production constraints and comparatively low prices caused the decline.

Table Utility Operations

	1999	1998	1997
	Year Ended December 31 (Thousands of Dollars)		
ELECTRIC UTILITY:			
REVENUES:			
Revenues	$ 456,933	$ 450,719	$ 435,986
Intersegment revenues	13,616	7,576	4,685
	470,549	458,295	440,671
EXPENSES:			
Power supply	138,705	137,415	143,224
Transmission and distribution	49,355	40,182	38,359
Selling, general, and administrative	67,392	53,017	50,872
Taxes other than income taxes	50,857	46,316	45,540
Depreciation and amortization	53,574	56,524	51,674
	359,883	333,454	329,669
INCOME FROM ELECTRIC OPERATIONS	110,666	124,841	111,002
NATURAL GAS UTILITY:			
REVENUES:			
Revenues (other than gas supply cost revenues)	78,359	75,112	105,220
Gas supply cost revenues	32,759	31,940	17,135
Intersegment revenues	629	727	588
	111,747	107,779	122,943
EXPENSES:			
Gas supply costs	32,759	31,940	17,135
Other production, gathering, and exploration	2,338	2,284	8,572
Transmission and distribution	14,635	15,556	14,163
Selling, general, and administrative	21,944	20,191	17,889
Taxes other than income taxes	14,333	14,084	15,251
Depreciation, depletion, and amortization	9,279	8,705	11,939
	95,288	92,760	84,949
INCOME FROM GAS OPERATIONS	16,459	15,019	37,994
INTEREST EXPENSE AND OTHER INCOME:			
Interest	48,204	56,357	52,191
Distributions on company obligated mandatorily redeemable preferred securities of subsidiary trust	5,492	5,492	5,492
Other income - net	(3,565)	(3,723)	(7,128)
	50,131	58,126	50,555
INCOME TAXES	11,940	26,559	35,643
NET INCOME	65,054	55,175	62,798
DIVIDENDS ON PREFERRED STOCK	3,690	3,690	3,690
UTILITY NET INCOME AVAILABLE FOR COMMON STOCK	$ 61,364	$ 51,485	$ 59,108

UTILITY OPERATIONS

Weather affects the demand for electricity and natural gas, especially among residential and commercial customers. Very cold winters increase demand, while mild winters reduce demand. The weather's effect is measured using degree-days, which is the difference between the average daily actual temperature and a baseline temperature of 65 degrees. Heating degree-days result when the average daily actual temperature is less than the baseline. As measured by heating degree-days, the 1999 temperatures for our service territory were 3 percent warmer than 1998 and 9 percent warmer than the historic average. Temperatures in 1998 were 6 percent warmer than 1997 and the historic average.

Weather, streamflow conditions, and the wholesale power markets in the Northwest and California influenced our electric wholesale revenues, purchased-power expenses, and output of thermal generation. Regional purchased-power prices were higher in 1999 than 1998 and, consequently, we did not displace thermal generation as in prior years.

Utility earnings are based on capital invested in utility plant. We expect our electric utility income to decrease as a result of the sale of our generating assets.

■ ACCOUNTING FOR THE EFFECTS OF REGULATION

For our regulated operations, we follow Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Pursuant to this pronouncement, we recognize certain expenses and credits as they are reflected in revenues collected through rates established by cost-based regulation. Changes in regulation or changes in the competitive environment could result in our not meeting the criteria of SFAS No. 71. If we were to discontinue application of SFAS No. 71 for some or all of our regulated operations, we would have to eliminate the related regulatory assets and liabilities from the balance sheet and include the associated expenses and credits in income in the period when the discontinuation occurred, unless recovery of those costs was provided through rates charged to those customers in portions of the business that were to remain regulated.

With the sale of our generating assets, we received proceeds in excess of the book value of the regulated assets. Until the PSC reaches a decision in our Tier II filing, we are carrying these excess proceeds as a liability on the Consolidated Balance Sheet and have not recorded a gain on the sale.

For additional information on our Tier II filing, see Note 4, "Deregulation and Regulatory Matters." The Electric Act identifies regulatory assets and deferred charges that exist because of regulatory practices, as well as above-market costs associated with QF contracts, as recoverable transition costs. Based upon this anticipated recovery of these costs, we believe that discontinuing regulatory-accounting treatment would not have a material adverse effect on our future consolidated financial position, results of operations, or cash flows. We expect our regulated transmission and distribution businesses will continue to have cost-based rates and, therefore, meet the criteria of SFAS No. 71.

■ **ELECTRIC UTILITY**

1999 Compared With 1998

Table The following table categorizes revenues and volumes into General Business Revenues, Sales to Other Utilities, Other, and Intersegment. It also shows Bundled Revenues and Distribution Only Revenues separately for General Business Revenues. While we no longer supply the electricity for customers who have chosen other commodity suppliers, we continue to earn transmission and distribution revenues for moving their electricity across our transmission and distribution lines. We reflect transmission revenues as Other Revenues and distribution revenues as Distribution Only Revenues. We expect these revenues to continue to increase as additional customers move to choice. For customers who have not chosen other suppliers, Bundled Revenues reflect fully bundled rates for supplying, transmitting, and distributing electricity. We expect these revenues to continue to decrease as additional customers move to choice.

	Revenues and Power Supply Expenses (Thousands of Dollars)			Volumes (Thousands of MWh)		
	1999	1998		1999	1998	
REVENUES:						
General Business Bundled Revenues:						
Residential	$ 127,591	$ 125,523	2%	1,810	1,927	(6%)
Small Commercial, Small Industrial, and Government and Municipal	160,107	164,178	(2%)	2,484	2,793	(11%)
Large Commercial, Large Industrial	36,294	82,667	(56%)	1,124	2,158	(48%)
Irrigation and Street Lighting	15,249	14,683	4%	144	139	4%
Total	339,241	387,051	(12%)	5,562	7,017	(21%)
General Business Distribution Only Revenues:						
Small Commercial, Small Industrial, and Government and Municipal	2,837	179	1485%	128	9	1322%
Large Commercial, Large Industrial	13,437	2,034	561%	1,519	252	503%
Total	16,274	2,213	635%	1,647	261	531%
Total General Business Revenues	355,515	389,264	(9%)	7,209	7,278	(1%)
Sales to Other Utilities	78,975	48,111	64%	3,375	1,906	77%
Other	22,443	13,344	68%	-	-	-
Intersegment	13,616	7,576	80%	66	125	(47%)
Total	$ 470,549	$ 458,295	3%	10,650	9,309	14%
POWER SUPPLY EXPENSES:						
Hydroelectric	21,576	22,266	(3%)	3,692	3,742	(1%)
Steam	54,969	50,952	8%	4,685	4,516	4%
Purchased Power and Other	62,160	64,197	(3%)	2,992	2,058	45%
Total	$ 138,705	$ 137,415	1%	11,369	10,316	10%
Dollars per MWh	$ 12.20	$ 13.32				

General Business Revenues

Revenues from electric utility operations increased in 1999, while General Business Revenues decreased primarily because of a decrease in revenues from the Large Industrial Customer classification as these customers continued to choose other commodity suppliers. An increase in prices to recover the cost of public-purpose programs in accordance with the Electric Act lessened the effects of decreased revenues from Large Industrial Customers.

Sales to Other Utilities

Revenues from Sales to Other Utilities increased because of increased volumes sold in the secondary markets at higher average prices. We had more energy available to sell in the secondary markets because of increased plant availability as a result of less downtime for repairs and maintenance and lower consumption attributable to customers continuing to choose other suppliers. With the sale of substantially all of our generating assets, we no longer sell energy in the secondary markets.

Other

Other revenues increased mainly because of revenues earned for transmitting energy for customers who chose other suppliers. Prior to the Electric Act, we classified transmission revenues as General Business Revenues. We now reflect transmission revenues from customers who chose other suppliers as Other revenues, while we still report transmission revenues from customers who have not chosen other suppliers as General Business Revenues.

Intersegment

Intersegment revenues increased because of the revenues associated with MPT&M using our lines to transmit energy that it sold in the secondary markets. While we reflect sales in the secondary markets as Sales to Other Utilities, as of July 1, 1998, we began reflecting revenues earned from the transmission of the energy sold to other utilities in the Intersegment line of the segmented schedule of revenues and expenses. The corresponding transmission volumes are the same volumes associated with the sale of energy in the secondary markets. Therefore, we report these volumes in the Sales to Other Utilities line in the table above.

Expenses

Power-supply expenses increased primarily due to increased plant availability. Transmission and distribution expenses increased because of costs associated with using others' lines outside our service territory to transmit the energy sold in the secondary markets. Property taxes increased because of additional plant and higher assessed property values. Depreciation and amortization expense decreased because of expenses incurred in 1998 associated with software costs and property held for future use.

SG&A expenses increased approximately $14,400,000 mainly because of the following items:

- An increase of approximately $7,900,000 for energy efficiency and public-purpose programs to comply with the Universal System Benefits Charge (USBC) requirements of the Electric Act. In accordance with the Electric Act, we collect these costs through a separate component of rates.

- Costs of approximately $2,000,000 incurred to train staff and to reengineer business processes to implement a new Enterprise Resource Planning (ERP) information system and similar costs of approximately $3,800,000 for a new Enterprise Customer Care (E-CIS) information system.

- Increases in other administrative costs of approximately $2,700,000, which were mostly offset by decreased benefit expenses of approximately $2,000,000 relating to the curtailment of a benefit plan in the prior year.

■ ELECTRIC UTILITY

1998 Compared With 1997

Table The following table categorizes revenues and volumes into General Business Revenues, Sales to Other Utilities, Other, and Intersegment. It also shows Bundled Revenues and Distribution Only Revenues separately for General Business Revenues.

	Revenues and Power Supply Expenses (Thousands of Dollars)			Volumes (Thousands of MWh)		
	1998	1997		1998	1997	
REVENUES:						
General Business Bundled Revenues:						
Residential	$ 125,523	$ 122,446	3%	1,927	1,920	-
Small Commercial, Small Industrial, and Government and Municipal	164,178	156,428	5%	2,793	2,699	3%
Large Commercial, Large Industrial	82,667	85,602	(3%)	2,158	2,196	(2%)
Irrigation and Street Lighting	14,683	13,271	11%	139	118	18%
Total	387,051	377,747	2%	7,017	6,933	1%
General Business Distribution Only Revenues:						
Small Commercial, Small Industrial, and Government and Municipal	179	-	-	9	-	-
Large Commercial, Large Industrial	2,034	-	-	252	-	-
Total	2,213	-	-	261	-	-
Total General Business Revenues	389,264	377,747	3%	7,278	6,933	5%
Sales to Other Utilities	48,111	47,178	2%	1,906	2,663	(28%)
Other	13,344	11,061	21%	-	-	-
Intersegment	7,576	4,685	62%	125	149	(16%)
Total	$ 458,295	$ 440,671	4%	9,309	9,745	(4%)
POWER SUPPLY EXPENSES:						
Hydroelectric	22,266	22,887	(3%)	3,742	4,126	(9%)
Steam	50,952	57,057	(11%)	4,516	4,290	5%
Purchased Power and Other	64,197	63,280	1%	2,058	2,538	(19%)
Total	$ 137,415	$ 143,224	(4%)	10,316	10,954	(6%)
Dollars per MWh	$ 13.32	$ 13.08				

Revenues

Revenues increased during the period primarily due to higher rates. While volumes sold decreased due to the transfer of electric-trading activities to nonutility operations in the third quarter of 1998, revenues from Sales to Other Utilities increased from higher average prices and steam generation, resulting in more energy available to sell in the secondary market. Other revenues increased as a result of an actuarial pension plan adjustment, along with transmission revenues from customers who chose other suppliers.

Expenses

Power-supply expenses decreased primarily due to lower steam maintenance, which was partially offset by increased purchased-power costs. Although we purchased less power through electric-trading activities as a result of the transfer of these activities to nonutility operations, purchased-power costs increased due to higher prices.

Increased SG&A expenses resulted primarily from increased outsourcing costs and higher benefit charges associated with curtailment of a benefit plan. The absence of severance costs in the current year partially offset this increase. Depreciation and amortization expense increased because of expenses associated with software costs and property held for future use.

NATURAL GAS UTILITY

1999 Compared With 1998

Table The following table categorizes revenues and volumes into General Business Revenues, Sales to Other Utilities, Transportation, and Other.

	Revenues (Thousands of Dollars) 1999	Revenues (Thousands of Dollars) 1998		Volumes* (Thousands of Dkt) 1999	Volumes* (Thousands of Dkt) 1998	
REVENUES:						
Residential	$ 63,921	$ 61,666	4%	12,657	11,505	10%
Small Commercial, Small Industrial, and Government and Municipal	30,329	31,842	(5%)	5,874	6,006	(2%)
General Business Revenues	94,250	93,508	1%	18,531	17,511	6%
Less: Gas Supply Cost Revenues (GSC)	32,759	31,940	3%	-	-	-
General Business Revenues without GSC	61,491	61,568	-	18,531	17,511	6%
Sales to Other Utilities	687	606	13%	229	200	15%
Transportation	15,197	14,844	2%	24,426	27,320	(11%)
Other	984	(1,906)	(152%)	-	-	-
Total	$ 78,359	$ 75,112	4%	43,186	45,031	(4%)

* With the implementation of our E-CIS, we now report natural gas revenues in dekatherms (Dkt). A Dkt measures the heat used and is the basis of how we bill our customers.

Revenues

All of our former Large Industrial and Large Commercial customers have now chosen other commodity suppliers. While we no longer supply the natural gas for those customers, we still earn transportation revenues from moving their natural gas through our pipelines. We reflect these revenues as Transportation revenues in the table.

General Business Revenues remained relatively flat. Increased revenues from customer growth and increased rates to recover higher gas-supply costs were offset by a decrease in revenues from industrial customers continuing to choose other commodity suppliers. For additional information on deregulation, see Note 4, "Deregulation and Regulatory Matters." Other revenues increased because of a 1998 decrease in revenues to reflect a rate refund in compliance with a PSC ruling.

Expenses

SG&A expenses increased chiefly because of expensed costs for implementing the ERP system and the E-CIS system. An increase relating to energy efficiency and public-purpose programs mostly offset a decrease in other administrative costs.

1998 Compared With 1997

Table The following table categorizes revenues and volumes into General Business Revenues, Sales to Other Utilities, Transportation, and Other.

	Revenues (Thousands of Dollars) 1998	1997		Volumes (Thousands of Dkt) 1998	1997	
REVENUES:						
Residential	$ 61,666	$ 66,292	(7%)	11,505	12,493	(8%)
Small Commercial, Small Industrial, and Government and Municipal	31,842	41,613	(23%)	6,006	8,188	(27%)
General Business Revenues	93,508	107,905	(13%)	17,511	20,681	(15%)
Less: Gas Supply Cost Revenues (GSC)	31,940	17,135	86%	-	-	-
General Business Revenues without GSC	61,568	90,770	(32%)	17,511	20,681	(15%)
Sales to Other Utilities	606	786	(23%)	200	237	(16%)
Transportation	14,844	9,919	50%	27,320	26,160	4%
Other	(1,906)	3,745	(151%)	-	-	-
Total	$ 75,112	$ 105,220	(29%)	45,031	47,078	(4%)

Revenues

Natural gas revenues, excluding gas-supply cost revenues, decreased in 1998 primarily due to weather-related reductions in volumes sold. Slightly higher tariff rates and customer growth partially offset the revenue decrease. A decrease in Other revenues, due to the November 1997 restructuring of our natural gas utility and an increase in gas-supply cost refunds to our customers, was partially offset by an increase in Transportation revenues. For additional information on deregulation, see Note 4, "Deregulation and Regulatory Matters."

Expenses

In November 1997, we transferred substantially all of our regulated natural gas production assets to an unregulated affiliate. Since that time, we have included operating expenses related to the transferred assets in the nonutility oil and natural gas operations. The absence of these expenses in the utility operations resulted in net reductions in other production, gathering, and exploration costs.

As a result of the restructuring, we have contracted to purchase most of our natural gas from our nonutility affiliate. The contract price includes costs associated with the transferred assets and returns on those assets. Gas cost revenues and expenses, which are always equal due to regulated rate and accounting procedures, increased throughout 1998 due to the new purchase contract. Amortizations of prior period under-collections also contributed to the increase.

Higher SG&A expenses for the period resulted primarily from increased amortizations of regulatory assets, which are collected in rates, as well as higher outsourcing charges.

Depreciation, depletion, and amortization expense decreased due to the transfer of the natural gas production properties as discussed above.

■ INTEREST EXPENSE AND INCOME TAXES

1999 Compared With 1998

Interest Expense

With the sale of our generating assets, we will no longer be responsible for mitigating costs associated with Kerr Project operations after the date of the sale. We had previously recorded the present value of mitigation expenditures over the life of the license. From the date of the initial entry through the date of the sale, interest expense had been recorded to adjust the mitigation liability to current dollars. With the sale, our obligation to make payments for future periods ended. The mitigation liability has now been adjusted, and accrued interest expense was reversed. This adjustment to interest expense accounts for the majority of the decrease in interest expense of approximately $8,200,000. For additional information on the Kerr Project, see Note 2, "Contingencies."

Income Taxes

In accordance with the Electric Act, we are allowed to recognize as income accelerated amortizations of ITCs during the transition period if our return on equity drops below 9.5 percent. As a result, we recognized approximately $8,300,000 of ITCs associated with our electric utility's business.

In addition, we recognized as income approximately $10,000,000 in unamortized ITCs associated with the sale of our electric generating assets to PPL Montana.

1998 Compared With 1997

Interest expense increased in 1998 due to additional long-term borrowing and interest accrued on the Kerr Project mitigation liability as well as interest associated with a federal income tax settlement. Partially offsetting this increase was a decrease in short-term borrowing and the absence of interest paid in 1997 in conjunction with a contract settlement.

Table Nonutility Operations

	Year Ended December 31		
	1999	1998	1997
	(Thousands of Dollars)		
TELECOMMUNICATIONS:			
REVENUES:			
Revenues	$ 84,350	$ 87,748	$ 46,691
Earnings from unconsolidated investments	10,392	10,909	435
Intersegment revenues	1,012	1,298	799
	95,754	99,955	47,925
EXPENSES:			
Operations and maintenance	34,824	27,110	22,385
Selling, general, and administrative	12,480	12,172	8,825
Taxes other than income taxes	3,762	3,623	2,294
Depreciation and amortization	9,048	7,090	2,494
	60,114	49,995	35,998
INCOME FROM TELECOMMUNICATIONS OPERATIONS	35,640	49,960	11,927
COAL:			
REVENUES:			
Revenues	197,053	177,961	167,623
Intersegment revenues	39,729	38,796	34,164
	236,782	216,757	201,787
EXPENSES:			
Operations and maintenance	150,801	132,963	119,085
Selling, general, and administrative	16,174	20,588	21,355
Taxes other than income taxes	25,759	24,050	23,455
Depreciation and amortization	7,446	6,596	9,043
	200,180	184,197	172,938
INCOME FROM COAL OPERATIONS	36,602	32,560	28,849
INDEPENDENT POWER:			
REVENUES:			
Revenues	75,101	73,707	70,932
Earnings from unconsolidated investments	21,042	89,525	14,980
Intersegment sales	1,764	2,014	1,820
	97,907	165,246	87,732
EXPENSES:			
Operations and maintenance	65,343	65,009	63,837
Selling, general, and administrative	4,160	4,746	4,290
Taxes other than income taxes	1,840	1,767	1,868
Depreciation and amortization	3,122	9,005	2,774
	74,465	80,527	72,769
INCOME FROM INDEPENDENT POWER OPERATIONS	$ 23,442	$ 84,719	$ 14,963

Table Nonutility Operations (cont.)

	Year Ended December 31		
	1999	1998	1997
	(Thousands of Dollars)		
OIL AND NATURAL GAS:			
REVENUES:			
Revenues	$ 338,869	$ 221,662	$163,656
Intersegment revenues	16,663	17,606	3,120
	355,532	239,268	166,776
EXPENSES:			
Operations and maintenance	284,517	183,536	118,266
Selling, general, and administrative	18,091	20,925	10,723
Taxes other than income taxes	6,049	4,908	4,555
Depreciation, depletion, and amortization	23,832	22,259	16,922
Write-downs of long-lived assets	7,083	-	-
	339,572	231,628	150,466
INCOME FROM OIL AND NATURAL GAS OPERATIONS	15,960	7,640	16,310
OTHER OPERATIONS:			
REVENUES:			
Revenues	47,451	47,988	939
Intersegment revenues	1,874	1,913	5,719
	49,325	49,901	6,658
EXPENSES:			
Operations and maintenance	50,140	51,634	3,780
Selling, general, and administrative	(49)	2,210	6,923
Taxes other than income taxes	1,281	1,433	4
Depreciation and amortization	4,844	4,088	494
	56,216	59,365	11,201
LOSS FROM OTHER OPERATIONS	(6,891)	(9,464)	(4,543)
INTEREST EXPENSE AND OTHER INCOME:			
Interest	4,910	11,420	6,605
Other income - net	(17,572)	(8,065)	(31,160)
	(12,662)	3,355	(24,555)
INCOME BEFORE INCOME TAXES	117,415	162,060	92,061
INCOME TAXES	32,123	51,615	26,227
NONUTILITY NET INCOME AVAILABLE FOR COMMON STOCK	$ 85,292	$ 110,445	$ 65,834

NONUTILITY OPERATIONS

TELECOMMUNICATIONS OPERATIONS

1999 Compared With 1998

Because Touch America received the $257,000,000 prepayment on January 16, 1999, revenues from sales on Touch America's fiber-optic network were approximately $23,200,000 less than they would have been had the customer not exercised its option. (The effect for a full year will be approximately $24,000,000.) Touch America is recognizing the prepayment in revenues over the remaining term of the agreement. Earnings from unconsolidated investments, approximately $9,800,000 of which were attributable to revenues from dark-fiber sales through the FTV joint venture, were approximately $10,400,000 in 1999, compared with earnings from unconsolidated investments in 1998 of approximately $10,900,000. The decrease primarily resulted from a change in how we account for dark-fiber transactions. The change in accounting resulted from Financial Accounting Standards Board (FASB) Interpretation No. 43, "Real Estate Sales" (an interpretation of SFAS No. 66, "Accounting for Sales of Real Estate"). As a result, Touch America will recognize earnings of approximately $7,000,000 from dark-fiber transactions pursuant to existing agreements entered into after June 30, 1999, over the applicable contract term.

After adjusting private-line revenues for the accounting effects of the prepayment and after excluding the dark-fiber sales included in earnings from unconsolidated investments, Touch America's 1999 operating revenues increased approximately 21 percent as compared to 1998. With the same adjustments above, Touch America's 1999 operating income increased approximately 24 percent.

The increase in operating revenues, after the above adjustments, mainly consists of two elements. First, it reflects increased private-line revenues of approximately $10,100,000 due to higher revenues from sales of fiber capacity. Second, long-distance revenues, including Internet-service and equipment-service revenues, increased approximately $7,800,000 as a result of increased long-distance customer and minute sales and customer growth.

Table The following table shows year-to-date changes in long-distance revenues for the previous two years, in millions of dollars, and the related percentage changes in minutes sold, price per minute, and customer growth.

	1999	1998
Revenues	$ 4	$ 3
Minutes sold	31%	43%
Price per minute	(9%)	(15%)
Customer growth	26%	61%

Operations and maintenance (O&M) expense increased approximately $7,700,000 as a result of increased private-line, equipment-service, and long-distance sales. Depreciation and amortization expense increased approximately $2,000,000 as a result of an increase in plant.

1998 Compared With 1997

Revenues from telecommunications operations increased primarily due to sales on Touch America's Washington-to-Minnesota and Colorado-to-Canada fiber-optic network and a higher volume of long-distance minutes sold. We began earning revenues from the fiber-optic network late in the third quarter of 1997. We have a one-third interest in the FTV joint venture, which made dark-fiber sales on an inland Portland-to-Los Angeles fiber-optic network. These dark-fiber sales account for the $10,500,000 increase in earnings from unconsolidated investments.

Expenses for 1998 were higher due to the operation of Touch America's fiber-optic network mentioned above, increased marketing expenses, and costs related to the increased long-distance service.

COAL OPERATIONS

1999 Compared With 1998

Income from coal operations in 1999 increased approximately $4,000,000 over 1998 mainly because of a one-time refund in 1998 to Colstrip Units 3 and 4 owners. Northwestern Resources' lignite revenues increased approximately $13,600,000 as a result of a 1 percent increase in volumes sold and an increase in reimbursable mining costs, partially offset by a reversal of revenues previously recorded for deferred benefits.

Western Energy's consolidated 1999 revenues increased approximately $6,400,000 over 1998 primarily because Western Energy paid approximately $7,900,000 in one-time refunds in the third quarter of 1998 to the owners of Colstrip Units 3 and 4 to settle contract disputes. This increase was offset in part by a refund of $2,700,000 in the first quarter of 1999 for final pit reclamation funds previously collected. In addition, volumes sold at the Rosebud Mine increased 1 percent in 1999.

O&M expenses increased approximately $17,800,000 due to higher royalties, equipment maintenance and rentals, and over-burden stripping costs. SG&A expenses decreased approximately $4,400,000 primarily from reversal of deferred benefit costs at Northwestern Resources in 1999 and a lease abandonment in the fourth quarter of 1998. Taxes other than income taxes increased due to the higher value of coal sold in 1999 and a property tax refund received by Northwestern Resources at the Jewett Mine in the third quarter of 1998, partially offset by credits resulting from a court decision upholding Western Energy's position regarding severance tax credits.

1998 Compared With 1997

Income from coal operations increased by $3,700,000 primarily due to an increase in tons sold. Revenues from the Rosebud Mine, including revenues from a synthetic fuel project at the mine, increased $9,500,000. Volume of coal sold to the Colstrip Units in 1998 was 18 percent higher due to less downtime for repairs and scheduled maintenance at the Colstrip generating plants. These increased volumes were partially offset by lower prices resulting from contract dispute settlements with Puget in February 1997 and with the other non-operating owners in August 1998. As discussed earlier, these changes will result in modest profit reductions until mid-year 2000 with greater price reductions thereafter. Revenues from the Jewett Mine rose $5,500,000 primarily as a result of an increase in reimbursable mining expenses, partially offset by a 4 percent decrease in tons of lignite sold.

O&M expenses increased primarily due to higher volumes at the Rosebud Mine and increased stripping costs at the Jewett Mine. Depreciation and amortization expenses decreased primarily as a result of the resolution of matters booked in a prior year relating to the former Colorado mining operations.

■ INDEPENDENT POWER OPERATIONS

1999 Compared With 1998

Earnings from unconsolidated investments decreased approximately $68,500,000 mainly because of the three events discussed at the beginning of the MD&A section, "1999 Compared With 1998." After adjusting 1998 earnings from unconsolidated investments by those items, CES' 1999 revenues increased approximately $5,400,000 from its existing projects as a result of improved operations.

Amortization expense was lower than in 1998 because CES recorded amortization expense of approximately $5,900,000 in 1998 to reflect the reduced value of its investment in the Encogen Four project as a result of the contract buyout.

1998 Compared With 1997

Earnings from unconsolidated investments increased approximately $74,500,000 primarily because of CES' recognition of earnings in 1998 as a result of the events discussed above.

Expenses increased approximately $7,800,000 mainly because of a $6,200,000 increase in the amortization of CES' independent power investments. Power-supply expenses increased $2,200,000 resulting from increased generation, partially offset by a decrease in project development costs of $1,100,000.

■ OIL AND NATURAL GAS OPERATIONS

Table The following table shows year-to-year changes for the previous two years, in millions of dollars, in the various classifications of revenues, and the related percentage changes in volumes sold and prices received.

		1999	1998
Natural gas	-revenue	$ 101	$ 72
	-volume	36%	96%
	-price/Mcf	11%	(20%)
Natural gas liquids	-revenue	$ 12	$ 12
	-volume	49%	244%
	-price/bbl	11%	(10%)
Oil	-revenue	$ 1	$ (12)
	-volume	(16%)	(38%)
	-price/bbl	30%	(38%)
Miscellaneous	-revenue	$ 2	$ -

1999 Compared With 1998

Income from oil and natural gas operations increased approximately $8,300,000 due mainly to higher market prices in 1999. Natural gas revenues increased because marketing and trading revenues and volumes were significantly higher as a result of increased sales into California and Midwestern markets. Natural gas production and prices were both higher than the prior year. Revenues from oil operations were slightly higher because improved prices more than offset lower production. Natural gas liquids revenues were higher, again because of increased marketing and trading activities and higher prices.

O&M expenses increased mainly because of higher purchased natural gas and higher gas prices. SG&A expenses decreased primarily from reduced incentive compensation accruals and lower expenditures for outside services. Taxes other than income taxes increased because of the higher value of the natural gas produced from our reserves. Depreciation, depletion, and amortization expenses increased reflecting higher natural gas production, as well as write-downs of long-lived assets in our Canadian oil and natural gas operations in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

1998 Compared With 1997

Income from oil and natural gas operations decreased primarily due to lower market prices in 1998. In addition to lower prices, revenues from oil operations decreased due to the sale of production properties. Natural gas and natural gas liquids revenues increased due to production from properties acquired in the second quarter of 1997 and from former utility assets transferred to oil and natural gas operations in the fourth quarter of 1997. In addition, marketing to wholesale customers in California started in the second quarter of 1998. These increases were partially offset by lower prices in 1998.

O&M expenses increased due to the costs of operating the acquired properties and transferred assets and because of purchased natural gas needed to serve the new wholesale customers. Lower prices for purchased gas partially offset this increase. New operations also accounted for the increases in SG&A and depreciation, depletion, and amortization expenses.

■ INTEREST EXPENSE AND OTHER INCOME, AND INCOME TAXES

1999 Compared With 1998

Interest expense decreased primarily because we used funds from the telecommunications prepayment to reduce nonutility debt.

Other income – net increased by approximately $9,500,000, of which approximately $4,400,000 was attributable to interest income received on investments. The remaining increase is largely because of increased intersegment interest income on loans from nonutility operations to utility operations.

Income tax expense decreased because of lower pretax income and an estimated lower effective tax rate for 1999.

1998 Compared With 1997

Interest expense increased primarily due to increases in the amount of outstanding borrowings to provide short-term financing for our nonutility operations expansion and higher interest rates.

Other income – net decreased due to 1997 gains of approximately $23,000,000 on sales of non-strategic oil and natural gas properties and a $10,300,000 gain on the sale of our investment in a Brazilian gold mine. These gains were partially offset by a loss on the sale of non-strategic Wyoming coal properties. The absence of dividend income from the Brazilian gold mine and interest income associated with a 1997 settlement with the IRS also reduced other income.

The increase in income tax expense resulted from higher pretax income as well as a credit to expense in 1997 associated with a settlement with the IRS.

LIQUIDITY AND CAPITAL RESOURCES

■ OPERATING ACTIVITIES

Net cash provided by operating activities was $660,183,000 in 1999, compared to $255,677,000 in 1998, and $201,091,000 in 1997. The current year increase of $404,506,000 was attributable mainly to a $257,000,000 prepayment received in January 1999 from a Touch America customer and $106,000,000 that we received as a result of the termination of the purchase-power agreement with the LADWP and the establishment of the new agreement. We are recognizing these revenues over the remaining terms of the Touch America agreement and the new agreement with the LADWP. Both agreements have approximately 11 years remaining. We used cash from the telecommunications prepayment to reduce long-term debt and short-term borrowings and pay taxes on the prepayment and on expected gains resulting from the sale of our electric generating assets. We expect to use the LADWP proceeds for general corporate purposes, including the expansion of Touch America.

■ INVESTING ACTIVITIES

Net cash provided by investing activities was $306,504,000 in 1999, compared to net cash used for investing activities of $159,552,000 in 1998 and $199,368,000 in 1997. The current year increase of $466,056,000 was due primarily to the proceeds received from the sale of our generating assets. As discussed in the "Financing Activities" section below, we have used some of the sales proceeds to repurchase shares of our common stock, and we have begun to retire long-term debt. We also intend to use some of the proceeds to expand Touch America. See Note 5, "Sale of Electric Generating Assets," for information regarding the sale of our generating assets and the use of proceeds from the sale.

Table Forecasted capital expenditures for 2000 and capital expenditures during the prior three years are as follows:

	Forecasted	*Actual*		
	2000	**1999**	**1998**	**1997**
	(Thousands of Dollars)			
Utility	$ 57,000	$ 63,598	$ 83,323	$ 138,318
Nonutility*	397,000	221,709	130,078	173,368
Total	$ 454,000	$ 285,307	$ 213,401	$ 311,686

*Approximately $287,000,000 of the $397,000,000 forecasted 2000 nonutility capital expenditures is for telecommunications operations. These forecasted capital expenditures do not include amounts that may be necessary as a result of the Qwest asset acquisition discussed in Note 3, "Commitments." If the Qwest acquisition is closed, we do not expect the purchase price and subsequent additional related capital expenditures to exceed $300,000,000.

Consistent with our strategy, we intend to invest the majority of our utility's capital expenditures during 2000 in upgrading our electric and natural gas transmission and distribution systems, and extending our electric and natural gas distribution lines. Similarly, we expect to invest the majority of our nonutility capital expenditures during 2000 on expanding and developing Touch America's fiber-optic network and wireless communications systems. We also expect Touch America's network traffic to increase and, therefore, expect these efforts to result in further capital expenditures. See Item 1, "Business," under the "Telecommunications Operations," and Note 3, "Commitments," for further discussion of Touch America's projects and commitments. In addition, we expect expenditures for future project investments by our independent power operations; drilling, development, and capital-improvement projects for our natural gas operations; and the implementation of our ERP system.

We estimate that internally generated funds for 2000, by business unit, will average 142 percent of our utility's capital expenditures, exclusive of the expenses associated with the sale of our generation facilities, and 26 percent of our nonutility construction program, exclusive of the Qwest asset acquisition discussed in Note 3, "Commitments." We expect to finance any remaining capital expenditure balances, as well as the repayment of maturing long-term debt, with the remaining generation-sale proceeds, short-term and long-term debt, and with sales of equity securities. The amounts and timing of these activities will depend upon future market conditions. We expect to have adequate sources of external capital to meet our financing needs.

■ FINANCING ACTIVITIES

Net cash used for financing activities was $422,396,000 in 1999, compared to $88,779,000 in 1998 and $27,981,000 in 1997.

In December 1998, the MPC Natural Gas Funding Trust (Trust), a wholly owned subsidiary, issued $62,700,000 of 6.2 percent asset-backed securities known as transition bonds. On February 1, 1999, we used the majority of these proceeds to retire $55,000,000 of our 7.7 percent First Mortgage Bonds. The transition bonds will be retired from funds collected by the Trust through usage-based charges levied on natural gas transportation and distribution customers. The retirements will occur at six-month intervals from September 15, 1999, through March 15, 2012, and will be in varying amounts depending on revenues collected from customers. At December 31, 1999, $2,603,194 is classified as due within one year on the Consolidated Balance Sheet.

As part of the Tier II rate filing discussed in Note 4, "Deregulation and Regulatory Matters," we indicated our intention to retire approximately $266,000,000 of long-term debt. We estimate that the expenses associated with these retirements will be approximately $20,000,000. On September 3, 1999, we retired $10,000,000 of our 7.875 percent Series B Unsecured Medium-Term Notes (MTNs) due December 23, 2026. We retired an additional $5,000,000 of these MTNs on October 13, 1999. In addition, we retired $5,000,000 of 7.25 percent Secured MTNs due January 19, 2024, and $7,000,000 of 8.68 percent Unsecured Series A MTNs due February 7, 2022, in January of 2000. We plan to retire the remaining $239,000,000 of long-term debt throughout the year 2000.

We retired at maturity $2,500,000 of 8.90 percent Series A MTNs on October 1, 1999.

See Note 7, "Common Stock," for a discussion of our December 23, 1999, purchase of 4,682,100 shares of our common stock, at a cost of $144,872,000, through our share-repurchase program.

Dividends paid on common and preferred stock were $90,902,000 in 1999, $91,598,000 in 1998, and $91,112,000 in 1997. During 1999, our regular quarterly dividend level was 20 cents per share of outstanding stock or 80 cents per share on an annual basis.

The Board of Directors periodically reviews our dividend policy to ensure that our dividend payout and dividend rate are appropriate given our business plan, strategy, and outlook. Our common stock dividend rate is dependent on our results of operations, financial position, anticipated future uses of cash, and other factors. In assessing the dividend policy, the Board of Directors also evaluates the effect of the sale of our generation assets and the continued growth of, and investment in, Touch America. As discussed in Item 1, Goldman, Sachs & Co. is assisting in evaluating options with respect to implementing a strategy to separate Touch America from Montana Power and maximize shareholder value. The Board of Directors will continue to assess and adjust our dividend policy in light of these and other developments.

The consolidated borrowing ability under our Revolving Credit and Term Loan Agreements was $179,400,000, of which $161,900,000 was unused at December 31, 1999. We also have short-term borrowing facilities with commercial banks that provide both committed and uncommitted lines of credit and the ability to sell commercial paper.

Our long-term debt as a percentage of capitalization was 35 percent during 1999, and 37 percent in 1998 and 1997. Approximately $59,000,000 of long-term debt will mature during the year 2000. With the generation sales proceeds available to repurchase long-term debt, the above ratio could decrease during 2000. We have also entered into long-term lease arrangements and other long-term contracts for sales and purchases that are not reflected on the Consolidated Balance Sheet. For additional information, see Note 3, "Commitments."

While we do not expect to issue additional First Mortgage Bonds in 2000, the Mortgage and Deed of Trust would not preclude us from issuing sufficient First Mortgage Bonds to meet our expected financing requirements for the year. Neither our restated Articles of Incorporation, the Mortgage and Deed of Trust, or our Sinking Fund Debenture Agreement contain any restrictions on issuance of short-term debt or preferred stock.

See Note 10, "Long-Term Debt," and Note 11, "Short-Term Borrowing," for further information on our financing activities.

SEC RATIO OF EARNINGS TO FIXED CHARGES

For the twelve months ended December 31, 1999, our ratio of earnings to fixed charges was 3.25 times compared to

3.34 times for 1998 and 2.94 times for 1997. Fixed charges include interest, the implicit interest of Colstrip Unit 4 rentals, and one-third of all other rental payments.

INFLATION

We believe that, at currently anticipated levels, inflation will not materially affect our results of operations.

YEAR 2000

We did not have any significant disruptions as a result of the calendar rollover from 1999 to 2000. To achieve this result, we inventoried critical information technology (IT) systems and non-information (non-IT) systems, analyzed the systems to determine their Year 2000 (Y2K) readiness, replaced or repaired systems, if necessary, and tested the systems to ensure their availability and integrity. We completed and tested contingency plans to ensure business continuity in the event of unanticipated problems, but we did not have to activate any of our contingency plans.

We did not establish a formal process to track Y2K expenditures. Many of the measures that mitigated Y2K effects coincided with normal operations and maintenance and, therefore, were not accounted for separately as Y2K expenditures. For example, a capital upgrade to the energy management system that cost $460,000 was necessary to provide additional functionality and also resulted in a Y2K benefit. Likewise, we implemented a new method of customer billing at a cost of $3,100,000 and although it addressed the Y2K issue, the new method was planned for reasons other than Y2K. Our Information Services Department did track its Y2K expenditures and estimates that it spent approximately $2,400,000 to address the Y2K issue. Although we are unable to estimate our overall costs of ensuring that we were Y2K ready, these costs were not material to our consolidated financial position, results of operations, or cash flows.

The above information is a Year 2000 Readiness Disclosure pursuant to the Federal Year 2000 Information and Readiness Disclosure Act.

NEW ACCOUNTING PRONOUNCEMENTS

New requirements associated with the accounting for derivative instruments and hedging and trading activities eventually will affect MPT&M. In addition, a recent interpretation of how to properly account for certain dark-fiber sales has affected Touch America.

■ SFAS NO. 133 AND SFAS NO. 137

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that all derivative instruments be recorded on an entity's balance sheet at fair value. The statement also expands the definition of a derivative. In July 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities: Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 delays for one year the effective date of SFAS No. 133. This delay means that we are not required to adopt SFAS No. 133 until January 1, 2001. However, we can adopt it earlier if we choose to do so. We have not yet determined the effect that adopting SFAS No. 133 will have on our consolidated financial position, results of operations, or cash flows.

Changes in the fair value of derivatives will be recognized each period either in current earnings or as a component of comprehensive income, depending on whether the derivative is designated as part of a hedge transaction. The statement distinguishes between (1) fair-value hedges, defined as hedges of assets, liabilities, or firm commitments, and (2) cash-flow hedges, defined as hedges of future cash flows related to a variable-rate asset or liability or a forecasted transaction. Recognition of changes in the fair value of a fair-value hedge will generally be offset in the income statement by the recognition of the change in the fair value of the hedged item. Recognition of changes in the fair value of a cash-flow hedge will be reported as a component of comprehensive income. The gains or losses on the derivative instruments that are reported in comprehensive income will be reclassified into current earnings in the periods in which the earnings are affected by the variability of the cash flows of the hedged item. The ineffective portions of all hedges will be recognized in current earnings.

■ FASB INTERPRETATION NO. 43

On July 8, 1999, the FASB issued Interpretation No. 43, "Real Estate Sales," which is an interpretation of SFAS No. 66, "Accounting for Sales of Real Estate." This interpretation, which requires entities to recognize revenues from dark-fiber sales over the period of the contract rather than at the time of sale if title to the rights of use does not transfer to the lessee at the end of the contract, applies to transactions entered into after June 30, 1999. As a result of FASB Interpretation No. 43, we changed how we account for transactions involving dark-fiber sales on a prospective basis. Rather than recognizing approximately $7,000,000 in revenues in the fourth quarter from dark-fiber transactions pursuant to existing agreements entered into after June 30, 1999, Touch America will recognize these earnings over the term of the applicable contract.

ENVIRONMENTAL ISSUES

For a discussion of environmental issues and how they affect us, see Item 1, "Business," under the "Environmental Issues" section.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our energy commodity-producing, trading, and marketing activities and other investments and agreements expose us to the market risks associated with fluctuations in commodity prices, interest rates, and changes in foreign currency translation rates. We specify below what these risks are to our businesses and estimate what could occur under certain adverse market conditions and other assumptions. Because we base our estimates on assumptions only, actual results under the conditions assumed below could differ materially from our estimates. In addition, these disclosures indicate only reasonably possible losses and do not necessarily indicate expected future losses.

TRADING INSTRUMENTS

Commodity price risk represents the primary market risk to which our unregulated energy-commodity producing, trading, and marketing operations are exposed. We discuss the derivative financial instruments that we use to manage this risk in Note 1, "Summary of Significant Accounting Policies, Derivative Financial Instruments." We do not use derivative financial instruments to hedge against exposure to fluctuations in interest rates or foreign currency exchange rates. We do, however, have investments in independent power partnerships, some of which have used derivative financial instruments to hedge against interest rate exposure on floating rate debt. At December 31, 1999, however, we believe that we would not experience any material adverse effects from the risks inherent in the independent power partnerships' instruments.

■ ELECTRICITY

In June 1998, prior to our August 1998 decision to exit the electric trading and marketing businesses, MPT&M entered into a derivative financial transaction, called a "swap," in conjunction with one of our electric retail sales contracts. That swap allows us to receive the difference between a fixed price and a market-index price for electricity. We net the difference against the cost of purchasing electricity to serve the retail sales contract. Thus, the swap, which expires before the supply contract, allows us to mitigate our losses on the retail sales contract.

■ CRUDE OIL, NATURAL GAS, AND NATURAL GAS LIQUIDS

In December 1998, our Audit Committee adopted commodity risk-management policies and practices to govern the execution, recording, and reporting of derivative financial instruments and physical transactions associated with the trading and marketing activity of crude oil, natural gas, and natural gas liquids engaged in by MPT&M. These policies and practices require MPT&M to identify, quantify, and report commodity risks and to hold regular Risk Management Committee meetings. Our Risk Management Committee (1) approves the risk-related trading activities in which MPT&M participates and the kinds of instruments that MPT&M may use, and (2) recommends to our Audit Committee specific limits for MPT&M's trading activity.

MPT&M's value-at-risk (VaR) is based on J.P. Morgan's RiskMetrics™ approach: variance/co-variance. This approach uses historical estimates of volatility and correlation and values optionality using delta equivalents. Thus, it provides us a measure of MPT&M's exposure to potential losses from future adverse changes in the fair value of the commodities and financial instruments MPT&M trades. Because actual future changes in markets - prices, volatilities, and correlations - may be inconsistent with historical observations, MPT&M's VaR as measured by RiskMetrics™ may not accurately reflect future adverse changes in fair values.

MPT&M calculates its VaR assuming a forward 24-month time period, a one-day holding period, and a 95 percent confidence level. The calculation indicates how much MPT&M could lose from its trading transactions under those and other assumptions. At December 31, 1999, MPT&M's VaR calculation for physical and financial crude oil, natural gas, and natural gas liquids transactions, including forecasts of affiliate-owned production, was approximately $1,400,000.

Our Audit Committee established a "VaR limit" to manage our exposure to potential losses from trading activity. MPT&M must report to that committee the number of times it exceeds the established limit. On June 21, 1999, our Audit Committee increased MPT&M's VaR limit to $2,000,000, to include crude oil and natural gas liquids and forecasts of affiliate-owned production.

VAR RESULTS

- From January 1, 1999, through June 20, 1999, when MPT&M's VaR limit was set at $1,000,000, it reported daily adverse changes in fair values in excess of that $1,000,000 limit on seven occasions;

- From June 21, 1999, through December 31, 1999, when MPT&M's VaR limit was set at $2,000,000, it reported daily adverse changes in fair values in excess of that $2,000,000 limit on six occasions; and

- From January 1, 2000, through March 1, 2000, MPT&M reported daily adverse changes in fair values in excess of its VaR limit on no occassions.

■ COUNTERPARTY CREDIT RISK

Commodity price changes may provide a motive to our counterparties to default on their delivery or payment obligations to us under our physical and financial crude oil, natural gas, and natural gas liquids trading instruments. Our corporate credit risk policy requires us to investigate and monitor the creditworthiness of our physical and financial trading counterparties. We do not expect nonperformance by these trading counterparties to have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

■ SUMMARY OF 1998 AND COMPARISON OF 1999 WITH 1998

At December 31, 1998, we had no derivative financial contracts relating to crude oil or natural gas liquids, nor did our VaR limit include those commodities. At December 31, 1999, we include derivative financial contracts relating to those commodities in the calculation of our VaR limit. At both dates, however, our VaR calculation was less than $2,000,000.

OTHER-THAN-TRADING INSTRUMENTS

■ COMMODITY PRICE EXPOSURE

UTILITY

The Public Utilities Regulatory Policies Act (PURPA) required that our electric utility enter into agreements with Qualifying Facilities (QFs) for the purchase or exchange of electricity under contracts with expiration terms ranging from 2003 through 2031. At December 31, 1999, we estimate that these contracts could result in above-market costs of between $300,000,000 and $500,000,000 throughout their duration. A hypothetical 10 percent adverse change in the market price for electricity increases the potential above-market costs by $25,000,000 to $30,000,000. We are evaluating options for divestiture of these contracts.

Our electric utility also entered into two Wholesale Transition Service Agreements (WTSAs), effective December 17, 1999, with PPL Montana. These agreements enable us to fulfill our obligation to supply power until July 2002 to those customers who have not chosen another supplier. Both agreements price the power sold at a market index, with a monthly floor and an annual cap and, therefore, limit our exposure to price fluctuations of the electricity market to the cap, but expose us to price fluctuations below the floor.

Our natural gas utility entered into take-or-pay contracts with Montana natural gas producers to provide adequate supplies of natural gas for our utility customers. We currently have six of these contracts, with expirations between 2000 and 2006.

These electric and natural gas agreements have liquidating damage clauses that require the non-performing party to pay the other party the positive difference between the market and contract prices plus transportation and other fees. We believe that the possibility of non-performance is remote and, therefore, have not calculated its financial effect.

We expect to recover all reasonable costs associated with the QF contracts through competitive transition charges (CTCs), all reasonable costs associated with the WTSA contracts in the electric restructuring process, and the reasonable costs associated with the take-or-pay contracts through future natural gas rates. Therefore, we do not expect these contracts to expose us to market risks related to commodity price fluctuations. However, recovery of the costs associated with these contracts is subject to the possibility of regulatory lag or even disallowance. For additional information, see Note 4, "Deregulation and Regulatory Matters."

We entered into a contract to sell electricity to an industrial customer at terms that include a fixed price for a portion of the power delivered and an index-based price for another portion. Approximately three years from now, the contract provides that we sell all power to our customer at an index-based price. Since the sale of our generating assets on December 17, 1999, we have had to serve this customer with power purchased in the electricity market. Because the price of that power could be greater than the fixed-price portion of the contract, the fixed-price portion subjects us to commodity price risk. With the uncertainties relating to the supply requirements of the contract and uncertainties surrounding various arrangements that would allow us to serve the contractual demand, we cannot determine at this time the potential effects of this contract on our future consolidated financial position, results of operations, and cash flows. MPT&M has entered into a swap agreement to mitigate the commodity price risk inherent in this contract, and we continue to examine other options to minimize our costs.

NONUTILITY

Northwestern Resources has a full-lignite requirements supply agreement (LSA) through July 2015 for the delivery of lignite to two mine-mouth electric generating facilities. The contract currently provides for the reimbursement of certain mining costs as well as management and dedication fees and, therefore, does not expose us to commodity price risk. Under a settlement reached in August 1999, the pricing structure will change July 1, 2002, to one driven by the market for Powder River Basin (PRB) coal adjusted for transportation and other costs. We estimate that, after mid-2002, a hypothetical 10 percent decrease of the PRB market price adjusted for transportation costs would reduce annual revenues by approximately $3,000,000.

Western Energy also has full-requirements contracts for the sale of coal to the four mine-mouth electric generating plants at Colstrip. The contract for Units 1 and 2 provides for a price re-opener in 2001 to adjust prices that reflect changes in mining costs. Because our mining costs are not directly tied to market price changes, the Units 1 and 2 contract is not subject to commodity price risk. The contract for Colstrip Units 3 and 4 requires that we constantly evaluate alternative supplies.

However, neither Western Energy nor the Colstrip Project Division has a unit train off-loading facility. Because the prices of alternative supplies must include the substantial cost of constructing this facility, a hypothetical 10 percent decrease in the prices of these competitive coal supplies would not materially affect us.

Before MPT&M exited the electric trading and marketing business, it entered into both electric purchase and sale contracts, expiring between 2000 and 2002. Some of these contracts are based on indexed-based prices and others on fixed prices. The fair values of the fixed-price contracts are subject to changes in electric market prices.

CES has equity interests in various electric generation and co-generation projects, expiring between 2008 and 2023. These projects sell power under contracts with prices determined by PURPA and other contracts with indexed-based or fixed prices. Even the fixed-price contracts limit our exposure to commodity price risk, because fuel costs are controlled through long-term or pass-through contracts.

CES' Colstrip 4 Lease Management Division sells the leased share of Colstrip Unit 4 generation principally to the LADWP and to Puget under contracts that expire at the same time as our sale-leaseback agreement of Colstrip Unit 4. In December 1999, we agreed with the LADWP to terminate the 11 remaining years of the existing contract, and we entered into a new power purchase agreement with the LADWP to provide 111 MWs of capacity and energy from December 21, 1999, to December 29, 2010, scheduled at rates over the duration of the agreement. We received $106,000,000 from the LADWP as consideration for the termination of the existing agreement and the establishment of the new agreement. The new agreement subjects us to commodity price risk to the extent that our operational and fuel costs exceed the revenues allowable under the price schedule.

Table Based on mark-to-market analyses and the net present value of forecasted cash flows at December 31, 1999, the table set forth below contains estimates of the fair market values of the above electric purchase and sale contracts as well as the effect on those values of a hypothetical 10 percent increase in electricity prices:

Company	Fair Market Value	Effect of 10% Price Increase On Fair Market Value	Difference
MPT&M	$ 1,300,000	$ 1,200,000	$ 100,000
CES	110,000,000	102,700,000	7,300,000
Colstrip Management	43,400,000	42,300,000	1,100,000
Total	$ 154,700,000	$ 146,200,000	$ 8,500,000

■ INTEREST RATE EXPOSURE

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," defines instruments readily convertible to cash as "financial instruments." These financial instruments principally include our cost-basis investments in independent power projects, the reclamation fund, mandatorily redeemable preferred securities, and long-term debt. All of these instruments are exposed to potential loss in fair value from adverse changes in interest rates. Assuming the fair values estimated for the SFAS No. 107 analysis and a hypothetical 10 percent adverse change in interest rates, we estimate that (1) the potential loss in the December 31, 1999, fair value of the reclamation fund and cost-based investments would be immaterial; and (2) the potential loss in the December 31, 1999, fair values of the mandatorily redeemable preferred securities and long-term debt would be approximately $5,700,000 and $26,500,000, respectively. Note 1, "Summary of Significant Accounting Policies, Fair Value of Financial Instruments," provides further information about fair valuation.

■ FOREIGN CURRENCY EXPOSURE

Our primary foreign currency exposure results from (1) our Canadian subsidiaries – Altana Exploration Company and Altana Exploration Ltd. – exploring for, producing, gathering, processing, transporting, and marketing natural gas and crude oil in Canada, and (2) MPT&M trading and marketing natural gas in Canada. There has been no material change in these activities or the corresponding foreign currency risk associated with these activities. We believe, therefore, that the market risk associated with a hypothetical 10 percent adverse change in foreign currency translation is immaterial.

■ SUMMARY OF 1998 AND COMPARISON OF 1999 WITH 1998

At December 31, 1998, our utility and nonutility businesses exposed us to the same kinds of risks that we reported at December 31, 1999. We summarize below the significant differences between our discussion of those risks in 1998 and 1999:

- In 1998, we estimated the commodity price risk associated with Northwestern Resources' contract from 2002 to 2015, assuming that the market price of PRB coal would remain flat. In 1999, we did not consider that assumption relevant and, therefore, did not estimate its effect on Northwestern Resources' projected pretax income.

- In 1998, we did not estimate the total fair market value of CES' equity investments in power sale projects or the effect of a hypothetical 10 percent increase of electric market prices on that fair market value. Based on the same assumptions that we used to calculate those values for 1999 above, we estimate that, at December 31, 1998, those values would have been $111,500,000 and $104,000,000, respectively.

- In 1998, we estimated that a hypothetical 10 percent increase in interest rates would decrease the fair market values of our long-term debt by $15,200,000. In 1999, we estimated that it would decrease it by $26,500,000. The estimated decrease was greater in 1999 due to the higher interest rates of 1999 used to compute the fair market value of long-term debt.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statement Schedules not included in this Form 10-K have been omitted because they are inapplicable or the required information is shown in the Consolidated Financial Statements or in the Notes to the Consolidated Financial Statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of The Montana Power Company is responsible for the preparation and integrity of the consolidated financial statements of the Company. These financial statements have been prepared in accordance with generally accepted accounting principles, which are consistently applied, and appropriate in the circumstances. In preparing the financial statements, management makes appropriate estimates and judgments based upon available information. Management also prepared the other financial information in the annual report on Form 10-K and is responsible for its accuracy and consistency with the financial statements.

Management maintains systems of internal accounting control which are adequate to provide reasonable assurance that the financial statements are accurate, in all material respects. The concept of reasonable assurance recognizes that there are inherent limitations in all systems of internal control in that the costs of such systems should not exceed the benefits to be derived. Management believes the Company's systems provide this appropriate balance.

The Company maintains an internal audit function that independently assesses the effectiveness of the systems and recommends possible improvements. PricewaterhouseCoopers LLP, the Company's independent accountants, also considered the systems in connection with its audit. Management has considered the internal auditors' and PricewaterhouseCoopers LLP's recommendations concerning the systems and has taken cost-effective actions to respond appropriately to these recommendations.

The Board of Directors, acting through an Audit Committee composed entirely of directors who are not employees of the Company, is responsible for determining that management fulfills its responsibilities in the preparation of the financial statements. The Audit Committee recommends, and the Board of Directors appoints, the independent accountants. The independent accountants and internal auditors are assured of full and free access to the Audit Committee and meet with it to discuss their audit work, the Company's internal controls, financial reporting, and other matters. The Committee is also responsible for determining adherence to the Company's Code of Business Conduct (Code). The Code addresses, among other things, potential conflicts of interests and compliance with laws, including those relating to financial disclosure and the confidentiality of proprietary information.

The financial statements have been audited by PricewaterhouseCoopers LLP, which is responsible for conducting its examination in accordance with generally accepted auditing standards.

Robert P. Gannon
Chairman of the Board and
Chief Executive Officer

J. P. Pederson
Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS

To the Board of Directors and Shareholders of
The Montana Power Company

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of The Montana Power Company and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statement. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As more fully discussed in Note 1 to the Consolidated Financial Statements, as of July 1, 1999, the Company changed its method of accounting for transactions involving the sale of dark fiber.

PricewaterhouseCoopers LLP

Portland, Oregon
February 10, 2000, except in Note 3 for the final paragraph under the "Telecommunications" section entitled "Investments and Acquisitions," as to which the date is March 13, 2000

Consolidated Statement of Income
The Montana Power Company and Subsidiaries

	Year Ended December 31		
	1999	1998	1997
	(Thousands of Dollars) (except per-share amounts)		
REVENUES	**$1,342,309**	$ 1,267,271	$ 1,023,597
EXPENSES:			
Operations	**668,521**	541,743	420,032
Maintenance	**81,553**	81,064	82,702
Selling, general, and administrative	**138,248**	128,741	116,054
Taxes other than income taxes	**103,881**	96,181	92,967
Depreciation, depletion, and amortization	**111,145**	114,267	95,340
Write-downs of long-lived assets	**7,083**	-	-
	1,110,431	961,996	807,095
INCOME FROM OPERATIONS	**231,878**	305,275	216,502
INTEREST EXPENSE AND OTHER INCOME:			
Interest	**43,006**	60,851	54,667
Distributions on company obligated mandatorily redeemable preferred securities of subsidiary trust	**5,492**	5,492	5,492
Other income - net	**(11,029)**	(4,862)	(34,159)
	37,469	61,481	26,000
INCOME TAXES	**44,063**	78,174	61,870
NET INCOME	**150,346**	165,620	128,632
DIVIDENDS ON PREFERRED STOCK	**3,690**	3,690	3,690
NET INCOME AVAILABLE FOR COMMON STOCK	**$ 146,656**	$ 161,930	$ 124,942
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-Basic (000)	**109,795**	109,962	109,298
BASIC EARNINGS PER SHARE OF COMMON STOCK	**$ 1.34**	$ 1.47	$ 1.14
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-Diluted (000)	**110,553**	110,156	109,400
DILUTED EARNINGS PER SHARE OF COMMON STOCK	**$ 1.33**	$ 1.47	$ 1.14

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheet
The Montana Power Company and Subsidiaries
Assets

	December 31 1999	December 31 1998
	(Thousands of Dollars)	
PLANT AND PROPERTY IN SERVICE:		
Utility plant	**$1,466,727**	$ 2,246,847
Less - accumulated depreciation and depletion	**464,653**	732,385
	1,002,074	1,514,462
Nonutility property	**1,051,997**	864,981
Less - accumulated depreciation and depletion	**349,045**	297,933
	702,952	567,048
	1,705,026	2,081,510
MISCELLANEOUS INVESTMENTS:		
Independent power investments	**23,460**	24,268
Reclamation fund	**43,460**	41,542
Other	**93,231**	84,256
	160,151	150,066
CURRENT ASSETS:		
Cash and cash equivalents	**554,407**	10,116
Temporary investments	**40,417**	-
Accounts receivable, net of allowance for doubtful accounts	**182,248**	170,652
Notes receivable	**-**	29,089
Materials and supplies (principally at average cost)	**37,928**	42,292
Prepayments and other assets	**53,733**	57,331
Deferred income taxes	**18,303**	18,755
	887,036	328,235
DEFERRED CHARGES:		
Advanced coal royalties	**12,506**	14,312
Regulatory assets related to income taxes	**60,538**	121,735
Regulatory assets - other	**150,486**	154,193
Other deferred charges	**73,000**	78,044
	296,530	368,284
	$3,048,743	$ 2,928,095

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheet
The Montana Power Company and Subsidiaries
Liabilities and Shareholders' Equity

	December 31 1999	December 31 1998
	(Thousands of Dollars)	
CAPITALIZATION:		
Common shareholders' equity:		
Common stock (240,000,000 shares without par value authorized; 110,218,973 and 110,121,040 shares issued)	**$ 702,773**	$ 702,511
Treasury stock (4,682,100 shares authorized, issued, and repurchased by the Company)	**(144,872)**	-
Unallocated stock held by trustee for Retirement Savings Plan	**(20,401)**	(23,298)
Retained earnings and other shareholders' equity	**488,975**	430,309
Accumulated other comprehensive loss	**(17,659)**	(20,717)
	1,008,816	1,088,805
Preferred stock	**57,654**	57,654
Company obligated mandatorily redeemable preferred securities of subsidiary trust which holds solely company junior subordinated debentures	**65,000**	65,000
Long-term debt	**618,512**	698,329
	1,749,982	1,909,788
CURRENT LIABILITIES:		
Short-term borrowings	**-**	69,820
Long-term debt-portion due within one year	**58,955**	96,292
Dividends payable	**22,746**	22,765
Income taxes	**152,739**	24,857
Other taxes	**54,630**	51,777
Accounts payable	**115,654**	97,197
Interest accrued	**11,597**	13,156
Other current liabilities	**92,277**	40,087
	508,598	415,951
DEFERRED CREDITS:		
Deferred income taxes	**8,847**	323,906
Investment tax credits	**13,330**	33,819
Accrued mining reclamation costs	**135,075**	129,558
Deferred revenue	**311,751**	19,950
Net proceeds from the generation sale	**219,726**	-
Other deferred credits	**101,434**	95,123
	790,163	602,356
CONTINGENCIES AND COMMITMENTS (Notes 2 and 3)		
	$3,048,743	$ 2,928,095

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows
The Montana Power Company and Subsidiaries

	1999	1998	1997
	Year Ended December 31		
	(Thousands of Dollars)		
NET CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 150,346**	$ 165,620	$ 128,632
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion, and amortization	**111,145**	114,267	95,340
Write-downs of long-lived assets	**7,083**	-	-
Deferred income taxes	**(304,854)**	(24,733)	10,677
Noncash earnings from unconsolidated investments	**(20,608)**	(10,871)	(14,016)
(Gains) losses on sales of property and investments	**(1,960)**	4,669	(33,849)
Other - net	**17,230**	31,092	24,699
Changes in assets and liabilities:			
Accounts and notes receivable	**17,493**	(68,754)	19,760
Deferred income taxes	**452**	(8,216)	556
Accounts payable	**18,457**	19,376	15,603
Generation asset sale – net proceeds	**219,726**	-	-
Income taxes payable	**127,882**	21,054	(7,281)
Deferred revenue and other	**291,801**	11,948	6,597
Other assets and liabilities - net	**25,990**	225	(45,627)
Net cash provided by operating activities	**660,183**	255,677	201,091
NET CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	**(285,307)**	(213,401)	(311,686)
Proceeds from property and investments	**594,762**	55,643	135,577
Additional investments	**(2,951)**	(1,794)	(23,259)
Net cash provided by (used for) investing activities	**306,504**	(159,552)	(199,368)
NET CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	**(90,902)**	(91,598)	(91,112)
Sales of common stock	**751**	7,421	2,201
Purchase of treasury stock	**(144,872)**	-	-
Issuance of long-term debt	**30,089**	139,947	103,375
Retirement of long-term debt	**(147,642)**	(80,411)	(71,634)
Issuance of mandatorily redeemable preferred securities	**-**	-	(67)
Net change in short-term borrowing	**(69,820)**	(64,138)	29,256
Net cash used for financing activities	**(422,396)**	(88,779)	(27,981)
CHANGE IN CASH FLOWS	**544,291**	7,346	(26,258)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**10,116**	2,770	29,028
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 554,407**	$ 10,116	$ 2,770
SUPPLEMENTAL DISCLOSURES OF CASH FLOW:			
Cash paid during the year for:			
Income taxes, net of refunds	**$ 213,362**	$ 90,663	$ 50,797
Interest	**53,273**	67,777	59,681

The accompanying notes are an integral part of these statements.

Consolidated Statement of Common Shareholders' Equity
The Montana Power Company and Subsidiaries

	Year Ended December 31		
	1999	**1998**	**1997**
	(Thousands of Dollars)		
COMMON STOCK:			
Balance at beginning of year	**$ 702,511**	$ 694,561	$ 691,853
Issuances (100,857; 663,622; and 195,430 shares)	**357**	7,950	2,708
Reacquired capital stock (4,682,100 shares)	**(144,872)**	-	-
Premium on capital stock	**(95)**	-	-
Balance at end of year	**557,901**	702,511	694,561
RETAINED EARNINGS AND OTHER SHAREHOLDERS' EQUITY:			
Balance at beginning of year	**430,309**	356,327	318,977
Net income	**150,346**	165,620	128,632
Dividends on common stock (80 cents per share each year)	**(88,155)**	(88,008)	(87,494)
Dividends on preferred stock	**(3,690)**	(3,690)	(3,690)
Other	**165**	60	(98)
Balance at end of year	**488,975**	430,309	356,327
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance at beginning of year	**(20,717)**	(13,354)	(11,173)
Net income	**150,346**	165,620	128,632
Foreign currency translation adjustments	**3,058**	(7,363)	(2,181)
Total comprehensive income	**153,404**	158,257	126,451
Deduct net income included in comprehensive income	**(150,346)**	(165,620)	(128,632)
Other comprehensive income (loss)	**3,058**	(7,363)	(2,181)
Balance at end of year	**(17,659)**	(20,717)	(13,354)
UNALLOCATED STOCK HELD BY TRUSTEE FOR RETIREMENT SAVINGS:			
Balance at beginning of year	**(23,298)**	(25,945)	(28,360)
Distributions	**2,897**	2,647	2,415
Balance at end of year	**(20,401)**	(23,298)	(25,945)
TOTAL COMMON SHAREHOLDERS' EQUITY AT END OF YEAR	**$1,008,816**	$ 1,088,805	$ 1,011,589

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

Our accounting policies conform with generally accepted accounting principles. With respect to our utility operations, these policies are in accordance with the accounting requirements and ratemaking practices of applicable regulatory authorities.

USE OF ESTIMATES

Preparing financial statements requires the use of estimates based on information available. Actual results may differ from our accounting estimates as new events occur or we obtain additional information.

RECLASSIFICATIONS

We have made reclassifications to certain prior-year amounts to make them comparable to the 1999 presentation. These changes had no effect on previously reported results of operations or shareholders' equity.

CONSOLIDATION PRINCIPLES

The consolidated financial statements include accounts and results of our wholly owned subsidiaries. We have eliminated significant intercompany balances and transactions. We account for our significant telecommunications and independent power investments using the equity method, because we exercise significant influence over those operations. To facilitate the timely preparation of the consolidated financial statements, the accounts of certain operations have been consolidated for fiscal years ending in November. The consolidated financial statements in fiscal year 2000 will eliminate the one-month lag in reporting for these operations. The results of operations of December 1999 for these entities, which would have previously been reported in results of fiscal year 2000, will be recorded as an adjustment to beginning retained earnings for fiscal year 2000.

PROPERTY AND PLANT

Table The following table provides year-end balances of the major classifications of property and plant:

	December 31 1999	December 31 1998
	(Thousands of Dollars)	
UTILITY PLANT:		
Electric:		
Generation (including jointly owned)	$ 11,954	$ 724,483
Transmission	372,174	373,630
Distribution	573,531	550,844
Other	92,684	192,899
Natural Gas:		
Production and storage	73,959	75,658
Transmission	163,968	152,804
Distribution	147,764	146,896
Other	30,693	29,633
Total Utility	1,466,727	2,246,847
NONUTILITY PLANT:		
Coal	240,228	237,913
Oil and Natural Gas	432,763	388,153
Technology	238,147	113,474
Electric generation	76,536	76,189
Other	64,323	49,252
Total Nonutility	1,051,997	864,981
Total Plant	$ 2,518,724	$ 3,111,828

We capitalize the cost of plant additions and replacements, including an allowance for funds used during construction (AFUDC), of utility plant. We determine the rate used to compute AFUDC in accordance with a formula established by the Federal Energy Regulatory Commission (FERC). This rate averaged 7.1 percent for 1999, 8.3 percent for 1998, and 8.0 percent for 1997. We charge costs of utility depreciable units of property retired, plus costs of removal less salvage, to accumulated depreciation and recognize no gain or loss. We recognize gain or loss upon the sale or other disposition of nonutility property. We charge maintenance and repairs of plant and property, as well as replacements and renewals of items determined to be less than established units of plant, to operating expenses.

For information on the sale of our electric generating assets, see Note 5, "Sale of Electric Generating Assets."

Included in the plant classifications are utility plant under construction in the amounts of $3,782,000 and $37,966,000 for 1999 and 1998, respectively, and nonutility plant under construction in the amounts of $134,817,000 and $10,990,000 for 1999 and 1998, respectively.

We record provisions for depreciation and depletion at amounts substantially equivalent to calculations made on straight-line and unit-of-production methods by applying various rates based on useful lives of properties determined from engineering studies. As a percentage of the depreciable and depletable utility plant at the beginning of the year, our provisions for depreciation and depletion of utility plant were approximately 3 percent for 1999, 1998, and 1997.

Our nonutility oil and natural gas operations use the successful-efforts method of accounting for exploration and development costs.

JOINTLY OWNED ELECTRIC PLANT

Prior to the sale of the utility generating assets discussed in Note 5, "Sale of Electric Generating Assets," we were a joint-owner of Colstrip Units 1, 2, and 3. We owned 50 percent of Units 1 and 2 and 30 percent of Unit 3. We also owned an approximate 30 percent interest in the transmission facilities serving these units. After the asset sale, we still own the transmission assets and associated microwave equipment which remain in property, plant, and equipment and, at December 31, 1999, our investment in these facilities was $43,380,000 and the related accumulated depreciation was $15,452,000.

We also own $43,084,000 and $33,370,000 of the nonutility Colstrip Unit 4 share of common production plant and transmission plant, which is included in nonutility plant "Electric generation" in the property, plant, and equipment table above. The accumulated depreciation related to Unit 4 production and transmission plant was $20,327,000 and $9,255,000, respectively.

Each joint-owner provides its own financing. Our share of direct expenses associated with the operation and maintenance of these joint facilities, including Colstrip Units 1, 2, and 3 through December 17, 1999, is included in the corresponding operating expenses in the Consolidated Statement of Income.

RECLAMATION FUND

Under the current Colstrip Units 3 and 4 coal supply agreement, we maintain a reclamation fund representing restricted cash necessary to meet our estimated reclamation obligation at Western Energy for Units 3 and 4. We invest the funds required for these reclamation obligations until we need them to perform reclamation. At December 31, 1999, we had the funds invested entirely in a money market account. We regularly accrue an expense and an offsetting liability associated with our reclamation obligation. The reclamation fund is not offset against our accumulated liability.

REVENUE AND EXPENSE RECOGNITION

We record operating revenues on the basis of consumption or service rendered. To match revenues with associated expenses, we accrue unbilled revenues for electric, natural gas, and telecommunication services delivered to customers but not yet billed at month-end.

The Emerging Issues Task Force (EITF) Issue No. 98-10 requires that energy contracts entered into under "trading activities" be marked to market with the gains or losses shown net in the income statement. EITF 98-10 is effective for fiscal years beginning after December 15, 1998. We adopted EITF 98-10 as of January 1, 1999, and accordingly mark to market energy contracts that qualify as "trading activities." The cumulative effect of adopting EITF 98-10 was not significant.

On July 8, 1999, the FASB issued Interpretation No. 43, "Real Estate Sales," which is an interpretation of SFAS No. 66, "Accounting for Sales of Real Estate." This interpretation, which requires entities to recognize revenues from dark-fiber sales over the period of the contract rather than at the time the contract was entered into, if title to the rights of use does not transfer to the lessee at the end of the contract, applies to transactions entered into after June 30, 1999. As a result of FASB Interpretation No. 43, we changed, on a prospective basis, how we account for transactions involving dark-fiber sales. Rather than recognizing approximately $7,000,000 in revenues in the fourth quarter from dark-fiber transactions pursuant to existing agreements entered into after June 30, 1999, Touch America will recognize these earnings over the applicable contract term. Net income for 1999 would have been approximately $4,200,000 higher and both basic and diluted earnings per share would have been $0.03 higher if we were not required to make this accounting change.

REGULATORY ASSETS AND LIABILITIES

For our regulated operations, we follow SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Pursuant to this pronouncement, certain expenses and credits, normally reflected in income as incurred, are recognized when included in rates and recovered from or refunded to the customers. Accordingly, we have recorded the following regulatory assets and liabilities that will be recognized in expenses and revenues in future periods when the matching revenues are collected.

Table The following table provides year-end balances of the major classifications of regulatory assets and liabilities:

	December 31			
	1999		1998	
	Assets	Liabilities	Assets	Liabilities
	(Thousands of Dollars)			
Income taxes	$ 57,526		$ 119,080	
Colstrip Unit 3 carrying charge ..	38,494		40,325	
Conservation programs	28,378		33,353	
Competitive transition charges (CTCs) ..	53,768		56,059	
Investment tax credits		$ 13,330		$ 33,819
Other	44,646	12,178	43,308	9,474
Subtotal	222,812	25,508	292,125	43,293
Less:				
Current portions ..	11,788	3,402	16,197	5,057
Total	$ 211,024	$ 22,106	$ 275,928	$ 38,236

Income taxes reflect the effects of temporary differences that we will recover in future rates. In August 1985, the PSC issued an order allowing us to recover deferred carrying charges and depreciation expenses over the remaining life of Colstrip Unit 3. These recoveries compensated us for unrecovered costs of our investment for the period from January 10, 1984, to August 29, 1985, when we placed the plant in service. We were amortizing this asset to expense and recovering in rates $1,831,000 per year. Conservation programs represent our Demand Side Management programs, which are in rate base and which we were amortizing to income over a 10-year period. We are recovering the CTCs, which relate to natural gas properties that we removed from regulation on November 1, 1997, through rates over 15 years. Investment tax credits and account balances included in "Other" represent items that we are amortizing currently or are subject to future regulatory confirmation.

With the sale of the generating assets, it is our position that any of these amounts related to electric supply should be recovered from sales proceeds in excess of book value. For further information on the effects of the sale of our electric generating assets, see Note 5, "Sale of Electric Generating Assets." For further information on the removal in 1997 of our natural gas production assets from rate base, see Note 4, "Deregulation and Regulatory Matters."

CASH AND CASH EQUIVALENTS AND TEMPORARY INVESTMENTS

We consider all liquid investments with original maturities of three months or less as cash equivalents, and investments with original maturities over three months and up to one year as temporary investments. At December 31, 1999, all of our investments were available for sale, and their fair value approximate the value reported on the Consolidated Balance Sheet.

ACCOUNTS RECEIVABLE

Accounts receivable are presented net of allowance for doubtful accounts of $2,105,000 in 1999 and $1,906,000 in 1998.

STORM DAMAGE AND ENVIRONMENTAL REMEDIATION COSTS

When losses from costs of storm damage and environmental remediation obligations for our utility operations are probable and reasonably estimable, we charge these costs against established, approved operating reserves. We consider the reserves adequate. The reserves balance at December 31, 1999, was approximately $11,200,000, and at December 31, 1998, was approximately $9,300,000. We have included these reserves in "current liabilities" on the Consolidated Balance Sheet.

INCOME TAXES

We and our United States subsidiaries file a consolidated United States income tax return. We allocate consolidated United States income taxes to utility and nonutility operations as if we filed separate United States income tax returns for each operation. We defer income taxes to provide for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. For further information on income taxes, see "Regulatory Assets and Liabilities" in this Note 1 and also Note 6, "Income Tax Expense."

DEFERRED REVENUES

We defer revenues to account for the timing differences between cash received and revenues earned and reflect these amounts on the Consolidated Balance Sheet in "Deferred Revenue." We reflect the current portion of these amounts in "Other Current Liabilities" on the Consolidated Balance Sheet. We are recognizing the $257,000,000 prepayment received in January 1999 from a telecommunications customer and the $106,000,000 payment received in December 1999 from the Los Angeles Department of Water and Power in revenues over the original terms of the agreements, approximately 11 years in each case.

NET INCOME PER SHARE OF COMMON STOCK

We compute basic net income per share of common stock for each year based upon the weighted average number of common shares outstanding. In accordance with SFAS No. 128, "Earnings per Share," diluted net income per share of common stock reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in our earnings.

ASSET IMPAIRMENT

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," we periodically review long-lived assets for impairment whenever events or changes in circumstances indicate that we may not recover the carrying amount of an asset.

■ COMPREHENSIVE INCOME (LOSS)

FASB defines comprehensive income as all changes to the equity of a business enterprise during a period, except for those resulting from transactions with owners. For example, dividend distributions are excepted. Comprehensive income consists of net income and other comprehensive income. Net income includes such items as income from continuing operations, discontinued operations, extraordinary items, and cumulative effects of changes in accounting principle. Other comprehensive income includes foreign currency translations, adjustments of minimum pension liability, and unrealized gains and losses on certain investments in debt and equity securities.

For the years ended December 31, 1999, 1998, and 1997, our only item of other comprehensive income was foreign currency translation adjustments of the assets and liabilities of our foreign subsidiaries. These adjustments resulted in increases to retained earnings of $3,058,000 in 1999, and decreases to retained earnings of $7,363,000 in 1998 and $2,181,000 in 1997. No current income tax effects resulted from the adjustments, nor will there be any net income effects unless we sell a foreign subsidiary.

Most of the 1998 adjustment was the result of transferring a Canadian natural gas production company from utility to nonutility operations. Until November 1, 1997, the property, plant and equipment (PP&E) of that company was included in our natural gas utility rate base at its original United States dollar value. After that company was transferred to nonutility operations, we were no longer required to state its PP&E at original United States dollar value, but were required, instead, to convert its PP&E at the foreign exchange rate in effect at the balance sheet date. At the time of the transfer, the Canadian-United States exchange rate was considerably lower than the rates used to convert most of the original United States dollar values of that company's PP&E. Consequently, the adjustment from original to current United States dollar value decreased other comprehensive income approximately $5,100,000 in 1998.

DERIVATIVE FINANCIAL INSTRUMENTS

■ TRADING AND MARKETING OF ELECTRICITY

Although we decided in August 1998 to exit the electric trading and marketing businesses, The Montana Power Trading & Marketing Company (MPT&M), a subsidiary of Entech, remains a party to a single derivative financial instrument. MPT&M entered into this instrument in June 1998 with an electric retail customer to manage a portion of the customer's commodity price risk, and the instrument expires in approximately fifteen months. We do not expect this instrument to have a material effect on our consolidated financial position, results of operations, or cash flows.

■ TRADING AND MARKETING OF CRUDE OIL, NATURAL GAS, AND NATURAL GAS LIQUIDS

We produce, purchase, transport, and sell crude oil, natural gas, and natural gas liquids. Changes in the prices of these commodities can affect our financial results. We manage this exposure to price risk, in part, through MPT&M's use of derivative financial instruments.

Derivative Financial Instruments Used

We use derivative financial instruments to reduce earnings volatility and stabilize cash flows by hedging some of the price risk associated with our nonutility energy commodity-producing assets, contractual commitments for firm supply, and natural gas transportation agreements. We also use derivative financial instruments in speculative transactions to seek enhanced profitability based on expected market movements, as discussed below in "Speculative Transactions." In all cases, financial swap and option agreements constitute the principal kinds of derivative financial instruments used for these purposes.

Swap Agreements

Under a typical swap agreement, we make or receive payments based on the difference between a specified fixed price and a variable price of crude oil or natural gas at the time of settlement. The variable price is either a crude oil or natural gas price quoted on the New York Mercantile Exchange or a natural gas price quoted in *Inside FERC's Gas Market Report* or other recognized industry index.

Option Agreements

Under a typical option agreement, we make or receive monthly payments based on the difference between the actual price of crude oil or natural gas and the price established in a private agreement at the time of execution. Receiving or making payments is dependent on whether we buy (own or hold) or sell (write or issue) the option. Buying options involves paying a premium – the price of the option – and selling options involves receiving a premium. When we use options, we defer all premiums paid or received and recognize the applicable expenses or revenues monthly throughout the option term. As of December 31, 1999, our deferred revenues due to option premiums was $1,700,000.

Hedged Transactions

Hedged transactions are those in which we have a position (either current or anticipated) in an underlying commodity or derivative of that commodity that exposes us to risk if the price of the underlying item adversely changes. We enter into these transactions primarily to reduce earnings volatility and stabilize cash flows. We recognize gains or losses from these derivative financial instruments in the Consolidated Statement of Income at the same time that we recognize the revenues or expenses associated with the underlying hedged item; until then, we do not reflect these gains or losses in our financial statements. At December 31, 1999, we had unrecognized gains of approximately $2,100,000 related to these transactions. As of December 31, 1999, we had not terminated any hedging instrument before the date of the anticipated commodity production, commodity purchase or sale, or natural gas transportation commitment.

At December 31, 1999, we had no hedge agreements on natural gas production, but we did have swap and option agreements on approximately 1,280,000 barrels, or 46 percent of our estimated nonutility crude oil and natural gas liquids production through December 2001. In addition, we had swap and option agreements to hedge approximately 5.0 Bcf, or 20.1 percent of our expected delivery obligations under long-term natural gas sales contracts through December 2000. At December 31, 1999, we also had sold swap and option agreements to hedge approximately 25.4 Bcf of our nonutility natural gas pipeline transportation obligations under contracts through December 2001, and we had purchased swap and option agreements to hedge approximately 27.4 Bcf of these obligations.

Speculative Transactions

We also enter into derivative financial transactions in which we have no underlying price risk exposure nor any interest in making or taking delivery of crude oil or natural gas commodities. We try, by these speculative transactions, to profit from the market movements of the prices of these commodities. In accordance with EITF Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," we mark to market all of our speculative transactions and recognize any corresponding gain or loss in the Consolidated Statement of Income. Through December 31, 1999, we recorded pretax gains of approximately $700,000 related to these transactions.

Counterparty Credit Risk

Commodity price changes may provide a motive to our counterparties to default on their delivery or payment obligations to us under our physical and financial crude oil, natural gas, and natural gas liquids trading instruments. Our corporate credit risk policy requires us to investigate and monitor the creditworthiness of our physical and financial trading counterparties.

Independent Power Operations

CES has investments in independent power partnerships, some of which have entered into derivative financial instruments to hedge interest rate exposure on floating-rate debt and natural gas price fluctuations. We believe that, as of December 31, 1999, we have not been exposed to any material adverse effects from the risks inherent in these instruments.

Table | Fair Value of Financial Instruments

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Thousands of Dollars)			
ASSETS:				
Investments in independent power projects (cost basis only)	$ 3,504	$ 1,641	$ 394	$ 1,543
Reclamation fund	43,460	43,460	41,542	41,542
Other significant investments	52,523	55,689	83,102	83,102
LIABILITIES:				
Company obligated mandatorily redeemable preferred securities	$ 65,000	$ 63,206	$ 65,000	$ 69,160
Long-term debt(including due within one year)	677,467	655,652	794,621	829,870

The following methods and assumptions were used to estimate fair value:

- Investments in independent power projects - The fair value represents our assessment of the present value of net future cash flows embodied in these investments, discounted to reflect current market rates of return.
- Reclamation fund and other investments - The carrying value of most of the investments approximates fair value as the investments have short maturities or the carrying value equals their cash surrender value. Fair value for the remainder of the investments was estimated based on the discounted value of the future cash flows expected to be received using a rate of return expected on similar current investments.
- Mandatorily redeemable preferred securities and long-term debt - The fair value was estimated using quoted market rates for the same or similar instruments. Where quotes were not available, fair value was estimated by discounting expected future cash flows using year-end incremental borrowing rates.

NOTE 2 - CONTINGENCIES

KERR PROJECT

A FERC order that preceded our sale of the Kerr Project to PPL Montana required us to implement a plan to mitigate the effect of Kerr Project operations on fish, wildlife, and habitat. To implement this plan, we were required to make payments of approximately $135,000,000 between 1985 and 2020, the term during which we would have been the licensee. The net present value of the total payments, assuming a 9.5 percent annual discount rate, was approximately $57,000,000, an amount we recognized as license costs in plant and long-term debt on the Consolidated Balance Sheet in 1997. A payment of approximately $15,600,000 for the period from 1985 to 1997 was included in this amount. In the sale of the Kerr Project, PPL Montana assumed the obligation to make post-closing license compliance payments; however, we retained the obligation to make payments regarding pre-closing license compliance payments.

In December 1998 and January 1999, we asked the United States Court of Appeals for the District of Columbia Circuit to review FERC's orders and the United States Department of Interior's conditions contained in them. On September 17, 1999, the court granted the motion of the parties and intervenors to hold up the appeal pending settlement efforts. In December 1999, we, along with PPL Montana, the United States Department of the Interior, the Confederated Salish and Kootenai Tribes (the Tribes), and Trout Unlimited, in a court-ordered mediation, agreed in principle to settle this litigation.

A Statement of Agreement containing the principles for settlement of the disputes underlying the appeals was developed in December 1999. It provides that its terms are binding against all parties, with the understanding that the signatory parties will jointly draft additional documents as necessary to establish the terms of the settlement in detail. The parties are currently in the process of drafting these documents, but the court's procedure requires that the parties keep the settlement terms confidential. We have paid our settlement payment under the Statement of Agreement into an escrow account. If the parties agree on these additional documents, and if FERC approves, in a final non-appealable order, the settlement terms as reflected in proposed license amendments, we will dismiss the petitions in the court of appeals, and the escrow agent will release the payments to the Tribes. In addition, we will transfer to the Tribes 669 acres of land we own on the Flathead Indian Reservation. If the parties cannot agree upon the additional documents or FERC does not approve the proposed license amendments in the form agreed to by the parties, or if, as a result of the appeal of a FERC order, that order is not final after a specified period, the money will be returned to us, and the litigation will resume. The settlement, subject to the conditions described above, substantially reduces our obligation to pay for fish, wildlife, and habitat mitigation assigned to the pre-closing period in the sale of the Kerr Project.

MISCELLANEOUS

We are parties to various other legal claims, actions, and complaints arising in the ordinary course of business. We do not expect the conclusion of any of these matters to have a material adverse effect on our consolidated financial position, results of operation, or cash flows.

NOTE 3 – COMMITMENTS

PURCHASE COMMITMENTS

ELECTRIC UTILITY

The Public Utilities Regulatory Policies Act (PURPA) requires a public utility to purchase power from QFs at a rate equal to what it would pay to generate or purchase power. These QFs are power production or co-generation facilities that meet size, fuel use, ownership, and operating and efficiency criteria specified by PURPA. The electric utility has 15 long-term QF contracts with expiration terms ranging from 2003 through 2031 that require us to make payments for capacity and energy received at prices currently above market. Three contracts account for 96 percent of the 101 MWs of capacity provided by these facilities. Montana's Electric Act designates the above-market portion of the QF costs as Competitive Transition Costs (CTCs) and allows for their recovery. For more information about CTCs, see Note 4, "Deregulation and Regulatory Matters."

The Asset Purchase Agreement (Agreement) dated as of October 31, 1998, and amended June 29, 1999 and October 29, 1999, with PPL Montana included the assignment of our contract with Basin Electric Power Cooperative (Basin) to PPL Montana. That contract committed us to purchase 98 MWs of seasonal capacity from Basin from 1994 until November 2010 at prices above current and projected market prices. However, Basin did not release us from that contract. Consequently, if PPL Montana were to default, Basin could hold us liable to perform according to the terms of the contract. Because we believe that PPL Montana will not default, we do not consider this contract our unconditional purchase obligation.

The Agreement also included two Wholesale Transition Service Agreements (WTSAs), effective December 17, 1999. These agreements enable us to fulfill our obligation to supply power until July 2002 to those customers who will not have chosen another supplier. One agreement commits us to purchase 200 MWs per hour through December 2001, and the other agreement to purchase through June 2002 any power requirements remaining after having received power through the first WTSA, QFs, and Milltown Dam, which we still own and operate. Both agreements price the power sold at a market index, with a monthly floor and an annual cap. Assuming a 7.23 percent discount rate and current load forecasts, the net present value of the power purchased under the WTSAs may range from $94,000,000 to $104,000,000 for 2000, $61,000,000 to $69,000,000 for 2001, and $24,000,000 to $27,000,000 for 2002. In accordance with SFAS No. 47, "Disclosure of Long-Term Obligations," we use the lower estimate in the tables below.

NATURAL GAS UTILITY

The natural gas utility entered into take-or-pay contracts with Montana natural gas producers to provide adequate supplies of natural gas for our utility customers. We currently have six of these contracts, with expirations between 2000 and 2006. If we can supply customers with less expensive natural gas, we purchase the minimum required by the take-or-pay contracts. The cost of purchases through take-or-pay contracts is part of those costs submitted to the PSC for recovery in future rates. Since 1998, the natural gas utility enters only into one-year take-or-pay contracts, because of the uncertainty about the number and timing of customers who will choose another natural gas supplier under Montana's Natural Gas Act.

TRADING AND MARKETING

Before the sale of our electric generating facilities, MPT&M supplied its customers with power purchased mainly from our generation facilities. Anticipating the sale of those facilities, MPT&M entered into two electric purchase contracts in August 1998. One contract obligates MPT&M to purchase 40 MWs per hour at a fixed rate from October 1999 through May 2001, and the other to purchase 100 MWs per hour of firm capacity and firm energy at 100 percent load factor at a market-indexed rate until August 2001. We sell this power to several large customers with whom we have contracts to supply power at negotiated rates.

OIL AND GAS

Nonutility oil and natural gas operations have one take-or-pay contract, expiring in 2006, to purchase natural gas, and contracts with pipeline companies, with expiration dates between 2000 and 2013, to provide reserve capacity for natural gas shipments to customers.

Table Total payments under these contracts for the prior three years were as follows:

	Utility		Nonutility		Total
	Electric	Natural Gas	Electric	Natural Gas	
	(Thousands of Dollars)				
1999	$ 61,274	$ 4,069	$ 26,076	$ 7,898	$ 99,317
1998	50,611	3,508	15,355	4,454	73,928
1997	44,153	7,554	-	3,289	54,996

Table Under the above agreements, the present value of future minimum payments, at a discount rate of 7.23 percent, is as follows:

	Utility		Nonutility		Total
	Electric	Natural Gas	Electric	Natural Gas	
	(Thousands of Dollars)				
2000	$ 102,050	$ 4,023	$ 24,315	$ 7,647	$ 138,035
2001	69,752	2,312	10,743	4,661	87,468
2002	32,052	1,945	-	2,200	36,197
2003	7,543	317	-	2,051	9,911
2004	7,317	280	-	1,912	9,509
Remainder	106,074	502	-	17,594	124,170
	$ 324,788	$ 9,379	$ 35,058	$ 36,065	$ 405,290

■ COAL

Northwestern Resources entered into a lignite lease agreement that requires minimum annual payments of overriding royalty that began in 1991 for $1,125,000, adjusted quarterly for inflation. The payments will continue until Northwestern Resources pays the equivalent of $18,750,000, in 1986 dollars. At December 31, 1999, the remaining payments under this agreement were $7,217,000. Under current mine plans, Northwestern Resources should recoup these payments through lignite sales.

Northwestern Resources also agreed to pay the State of Texas $2,250,000 in May 2000 for a highway relocation that enables it to gain access to lignite under existing leases.

■ TELECOMMUNICATIONS

Construction Projects

In 1999 and 1998, Touch America contracted with Northern Telecom, Inc. (Nortel) to install optical electronic equipment on certain fiber-optic networks. (That equipment transmits pulses of laser light through the fiber to increase the rate at which data are transmitted.) We expect the installations to be completed in the fourth quarter of 2000 at a cost of $51,800,000, of which $28,300,000 was paid in 1999 and 1998 in the aggregate, and $23,500,000 is scheduled for payment in 2000. In 1999, Touch America also contracted with Nortel to upgrade a telephone switch in the first quarter of 2000 at a cost of $3,000,000. TW Wireless (TWW), a joint venture of Touch America and US WEST Wireless, will lease the switch from Touch America for the life of the venture.

In October 1999, Touch America entered into a contract to construct a high-speed, fiber-optic network for AT&T Corp (AT&T). The contract allows Touch America to install its own fiber-optic network at the same time and along the same routes it is constructing the network for AT&T. The network will span more than 4,300 miles and will cover six different routes in the West, Pacific Northwest, Northern Rocky Mountains, and Midwest. The contract contains capped performance incentives if we meet, and capped penalties if we do not meet, aggressive completion targets. The first route is scheduled for completion in the fourth quarter of 2000 and the last route in the second quarter of 2001. We estimate the cost of the project at $500,000,000, of which approximately one-half will be expended in 2000. We expect AT&T and other third parties to reimburse us for approximately 50 percent of the total cost, as stages of the project are completed.

Joint Ventures

Touch America has entered into strategic alliances to expand its network and increase its revenues. In accordance with the agreements governing these relationships, Touch America is committed to contribute capital at various times.

In January 2000, Touch America and AEP Communications LLC, a subsidiary of American Electric Power, formed a 50-50 joint venture named America Fiber Touch, LLC (AFT) to connect national and regional fiber-optic networks. The venture's first project is to construct a 330-mile fiber-optic route between St. Louis, Missouri, and Plano, Illinois, which makes up the Midwest route of the 4,300 mile build-out discussed above. This Midwest route is scheduled for completion in December 2000, at an estimated cost of $25,000,000, of which Touch America's portion is $12,500,000.

In August 1999, Touch America and New Century Energies (NCE) formed a 50-50 joint venture named Northern Colorado Telecommunications LLC to provide a full range of telecommunication services, including private-line service, to enterprises in the Denver metropolitan area by the middle of 2000. For the venture, NCE contributed long-term indefeasible rights of use of its existing fiber-optic network in the Denver metropolitan area. Touch America will construct six miles of fiber-optic cable and install optical electronic equipment at an estimated cost of $10,000,000. In 1999, Touch America contributed $1,500,000 to the venture and plans to contribute $7,000,000 in 2000 and $1,500,000 in 2001.

In 1999, Touch America and Iowa Network Services, Inc. formed Iowa Telecommunications Services, Inc. (ITS). ITS will purchase from a third party 280,422 domestic access lines connected to 296 telephone exchanges in Iowa. Touch America holds a 31 percent interest in ITS, in which Touch America will invest approximately $46,000,000. ITS will fund the purchase of access lines and telephone exchanges primarily through long-term non-recourse debt, obligating ITS solely. We expect this transaction to close in the second quarter of 2000, subject to the satisfaction of various conditions and receipt of required regulatory approvals. In 1999, Touch America loaned ITS $5,000,000 to purchase computers and licenses, and will loan ITS another $5,000,000 for operations at payments scheduled for the first four months of 2000. These notes are payable on demand.

In August 1999, Touch America and US WEST Wireless entered into TWW to provide "one number" wireless telephone service in an eight-state region of the Pacific Northwest and Upper Midwest. That service provides a customer with one directory number for cell phone and home or business phone. Touch America holds approximately a 50 percent interest in the venture and will contribute approximately $45,000,000 over the next two years toward construction of TWW's physical infrastructure. Both companies contributed PCS licenses to the venture.

In November 1999, FTV Communications LLC (FTV), the limited liability company formed by Touch America, Williams Communications, and Enron Broadband Services, began an expansion of regeneration sites along the Portland-to-Las Vegas portion of the fiber-optic route that FTV constructed. FTV expects to complete the project in mid-2000. Touch America's share of the costs will be approximately $3,300,000.

Exchanges

In January 2000, Touch America and PF.Net, a privately held telecommunications company, agreed to an exchange of fiber, conduit, and cash to expand both companies' fiber-optic networks. Touch America receives approximately 5,900 route miles of fiber and conduit from PF.Net, in exchange for 4,400 miles of Touch America's fiber and conduit and a cash payment of $48,500,000 for the difference in route miles. This exchange will expand Touch America's network from Los Angeles to San Diego, Phoenix, El Paso, Dallas, Austin, San Antonio, Houston, New Orleans, Jacksonville, Orlando, Greensboro, Washington D.C., New York City, Tulsa, Kansas City, and St. Louis. Touch America paid $4,850,000 down and will pay the remainder as segments of the routes under construction are completed. Segments are scheduled for completion at various times in 2000 and 2001.

Investments and Acquisitions

In January 2000, Touch America agreed to purchase, from Century Tel Inc., 400 route miles of fiber-optic network linking Chicago and Detroit through central and southern Michigan communities for approximately $10,000,000.

In January 2000, Touch America signed a purchase agreement with Minnesota PCS, LP (MPCS) to acquire a 25 percent interest in MPCS' wireless telephone business, which owns PCS licenses in North Dakota, South Dakota, Minnesota, and Wisconsin. In accordance with the agreement, Touch America expects to make a $2,700,000 equity payment to MPCS and, over the years 2000-2001, will loan it $12,000,000 in interest-bearing notes payable on October 1, 2002. The agreement also obligates Touch America, until 2007, to $7,000,000 in guarantees for loans made to MPCS by the Rural Telephone Financing Corporation. The guarantees are callable only upon MPCS' default.

On March 13, 2000, Touch America signed an agreement with Qwest to acquire for approximately $190,000,000, subject to certain adjustments, Qwest's wholesale, private-line and long-distance telecommunications services in US WEST's 14-state region, which covers 250,000 customers for voice, data, and video services with multimedia and high-speed data applications. By this agreement, Touch America will also acquire a fiber-optic network of 1,800 route miles and associated optronics and switches. The network will connect to Touch America's fiber-optic network, and Touch America will offer employment to Qwest's sales agents in the region. We expect this acquisition to close in mid-2000, subject to the satisfaction of various conditions and the receipt of required regulatory approvals.

SALES COMMITMENTS

Our nonutility oil and natural gas operations have agreed to supply approximately 81 Bcf of natural gas to four co-generation facilities. These contracts have expiration dates between 2005 and 2011. We can supply the remaining natural gas required by these contracts with sufficient proved, developed, and undeveloped reserves and by our control of commitments to sell our production.

We entered into a contract to sell electricity to an industrial customer at terms that include a fixed price for a portion of the power delivered and an index-based price for another portion. Approximately three years from now, the contract provides that we sell all power to our customer at an index-based price. We have been supplying our customer with power purchased through an index-based contract between MPT&M and a power generator that remains effective through July 2001. Our industrial customer has given us usage estimates that do not exceed the amount of electricity that we are committed to purchase.

Because the price of power under the index-based purchase contract could exceed the price of power under the fixed-price portion of our sales contract, we are subject to commodity price risk. Due to uncertainties relating to the supply requirements of the sales contract and uncertainties surrounding various arrangements that would allow us to serve the contractual demand, we are unable to determine the effects that this contract ultimately may have on our consolidated financial position, results of operations, or cash flows. We will continue to examine our options and take steps to mitigate the commodity price risk that we face because of our fixed-price sales contract.

MPT&M has agreements, expiring between December 2000 and December 2002, with four other industrial customers to sell a maximum of approximately 103.8 MWs and a minimum of 59.3 MWs per hour. MPT&M can supply these customers from power purchased through contracts with a power generator discussed above under "Purchase Commitments."

LEASE COMMITMENTS

On December 30, 1985, we sold our 30 percent share of Colstrip Unit 4 and agreed to lease back our share under a net, 25-year lease with annual payments of approximately $32,000,000. We have been accounting for this transaction as an operating lease. We did not sell this nonutility leasehold interest and its related assets and liabilities and contract obligations to PPL Montana. We have no other material minimum operating lease payments. Capitalized leases are not material and are included in other long-term debt.

Rental expense for the prior three years, including Colstrip Unit 4, was $66,000,000 for 1999, $63,000,000 for 1998, and $60,000,000 for 1997.

We have restated the previously reported 1998 and 1997 rental expenses of $58,800,000 and $56,600,000 for the inclusion of property taxes paid in accordance with our Colstrip Unit 4 Sale Lease-Back Agreement.

NOTE 4 – DEREGULATION AND REGULATORY MATTERS

DEREGULATION

The electric and natural gas utility businesses in Montana are transitioning to a competitive market in which commodity energy products and related services are sold directly to wholesale and retail customers. Montana's Electric Act, passed in 1997, provides that all customers will be able to choose their electric supplier by July 1, 2002. Montana's Natural Gas Act, also passed in 1997, provides that a utility may voluntarily offer its customers choice of natural gas suppliers and provide open access. Since restructuring is voluntary, no deadline for choice exists.

■ ELECTRIC

Through December 1999, approximately 900 electric customers representing more than 1,300 accounts crossing all customer classifications – or approximately 27 percent of our pre-choice electric load – have moved to competitive supply since the inception of customer choice on July 1, 1998. Residential customers were eligible to move to choice during the fourth quarter of 1999. However, the majority of the load associated with our pre-choice electric customers who moved to other suppliers was predominantly industrial and large commercial customers.

As required by the Electric Act, we filed a comprehensive transition plan with the PSC in July 1997. Initial hearings on the filing began in April 1998, and the issues were separated into two groups: Tier I and Tier II.

Tier I issues dealt with:

- Accounting orders;
- Customer choice for large industrial customers;
- Pilot programs for the remaining customers; and
- Standards of conduct for utility and nonutility affiliates.

Tier II issues address:

- The recovery and treatment of the QF purchase-power contract costs, which are above-market costs;
- Regulatory assets associated with our electric generating business; and
- A review of our electric generating assets sale, including the treatment of sale proceeds in excess of the book value of the assets and other generation-related transition costs.

In June 1998, the PSC rendered an order on Tier I issues, and on July 1, 1999, we filed a case with the PSC to resolve

Tier II issues. We will update our Tier II filing as a result of the closing of the sale of our electric generating assets, but we do not expect an order from the PSC until late 2000.

With deregulation and the resulting competition, certain generation and power supply-related costs become stranded, or unrecoverable, absent recovery from customers as a transition cost. CTCs are generation and power supply-related costs that we incurred in the regulated environment with the expectation that we would recover these costs from our customers well into the future. Included within the CTCs are the following: (1) generation-related regulatory assets, (2) utility owned generation and other purchase-power contracts, and (3) our purchase-power contracts with the QFs. We are evaluating options with respect to the QF contracts to minimize costs and are working on a number of potential buy-out agreements. The owners of the QF contracts must approve any agreements related to the contracts. In addition, the PSC must approve future cost recovery. The Electric Act allows us to issue transition bonds to refinance CTCs.

In the implementation of our comprehensive transition plan, we have initiated litigation in Montana District Court in Butte seeking reversal of a PSC decision regarding our ability to use tracking mechanisms to ensure fair and accurate recovery of above-market QF costs and certain other transition costs. In an order issued as part of its consideration of our transition plan, the PSC concluded that the Electric Act does not provide for tracking mechanisms and that transition costs must be mitigated and determined as a final matter in the transition filing. In the litigation, we also are seeking court clarification on whether the Electric Act authorized a rate freeze or a rate cap during the transition period that ends July 1, 2002. The PSC has concluded that the Electric Act authorized a rate cap, but we disagree with this interpretation.

NATURAL GAS

Through December 1999, approximately 240 natural gas customers with annual consumption of 5,000 Dkt or more - or 52 percent of our pre-choice natural gas supply load - have chosen alternate suppliers since the transition to a competitive natural gas environment began in 1991.

In accordance with a 1997 PSC order, we transferred substantially all of our natural gas utility's production assets to unregulated affiliates in 1997 at an agreed-upon amount, which was approximately $33,600,000 lower than the book value of the assets. As a component of CTCs, the PSC is allowing us to recover from our transportation and distribution customers (a) this $33,600,000 difference between transfer value and book value, and (b) approximately $25,400,000 of existing regulatory assets related to the natural gas production assets. In 1998, we issued $62,700,000 in transition bonds to refinance the CTCs for the benefit of customers. The transition bonds will be retired over 15 years through rate revenues established in accordance with Montana's Natural Gas Act. The amortization of the assets is proportionate to the repayment of principal on the bonds, resulting in no net income statement impact. The transition plan also includes a fixed-price supply contract until July 1, 2002 between our unregulated gas supply operations and our regulated distribution operations to serve the remaining customers who have not chosen other suppliers.

REGULATORY MATTERS

Milltown Dam and our electric transmission operations remain subject to FERC and PSC regulation, and the PSC regulates our electric distribution operations.

As a Hinshaw pipeline (interstate pipeline exempt from FERC jurisdiction), our natural gas transportation pipelines are not subject to FERC jurisdiction. However, we conduct interstate transportation subject to FERC jurisdiction, through an exception of our Hinshaw status. Presently, FERC has allowed the PSC to set the rates for this interstate service. Our natural gas distribution and storage operations remain subject to PSC regulation. In addition, the Alberta Energy and Utilities Board, the National Energy Board of Canada, and the United States Department of Energy all must approve the importing of Canadian natural gas.

As a public utility, we also are subject to PSC jurisdiction when we issue, assume, or guarantee securities, or when we create liens on our properties.

ELECTRIC

FERC

On March 30, 1998, we filed a request with FERC to increase our open-access transmission rates and the rates for bundled wholesale electric service to two rural electric cooperatives. FERC approved an interim increase in rates charged for transmission service, pending final approval in 2000.

In January 1999, we reached a rate settlement with one of the cooperatives, resulting in an immaterial increase in rates for bundled wholesale electric service. This cooperative moved to another supplier in December 1999.

In March 1999, we reached a separate settlement with the other cooperative. Rates did not change as a result of the settlement. The cooperative was able to retain its right to continue with its separate rate-reduction complaint. We agreed to assist the cooperative in moving to choice when its full-service wholesale contract expires in exchange for its agreement to withdraw the rate-reduction complaint. This cooperative will move to another supplier in June 2000.

Finally, on March 11, 1999, we reached a settlement on open-access transmission rates. This settlement increased transmission rates by approximately $4,300,000, which had a positive effect on the results of our transmission operations.

We will also pursue, through new FERC proceedings, recovery of the transition costs associated with serving both of the wholesale electric cooperatives to correspond with our transition-costs recovery proceedings in Montana.

PSC

The Electric Act established a rate freeze for all electric customers, meaning that transmission and distribution rates cannot be increased until July 1, 2000. In January 2000, we filed a voluntary rate reduction with the PSC for approximately $16,700,000 annually, which we would implement by using the sales proceeds in excess of the book value from the recent generation sale. The reduction is effective on an interim basis pending PSC review of our Tier II filing. For additional information on the generation sale, see Note 5, "Sale of Electric Generating Assets."

■ NATURAL GAS

On August 12, 1999, we filed a natural gas rate docket with the PSC requesting, among other matters, an increase in annual revenues of $15,400,000, with a proposed interim increase of $11,500,000. The filing also proposes:

- An alternative rate plan;
- "Trackers" to reflect property taxes and replacement facilities in rates on a more timely basis;
- A change in the allocation of costs to customer classes; and
- Rate-design changes that include recovery of distribution charges through a fixed monthly system charge.

On December 9, 1999, the PSC approved an interim increase of $7,600,000 regarding the natural gas rate docket discussed above. Since then, we negotiated a settlement with a group of intervenors concerning this natural gas rate filing. The settlement allows for an increase of annual revenues of $10,300,000, which includes the interim increase of $7,600,000. The PSC will discuss the settlement at a working session in March 2000. If the settlement is acceptable, the rates will be implemented shortly thereafter.

On November 17, 1999, we filed a second natural gas rate docket with the PSC requesting recovery of costs associated with tracking gas costs annually. Approval by the PSC would result in an increase in annual revenues of $4,800,000. On December 9, 1999, the PSC approved an interim increase for this amount until we receive the final order, which we expect by mid-2000.

NOTE 5 – SALE OF ELECTRIC GENERATING ASSETS

ASSETS SOLD

On December 17, 1999, in accordance with the Agreement, we sold to PPL Montana substantially all of our electric generating assets, related contracts, and associated transmission assets totaling less than 40 miles. This included 11 of our 12 hydroelectric facilities; a storage reservoir; a coal-fired thermal generating plant at Billings, Montana; all of our interest in three coal-fired thermal generating plants at Colstrip, Montana; and other related assets, including inventories associated with the power plants. The total gross capacity of the hydroelectric facilities and coal-fired thermal generating plants sold to PPL Montana was 1,314.5 MWs.

The asset sale did not include the Milltown Dam near Missoula, Montana (gross capacity of 3 MWs) or any of our QF purchase-power contracts. It also did not include our leased share of the Colstrip Unit 4 generation or transmission assets.

In the sale of these assets, we generally retained all pre-closing obligations, and PPL Montana assumed all post-closing obligations. However, with respect to environmental liabilities, PPL Montana assumed all pre-closing (subject to the indemnification provisions discussed below) and post-closing environmental liabilities associated with the purchased assets, with three exceptions for pre-closing liabilities:

- Payment of fines or penalties imposed by regulatory authorities related to pre-closing activity;
- Liability for pre-closing "off-site" activity, such as transportation, disposal, or storage of hazardous material; and
- Remediation costs of any silts behind the Thompson Falls Dam related to pre-closing activity.

We agreed to indemnify PPL Montana from losses arising from pre-closing environmental conditions. The indemnity for required remediation of pre-closing conditions, whether known or unknown at the closing, is limited to:

- 50 percent of the loss. (Our share of this indemnity obligation at the Colstrip Project is limited to our pro-rata share of this 50 percent based on our pre-sale ownership share.)
- A two-year period after closing for unknown conditions. The indemnity for required remediation of pre-closing conditions known at the time of the closing continues indefinitely.
- An aggregate amount no greater than 10 percent of the purchase price paid for the assets.

We do not expect this indemnity obligation to have a material adverse effect on our consolidated financial position, results of operations, or cash flows. We have accrued the estimated amount of the potential liability associated with these retained obligations.

CASH PROCEEDS

The cash proceeds received for the sale of the assets, including pro-rated adjustments for such items as property taxes, was approximately $758,600,000 (including approximately $1,000,000 received in 2000.) Our transaction costs to complete the sale amounted to approximately $12,100,000.

At December 31, 1999, we recorded approximately $219,700,000 as net proceeds in excess of the book value, based on net cash proceeds of $746,500,000 less (1) approximately $497,300,000 book value of the assets sold and (2) approximately $29,500,000 of previously flowed-through tax benefits. We also recorded an income tax liability of approximately $164,100,000, based on the net proceeds less the tax basis of the assets sold.

As part of our Tier II filing, we plan to deduct from the regulatory liabilities approximately $39,300,000 of other generation-related transition costs and approximately $64,600,000 of regulatory asset transition costs. The other generation-related transition costs consist mainly of SG&A costs and costs to retire debt. The regulatory asset transition costs consist mainly of capitalized conservation costs and carrying charges associated with Colstrip Unit 3.

PPL Montana also agreed to purchase 1,058 MWs of additional gross capacity in Colstrip, Montana from Puget and Portland General. Pursuant to the terms of the Agreement with PPL Montana, we would receive an additional $152,000,000 from PPL Montana, for added value, if Puget and Portland General both close their transactions. The added value would arise from the controlling interest in the Colstrip Units that PPL Montana would hold, as a result of the combination of our former assets with those of Puget and Portland General. However, if only Puget or Portland General - but not both - closes its respective transaction, we will receive only $117,000,000 from PPL Montana rather than $152,000,000. If neither Puget or Portland General closes its transaction, the Agreement provides that, subject to the receipt of required regulatory approvals, PPL Montana will purchase the portion of our 500-kilovolt Colstrip transmission system not associated with Colstrip Unit 4. Our sales proceeds from PPL Montana for these properties would be $97,100,000.

During February 2000, the Oregon Public Utility Commission indicated that it would deny Portland General's request to sell its ownership interest in Colstrip Units 3 and 4 to PPL Montana.

EFFECT ON 1999 EARNINGS

The asset sale positively affected our electric utility's 1999 earnings through the reversal of approximately $3,000,000 (after taxes) in interest expense recorded in prior years relating to Kerr Project liabilities and through recognition of approximately $10,000,000 in ITCs.

USE OF PROCEEDS

We have used a portion of the net cash proceeds received (less the sale proceeds in excess of the book value) for the following general corporate purposes:

- Funding utility and nonutility projects, including those involving expansion of Touch America;
- Reducing debt; and
- Purchasing shares of our common stock.

For additional information on the purchase of shares of common stock and the reduction of debt, see Note 7, "Common Stock," and Note 10, "Long-Term Debt."

NOTE 6 - INCOME TAX EXPENSE

Table Income before income taxes was as follows:

	1999	1998	1997
	(Thousands of Dollars)		
United States	$ 189,186	$ 246,242	$ 177,114
Canada	3,871	(2,927)	12,780
Other countries	1,352	479	608
	$ 194,409	$ 243,794	$ 190,502

Table The provision for income taxes differs from the amount of income tax that would result by applying the applicable United States statutory federal income tax rate to pretax income because of the following differences:

	1999	1998	1997
	(Thousands of Dollars)		
Computed "expected" income tax expense	$ 68,043	$ 85,328	$ 66,675
Adjustments for tax effects of:			
Statutory depletion	(3,440)	(4,156)	(2,891)
Tax credits	(25,775)	(4,722)	(11,645)
State income tax, net	4,545	7,393	7,147
Reversal of utility book/tax depreciation	5,318	2,784	5,636
Other	(4,628)	(8,453)	(3,052)
Actual income tax expense	$ 44,063	$ 78,174	$ 61,870

Table Income tax expense as shown on the Consolidated Statement of Income consists of the following components:

	1999	1998	1997
	(Thousands of Dollars)		
Current:			
United States	$ 293,319	$ 88,233	$ 36,680
Canada	1,710	1,212	994
Other countries	30	-	3,684
State	53,858	13,462	9,835
	348,917	102,907	51,193
Deferred:			
United States	(267,958)	(20,331)	6,491
Canada	9,930	(1,851)	2,802
State	(46,826)	(2,551)	1,384
	(304,854)	(24,733)	10,677
	$ 44,063	$ 78,174	$ 61,870

Table Deferred tax liabilities (assets) are comprised of the following:

	December 31	
	1999	1998
	(Thousands of Dollars)	
Plant related	$ 321,383	$ 403,832
Investment in nonutility generation projects	6,171	7,132
Other	44,520	35,344
Gross deferred tax liabilities	372,074	446,308
Coal reclamation	(48,096)	(47,487)
Amortization of gain on sale/leaseback	(11,649)	(12,755)
Deferred revenues	(103,578)	-
Investment tax credit amortization	(14,055)	(21,833)
Other	(204,152)	(59,082)
Gross deferred tax assets	(381,530)	(141,157)
Net deferred tax (assets) liabilities	(9,456)	305,151
Less current deferred tax assets - net	(18,303)	(18,755)
Total noncurrent deferred tax liabilities	$ 8,847	$ 323,906

Table The change in net deferred tax liabilities differs from current year deferred tax expense as a result of the following:

	December 31 (Thousands of Dollars)
Change in noncurrent deferred tax	$ (315,059)
Regulatory assets related to income taxes	61,182
Current deferred tax assets - net	452
Amortization of investment tax credits	(21,732)
Other	(29,697)
Deferred tax expense	$ (304,854)

NOTE 7 - COMMON STOCK

STOCK SPLIT

On June 22, 1999, the Board of Directors approved a two-for-one split of our outstanding common stock. As a result of the split, which was effective August 6, 1999, for all shareholders of record on July 16, 1999, 55,099,015 outstanding shares of common stock were converted to 110,198,030 outstanding shares of common stock. We have retroactively applied the split to all periods presented.

SHARE REPURCHASE PROGRAM

In 1998, the Board of Directors authorized a share-repurchase program over the next five years to repurchase up to 20,000,000 shares, (approximately 18 percent of our then outstanding common stock) on the open market or in privately negotiated transactions. As of December 31, 1999, we had 105,536,873 common shares outstanding. The number of shares to be purchased and the timing of the purchases will be based on the level of cash balances, general business conditions, and other factors, including alternative investment opportunities.

As a result of this authorization, we entered into a Forward Equity Acquisition Transaction (FEAT) program with a bank that committed to purchase on our behalf up to 5,000,000 shares, but not to exceed $125,000,000. On November 12, 1999, we amended the FEAT program to increase the monetary limit to $200,000,000. The expiration date of the program is October 31, 2000. Until that date, when all transactions must be settled, we can elect to fully or partially settle either on a full physical (cash) or a net share basis. A full physical settlement would be the purchase of shares from the bank for cash at the bank's average purchase price, including interest costs less dividends. A net share settlement would be the exchange of shares between the parties so that the bank receives shares with value equivalent to its original purchase price, including interest costs less dividends. Only at the time that the transactions are settled can our capital or outstanding stock be affected, and settlement has no effect on results of operations.

Since the FEAT program began and through December 23, 1999, the bank had acquired for us 4,682,100 shares of our stock. The purchase of these shares averaged approximately $30.94 per share and ranged from $27.05 per share to $33.52 per share for a total cost of $144,872,000. On December 23, 1999, we used proceeds from the sale of our generation assets to effect a full physical settlement for that amount. We have reflected the shares purchased as treasury stock on the Consolidated Balance Sheet. As of December 31, 1999, no additional shares had been acquired under the program.

SHAREHOLDER PROTECTION RIGHTS PLAN

We have a Shareholder Protection Rights Plan (SPRP) that provides one preferred share purchase right on each outstanding common share. Each purchase right entitles the registered holder, upon the occurrence of certain events, to purchase from us one one-hundredth of a share of Participating Preferred Shares, A Series, without par value. If it should become exercisable, each purchase right would have economic terms similar to one share of common stock. The purchase rights trade with the underlying shares and will, except under certain circumstances described in the SPRP, expire on June 6, 2009, unless redeemed earlier or exchanged by us.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

Our Dividend Reinvestment and Stock Purchase Plan permits participants to: (a) acquire additional shares of common stock through the reinvestment of dividends on all or any specified number of common and/or preferred shares registered in their own names, or through optional cash payments of up to $60,000 per year; and (b) deposit common and preferred stock certificates into their Plan accounts for safekeeping. It also allows for other interested investors (residents of certain states) to make initial purchases of common shares with a minimum of $100 and a maximum of $60,000 per year.

RETIREMENT SAVINGS PLAN

We have a Retirement Savings Plan that covers all regular eligible employees. We contribute, on behalf of the employee, a matching percentage of the amount contributed to the Plan by the employee. In 1990, we borrowed $40,000,000 at an interest rate of 9.2 percent to be repaid in equal annual installments over 15 years. The proceeds of the loan were lent on similar terms to the Plan Trustee, which used the proceeds to purchase 3,844,594 shares of our common stock. Shares acquired with loan proceeds are allocated to Plan participants. The loan, which is reflected as long-term debt, is offset by a similar amount in common shareholders' equity as unallocated stock. Our contributions plus the dividends on the shares held under the Plan are used to meet principal and interest payments on the loan with the Plan Trustee. As principal payments on the loan are made, long-term debt and the offset in common shareholders' equity are both reduced. At December 31, 1999, 2,500,678 shares had been allocated to the participants' accounts. We recognize expense for the Plan using the Shares Allocated Method, and the pretax expense was $4,890,000, $4,923,000, and $5,194,000 for 1999, 1998, and 1997, respectively.

LONG-TERM INCENTIVE PLAN

Under the Long-Term Incentive Plan, we have issued options to our employees. Options issued to employees are not reflected in balance sheet accounts until exercised, at which time:
(1) authorized, but unissued shares are issued to the employee,
(2) the capital stock account is credited with the proceeds, and
(3) no charges or credits to income are made.

Options were granted at the average of the high and low prices as reported on the New York Stock Exchange composite tape on the date granted and expire ten years from that date.

On December 31, 1999, restrictions were removed on the remaining shares of restricted stock issued in 1994 under the Long-Term Incentive Plan. During 1999, a grant of 12,000 shares of restricted stock was issued to an individual. The award is subject to forfeiture or proration if the individual should terminate employment. Earned awards are reflected as common stock on the Consolidated Balance Sheet and as compensation expense in the Consolidated Statement of Income over the period of required employment. At December 31, 1999, 12,000 shares of restricted stock remained.

Table | Option activity is summarized below:

	1999		1998		1997	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding, beginning of year......	2,548,094	$22.71	1,081,330	$11.00	1,389,608	$10.95
Granted	919,510	32.14	2,234,658	24.50	-	-
Exercised	88,857	10.83	702,562	11.25	251,506	10.73
Cancelled	98,422	24.08	65,332	13.47	56,772	11.01
Outstanding, end of year	3,280,325	$25.63	2,548,094	$22.71	1,081,330	$11.00

Table | Shares under option at December 31, 1999, are summarized below:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Shares	Wtd Avg Exercise Price	Wtd Avg Exercise Life	Shares	Wtd Avg Exercise Price
$10.81 to $11.31	271,779	$11.06	5 yrs	271,779	$11.06
$18.00 to $19.17	488,000	18.56	8 yrs	12,000	18.00
$26.53 to $27.56	1,981,814	26.73	9 yrs	-	-
$35.36	538,732	35.36	10 yrs	-	-
	3,280,325			283,779	

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," we have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for our employee stock options. Under APB 25, because the exercise price of the employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Disclosure of pro-forma information regarding net income and earnings per share is required by SFAS No. 123. This information has been determined as if we had accounted for our employee stock options under the fair value method of that statement. The weighted-average fair value of options granted in 1999 and 1998 was $7.03 and $7.12 per share, respectively. We employed the binomial option-pricing model to estimate the fair value of each option grant on the date of grant. We used the following weighted-average assumptions for grants in 1999 and 1998, respectively: (1) risk-free interest rate of 6.35 percent and 5.08 percent; (2) expected life of 9.8 and 10 years; (3) expected volatility of 24.92 percent and 19.34 percent; and (4) a dividend yield of 5.97 percent and 6.51 percent. Had we elected to use SFAS No. 123, compensation expense would have increased $5,280,000 in 1999, $795,000 in 1998, and $195,000 in 1997. The 1999 pro-forma net income would be $143,456,000 with basic earnings per common share of $1.31 and diluted earnings per common share of $1.30. The 1998 and 1997 compensation expense effects on net income and earnings per share are not significant.

NOTE 8 - PREFERRED STOCK

We have 5,000,000 authorized shares of preferred stock. We cannot declare or pay dividends on our common stock while we have not either declared and set apart cumulative dividends or paid dividends on any of our preferred stock.

Table Our preferred stock is in three series as detailed in the following table:

Series	Stated and Liquidation Price*	Shares Issued and Outstanding 1999	1998	Thousands of Dollars 1999	1998
$6.875	$100	360,800	360,800	$ 36,080	$ 36,080
6.00	100	159,589	159,589	15,959	15,959
4.20	100	60,000	60,000	6,025	6,025
Discount		-	-	(410)	(410)
		580,389	580,389	$ 57,654	$ 57,654

*Plus accumulated dividends.

We have the option of redeeming our preferred stock with the consent or affirmative vote of the holders of a majority of the common shares on 30 days notice at $110 per share for our $6.00 series and $103 per share for our $4.20 series, plus accumulated dividends. Our $6.875 series is redeemable in whole or in part, at any time on or after November 1, 2003, for a price beginning at $103.438 per share, which decreases annually through October 2013. After that time, the redemption price is $100 per share.

NOTE 9 - COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST

We established Montana Power Capital I (Trust) as a wholly owned business trust to issue common and preferred securities and hold Junior Subordinated Deferrable Interest Debentures (Subordinated Debentures) that we issue. At December 31, 1999 and 1998, the Trust has issued 2,600,000 units of 8.45 percent Cumulative Quarterly Income Preferred Securities, Series A (QUIPS). Holders of the QUIPS are entitled to receive quarterly distributions at an annual rate of 8.45 percent of the liquidation preference value of $25 per security. The sole asset of the Trust is $67,000,000 of our Subordinated Debentures, 8.45 percent Series due 2036. The Trust will use interest payments received on the Subordinated Debentures that it holds to make the quarterly cash distributions on the QUIPS.

On or after November 6, 2001, we can wholly redeem the Subordinated Debentures at any time, or partially redeem the Subordinated Debentures from time to time. We can also wholly redeem the Subordinated Debentures if certain events occur before that time. Upon repayment of the Subordinated Debentures at maturity or early redemption, the Trust Securities must be redeemed. In addition, we can terminate the Trust at any time and cause the pro rata distribution of the Subordinated Debentures to the holders of the Trust Securities.

Besides our obligations under the Subordinated Debentures, we have agreed to certain Back-up Undertakings. We have guaranteed, on a subordinated basis, payment of distributions on the Trust Securities, to the extent the Trust has funds available to pay such distributions, and we have agreed to pay all of the expenses of the Trust. Considered together with the Subordinated Debentures, the Back-up Undertakings constitute a full and unconditional guarantee of the Trust's obligations under the QUIPS. We are the owner of all the common securities of the Trust, which constitute 3 percent of the aggregate liquidation amount of all the Trust Securities.

NOTE 10 - LONG-TERM DEBT

The Mortgage and Deed of Trust (Mortgage) imposes a first mortgage lien on all physical properties owned, exclusive of subsidiary company assets and certain property and assets specifically excepted. The obligations collateralized are First Mortgage Bonds, including those First Mortgage Bonds designated as Secured Medium-Term Notes and those securing Pollution Control Revenue Bonds.

Table | Long-term debt consists of the following:

	December 31	
	1999	**1998**
	(Thousands of Dollars)	
First Mortgage Bonds:		
7.7% series, due 1999		$ 55,000
7 1/2% series, due 2001	$ 25,000	25,000
7% series, due 2005	50,000	50,000
8 1/4% series, due 2007	55,000	55,000
8.95% series, due 2022	50,000	50,000
Secured Medium-Term Notes - maturing 2000-2025 7.20%-8.11%	88,000	88,000
Pollution Control Revenue Bonds:		
City of Forsyth, Montana		
6 1/8% series, due 2023	90,205	90,205
5.9% series, due 2023	80,000	80,000
Natural Gas Transition Bonds – 6.20%, due 2012	61,015	62,700
ESOP Notes Payable - 9.2%, due 2004	19,431	22,392
Unsecured Medium-Term Notes:		
Series A - maturing 1999-2022 8.68%-8.9%	17,000	19,500
Series B - maturing 2001-2026 6.37%-7.96%	100,000	115,000
Revolving Credit Agreements	17,502	14,241
Other	28,111	71,779
Unamortized Discount and Premium	(3,797)	(4,196)
	677,467	794,621
Less: Portion due within one year	58,955	96,292
	$ 618,512	$ 698,329

On February 1, 1999, we used the proceeds from asset-backed securities issued by the special purpose entity (SPE) discussed below to retire $55,000,000 of our 7.7 percent First Mortgage Bonds.

The electric and natural gas legislation discussed in Note 4, "Deregulation and Regulatory Matters," authorized the issuance of transition bonds. These securitization bonds involve the issuance of a non-recourse debt instrument. The bonds are repaid through, and secured by, a specified component of future revenues meant to recover the regulatory assets, thereby reducing the credit risk of the securities. This specific component of revenues is referred to as a CTC. An April 1998 PSC Financing Order relating to natural gas approved the issuance of up to $65,000,000 of such bonds. In December 1998, we issued $62,700,000 of 6.2 percent bonds. We will retire the bonds at six-month intervals from September 15, 1999, through March 15, 2012. Retirements are in varying amounts depending on revenues collected from customers. We established an SPE, which is a wholly owned subsidiary, to issue the bonds. At December 31, 1999, approximately $61,015,000 was outstanding, of which approximately $2,600,000 was classified as due within one year on the Consolidated Balance Sheet.

Although the bonds were issued by an SPE and are without recourse to our general credit, the bonds are shown as debt on the Consolidated Balance Sheet. Similarly, the right to receive the revenues pledged to secure the bonds is a specific right of the SPE and not of Montana Power's. However, as a wholly owned subsidiary, the SPE's revenues and expenses are shown as revenues and expenses in the Consolidated Statement of Income. Due to the regulatory mechanism for recognizing the operations of the SPE, including the amortization of the regulatory assets, we do not expect it to have a material effect on our consolidated financial position, results of operations, or cash flows.

To ensure that collections by the SPE are neither more nor less than the amount necessary to pay interest, principal, and other related issuance costs, we are required to file for periodic adjustments, or reconciliations, to the annual amounts to be collected by the SPE. The PSC is required to approve these adjustments.

We retired at maturity $2,500,000 of 8.90 percent Series A Unsecured Medium-Term Notes (MTNs) on October 1, 1999.

On September 3, 1999, we retired $10,000,000 of our 7.875 percent Series B Unsecured MTNs due December 23, 2026. We retired an additional $5,000,000 of these MTNs on October 13, 1999.

Altana Exploration Ltd. (Altana), a wholly owned Canadian subsidiary, purchased the stock of a Canadian company for approximately $26,500,000 (United States dollars) in December 1997. We arranged financing for the purchase through an Extendible Revolving Term Credit agreement between Altana and the Royal Bank of Canada. The maximum amount of credit available under this agreement is $28,000,000 in Canadian dollars. At December 31, 1999 and 1998, the United States dollar amounts outstanding under the agreement were $17,502,000 ($24,259,000 Canadian dollars) and $14,241,000 ($21,796,000 Canadian dollars), respectively. These amounts are included in "Revolving Credit Agreements" in the table above. Interest under the agreement is calculated on the Royal Bank's prime rate that ranged from 6.25 percent to 6.75 percent during 1999.

In April 1997, we entered into a $160,000,000 Revolving Credit Agreement (Credit Agreement) for some of our nonutility operations. Under the terms of the Credit Agreement, the amount of the facility decreased on March 31, 1998, reducing the borrowing ability to $100,000,000. This Credit Agreement terminates on April 4, 2000, and all outstanding borrowings must be repaid on this date. Fixed or variable interest rate options are available under the Credit Agreement with facility fees or commitment fees on the unused portions.

As discussed in Note 2, "Contingencies," we recorded long-term debt of approximately $57,000,000 regarding the Kerr mitigation in June 1997. This amount represented the net present value of future costs to be paid over the life of the license. With the sale of the generating assets, payments after the sale date are no longer our responsibility. Therefore, we reduced debt on the sale date to approximately $24,300,000. On December 30, 1999, we paid approximately $14,100,000 of this amount. We included the remaining $10,200,000 in "Other" in the table above, and it is classified as due within one year on the Consolidated Balance Sheet at December 31, 1999. The final payment for $10,200,000 occurred on January 3, 2000.

Scheduled debt repayments for the five years ending December 31, 2004, on the long-term debt outstanding at December 31, 1999, amount to: $59,000,000 in 2000; $94,000,000 in 2001; $9,000,000 in 2002; $42,000,000 in 2003; $9,000,000 in 2004; and $464,000,000 thereafter. However, as part of the Tier II rate filing discussed in Note 4, "Deregulation and Regulatory Matters," we indicated our intention to retire approximately $266,000,000 of long-term debt. We estimate that the expenses associated with these retirements will be approximately $20,000,000. As discussed above, we have already repurchased $15,000,000 of our 7.875 percent Series B Unsecured MTNs due December 23, 2026. In addition, we repurchased $5,000,000 of 7.25 percent Secured MTNs due January 19, 2024, and $7,000,000 of 8.68 percent Unsecured Series A MTNs due February 7, 2022, in January of 2000. We plan to retire additional long-term debt throughout 2000.

NOTE 11 - SHORT-TERM BORROWING

We have short-term borrowing facilities with commercial banks that provide both committed and uncommitted lines of credit and the ability to sell commercial paper. Bank borrowings either bear interest at the lender's floating base rate and may be repaid at any time, or have fixed rates of interest and maturities. Commercial paper has fixed rates of interest and maturities.

At December 31, 1999, we had lines of credit consisting of $210,000,000 committed and $95,000,000 uncommitted. Facility fees or commitment fees on the committed lines of credit are not significant. We have the ability to issue up to $145,000,000 of commercial paper based on the total of unused committed lines of credit and revolving credit agreements.

At December 31, 1999, we had no short-term obligations. At December 31, 1998, we had notes payable to banks for $40,000,000 at 5.87 percent interest and commercial paper issued for $29,820,000 at 6.04 percent interest.

NOTE 12 - RETIREMENT PLANS

We maintain trusteed, noncontributory retirement plans covering substantially all of our employees. Prior to 1998, our retirement benefits were based on salary, years of service, and social security integration levels. In 1998, we amended our retirement plan's benefit provisions. Our retirement benefits are now based on salary, age, and years of service.

Our plan assets consist primarily of domestic and foreign corporate stocks, domestic corporate bonds, and United States Government securities.

We also have an *unfunded, nonqualified benefit plan for* senior management executives and directors. In December 1998, we froze the benefits earned and curtailed the plan and accrued approximately $4,300,000 of expense in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans."

As a result of the sale of our electric generating assets to PPL Montana, 454 participants related to electric generation operations were curtailed from the retirement plan and approximately $22,700,000 in assets were transferred from the retirement plan trust to the PPL retirement plan trust. Pursuant to the Agreement, an estimated $3,100,000 of assets will be transferred to the PPL trust when the calculation is finalized in 2000. In accordance with SFAS No. 88, we calculated a curtailment gain of approximately $4,100,000 and a settlement gain of approximately $7,800,000. Due to regulatory accounting treatment, the gains were recorded as regulatory liabilities or offsets to regulatory assets, resulting in no income statement impact.

Together with the majority of our subsidiaries, we also provide certain health care and life insurance benefits for eligible retired employees. The plan assets consist primarily of domestic and foreign corporate stocks, domestic corporate bonds, and United States Government securities. The PSC allows us to include in rates all utility Other Postretirement Benefits costs on the accrual basis provided by SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

We also have a voluntary retirement savings plan in conjunction with our retirement plans. We make matching contributions, including shares from a leveraged Employee Stock Ownership Plan arrangement and shares purchased on the open market. For costs associated with these plans, see Note 7, "Common Stock."

Table The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 1999, and a statement of the funded status as of December 31 of both years:

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
	(Thousands of Dollars)			
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at January 1	$ 273,401	$ 247,903	$ 24,512	$ 22,191
Service cost on benefits earned	8,724	8,170	844	776
Interest cost on projected benefit obligation	19,529	18,289	1,776	1,665
Plan amendments	8,578	8,387	-	-
Actuarial (gain) loss	(32,712)	5,878	(502)	2,149
Curtailments	(5,712)	(4,303)	(3,093)	-
Settlements	(18,096)	-	-	-
Gross benefits paid	(11,707)	(10,923)	(1,909)	(2,269)
Benefit obligation at December 31	$ 242,005	$ 273,401	$ 21,628	$ 24,512
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	$ 289,881	$ 259,059	$ 8,782	$ 8,168
Actual return on plan assets	18,620	39,765	226	1,036
Employer contributions	-	-	2,817	1,847
Divestitures	(22,707)	-	-	-
Gross benefits paid	(9,546)	(8,943)	(1,909)	(2,269)
Fair value of plan assets at December 31	$ 276,248	$ 289,881	$ 9,916	$ 8,782
RECONCILIATION OF FUNDED STATUS:				
Funded status at end of year	$ 34,262	$ 16,463	$ (11,712)	$ (15,730)
Unrecognized net:				
Actuarial gain	(65,893)	(54,169)	(6,263)	(5,212)
Prior service cost	17,856	12,980	1,822	826
Transition obligation	(363)	(337)	11,751	15,440
Net amount recognized at December 31	$ (14,138)	$ (25,063)	$ (4,402)	$ (4,676)

Table The following table provides the amounts recognized in the statement of financial position as of December 31:

	Pension Benefits 1999	Pension Benefits 1998	Other Benefits 1999	Other Benefits 1998
	(Thousands of Dollars)			
Prepaid benefit cost	$ 7,571	$ 4,028		
Accrued benefit cost	(21,709)	(29,091)	$ (4,402)	$ (4,676)
Net amount recognized at December 31	$ (14,138)	$ (25,063)	$ (4,402)	$ (4,676)

Table The following tables provide the components of net periodic benefit cost for the pension and other postretirement benefit plans, portions of which have been deferred or capitalized, for fiscal years 1999, 1998, and 1997:

	Pension Benefits 1999	Pension Benefits 1998	Pension Benefits 1997
	(Thousands of Dollars)		
Service cost on benefits earned	$ 8,719	$ 8,079	$ 6,625
Interest cost on projected benefit obligation	19,540	18,238	16,316
Expected return on plan assets	(25,650)	(22,870)	(19,900)
Amortization of:			
Transition obligation	43	358	383
Prior service cost	1,741	1,468	965
Actuarial gains	(1,658)	(1,062)	(1,474)
Immediate recognition of DC conversion	-	(142)	-
Net periodic benefit cost	2,735	4,069	2,915
Curtailment (gain) loss	(3,751)	3,964	960
Settlement gain	(7,844)	-	-
Net periodic benefit cost after curtailments and settlements	$ (8,860)	$ 8,033	$ 3,875

	Other Benefits 1999	Other Benefits 1998	Other Benefits 1997
	(Thousands of Dollars)		
Service cost on benefits earned	$ 844	$ 777	$ 571
Interest cost on projected benefit obligation	1,776	1,665	1,486
Expected return on plan assets	(722)	(671)	(459)
Amortization of:			
Transition obligation	1,098	1,120	1,100
Prior service cost	177	69	-
Actuarial gain	(133)	(274)	(384)
Net periodic benefit cost	3,040	2,686	2,314
Curtailment gain	(374)	-	-
Net periodic benefit cost after curtailments	$ 2,666	$ 2,686	$ 2,314

In 1999, funding for pension costs exceeded SFAS No. 87, "Employers Accounting for Pensions," pension expense by $1,631,000. In 1998 and 1997, pension costs exceeded SFAS No. 87 pension expense by $1,780,000 and $5,441,000, respectively. The PSC allows recovery for the funding of pension costs through rates. Any differences between funding and expense are deferred for recognition in future periods. At December 31, 1999, the regulatory liability was $5,755,000.

Table | The following assumptions were used in the determination of actuarial present values of the projected *benefit obligations:*

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
	(Thousands of Dollars)			
Weighted average assumptions as of December 31:				
Discount rate	7.75%	6.75%	7.75%	6.75%
Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	4.40%	3.97%	4.40%	3.75%

Table | Assumed health care costs trend rates have a significant effect on the amounts reported for the health care plans. A change of 1 *percent in assumed health care* cost trend rates would have the following effects:

	1% Increase	1% Decrease
	1999	1998
	(Thousands of Dollars)	
Effect on the total of service and interest cost components of net periodic post-retirement health care benefit cost	$ 116	$ (108)
Effect on the health care component of the accumulated postretirement benefit obligation	854	(804)

The assumed 2000 health care cost trend rates used to measure the expected cost of benefits covered by the plans is 7.00 percent. *The trend rate decreases* through 2004 to 5 percent.

NOTE 13 - INFORMATION ON INDUSTRY SEGMENTS

Our utility operations purchase, transmit, and distribute electricity and natural gas. With the sale of our electric generating assets other than Milltown Dam, we no longer are primarily engaged in regulated electric generation. In our nonutility businesses, our telecommunications operation designs, develops, constructs, operates, maintains, and manages a fiber-optic network and wireless facilities; it also sells long-distance, Internet, and private-line services and equipment. In other nonutility operations, we mine and sell coal and lignite; manage long-term power sales, and develop and invest in independent power projects and other energy-related businesses; and explore for, develop, produce, process, and sell oil and natural gas. We also trade crude oil, natural gas, and natural gas liquids.

In 1997, our coal operations recognized $104,231,000 in revenues from sales to Reliant Energy. This amount exceeded 10 percent of our 1997 consolidated revenues. The loss of these revenues would have a material adverse effect on our coal operations. In our independent power operations, the loss of revenues pursuant to contracts with two customers would have a material adverse effect on that segment.

The PSC approved our open-access and reorganization plan for our natural gas utility effective November 1, 1997. Under the approved plan, we transferred substantially all of our utility's natural gas production assets, including those of a Canadian subsidiary, to our nonutility oil and natural gas operations as of that date.

We consider segment information for foreign operations immaterial.

Table | Information on industry segments

OPERATIONS INFORMATION:	UTILITY	
	Electric	Natural Gas
Sales to unaffiliated customers	$ 456,933	$ 111,118
Earnings from unconsolidated investments	-	-
Intersegment revenues	13,616	629
Depreciation, depletion, and amortization	53,574	9,279
Write-downs of long-lived assets	-	-
Pretax operating income (loss)	110,666	16,459
Interest expense	38,467	15,229
Interest revenue	3,801	545
Income tax expense	11,549	391
Capital expenditures	50,167	13,115
Identifiable assets	910,066	406,413

	UTILITY	
	Electric	Natural Gas
Sales to unaffiliated customers	$ 450,719	$ 107,052
Earnings from unconsolidated investments	-	-
Intersegment revenues	7,576	727
Depreciation, depletion, and amortization	56,524	8,705
Pretax operating income (loss)	124,841	15,019
Interest expense	48,903	12,946
Interest revenue	3,521	925
Income tax expense	26,391	168
Capital expenditures	61,334	21,989
Identifiable assets	1,577,583	405,670

	UTILITY	
	Electric	Natural Gas
Sales to unaffiliated customers	$ 435,986	$ 122,355
Earnings from unconsolidated investments	-	-
Intersegment revenues	4,685	588
Depreciation, depletion, and amortization	51,674	11,939
Pretax operating income (loss)	111,002	37,994
Interest expense	44,571	13,112
Interest revenue	5,626	2,174
Income tax expense	25,969	9,674
Capital expenditures	122,639	15,679
Identifiable assets	1,560,055	390,463

* The amounts indicated include certain eliminations among the business segments.

Year Ended December 31, 1999
(Thousands of Dollars)

NONUTILITY					CORPORATE	RECONCILIATION TO CONSOLIDATED		
Tele-Communications	Coal	Independent Power	Oil and Natural Gas	Other		Segment Total	Adjustments*	Consolidated Total
$ 84,350	$ 197,053	$ 75,101	$ 338,869	$ 47,451		$ 1,310,875		$ 1,310,875
10,392	-	21,042	-	-		31,434		31,434
1,012	39,729	1,764	16,663	1,874		75,287	$ (75,287)	-
9,048	7,446	3,122	23,832	4,844		111,145		111,145
-	-	-	7,083	-		7,083		7,083
35,640	36,602	23,442	15,960	(6,891)		231,878		231,878
1	364	18	1,170	3,356		58,605	(10,107)	48,498
810	832	6,368	2,774	6,945		22,075	(10,107)	11,968
14,088	3,298	9,641	2,363	2,733		44,063		44,063
153,617	10,187	336	41,902	27	$ 15,956	285,307		285,307
290,722	237,036	203,066	304,537	66,935	629,968	3,048,743		3,048,743

Year Ended December 31, 1998
(Thousands of Dollars)

NONUTILITY					CORPORATE	RECONCILIATION TO CONSOLIDATED		
Tele-Communications	Coal	Independent Power	Oil and Natural Gas	Other		Segment Total	Adjustments*	Consolidated Total
$ 87,748	$ 177,961	$ 73,707	$ 221,662	$ 47,988		$ 1,166,837		$ 1,166,837
10,909	-	89,525	-	-		100,434		100,434
1,298	38,796	2,014	17,606	1,913		69,930	$ (69,930)	-
7,090	6,596	9,005	22,259	4,088		114,267		114,267
49,960	32,560	84,719	7,640	(9,464)		305,275		305,275
1	443	58	1,203	9,716		73,270	(6,927)	66,343
668	2,406	4,839	(450)	989		12,898	(6,927)	5,971
19,772	8,107	32,315	(2,522)	(6,057)		78,174		78,174
56,203	7,746	11,329	53,319	1,292	$ 189	213,401		213,401
189,560	235,438	120,675	289,453	67,049	42,667	2,928,095		2,928,095

Year Ended December 31, 1997
(Thousands of Dollars)

NONUTILITY					CORPORATE	RECONCILIATION TO CONSOLIDATED		
Tele-Communications	Coal	Independent Power	Oil and Natural Gas	Other		Segment Total	Adjustments*	Consolidated Total
$ 46,691	$ 167,623	$ 70,932	$ 163,656	$ 939		$ 1,008,182		$ 1,008,182
435	-	14,980	-	-		15,415		15,415
799	34,164	1,820	3,120	5,719		50,895	$ (50,895)	-
2,494	9,043	2,774	16,922	494		95,340		95,340
11,927	28,849	14,963	16,310	(4,543)		216,502		216,502
-	424	32	106	6,043		64,288	(4,129)	60,159
143	(13,675)	3,886	25,238	16,293		39,685	(4,129)	35,556
4,824	(700)	6,762	10,776	4,565		61,870		61,870
27,955	4,588	294	140,437	-	$ 94	311,686		311,686
101,581	247,981	156,282	290,110	7,987	51,437	2,805,896		2,805,896

SUPPLEMENTARY DATA (Unaudited)

OIL AND NATURAL GAS PRODUCING ACTIVITIES

Table For the years ended December 31, 1999, 1998, and 1997, net recoverable oil and natural gas reserves, excluding royalty volumes and volumes controlled under purchase contract, of the utility and nonutility operations were estimated as follows:

	1999			1998			1997		
	U.S.	Canada	Storage	U.S.	Canada	Storage	U.S.	Canada	Storage
PROVED DEVELOPED AND UNDEVELOPED RESERVES:									
UTILITY OPERATIONS:									
Natural Gas (Mmcf):									
Beginning Balance	1,862	0	58,309	2,097	0	56,840	71,952	94,445	55,624
Production	(157)			(235)			(3,764)	(3,401)	
Additions									1,216
(Sales) and Purchases of Reserves in Place							(13,082)		
Transfers Out							(53,711)	(91,044)	
Revisions - Other							702		
Revisions - Price			(1,584)			1,469			
Ending Balance	1,705	0	56,725	1,862	0	58,309	2,097	0	56,840
NONUTILITY OPERATIONS:									
Natural Gas (Mmcf):									
Beginning Balance	196,050	138,139		191,250	125,135		160,174	53,011	
Production	(18,749)	(12,189)		(14,099)	(11,216)		(11,427)	(6,529)	
Additions	46,120	44,190		39,774	41,456		14,920	8,569	
(Sales) and Purchases of Reserves in Place	(534)	2,040		1,400	(2,808)		6,039	5,914	
Transfers In							53,711	91,044	
Revisions - Other	(13,190)	(24,482)		(4,635)	(16,001)		(31,918)	(26,501)	
Revisions - Price	11,776	(297)		(17,640)	1,573		(249)	(373)	
Ending Balance	221,473	147,401		196,050	138,139		191,250	125,135	
Natural Gas Liquids (bbls):									
Beginning Balance	8,486,800	1,922,000		8,246,554	2,542,585		3,491,100	3,089,300	
Production	(760,600)	(205,000)		(218,000)	(325,000)		(473,139)	(225,715)	
Additions	1,262,100	23,000		1,321,300	431,000		118,500	184,000	
(Sales) and Purchases of Reserves in Place	(41,200)	(295,000)			(57,000)		2,717,377	582,000	
Revisions - Other	(99,200)	(985,000)		438,946	(667,585)		2,392,716	(1,082,000)	
Revisions - Price	440,600	145,000		(1,302,000)	(2,000)			(5,000)	
Ending Balance	9,288,500	605,000		8,486,800	1,922,000		8,246,554	2,542,585	
Oil (bbls):									
Beginning Balance	3,275,500	941,000		5,025,390	2,700,071		6,458,000	3,204,235	
Production	(438,900)	(151,000)		(242,800)	(258,000)		(746,380)	(322,164)	
Additions	835,600	0		543,300	22,000		339,110	2,445,000	
(Sales) and Purchases of Reserves in Place	(7,000)	(1,000)			(540,000)		(1,145,648)	(2,851,000)	
Revisions - Other	288,200	(172,000)			(874,071)		(28,792)	228,000	
Revisions - Price	604,500	81,000		(2,050,390)	(109,000)		149,100	(4,000)	
Ending Balance	4,557,900	698,000		3,275,500	941,000		5,025,390	2,700,071	

OIL AND NATURAL GAS PRODUCING ACTIVITIES (Continued)

	1999		1998		1997	
	U.S.	Canada	U.S.	Canada	U.S.	Canada
PROVED DEVELOPED RESERVES:						
UTILITY OPERATIONS:						
Natural Gas (Mmcf):						
Ending Balance	1,705	0	1,862	0	2,097	0
NONUTILITY OPERATIONS:						
Natural Gas (Mmcf):						
Ending Balance	149,671	125,555	133,578	118,452	139,802	104,799
Natural Gas Liquids (bbls):						
Ending Balance	6,890,200	574,000	5,802,800	1,650,000	8,246,184	2,298,585
Oil (bbls):						
Ending Balance	3,709,700	583,000	2,778,500	941,000	3,474,602	2,079,071

Our nonutility United States natural gas, natural gas liquids, and oil reserves increased in 1999 primarily due to successful drilling in Wyoming, Colorado, and Oklahoma. Substantially higher year-end prices, which improve production economics, also increased our United States reserves. In 1999, as in the prior year, our Canadian natural gas reserves increased due to successful development drilling in Southeast Alberta. Upward price revisions also increased our Canadian natural gas liquids and oil reserves. These Canadian increases were partially offset by downward revisions reflecting disappointing performance in the Caroline field.

Nonutility United States natural gas and natural gas liquids reserves increased in 1998 with the addition of undeveloped reserves in Colorado and successful drilling in Wyoming and Oklahoma. However, the additions were partially offset by downward price revisions of petroleum products. That downward price revision also caused a significant decrease in United States oil reserves. The Canadian natural gas reserves increased because of successful exploratory drilling in Southeast Alberta. Oil reserves in Canada decreased due to the sale of an Alberta producing property and downward price revisions. Canadian oil and natural gas reserves were also revised downward to reflect poorer-than-expected performance in two fields.

Nonutility United States natural gas and natural gas liquids reserves increased in 1997 because of the acquisition of reserves in place, successful drilling in Oklahoma and Wyoming, and the transfer of previously regulated Montana properties. Oil reserves decreased because of the sale of reserves in Kansas. The Canadian natural gas reserves increase is due to the purchase of reserves in place, and transfer of previously regulated Canadian properties to the nonutility Supply Division. Oil reserves in Canada also decreased because of the sale of some Alberta properties.

As determined by engineers, utility natural gas reserves were revised during 1997 due to changes in projected performance or changes in the Company's ownership interest in specific fields. On November 1, 1997, the PSC approved the deregulation of the utility's natural gas production properties, the result of which was the transfer of all of the Canadian and significantly all of the United States natural gas reserves to the nonutility operations. Since that date, utility natural gas reserves have been produced to maintain utility natural gas storage leases and to supply fuel for electric generation.

When the utility owned the reserves that were transferred to the nonutility on November 1, 1997, petroleum engineers estimated reserves on the basis of utility business guidelines; that is, mechanical recoverability at reasonable and prudent costs. With deregulation and transfer, petroleum engineers began to estimate reserves on the basis of mechanical recoverability under market price conditions. Estimating reserves on that basis has resulted in downward revisions of nonutility United States and Canadian natural gas reserves in 1997.

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OIL AND NATURAL GAS PRODUCING ACTIVITIES (Continued)

The following table presents information for 1999, 1998, and 1997 on the capitalized costs relating to utility natural gas producing activities, costs incurred in utility natural gas property acquisition, exploration, and development activities and certain utility natural gas production costs reflected in results of operations. As a regulated public utility, we are authorized to earn a rate of return on our utility natural gas plant rate base. Our net cost of natural gas in underground storage is included in the natural gas plant, which is a part of the utility rate base. Due to the commingling of produced natural gas with purchased and royalty natural gas for sale to utility customers and application of the ratemaking process to the utility natural gas producing activities, we are unable to identify revenues resulting solely from utility natural gas producing activities. Accordingly, the information on revenues, income taxes, results of operations, and estimated future net cash flows and changes therein relating to proved utility natural gas reserves are not presented for our utility natural gas producing activities.

Table | Utility Operations

	1999		1998		1997	
	U.S.	Canada	U.S.	Canada	U.S.	Canada
			(Thousands of Dollars)			
At December 31:						
Capitalized costs relating						
to natural gas producing activities . .	$ 2,026	$ 0	$ 2,026	$ 0	$ 2,023	$ 0
Accumulated depreciation,						
depletion, and valuation allowances .	1,856	0	1,853	0	1,833	0
Net capitalized costs	$ 170	$ 0	$ 173	$ 0	$ 190	$ 0
For the year ended December 31:						
Costs incurred in natural gas property acquisition, exploration, and development activities:						
Acquisition of properties						
Exploration.					$ 35	$ 168
Development.	$ 0	$ 0	$ (5)	$ 0	1	66
Costs reflected in results of operations:						
Production costs	$ 80	$ 0	$ 98	$ 0	$ 3,361	$ 1,359
Exploration expenses	0	0	(3)	0	35	168
Development expenses	0	0	0	0	0	66
Depreciation, depletion,						
and valuation provisions . .	3		19		2,072	686

OIL AND NATURAL GAS PRODUCING ACTIVITIES (Continued)

The following table presents information for 1999, 1998, and 1997 on the capitalized costs relating to nonutility oil and natural gas producing activities, costs incurred in nonutility oil and natural gas property acquisition, exploration, and development activities and results of nonutility operations for oil and natural gas producing activities:

Table | Nonutility Operations

	1999		1998		1997	
	U.S.*	Canada	U.S.*	Canada	U.S.*	Canada
	(Thousands of Dollars)					
At December 31:						
Capitalized costs relating to natural gas producing activities	$ 221,164	$ 130,393	$ 200,743	$ 109,742	$ 181,077	$ 113,165
Accumulated depreciation, depletion, and valuation allowances	61,902	56,065	51,247	43,026	43,879	46,131
Net capitalized costs	$ 159,262	$ 74,328	$ 149,496	$ 66,716	$ 137,198	$ 67,034
For the year ended December 31:						
Costs incurred in oil and natural gas property acquisition, exploration, and development activities:						
Acquisition of properties	$ 666	$ 3,438	$ 1,466	$ 1,408	$ 46,058	$ 22,762
Exploration	1,244	1,406	2,197	1,502	4,589	6,036
Development	23,430	13,317	20,868	15,287	12,758	8,535
Results of operations for oil and natural gas producing activities:						
Revenues	$ 37,272	$ 22,093	$ 28,366	$ 18,739	$ 34,182	$ 14,821
Production costs	10,636	6,774	10,075	7,222	10,041	5,041
Exploration expenses	1,244	1,387	2,158	1,439	3,233	2,905
Depreciation, depletion, and valuation provisions	12,689	11,007	11,050	6,779	9,464	3,781
	12,703	2,925	5,083	3,299	11,444	3,094
Income tax expenses	3,344	300	425	1,472	3,188	1,380
Results of operations from producing activities (excluding corporate overhead and interest cost)	$ 9,359	$ 2,625	$ 4,658	$ 1,827	$ 8,256	$ 1,714

* United States excludes capitalized costs and associated accumulated depreciation, revenues, and expenses related to support equipment and facilities. The capitalized costs of support equipment and facilities were $73,127,000, $70,304,000, and $53,359,000 and the associated accumulated depreciation was $12,248,000, $8,939,000, and $5,288,000 for 1999, 1998, and 1997, respectively.

Estimated future cash flows are computed by applying year-end prices and contract prices, when appropriate, of oil and natural gas to year-end quantities of proved reserves. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved oil and natural gas reserves at the end of the year, based on year-end costs. Estimated future income tax expenses are calculated by applying year-end statutory tax rates to estimated future pretax net cash flows related to proved oil and natural gas reserves, less the tax basis of the properties involved. The future income tax expenses give effect to permanent differences, tax credits and deferred taxes relating to proved oil and natural gas reserves.

These estimates are furnished and calculated in accordance with requirements of the Financial Accounting Standards Board and the Securities and Exchange Commission (SEC). Management believes the usefulness of these projections is limited because of the unpredictable variances in expenses, capital forecasts, and crude oil and natural gas prices. Estimates of future net cash flows presented do not represent management's assessment of our future profitability or future cash flow. Management's investment and operating decisions are based upon reserve estimates that include proved reserves prescribed by the SEC as well as probable reserves, and upon different price and cost assumptions from those used here.

OIL AND NATURAL GAS PRODUCING ACTIVITIES (Continued)

Table The following are the standardized measure of discounted future net cash flows and changes therein relating to proved oil and natural gas reserves:

	December 31			
	1999		1998	
	U.S.	Canada	U.S.	Canada
	(Thousands of Dollars)			
Future cash inflows	$ 979,663	$ 347,464	$ 650,446	$ 273,644
Future production and development costs	500,548	119,763	327,784	108,436
Future income tax expenses	133,736	83,629	80,957	51,102
Future net cash flows	345,379	144,072	241,705	114,106
10 percent annual discount for estimated timing of cash flows	142,532	61,850	96,136	47,155
Standardized Measure of Discounted Future Net Cash Flows	$ 202,847	$ 82,222	$ 145,569	$ 66,951

Table The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	December 31			
	1999		1998	
	U.S.	Canada	U.S.	Canada
	(Thousands of Dollars)			
Sales and transfers of oil and gas produced, net of production costs	$ (14,957)	$ (6,482)	$ (16,236)	$ (11,518)
Net changes in prices, development and production costs	25,995	30,774	(57,866)	(13,339)
Extensions, discoveries, and improved recovery, less related costs	41,755	30,406	25,625	15,424
Revisions of previous quantity estimates	7,937	(25,044)	(17,259)	(8,916)
Accretion of discount	16,811	8,006	21,338	8,937
Net change in income taxes	(23,239)	(20,689)	2,511	(5,061)
Other	2,976	(1,700)	(868)	106

Extensions, discoveries, and improved recovery, less related costs, represent the present value of current year reserve additions valued at year-end prices less actual unit production costs for the current year. For the years 1999 and 1998, the amount described as Other is primarily the result of changes in the timing of production.

QUARTERLY FINANCIAL DATA

Table Operating revenues, operating income, and net income in thousands of dollars and net income per common share for the four quarters of 1999 and 1998 are shown in the tables below. Operating revenues and income include intersegment sales and expenses. Due to the weather-related nature of the utility business, the annual amounts are not generated evenly by quarter during the year.

	Quarter Ended			
	Dec. 31, 1999	**Sept. 30, 1999**	**June 30, 1999**	**March 31, 1999**
Utility Operating Revenues	$ 169,351	$ 121,429	$ 130,748	$ 160,768
Utility Operating Income	39,441	20,159	27,711	39,814
Utility Net Income	40,979	682	6,013	13,690
Nonutility Operating Revenues	225,518	233,155	196,528	180,099
Nonutility Operating Income	26,714	33,286	22,654	22,099
Nonutility Net Income	20,159	27,607	18,315	19,211
Consolidated Net Income Available for Common Stock	$ 61,138	$ 28,289	$ 24,328	$ 32,901
Basic Earnings Per Share of Common Stock	$ 0.56	$ 0.26	$ 0.22	$ 0.30
Diluted Earnings Per Share of Common Stock	$ 0.56	$ 0.25	$ 0.22	$ 0.30

	Quarter Ended			
	Dec. 31, 1998	**Sept. 30, 1998**	**June 30, 1998**	**March 31, 1998**
Utility Operating Revenues	$ 158,884	$ 124,799	$ 123,423	$ 158,968
Utility Operating Income	37,850	34,002	24,981	43,027
Utility Net Income	16,587	10,930	5,022	18,946
Nonutility Operating Revenues	258,403	204,165	156,323	152,236
Nonutility Operating Income	80,735	38,845	24,999	20,836
Nonutility Net Income	52,891	24,950	16,606	15,998
Consolidated Net Income Available for Common Stock	$ 69,478	$ 35,880	$ 21,628	$ 34,944
Basic Earnings Per Share of Common Stock	$ 0.63	$ 0.32	$ 0.20	$ 0.32
Diluted Earnings Per Share of Common Stock	$ 0.63	$ 0.32	$ 0.20	$ 0.32

ITEM 9. DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSOURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information on The Montana Power Company Directors is incorporated by reference from the Company's Notice of 2000 Annual Meeting of Shareholders and Proxy Statement, pages 6 - 8.

Table The following table shows our current Executive Officers, who are elected or appointed annually by our Board of Directors, their ages at December 31, 1999, and their areas of responsibility. A brief description of their business experience during the past five years is also included.

Name	Age	Position/Business Experience
R. P. Gannon	55	Chairman of the Board, President, and Chief Executive Officer. Mr. Gannon was elected to the Board of Directors in 1990 and was elected Chairman of the Board of Directors in 1998. He served as Vice Chairman of the Board of Directors from 1996 to 1997. He has served as President since 1990 and as Chief Executive Officer since 1997.
J. P. Pederson	57	Vice President, Chief Financial Officer. Mr. Pederson was elected to the Board of Directors in 1993. He has served as Vice President and Chief Financial Officer since 1991. He also served as Chief Information Officer from 1996 - 1999.
M. J. Meldahl	50	Executive Vice President and Chief Operating Officer, Technology Division. Mr. Meldahl has held his present position since 1998. He served as Vice President, Communication Services, Energy and Communications Division, from 1996 – 1998. He served as Vice President, Technology Operations – Entech, from 1997 – 1999 and as Vice President, Technology Division, from 1988 - 1996.
J. D. Haffey	54	Executive Vice President and Chief Operating Officer, Energy Services Division. Mr. Haffey has held his present position since 1996. He served as Vice President of Administration and Regulatory Affairs from 1993 – 1996.
R. F. Cromer	54	Executive Vice President and Chief Operating Officer, Energy Supply Division. Mr. Cromer has held his present position since 1996. He has served as Chief Executive Officer, Continental Energy Services, since 1998. He also served as President of Continental Energy Services from 1996 – 1998 and as President and Chief Operating Officer of Continental Energy Services from 1992 - 1996.
P. K. Merrell	47	Vice President, Human Resources, and Secretary. Ms. Merrell has held her present position since 1996. She served as Vice President and Secretary from 1993 – 1996.
M. E. Zimmerman	51	Vice President and General Counsel. Mr. Zimmerman has held his present position since 1991.
P. J. Cole	42	Vice President, Corporate Business Development. Mr. Cole has held his present position since 1999. He served as Vice President, Business Development and Regulatory Affairs, from 1996 – 1999. He served as Treasurer for the Utility Division from 1993 - 1996.
D. S. Smith	56	Controller. Mr. Smith has held his present position since 1996. He served as Controller for Entech from 1988 – 1996.
E. M. Senechal	50	Treasurer. Ms. Senechal has held her present position since 1996. She served as Vice President and Treasurer for Entech from 1984 - 1996.

Name	Age	Position/Business Experience
D. A. Johnson	54	Vice President, Distribution Services. Mr. Johnson has held his present position since 1996. He served as Vice President for Utility Services from 1993 - 1996.
W. A. Pascoe	43	Vice President, Transmission Services. Mr. Pascoe has held his present position since 1997. He served as Assistant Vice President, Transmission Services, from 1996 - 1997 and as Manager of Transmission and Power Transactions from 1990 - 1996.
D. J. Sullivan	44	Chief Information Officer. Mr. Sullivan has held his present position since 1999. He served as Executive Director of Information Systems from 1998 - 1999, Leader of Information Systems from 1996 - 1998, and General Manager of Information Systems from 1995 - 1996.
W. S. Dee	59	Vice President, Marketing. Mr. Dee has held his present position since 1997. He was employed as a consultant with Leo Burnett Inc., an advertising agency, from 1993 - 1996. Mr. Dee will retire as our Vice President, Marketing, effective March 31, 2000.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from Notice of 2000 Annual Meeting of Shareholders and Proxy Statement, pages 15 - 20.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from Notice of 2000 Annual Meeting of Shareholders and Proxy Statement, pages 9 - 11.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Please refer to Item 8, "Financial Statements and Supplementary Data," for a complete listing of all consolidated financial statements and financial statement schedules.

(b) We filed the following reports on Form 8-K:

Date	Subject
October 26, 1999	Item 5. Other Events. Discussion of Third Quarter Net Income. Item 7 Exhibits. Consolidated Statements of Income for the Quarters Ended September 30, 1999 and 1998, Nine Months Ended September 30, 1999 and 1998, and for the Twelve Months Ended September 30, 1999 and 1998. Utility Operations Schedule of Revenues and Expenses for the Quarters Ended September 30, 1999 and 1998, Nine Months Ended September 30, 1999 and 1998, and for the Twelve Months Ended September 30, 1999 and 1998. Nonutility Operations Schedule of Revenues and Expenses for the Quarters Ended September 30, 1999 and 1998, Nine Months Ended September 30, 1999 and 1998, and for the Twelve Months Ended September 30, 1999 and 1998.
January 3, 2000	Item 2. Disposition of Assets. Sale of Generation Assets. Date of earliest event reported: December 17, 1999. Item 7. Financial Statements and Exhibits. Unaudited Pro Forma Consolidated Statements of Income for the Twelve Months Ended December 31, 1998 and Nine Months Ended September 30, 1999. Unaudited Pro Forma Consolidated Balance Sheet at September 30, 1999.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Cont.)

(c) Exhibits

		Incorporation by Reference	
		Previous Filing	Previous Exhibit Designation
2	Asset Purchase Agreement	1-4566 Form 8-K Dated November 2, 1998	2(a)
2(a)	Amendment No. 1 to the Asset Purchase Agreement	1-4566 December 17, 1999 Form 8-K	2(a)
2(b)	Amendment No. 2 to the Asset Purchase Agreement	1-4566 December 17, 1999 Form 8-K	2(b)
3(a)	Restated Articles of Incorporation, as amended	33-56739	3(a)
3(a)(1)	Articles of Amendment to the Restated Articles of Incorporation	1-4566	3(a)(1)
3(a)(2)	Articles of Amendment to the Restated Articles of Incorporation	1-4566	3
3(a)(3)	Amendment to the Articles of Incorporation	1-4566 August 16, 1999 Form 10-Q	3
3(b)	By-laws, as adopted dated August 22, 1995	1-4566	3(b)
3(b)(1)	Amendment to By-laws dated August 27, 1996	1-4566	3(b)
3(b)(2)	Amendment to By-laws dated May 12, 1997	1-4566	3(b)
3(b)(3)	Amendment to By-laws dated December 9, 1997	1-4566	3(b)
4(a)	Mortgage and Deed of Trust	2-5927	7(e)
4(b)	First Supplemental Indenture	2-10834	4(e)
4(c)	Second Supplemental Indenture	2-14237	4(d)
4(d)	Third Supplemental Indenture	2-27121	2(a)-5
4(e)	Fourth Supplemental Indenture	2-36246	2(a)-6
4(f)	Fifth Supplemental Indenture	2-39536	2(a)-7
4(g)	Sixth Supplemental Indenture	2-49884	2(a)-8(a)
4(h)	Seventh Supplemental Indenture	2-52268	2(a)-9
4(i)	Eighth Supplemental Indenture	2-53940	2(a)-10
4(j)	Ninth Supplemental Indenture	2-55036	2(a)-11
4(k)	Tenth Supplemental Indenture	2-63264	2(a)-12
4(l)	Eleventh Supplemental Indenture	2-86500	2(a)-13
4(m)	Twelfth Supplemental Indenture	33-42882	4(c)
4(n)	Thirteenth Supplemental Indenture	33-55816	4(a)-14
4(o)	Fourteenth Supplemental Indenture	33-64576	4(c)
4(p)	Fifteenth Supplemental Indenture	33-64576	4(d)
4(q)	Sixteenth Supplemental Indenture	33-50235	99(a)
4(r)	Seventeenth Supplemental Indenture	33-56739	99(a)
4(s)	Eighteenth Supplemental Indenture	33-56739	99(b)

Instruments defining the rights of holders of long-term debt which are not required to be filed with the SEC will be furnished to the SEC upon request.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Cont.)

(c) Exhibits

		Incorporation by Reference	
		Previous Filing	Previous Exhibit Designation
4(t)	Rights Agreement dated as of June 6, 1989 between The Montana Power Company and First Chicago Trust Company of New York, as Rights Agent	33-42882	4(d)
4(u)	Amendment to Rights Agreement dated March 2, 1999	1-4566	99(a)
10(a)(i)	Benefit Restoration Plan for Senior Management Executives and Board of Directors	33-42882	10(a)(i)
10(a)(ii)	Deferred Compensation Plan for Non-Employee Directors	33-42882	10(a)(ii)
10(a)(iii)	Long-Term Incentive Stock Ownership Plan	1-4566 1992 Form 10-K	10(a)(iii)
10(a)(iv)	The Montana Power Company Employee Stock Ownership Plan (Revised)	33-28096	4(c)
10(a)(v)	Termination Compensation Agreements with Senior Management Executives	1-4566 1996 Form 10-K	10(a)(v)
10(a)(vi)	Colstrip Unit No. 3 Wholesale Transmission Service Agreement (Exhibit F-1 to the Asset Purchase Agreement)	1-4566 Form 8-K Dated November 2, 1998	10(a)
10(a)(vii)	Non-Colstrip Unit No. 3 Wholesale Transmission Service Agreement (Exhibit F-2 to the Asset Purchase Agreement)	1-4566 Form 8-K Dated November 2, 1998	10(b)
10(a)(viii)	Generation Interconnection Agreement (Exhibit G to the Asset Purchase Agreement)	1-4566 Form 8-K Dated November 2, 1998	10(c)
10(a)(ix)	Equity Contribution Agreement	1-4566 Form 8-K Dated November 2, 1998	10(d)
10(a)(x)	Amended Long-Term Incentive Plan	1-4566 June 30, 1999 Form 10-Q	10
10(c)	Participation Agreements among United States Trust Company of New York, Burnham Leasing Corporation, and SGE (New York) Associates, Certain Institutions, The Montana Power Company, and Bankers Trust Company	33-42882	10(c)
12	Statement Re Computation of Ratio of Earnings to Fixed Charges		
21	Subsidiaries of the Registrant		
23	Consent of Independent Accountants		
27	Financial Data Schedule		

THE MONTANA POWER COMPANY AND SUBSIDIARIES SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		Additions			
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions*	Balance at close of period
		(Thousands of Dollars)			
Year Ended:					
December 31, 1999					
Reserves deducted in balance sheet from assets to which they apply:					
Doubtful accounts					
Utility	$ 1,044	$ 2,010		$ 1,950	$ 1,104
Nonutility	862	187	$ (12)	38	999
Total	$ 1,906	$ 2,197	$ (12)	$ 1,988	$ 2,103
December 31, 1998					
Reserves deducted in balance sheet from assets to which they apply:					
Doubtful accounts					
Utility	$ 984	$ 1,749		$ 1,689	$ 1,044
Nonutility	827	182	$ (11)	136	862
Total	$ 1,811	$ 1,931	$ (11)	$ 1,825	$ 1,906
December 31, 1997					
Reserves deducted in balance sheet from assets to which they apply:					
Doubtful accounts					
Utility	$ 924	$ 2,349		$ 2,289	$ 984
Nonutility	636	229	$ 6	44	827
Total	$ 1,560	$ 2,578	$ 6	$ 2,333	$ 1,811

* Deductions are of the nature for which the reserves were created. In the case of the reserve for doubtful accounts, deductions from this reserve are reduced by recoveries of amounts previously written off.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, a duly authorized signatory.

THE MONTANA POWER COMPANY

By/s/ Robert P. Gannon
Robert P. Gannon
(Chairman of the Board)

Date: March 15, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Robert P. Gannon Robert P. Gannon (Chief Executive Officer)	Principal Executive Officer and Director	March 15, 2000
/s/ J. P. Pederson J. P. Pederson (Vice President and Chief Financial Officer)	Principal Financial and Accounting Officer and Director	March 15, 2000
/s/ Tucker Hart Adams Tucker Hart Adams	Director	March 15, 2000
/s/ Alan F. Cain Alan F. Cain	Director	March 15, 2000
/s/ John G. Connors John G. Connors	Director	March 15, 2000
/s/ R. D. Corette R. D. Corette	Director	March 15, 2000
/s/ Kay Foster Kay Foster	Director	March 15, 2000
/s/ John R. Jester John R. Jester	Director	March 15, 2000
/s/ Carl Lehrkind III Carl Lehrkind III	Director	March 15, 2000
/s/ Deborah D. McWhinney Deborah D. McWhinney	Director	March 15, 2000
/s/ N. E. Vosburg N. E. Vosburg	Director	March 15, 2000

DIVIDEND PAYMENTS

Dividends on common and preferred stock are expected to be paid quarterly. To avoid delay or lost mail, and to reduce costs, we encourage you to request direct deposit of dividend payments to your bank account. To enroll in the Direct Deposit Plan, telephone the Company's Corporate & Shareholder Services Department at (800) 245-6767.

■ Dividend payment dates tentatively scheduled for the next four quarters are:

Common and Preferred Stock	
May 1, 2000	November 1, 2000
August 1, 2000	February 1, 2001

LOST OR DESTROYED CERTIFICATES OR CHECKS

Should your stock certificates or dividend checks be lost or destroyed, please notify the Corporate & Shareholder Services Department immediately, so the lost certificate or check can be canceled, and a replacement issued promptly.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

You may reinvest your common and preferred stock dividends to purchase additional shares of The Montana Power Company common stock. Plan participants also may purchase additional shares of common stock through an optional cash payment feature. Those eligible to enroll are: Current shareholders, and investors in Arizona, California, Colorado, Florida, Georgia, Illinois, Louisiana, Minnesota, Montana, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Dakota, Tennessee, Texas, Utah, and Wisconsin. Participants may deposit their common stock and preferred stock certificates into their plan accounts for safekeeping. Forms for both options may be obtained from the Corporate & Shareholder Services Department.

SHAREHOLDER HANDBOOK

A shareholder handbook provides helpful information on shareholder services, stock certificates, and stock-transfer requirements. To obtain a copy, contact the Corporate & Shareholder Services Department.

STOCK EXCHANGE LISTINGS AND TRADING REPORTS

Our common stock is traded on the New York Stock Exchange and Pacific Exchange, Inc. The New York Stock Exchange symbol is "**MTP.**" Newspaper financial sections usually list our common stock as "**MonPw.**"

Our preferred stock and First Mortgage Bonds are traded over the counter. Information on current prices is available from most brokerage firms, and also is reported in the National Daily Quotation Service.

STOCK REGISTRARS AND TRANSFER AGENTS

Corporate & Shareholder Services Department, The Montana Power Company, 40 East Broadway, Butte MT 59701-9394 – transfer agent: Common and preferred stocks.

First Chicago Trust Company of New York, a division of EquiServe, P. O. Box 2500, Jersey City NJ 07303-2500 – co-transfer agent and registrar: Common stock.

U.S. Bank National Association Montana, N.A., P. O. Box 548, Butte MT 59701 – co-registrar: Common stock, and registrar: Preferred stock.

BONDHOLDER RECORDS AND INTEREST PAYMENTS

Our debt securities are administered by trustees. To change your address, or if you have questions about ownership records or interest payments, please contact **the trustee** directly.

First Mortgage Bonds and Secured Medium-Term Notes (Bonds) – **Bank of New York**, Corporate Trust Department, 101 Barclay Street, 21st Floor W., New York NY 10286. Phone: (212) 815-6285.

Unsecured Medium-Term Notes – **Citibank N.A.**, Corporate Trust Department, 111 Wall Street, 5th Floor, New York NY 10043. Phone (212) 657-7493.

Pollution Control Revenue Refunding Bonds, City of Forsyth, Rosebud County (Montana), 6 1/8% Series 1993A due 2023 and 5.90% Series 1993B due 2023 – **Bank One**, Corporate Trust Department, Mail Suite 0126, One First National Plaza, Chicago IL 60670-0126. Phone: (312) 407-4660 or (800) 524-9472.

FOR MORE INFORMATION

For information related to your ownership of The Montana Power Company securities, phone our Corporate & Shareholder Services Department's 24-hour toll-free number: (800) 245-6767.

Or, write to: **Rose Marie Ralph**, Assistant Secretary and Director of Corporate & Shareholder Services, 40 East Broadway, Butte MT 59701, or phone (406) 497-2374, or FAX (406) 497-3018.

Security analysts, portfolio managers, and other representatives of the investment community should contact:

■ **Linda McGillen**, Director of Investor Relations
(406) 497-5211, or FAX (406) 497-5240.

■ **Ellen Senechal**, Treasurer
(406) 497-5248, or FAX (406) 497-5240.

■ **Jerry Pederson**, Vice President and Chief Financial Officer
(406) 497-2188, or FAX (406) 497-2150.

■ **Cort Freeman**, Director of Corporate Communication
(406) 497-2368, or FAX (406) 497-2535.

Montana Power's Internet address is:
http://www.mtpower.com.

This report was produced by our Corporate Communication Department with financial information produced by our Financial Reporting Department. Photos by Robert J. Webster. Design by Drew Van Fossen. Production assistance by Linda Trevenna. Printing by Wolfer Printing Company, Los Angeles.

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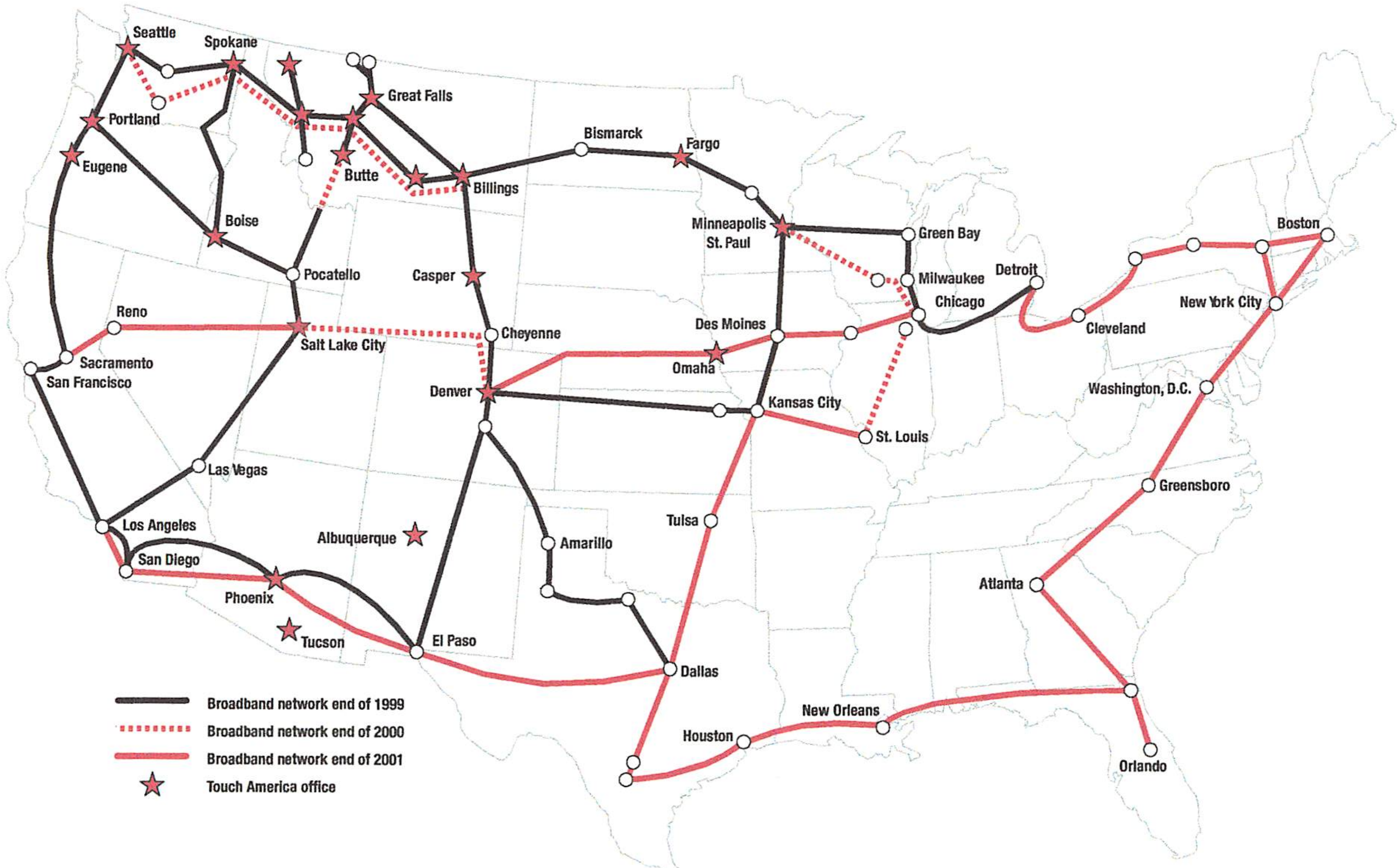
EXHIBIT 6

HISTORY
AND DESCRIPTION
OF
TOUCH AMERICA, INC.

Touch America™ | Touch America's Broadband Network



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Touch America

About Touch America

Touch America is The Montana Power Company's telecommunications subsidiary and the focus of its growth stra in broadband fiber-optic and wireless spectrum applications. Touch America is the owner, operator and developer of a 12,0 mile, state-of-the-art, high-speed, fiber-optic network that will h an 18,000-mile national presence by year end 2000 and approximately 26,000 miles of fiber by year end 2001.

Touch America, through its fiber-optic network and its expanding alliances, offers high-speed access to the Internet, including a full-line of long distance services, as well as dedica voice, data, video and frame relay solutions. The company als offers "last mile" telecommunications solutions through its FCC spectrum licenses with LMDS (local multipoint distribution serv and PCS (personal communication service) applications.

Founded in 1983, Touch America provides business telephone equipment, using the most advanced telecommunications technology available today. The company equipment services include design, installation and maintenan PBX and key systems. The company also offers construction management oversight of the installation of fiber-optic systems

[**History of Touch America**]

The Whispering S

Touch America

History

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Employment Opportunities

The Montana Power Co.

1983

Telecommunications Resources, Inc. (TRI) forms as the outgro of more than 50 years of expertise gained by Montana Power i providing for its own internal communications needs, offering engineering, consulting and installation services on a contract basis to business and industry.

1988

As TRI begins to expand their line of services, they acquire the Montana telephone equipment operations of TelPlus, creating subsidiary known as TRI Business Communications Systems,

The Intermountain Digital Network (IDN) is constructed to conn the major cities of Montana through a digital microwave and a optic network.

1989

TRI decides to phase out of contract work and shift the focus in becoming an operating company providing a variety of telecommunication services to business and industry.

1990

TRI acquires Touch America, giving TRI the advantage of bein able to provide switched long distance services over its own network, similar to other large national telecommunication serv providers.

1991

Rolm Company, a telecommunications equipment business ow by IBM and Seimens, announces that TRI will be its authorized business partner in most of Washington and Oregon and all of Idaho and Montana.

1992

In order to streamline the company's operations and to presen itself as one full-service telecommunications company to its customers, TRI reorganizes and changes its name to TRI Touc America, Inc.

1994

Construction begins on a $26.6 million fiber optic network that would enhance the network services offered by TRI Touch America, with a total of 730 miles stretching from Spokane to Billings via Helena and Missoula.

1995

TRI reorganizes once again in order to focus on growth and ta advantage of new business opportunities. The TRI is dropped from the name and the company becomes Touch America.

1996

More money is invested in fiber expansions, pushing the netwo into a total of seven Western and Midwestern states from the Pacific Northwest to Minnesota and from Denver to the Canad border.

Touch America buys at auction 12 PCS (personal communicat system) licenses in Idaho, Washington, Montana, North Dakot and Minnesota.

1997

Touch America announces a fiber expansion with two partners from Portland inland through Boise, Salt Lake, Las Vegas to Lo Angeles, a distance of some 1,750 miles.

1998

Further expansions are made east to Chicago through Milwauk and from Los Angeles north to Portland and Seattle along the California coast through Sacramento and San Francisco/Oakla as well as a route from Spokane to Boise.

1999

Iowa Network Services joins Touch America to purchase all of GTE's 280,422 domestic access lines from GTE in Iowa, creat new company, Iowa Telecommunications Services (ITS). With acquisition, ITS will become the second-largest local telephone company in Iowa.

Touch America forms a joint venture with US West for the natio only one-number digital PCS (personal communication system service to nearly 2.5 million customers in a seven-state region.

Touch America joins New Century Energies – the holding com for Public Service Co. of Colorado – in a venture to provide the latest in advanced high-speed data and voice communications services to the Denver Metropolitan area.

Touch America launches two of its new wireless, high-speed lo multipoint distribution service (LMDS) networks in Butte and Billings, Montana, with plans to add 23 more LMDS networks i cities across the Western United States by 2002.

A large telecommunication provider announces that it has contracted Touch America, along with two other companies, to a new, state-of-the-art fiber-optic network that will link 30 majo metropolitan areas nationwide, leapfrogging its competitors in technology.

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Touch America™

News Release

Touch America Details Its Role In Today's AT&T Fiber Build Announcement

Butte (December 6, 1999) – In response to unprecedented growth in demand for high-speed bandwidth and Internet-based services, AT&T today announced an aggressive plan to work with three companies to add a new overlay state-of-the-art fiber-optic network that will link 30 major metropolitan areas nationwide.

One of the three companies is **Touch America**, the telecommunications subsidiary of the Montana Power Company (NYSE:MTP)

Following is background regarding Touch America's role in this project:

- Touch America has been awarded a contract by AT&T to build 4,320 miles of high-speed long haul, fiber-optic network.

- This means Touch America will expand its 12,000-mile fiber network by 36%, as the AT&T contract allows Touch America to install a similar fiber-optic network for itself. Thus, Touch America will have an 18,000-mile fiber network by yearend 2000 plus additional means to reach a 23,000-mile network by yearend 2001.

- Touch America's estimated costs to construct the entire six-route network is more than $500 million. The company expects various third parties to cover half, or more than $250 million, of these costs.

- The AT&T contract has performance incentives and penalties for aggressive completion targets, which are capped for acceptable levels of risk.

- According to Touch America's President Mike Meldahl, this agreement keeps Touch America on-track to expand its low-cost network to a continental presence by yearend 2000 and provides for additional capacity expansions into 2001, when the AT&T build is scheduled to be completed. It also provides access to customers through "last-mile" connections where:

  1. The company holds Local Multipoint Distribution Service (LMDS) and Personal Communication Service (PCS) licenses;
  2. The company has agreements to provide Internet and long distance services for local exchange carriers, such as Iowa Telecommunications Services, of which Touch America owns 38 percent; and
  3. The company has partnered with others to provide high-speed bandwidth for business and government applications, such as Touch America-Colorado, the company's joint venture

Touch America™

News Release

(continued)

with New Century Energy of Denver to provide additional "direct connect" fiber-optic capacity to the greater Denver Metropolitan area.

- The six new builds touch 13 states; their approximate lengths and percentage of the total 4,320 miles are:

1. Denver east to Chicago through Chappell, Grand Island and Omaha in Nebraska; Des Moines and Davenport in Iowa; and Plano and Oakbrook in Illinois -- 1,110 miles, or 25.7%;
2. Seattle east to Billings, Montana through Yakima and Spokane in Washington and Missoula, Helena and Bozeman in Montana -- 1,025 miles, or 23.7%.
3. Sacramento west to Salt Lake City through Reno, Nevada, andBrigham City and Ogden in tah -- 770 miles, or 17.8%;
4. Salt Lake City east to Denver through Laramie and Cheyenne in Wyoming and Longmont, Colorado -- 590 miles, or 13.7%;
5. Minneapolis-St. Paul east to Chicago through Eau Claire, Madison, Waukesha and Milwaukee -- 495 miles, or 11.5%;
6. St. Louis north to Plano, Illinois, through Collinsville, Springfield and Peoria -- 330 miles, or 7.6%;

While the details are proprietary, this is generally the way it works for Touch America:

- For each build, Touch America installs five conduits and fiber-optic cable for itself and AT&T, initially with both companies' fiber in one of the conduits. Plans are generally for up to six conduits in the build, three of which will be owned by AT&T.
- Touch America and AT&T provide least-cost right-of-way and both, but more likely AT&T, will provide cable splicing and testing;
- Each company can light the fiber for its own capacity needs, as well as for third parties;
- Additionally, to defray construction costs, the two companies have entered a joint agreement to market pooled fiber.

Touch America™

News Release

PF.Net And Touch America Exchange Fiber and Conduit in a Major Agreement To Expand Their Networks

Washougal, WA (January 25, 2000) -- Touch America, the telecommunications subsidiary of The Montana Power Co. (NYSE:MTP) and PF.Net, a privately held company, announced today a major agreement to exchange fiber, conduit and cash, increasing significantly both companies' fiber-optic networks.

Touch America receives approximately 5,900 route miles of fiber from PF.Net, extending Touch America's fiber-optic network of duct and fiber, built and under contract, from 16,000 miles to 22,000 miles. All segments are to be completed by yearend 2001.

PF.Net receives approximately 4,400 route miles of fiber from Touch America, plus $48.5 million in cash for the difference in route miles. This expansion will extend PF.Net's fiber-optic network of duct and fiber beyond 10,800 miles. It also is to be completed in 2001.

PF.Net will receive network route miles connecting Denver to Dallas, Chicago, Minneapolis, Milwaukee, Detroit, Salt Lake City, Reno, Sacramento, Omaha, Des Moines and Colorado Springs.

Touch America will expand its network from Los Angeles to San Diego, Phoenix, El Paso, Dallas, Austin, San Antonio, Houston, New Orleans, Jacksonville, Orlando, Greensboro, Washington D.C., New York City, Tulsa, Kansas City, and St. Louis.

In addition to the exchange of fibers, the parties have also agreed to exchange conduit on some of these routes.

"PF.Net and Touch America are building highly complimentary nationwide networks," said John Warta, PF.Net co-founder and executive director. "This agreement just seemed to be a natural fit."

Warta said PF.Net's network will be IP-based and equipped to handle the exponential growth in network traffic. "PF.Net will deliver the most advanced applications and access technologies to customers nationwide," he added.

"This exchange brings us closer to our desired 23,000-mile network by yearend 2001 and furthers our strategy to be a national provider of fiber-optic services by continuing to take advantage of cost-effective opportunities to expand our network," said Mike Meldahl, Touch America's president. "This build will keep us the low-cost provider of fiber-optic services coast-to-coast and border-to-border. Touch America uses the latest fiber optics technology and optronics (optical electronics installed along the route to transmit pulses of laser light through the fiber) on its network, including

EXHIBIT 7

RESUMES
OF
SENIOR MANAGEMENT PERSONNEL

Robert P. Gannon, Chairman, President and CEO of The Montana Power Company and Chairman and CEO of Touch America

Robert P. (Bob) Gannon is the chairman, president and chief executive officer of The Montana Power Company and chairman and CEO of Touch America. Before joining Montana Power in 1974 as an attorney, Bob had served two years as an Assistant Attorney General for the State of Montana, and another two and a half years as an Assistant U.S. Attorney for Montana.

For nine years, Bob was a staff attorney for Montana Power, with responsibilities that included work with the Montana Legislature. In 1983, he was named the corporation's assistant general counsel, then general counsel, and for five years, from 1984 to 1989, he was vice president and general counsel.

Under Gannon's direction Montana Power has been transforming itself from a vertically integrated electric and natural gas utility, with competitive businesses in energy and technology, into a telecommunications company.

Bob is a native of Butte, Montana, and a 1966 graduate of the University of Notre Dame with a bachelor's degree in government. He earned his law degree (Juris Doctor) in 1969 from the University of Montana, and he completed the Harvard Advanced Management Program in 1989.

Revised 7/26/00

Michael J. Meldahl, President and Chief Operating Officer of Touch America

For more than 11 years Michael J. (Mike) Meldahl, President and Chief Operating Officer of Touch America, has successfully guided Montana Power's move into the competitive telecommunications business, which began in 1983.

Mike joined Telecommunications Resources Incorporated (TRI), MPC's first nonutility communications enterprise, in 1986. He subsequently moved TRI from a company that provided communications engineering, consulting and installation services on a contract basis into what is known today as Touch America, a full-service telecommunications company that has one of the largest fiber-optic networks in the country.

Mike is a native of Sidney, Montana. He earned a B.S. in civil engineering from Montana State University (MSU), Bozeman, in 1967 and added a MS in engineering from MSU in 1972. He then went to work for the State of Montana, where he helped establish and worked with computer systems for several state agencies.
He joined Montana Power in 1981 as manager of application programming in the company's computer department.

Meldahl held several assignments with increasing responsibility in Montana Power's computer department, including manager of computer and information systems, and in 1986, he was named president and chief operating officer of TRI, the predecessor company of Touch America.

In May 1996, he was named vice president of Communication Services in Montana Power's Energy and Communications Services Division, and in December 1998, when telecom became a separate corporate business unit, he received his current title.

Revised 7/26/00

Jerrold P. Pederson, Touch America's Vice President and Chief Financial Officer

Jerrold "Jerry" Pederson is Touch America's vice president and chief financial officer. A native of Billings, Montana, he graduated from Billings Central High School and attended Gonzaga University, where he received a Bachelor of Business Administration (B.B.A.) in accounting in 1964. He joined Montana Power Company March 8, 1965. While employed by MPC, Jerry attended the University of Idaho Executives' Course (1980) and Harvard University Advanced Management Program (1994).

From Junior Auditor in 1965, he became Senior Auditor in 1969, named Tax Accountant in 1976, and promoted to Manager of General Accounting in 1979. He was promoted to Assistant Controller in 1980 and Controller in 1982. In May of 1990, he was named Vice President, Corporate Finance and Controller and in 1991, Vice President and Chief Financial Officer of Montana Power and subsidiary companies, including Touch America. In July, 1993, Jerry was named to the MPC Board of Directors and in March 1996, Vice President, Chief Financial and Information Officer. He relinquished his CIO duties in 1999.

In March 2000, Pederson was named vice chairman and CFO of Montana Power with direct responsibility over the company's energy businesses, including the divestiture of those businesses in order to concentrate on Touch America. In July 2000, Touch America announced Pederson will retain his title as vice president and CFO during and after the corporate transition form Montana Power to Touch America.

Revised 7/24/00

Perry J. Cole, Touch America's Senior Vice President, Sales

Perry J. Cole, vice president of sales, brings 20-years of management experience with The Montana Power Company to Touch America. Cole began his Montana Power career in 1980, when he started as an accountant. He has worked with the corporation's budget and financial planning department -- as manager of budget and financial planning -- first for Western Energy, a Montana Power coal mining company subsidiary, and later for the utility, and then as manager of financial planning and analysis in Montana Power's Office of the Corporation.

In 1992, Perry was promoted to assistant treasurer for the utility with additional responsibilities for planning, and a year later was promoted to treasurer. When Montana Power restructured in early 1996, Cole was named vice president of business development and regulatory affairs. He was named vice president of corporate business development in 1999 with an emphasis on Touch America, and he was named Touch Americas senior-vice president, sales, in July 2000.

He is a native of Havre, Montana, where he attended local schools. He graduated from the University of Montana in 1979 with both a bachelor and master's degrees in business administration, with a concentration in finance. He worked for one year with First Bank System in Minneapolis before joining MPC.

Revised 7/17/00

EXHIBIT 8

RESUMES
OF
SENIOR TECHNICAL PERSONNEL

Rita Spear, Touch America's Vice President, Networks

Rita Spear oversees all of Touch America's fiber-optic and wireless network activities after serving as executive director of engineering. She brings to Touch America extensive project management experience in scheduling, budgeting, equipment ordering, automation engineering and layout, control algorithms, testing, and field installation.

She joined Tetragenics, an affiliate of Touch America, in 1993 as an engineer. She assumed increasing responsibilities, eventually becoming manager of Tetragenics in 1996. She was named executive director of corporate services for Touch America/Tetragenics in 1999, and then became executive director of engineering for Touch America in January 2000.

In July 2000, Spear was named Touch America's vice president, networks, with responsibility for network construction, operation and installation.

Spear is a native of Butte, Montana. She earned a Bachelor of Science in computer science from Montana College of Mineral Science and Technology in 1985 and added an MS in computer science from Montana State University in 1992.

Spear has been an adjunct computer science instructor at Montana Tech, Butte, and is currently on the Industry Advisory Board for the Computer Science and General Engineering Departments.

Patrick M. Hogan, Touch America's Vice President of Interconnect Solutions

Patrick M. (Pat) Hogan, is Touch America's vice president of Interconnect Solutions with responsibilities for product research, product pricing, vendor relations, application solutions, sales support, training and education, sales engineering, customer retention, materials management, project management, and design implementation.

He joined Touch America in 1989 and has held positions in marketing, network planning, engineering, regulatory and legislative affairs, and general management. Prior to that he worked for the state of Montana's Telecommunications Bureau in Helena.

A native of Corning, Iowa, Hogan attended Iowa State University in Ames earning an engineering degree in 1978. He also attended George Washington University School of Engineering in Washington DC.

George D. Paul, Touch America's Vice President Customer Service

George D. Paul, Touch America's vice president Customer Service, currently has responsibilities for all customer service administration, sales support, and customer billing for Touch America. He started with Touch America in 1988 and has held the following positions of increasing responsibility: general manager Intermountain Digital Network, then common carrier services, and finally network services, before being promoted to executive director of Marketing and Sales, the position he held when named vice president of customer service.

Starting with Montana Power in 1980, Paul worked as a training specialist, labor relations coordinator and labor relations director. Prior to joining Montana Power, Paul worked for the in city-county government as a project coordinator involved in labor relations, public works and special projects.

He has been an adjunct instructor in marketing and business at Montana Tech of the University of Montana, Butte, and is active in civic organizations, including educational and sports organizations.

Paul is a native of Butte, Montana, where he attended local schools. He also attended the University of Montana in Missoula from where he earned a Bachelor of Arts degree in business administration in 1976 and a Masters of Business Administration in 1978.

Liza L. Dennehy, Touch America's Vice President, Wireless Solutions

Lisa L. Dennehy, Touch America's vice president, Wireless Solutions, is responsible for all of Touch America's wireless endeavors, which includes managing the build-out and establishment of Touch America's wireless services, whether independently or with partners. In the interim she also will manage the data product solutions offerings, including asynchronous transfer mode (ATM), frame relay, and wide area network (WAN) and local area network (LAN) products.

She serves as chairman of the board for Wireless North, and is executive vice president and serves on the board of managers for TW Wireless, LLC. Touch America has an ownership interest in each of these companies, both of which provide personal communications services in separate areas of the Pacific Northwest, Rocky Mountain, and Upper Midwest states.

Dennehy is a native of Butte, Montana. She attended Montana College of Mineral Science and Technology, where she received a Bachelor of Science in computer science in 1988. She earned a Masters of Business Administration from the University of Montana in 1998. Dennehy brings to Touch America extensive computer and networking experience, along with proven business development expertise.

Dennehy joined Montana Power in 1984 as a programmer in training, working in the Information Services Department. Upon graduation from college, she became a user support analyst, heading the team of programmers and network specialists who provided support for payroll, personnel, engineering and accounting systems as well as managing a 200-person local area network.

In 1994, Dennehy transferred to Continental Energy Services, Inc., MPC's independent power subsidiary, where she was director, business development, responsible for evaluating national and international project opportunities, and leading and managing development teams in the pursuit of investments in the independent power arena. Dennehy joined Touch America in 1998 as general manager of local access, and was named Touch America's vice president, data and wireless solutions in July 2000.