TOUCHAMERICA
1?? N Main, PO Box F??9
Helena, MT 59601

www.tamerica.com

406 443 2720
Fax 406 442 ????

TOUCHAMERICA

REGULATORY AUTH.

'01 JUL 25 AM 9 25

OFFICE OF THE
EXECUTIVE SECRETARY

July 23, 2001

Office of the Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

01-00645

Dear Sir/Madam:

Enclosed, please find an original and thirteen copies of a Joint Petition of the Montana Power Company and Touch America, Inc. to conduct an Internal Reorganization and Change of Control, pursuant to Section 65-4-112 Tennessee Code Annotated.

Please find a check in the amount of $25.00 in payment of the filing fee.

Also, enclosed is a second copy of this letter. Please date stamp it and return it in the enclosed, postage paid envelope.

Very truly yours,

John S. Fitzpatrick

John S. Fitzpatrick
Executive Director Governmental & Regulatory Affairs

JSF/bb

Enclosure

THE SPEED OF LIGHT.
THE POWER OF BANDWIDTH.

BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN THE MATTER of

The Joint Application of the MONTANA POWER COMPANY and its wholly owned subsidiary, TOUCH AMERICA, INC., for authority to conduct an Internal Reorganization of the company and effect a Change of Control pursuant to Section 65-4-112, Tennessee Code Annotated	))))))))	**Docket No. ____________**

APPLICATION

The Joint Application of the Montana Power Company and its wholly owned subsidiary, Touch America, Inc. requests authority to conduct an Internal Reorganization of the company and effect a Change of Control shown by the text and exhibits attached hereto.

1. The Parties

The Montana Power Company is a natural gas and electric transmission and distribution utility serving the western two-thirds of the State of Montana. It does not operate in Tennessee.

Touch America, Inc. is the wholly owned telecommunications subsidiary of the Montana Power Company. It was incorporated in 1983 and operates as an interexchange carrier.

Touch America is currently certified to provide telecommunications services in 44 states, including Tennessee.

Touch America received its Certificate of Public Convenience and Necessity from Tennessee on March 22, 2001, pursuant to Docket No. 00-00984. Although certified in Tennessee, Touch America has not yet offered service within the state.

2. Synopsis of Proposed Restructuring and Change of Control

Touch America, Inc. was originally incorporated in the State of Montana in 1983 as a wholly owned subsidiary of Entech, Inc. Entech, Inc. is a wholly owned subsidiary of the Montana Power Company.

In the spring of 2000, the Montana Power Company announced that it would divest itself of all of its energy related businesses top focus on telecommunications. To that end, Montana Power has completed the sale of its Oil and Gas Division, its Coal Mining subsidiary, and its Independent Power Group. An agreement has been reached with Northwestern Corporation of Sioux Falls, South Dakota, for the sale of its gas and electric utility. The utility sale is expected to close in the fall of this year.

At the completion of the divestiture process, the company will rename itself Touch America Holdings, Inc. Touch America Holdings, Inc. is incorporated in the State of Delaware. It will become the owner of the operating businesses of Touch America, Inc.

(telecommunications) Tetragenics Company (electronic control systems), and the owner of the single membership interest in Entech, LLC (miscellaneous properties).

All common stock holders in the Montana Power Company will become the shareholders of Touch America Holdings, Inc.

Attached please find Exhibit 1, which describes the restructuring in more detail.

3. Management Structure; Officers and Directors

Under the proposed restructuring, the existing Board of Directors of the Montana Power Company will become the Board of Directors for Touch America Holdings, Inc.

Several key executive officers with the Montana Power Company will also be transferring to Touch America Holdings, Inc. with the reorganization including:

- Mr. Robert Gannon, Chairman and CEO
- Mr. Jerrold Pederson, Chief Financial Officer
- Mr. Michael Meldahl, President and COO

These individuals will hold the same positions with Touch America Holdings, Inc.

The Officers and Directors of Touch America, Inc. (i.e., the operating company) will not change as a result of the restructuring. There will be no lay-offs nor is there expected to be any increase in employee turnover within Touch America, Inc. because of the restructuring.

Exhibit 2 shows the existing Boards of Directors and Officers for the Montana Power Company, Entech, and Touch America, Inc.

Exhibit 3 shows the proposed Boards of Directors and Officers for Touch America Holdings, Inc. and Touch America, Inc. after the restructuring.

4. Organizational Structure

Exhibit 4 shows the organizational structure of Montana Power Company, as it exists today following the sale of the oil and gas; coal; and independent power businesses.

Exhibit 5 shows the proposed organizational structure of Touch America Holdings, Inc. following restructuring.

5. Finances

Funds generated from the sale of the energy and utility businesses will be reinvested in Touch America Holdings, Inc.

On a going forward basis, Touch America Holdings, Inc. will have a very strong balance sheet featuring no long term debt, an estimated $ 350 million in cash for reinvestment in the business, and continuing telecommunications operations that are profitable.

Exhibit 6 contains the 2000 Annual Report for the Montana Power Company.

Exhibit 7 contains the 2000 Annual Report for Touch America, Inc.

6. Public Interest

The proposed restructuring of the Montana Power Company as Touch America Holdings, Inc., is in the public interest. That the emerging company will be focused exclusively on the provision of telecommunications services. Touch America, Inc.'s past record of achievement, the strength and integrity of its corporate finances insure that it will be able to meet customer needs into the future.

Touch America, Inc.'s participation in the telecommunications market in the State of Tennessee will further the goals of diversity in the supply of telecommunications services and products available to the citizens, businesses and governmental institutions of the state.

7. Impact On Consumer

The proposed restructuring will have no adverse effect on consumers. There will be no PICC charges or other fees levied against consumers, as a result of the proposed restructuring. All rates, terms, and conditions for telecommunications products and services as reflected in Touch America's tariffs and price lists will remain the same, unaffected by the proposed restructuring.

8. Impact on Tennessee CPCN

Touch America, Inc. currently holds a Certificate of Public Convenience and Necessity from Tennessee, pursuant to Docket No. 00-00984. After the proposed restructuring, Touch America, Inc. will continue as the operating company. As such, there appears to be no need to change or modify the existing certificate.

9. Contact

If the Commission has any questions or needs additional information regarding the proposed restructuring of the Montana Power Company into Touch America Holdings, Inc., please contact .

John S. Fitzpatrick
Executive Director
Governmental and Regulatory Affairs
Touch America, Inc.
1315 North Main St.
Helena, MT 59601
Ph: (406) 442-9194
Fax: (406) 442-8730

10. Conclusion

In view of the foregoing, the Montana Power Company and Touch America, Inc. respectfully submit that the proposed plan of Internal Reorganization and Change of Control of the company is in the public interest an requests the Tennessee Regulatory Authority to approve same.

Dated this 17th day of July 2001

Respectfully Submitted,

MONTANA POWER COMPANY
By: Robert P. Gannon
Robert P. Gannon
Chairman and CEO

TOUCH AMERICA, INC.
By: Michael J. Meldahl
Michael J. Meldahl
President

OATH

State of Montana }

County of Silver Bow }

Robert P. Gannon being duly sworn states that he filed the Application as Chairman of the Board of Directors and Chief Executive Officer of the Montana Power Company; that in such capacity, he is qualified and authorized to file and verify such applications; that he has carefully examined all the statements and matters contained in the Application; and that all such statements made and matters set forth therein are true and correct to the best of his knowledge, information and belief. Affiant further states that the Application is made in good faith, with the intention of presenting evidence in support thereof in every particular.

Subscribed and sworn to before me, in and for the State and County named above, this 17th day of July, 2001.

Robert P. Gannon

Signature of Affiant

Susan Breining

Notary Public

(SEAL)

OATH

State of Montana }

County of Silver Bow }

Michael J. Meldahl being duly sworn states that he filed the Application as President and Chief Operating Officer of Touch America, Inc.; that in such capacity, he is qualified and authorized to file and verify such Application; that he has carefully examined all the statements and matters contained in the Application; and that all such statements made and matters set forth therein are true and correct to the best of his knowledge, information and belief. Affiant further states that the Application is made in good faith, with the intention of presenting evidence in support thereof in every particular.

Subscribed and sworn to before me,

in and for the State and County named

above, this 17th day of

July, 2001.

Susan Breining

Notary Public

Signature of Affiant

(SEAL)

EXHIBIT 1

DESCRIPTION OF RESTRUCTURING

THE COMPANY AND ITS BUSINESS OPERATIONS

The Montana Power Company (MPC) is a Montana corporation. It was formed in 1961 as the successor to a New Jersey corporation organized in 1912. MPC's stock is traded on the New York and Pacific Stock Exchange (NYSE:MTP). Historically, the Montana Power Company conducted a regulated electric and natural gas utility business within the State of Montana, which included the generation of electricity, the transmission of electricity and natural gas, and the distribution of electricity and natural gas. In 1999, Montana Power sold the majority of its electric generation assets and used a portion of the proceeds to retire debt and repurchase common stock. Its remaining utility business, which the company conducts directly, is hereafter referred to as the "Regulated Utility Business."

In the early 1980's, Montana Power started to diversify its business operations. It created Entech as an intermediate holding company to separate its new unregulated business ventures from its Regulated Utility Business. The unregulated businesses conducted by Entech included coal mining in Montana and Texas, independent power generation, oil and gas production in Canada and the United States and a rapidly growing national telecommunications business.

Montana Power conducts its telecommunications business through Touch America, Inc. ("TA") and Tetragenics, two subsidiaries wholly owned by Entech. The telecommunications business commenced in 1983 based on the need to construct a microwave communications system for the company's utility business. Over the years, the telecommunications business has grown in scope and value. TA has built and is still building a high-speed fiber optic network across the United States. This fiber optic network is used for wholesale transmission as a carrier's carrier, as well as TA's direct connections to individuals and businesses through various product offerings. TA is rapidly expanding its business through a combination of relationships with anchor customers, alliances with third parties, and acquisitions, including its recent acquisition from Qwest Communications International, Inc. of various telecommunications businesses located in U.S. West's fourteen-state region. Tetragenics is a smaller business that develops electronic monitoring systems for a variety of applications including telecommunications facilities.

DESCRIPTION OF THE RESTRUCTURING

On March 28, 2000, Montana Power publicly announced that it would sell its Regulated Utility Business and its Unregulated Energy Businesses to focus exclusively on its telecommunications business. In August and September 2000, MPC entered into four separate contracts to sell its Unregulated Energy Businesses and the Regulated Utility Business. In connection with this shift in corporate strategy, the company intends to undertake an internal restructuring with two major components as described below.

First, Montana Power will create a new limited liability company ("Entech, LLC"). Entech, Inc. will merge with and into Entech LLC. The company has completed the sale of three businesses owned by Entech including the oil and gas business, the independent power group, and its coal mining subsidiary. Total consideration from the sale of these three unregulated businesses was approximately $698 million.

Second, Montana Power has formed and owns 100% of Touch America Holdings, Inc., a Delaware corporation ("TAH"). TAH, has in turn, formed and owns 100% of The Montana Power LLC ("MPC LLC"), a Montana limited liability company. The Montana Power Company will merge with and into MPC LLC (the "MPC Merger"). The MPC Merger is contingent on the listing of TAH's common stock on the New York Exchange and the Pacific Stock Exchange, and a shareholder approval of the merger and the NorthWestern Sale (as defined below). As a result of the MPC Merger, the company's existing common and preferred shareholders will be deemed to receive common and preferred stock, respectively, of TAH. The value of the TAH stock will be equal to the value of MPC's stock immediately before the merger. As a consequence of the MPC Merger, the company's state of incorporation will effectively change from Montana to Delaware.

MPC LLC will then transfer its ownership of Entech LLC, which will own TA and Tetragenics, to TAH, and Entech LLC will further transfer the stock of these subsidiaries to TAH. Thereafter, Entech LLC will remain in existence solely to satisfy any obligations or liabilities that may exist in connection with the sale of the Unregulated Energy Businesses. TAH will be successor to Montana Power and will own the stock of TA and Tetragenics directly. TAH will then sell MPC LLC, now consisting solely of the Regulated Utility Business assets, to NorthWestern Corporation ("NorthWestern") for $602 million plus the assumption of $488 million in outstanding debt (the NorthWestern Sale"). TAH intends to use the after-tax proceeds from the NorthWestern Sale and the sale of its Unregulated Energy Businesses to grow its telecommunications business. No amounts will be distributed to the shareholders of Montana Power or TAH.

The total consideration under the four contracts to sell the Unregulated Energy Businesses and the Regulated Utility Business is $1,787,500,000 (which includes the assumption of $488 million of debt by NorthWestern). Montana Power has approximately 105.5 million shares of common stock outstanding.

OBJECTIVES AND BUSINESS PURPOSES

As noted above, Montana Power's primary objective is to divest its energy businesses and focus its resources on growing its telecommunications business. The Proposed Restructuring will help achieve this goal, as well as change the state of incorporation of the MPC Group parent and simplify the MPC Group's corporate structure.

The Entech Liquidation will simplify the MPC Group's corporate structure by eliminating one tier (now occupied by Entech). Entech was formed as an intermediate holding company to separate the company's unregulated businesses from its Regulated Utility Business. With the anticipated sale of the utility business to NorthWestern, TAH will no longer need to separate these businesses. In addition, the elimination of Entech will simplify corporate decision making, since the approval of Entech will no longer be required for transactions that formerly required such approval. This should enable TAH to make decisions and take action more expeditiously.

The MPC Merger will accomplish at least two business objectives. First, it will allow the Montana Power to utilize the merger statutes to transfer the assets and liabilities associated with the Regulated Utility Business into one entity, MPC LLC that can then be sold to NorthWestern. This will enable the company to sell its Regulated Utility Business by selling all of the membership interests in MPC LLC. This approach allows the company to avoid the time and expense of transferring assets and liabilities individually. Second, establishing TAH as a Delaware corporation will assist the company as it shifts from a state or regional focus to a national business focus. A significant number of large corporations choose to incorporate in Delaware to take advantage of that state's experience and resources with respect to handling corporate issues and concerns. Montana Power believes that a change in its place of incorporation from Montana to Delaware (by transfer of its assets and liabilities to TAH) will assist it as it expands its telecommunications business to one of truly national scope.

EXHIBIT 2

EXISTING
BOARDS OF DIRECTORS
AND
CORPORATE OFFICERS
FOR THE

MONTANA POWER COMPANY
ENTECH, INC.
TOUCH AMERICA, INC.

Montana Power Company
Existing
Board of Directors
and
Corporate Officers

Business Address
40 E. Broadway St.
Butte, MT 59701

Board of Directors

Tucker Hart Adams
Alan F. Cain
John G. Connors
Robert D. Corette
Kay Foster
Robert P. Gannon
John R. Jester
Carl Lehrkind III
Deborah D. McWhinney
Jerrold P. Pederson
Noble E. Vosburg

Corporate Officers

Perry J. Cole,	Vice President, Corporate Business Development
Patrick T. Fleming,	Secretary
Robert P. Gannon,	Chairman and CEO
Jack D. Haffey,	Executive Vice President and COO, Energy Services Division
David A. Johnson,	Vice President, Distribution Services
Michael J. Meldahl,	Executive Vice President and COO, Technology Division
Pamela K. Merrell,	Vice President, Human Resources
William A. Pascoe,	Vice President, Transmission Services
Jerrold P. Pederson,	Vice President and CFO
Ellen M. Senechal,	Treasurer
David S. Smith,	Controller
Daniel J. Sullivan,	Chief Information Officer

Entech, Inc.
Existing
Board of Directors
and
Corporate Officers

<u>BUSINESS ADDRESS</u>
16 E. Granite St.
Butte, MT 59701

<u>Board of Directors</u>
Robert P. Gannon
Michael J. Meldahl
Jerrold P. Pederson
Ellen M. Senechal

<u>OFFICERS</u>

Robert P. Gannon,	Chairman of the Board and CEO
Ernie J. Kindt,	Assistant Controller
Pamela K. Merrell,	Vice President and Secretary
Jerrold P. Pederson,	Vice President and CEO
Rose Marie Ralph,	Assistant Secretary
Ellen M. Senechal,	Vice President and Treasurer
David S. Smith,	Controller
Michael E. Zimmerman,	Vice President and General Counsel

Touch America, Inc.
Existing Board of Directors and Corporate Officers

<u>Business Address</u>
130 N. Main St.
Butte, MT 59701

<u>Board of Directors</u>

Perry J. Cole
Robert P. Gannon
Michael J. Meldahl
Jerrold P. Pederson
Daniel J. Sullivan
George D. Wright

<u>Officers</u>

John J. Burke,	Controller
Robert E. Cenek,	Vice President, Human Resources
Perry J. Cole,	Sr. Vice President, Sales
Liza L. Dennehy,	Vice President, Wireless Solutions
Kevin P. Dennehy,	Vice President, Venture Integration
Patrick T. Fleming,	Vice President, General Counsel and Secretary
Harry J. Freebourn,	Treasurer
Cort L. Freeman,	Vice President, Corporate Communications
Robert P. Gannon,	Chairman and CEO
Daniel L. Gay,	Vice President, Marketing
Patrick M. Hogan,	Vice President, Interconnect Solutions
Ernie J. Kindt,	Assistant Controller
Stephen G. Maederer,	Vice President, Wholesale Solutions
Michael J. Meldahl,	President and COO
George D. Paul,	Vice President, Customer Service
Jerrold P. Pederson,	Vice President and CFO
Rose Marie Ralph,	Assistant Secretary
Kim G. Rowell,	Vice President, Products
Rita H. Spear,	Vice President, Networks
Barbara A. Street,	Assistant Secretary
Daniel J. Sullivan,	Vice President and CIO
Michael E. Zimmerman,	Vice President, Corporate Development

EXHIBIT 3

PROPOSED
BOARDS OF DIRECTORS
AND
CORPORATE OFFICERS
FOR

TOUCH AMERICA HOLDINGS, INC.
TOUCH AMERICA, INC.

Touch America Holdings, Inc.
Proposed
Board of Directors
and
Corporate Officers

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

Board of Directors

Tucker Hart Adams
Alan F. Cain
John G. Connors
Robert D. Corette
Kay Foster
Robert P. Gannon
John R. Jester
Carl Lehrkind III
Deborah D. McWhinney
Jerrold P. Pederson
Noble E. Vosburg

Corporate Officers

Perry J. Cole,	Sr. Vice President, Sales
Patrick T. Fleming,	Vice President, General Counsel and Secretary
Robert P. Gannon,	Chairman and CEO
Daniel L. Gay,	Vice President, Marketing
Michael J. Meldahl,	President and COO
Jerrold P. Pederson,	Vice President and CFO
Daniel J. Sullivan,	Vice President and CIO
Michael E. Zimmerman,	Vice President, Corporate Development

Touch America, Inc.
Proposed
Board of Directors
and
Corporate Officers

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

Board of Directors

Perry J. Cole
Robert P. Gannon
Michael J. Meldahl
Jerrold P. Pederson
Daniel J. Sullivan
George D. Wright

Officers

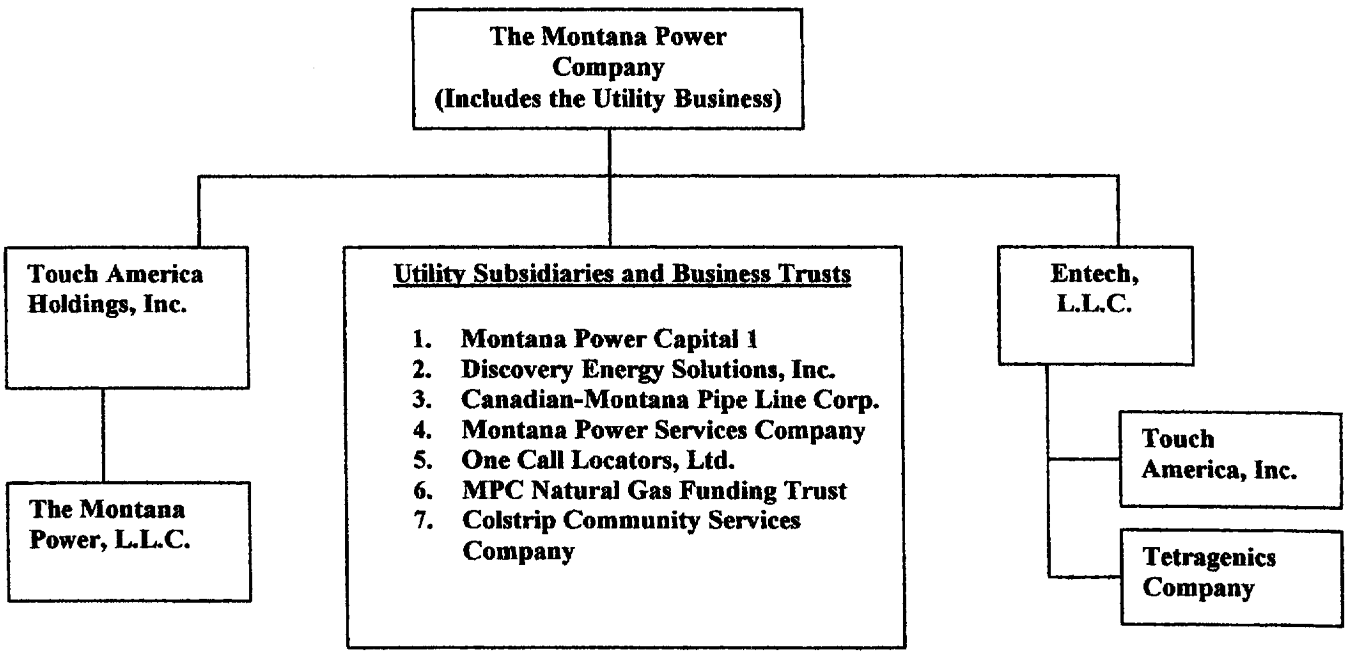
John J. Burke,	Controller
Robert E. Cenek,	Vice President, Human Resources
Perry J. Cole,	Sr. Vice President, Sales
Liza L. Dennehy,	Vice President, Wireless Solutions
Kevin P. Dennehy,	Vice President, Venture Integration
Patrick T. Fleming,	Vice President, General Counsel and Secretary
Harry J. Freebourn,	Treasurer
Cort L. Freeman,	Vice President, Corporate Communications
Robert P. Gannon,	Chairman and CEO
Daniel L. Gay,	Vice President, Marketing
Patrick M. Hogan,	Vice President, Interconnect Solutions
Ernie J. Kindt,	Assistant Controller
Stephen G. Maederer,	Vice President, Wholesale Solutions
Michael J. Meldahl,	President and COO
George D. Paul,	Vice President, Customer Service
Jerrold P. Pederson,	Vice President and CFO
Rose Marie Ralph,	Assistant Secretary
Kim G. Rowell,	Vice President, Products
Rita H. Spear,	Vice President, Networks
Barbara A. Street,	Assistant Secretary
Daniel J. Sullivan,	Vice President and CIO
Michael E. Zimmerman,	Vice President, Corporate Development

EXHIBIT 4

EXISTING
ORGANIZATIONAL STRUCTURE
OF THE
MONTANA POWER COMPANY

THE MONTANA POWER COMPANY PRIOR TO RESTRUCTURING

(POST-SALE OF OIL AND GAS, IPP AND COAL BUSINESSES AND POST-MERGER OF ENTECH, INC. INTO ENTECH, L.L.C.)

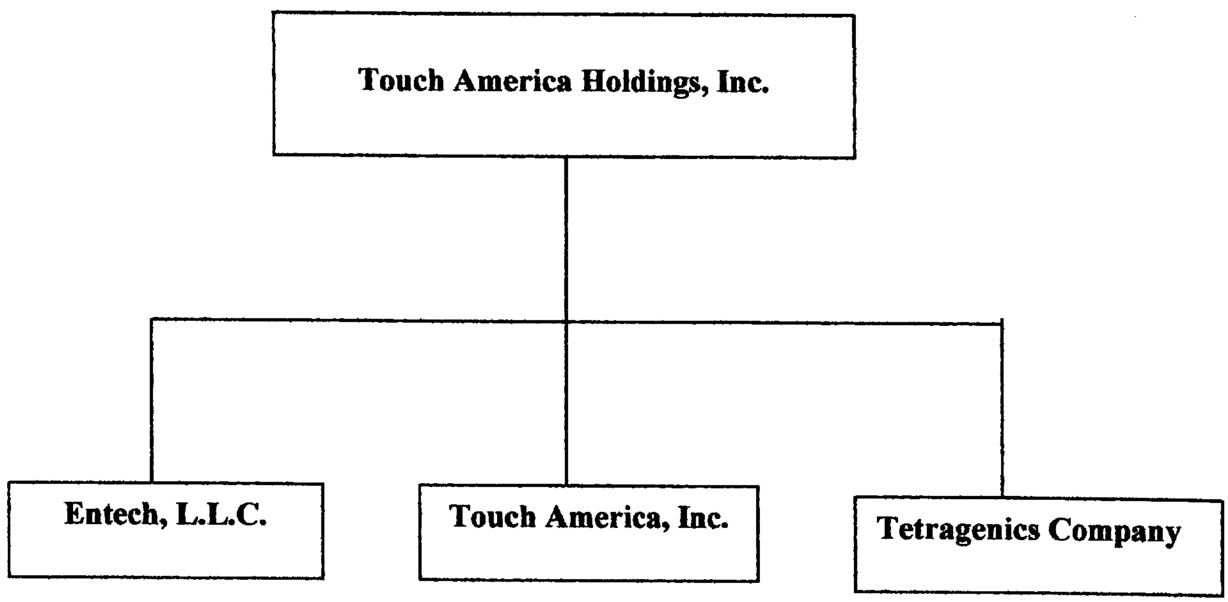


6/11/01

EXHIBIT 5

PROPOSED
ORGANIZATIONAL STRUCTURE
FOR
TOUCH AMERICA HOLDINGS, INC.

TOUCH AMERICA HOLDINGS AFTER COMPLETION OF THE RESTRUCTURING
(After the Sale of Utility Business)



Report on file in
TRA Docket Room.

EXHIBIT 6

2000 ANNUAL REPORT
FOR THE
MONTANA POWER COMPANY

EXHIBIT 7

2000 ANNUAL REPORT
FOR
TOUCH AMERICA, INC.

TOUCHAMERICA®

Annual Report 2000 | TOUCHAMERICA

299792458

TOUCHAMERICA®

Annual Report 2000 | TOUCHAMERICA

TOUCH AMERICA, INC.

TABLE OF CONTENTS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1300 SW Fifth Avenue
Suite 3100
Portland OR 97201-5638
Telephone (503) 478 6000
Facsimile (503) 478 6099

Report of Independent Accountants

To the Board of Directors of
TOUCHAMERICA, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of TOUCHAMERICA, Inc. and its subsidiaries (the Company) at December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of America, 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 our opinion.

As more fully discussed in Note 1 to the financial statements, as of July 1, 1999, the Company changed its method of accounting for revenues relating to certain agreements to grant and exchange fiber-use rights.

PricewaterhouseCoopers LLP

February 21, 2001

TOUCH AMERICA, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31	
	2000	1999
	(Thousands of Dollars)	
Current assets:		
Cash and cash equivalents	$ 3,911	$ 35
Accounts and notes receivable:		
Trade, net of allowance for doubtful accounts	132,110	20,021
Related parties	48,614	4,527
Inventory	1,985	1,870
Current deferred income taxes	955	1,082
Prepaid expenses and other assets	14,095	601
	201,670	28,136
Other assets:		
Investments	30,448	39,690
Intangibles, net of amortization	19,526	-
Prepaid lease	12,036	-
Other	8,052	218
	70,062	39,908
Deferred income taxes	87,953	96,491
Property, plant, and equipment	773,096	242,466
Less – accumulated depreciation and amortization	41,392	21,360
Property, plant, and equipment, net	731,704	221,106
	$1,091,389	$ 385,641

The accompanying notes are an integral part of these financial statements.

TOUCH AMERICA, INC.

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDER'S EQUITY

	December 31	
	2000	1999
	(Thousands of Dollars)	
Current liabilities:		
Accounts and notes payable:		
Trade	$ 137,025	$ 29,241
Related parties	44,661	55,345
Current portion of long-term debt	100,000	-
Income taxes payable	10,476	23,233
Current portion of deferred revenue	25,142	25,479
Other	5,573	157
	322,877	133,455
Deferred revenue and other	200,310	215,359
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	509,654	9,654
Retained earnings, per accompanying statement	58,505	27,130
	568,202	36,827
	$1,091,389	$ 385,641

The accompanying notes are an integral part of these financial statements.

TOUCH AMERICA, INC.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended December 31	
	2000	1999
	(Thousands of Dollars)	
Revenues:		
Revenues from operations	$ 317,790	$ 83,080
Operating expenses:		
Cost of services provided	179,506	37,129
Selling, general, and administrative	64,511	11,708
Depreciation and amortization	22,075	9,046
	266,092	57,883
Income from operations	51,698	25,197
Other income (expense) – net	(1,308)	11,062
Income before income taxes	50,390	36,259
Income taxes	19,015	13,962
Net income	31,375	22,297
Retained earnings, beginning of year	27,130	41,833
Dividends paid	-	(37,000)
Retained earnings, end of year	$ 58,505	$ 27,130

The accompanying notes are an integral part of these financial statements.

TOUCH AMERICA, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31	
	2000	1999
	(Thousands of Dollars)	
Net cash flows from operating activities:		
Net income	$ 31,375	$ 22,297
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	22,075	9,046
Deferred income taxes	8,665	(95,766)
(Earnings) losses from equity investments	4,683	(10,435)
Changes in assets and liabilities:		
Accounts and notes receivable – trade	(112,089)	(13,252)
Accounts and notes receivable – related parties	(44,087)	26,009
Inventory	(115)	(817)
Prepaids and other assets	(13,494)	-
Accounts payable – trade	107,784	23,138
Accounts payable – related parties	(10,684)	(51,706)
Income taxes payable	(12,757)	17,963
Deferred revenue and other	(15,386)	233,368
Other assets and liabilities	(14,454)	390
Net cash provided by (used for) operating activities	(48,484)	160,235
Net cash flows from investing activities:		
Capital expenditures	(552,199)	(115,491)
Investment in partnerships	(7,881)	(26,141)
Distributions from investments	12,440	18,314
Net cash used for investing activities	(547,640)	(123,318)
Net cash flows from financing activities:		
Capital contribution from parent company	500,000	-
Proceeds from long term debt	200,000	-
Retirement of long term debt	(100,000)	-
Dividends paid	-	(37,000)
Net cash provided by (used for) financing activities	600,000	(37,000)
Net increase (decrease) in cash and cash equivalents	3,876	(83)
Cash and cash equivalents, beginning of year	35	118
Cash and cash equivalents, end of year	$ 3,911	$ 35
Supplemental disclosures of cash flow information:		
Cash paid during year for:		
Income taxes	$ 23,107	$ 91,765

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). As a telecommunications transport services company, we are a provider of advanced, integrated communications solutions for businesses. We develop, own, and operate a high-speed fiber optic network spanning 28 states and approximately 18,000 route miles. We also provide wireless services through Personal Communication Services (PCS) and Local Multi-Point Distribution Services (LMDS). On our fiber optic and wireless network, we offer high-speed voice, data, video, and Internet services. We also provide colocation services, lease dark fiber and conduit rights on our network, and offer construction management oversight services for installation of fiber networks. Currently, we serve more than 300,000 customer accounts, including all of the major domestic telecommunications carriers.

On June 30, 2000, we acquired from Qwest Communications International Inc. (Qwest) 250,000 customer accounts. These customers purchase wholesale, private line, long-distance, and other telecommunications services in the former U S WEST fourteen-state region. We also acquired approximately 1,800 route miles of fiber optic network and associated electronics and switches to connect to our then-existing fiber optic network, and 173 sales and sales-support personnel in the fourteen-state region.

We market the following products and services:

- Wholesale Bandwidth Sales and Leasing - We lease OC-192, OC-48, OC-12, OC-3, and DS-3 capacity to both regional and national telecommunications service carriers.

- Dark Fiber and Conduit Rights - We lease rights to use dark fiber (fiber strands not connected to any electronic equipment and related services). We allow lessees of dark-fiber rights to install their own electronic equipment. In addition, when we build a new segment of the network, we generally install spare, empty conduits that we lease to others.

- Private Line Services - This service provides customers with fixed amounts of point-to-point capacity across our fiber optic network. Our private line service constitutes bandwidth sales that are based on DS3-equivalent circuits such as OC-192, OC-48, OC-12, OC-3, DS-3, and DS-1 networks.

- Optical Wave Services - This service provides a customer with exclusive long-term use of a portion of the transmission capacity of a fiber optic strand rather than the entire fiber strand. Purchasers of wavelength services install their own electrical interface, switching, and routing equipment and share the fiber and optical transmission equipment with other optical wave service users.

- Packet-Based Data Services - These services provide efficient transmission for voice, data, video, and Internet networks at variable capacities to connect two or more points. Specific packet-based data services include Asynchronous Transfer Mode (ATM), frame relay, and Internet Protocol (IP) transport services.

- Voice Services - We provide voice-switching capability, allowing customers to originate and terminate both wholesale and retail long-distance traffic on our network.

- Broadband Wireless Services - We hold 25 broadband (28 to 31 GHz spectrum), line-of-sight licenses in nine western states. The areas covered by the licenses follow the fiber optic network routes and are used to provide "last mile" services to connect customers to our fiber optic network.

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

- Colocation Services - We provide space in our colocation facilities for customers to install equipment to connect to their respective networks.

We own a general office building, located in Butte, Montana, which houses executive and administrative offices and a network operating center. We also lease 23 other offices located throughout the United States, including a 20,000-square-foot facility in Missoula, Montana, where we will provide call center customer support services as well as handle customer billing and other functions.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting and Use of Estimates

Our accounting policies and preparation of these financial statements conform with accounting principles generally accepted in the United States of America, 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.

Principles of Consolidation

The consolidated financial statements include our accounts and the accounts of our subsidiaries, all of which are wholly owned. Intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

We consider all liquid investments with original maturities of three months or less as cash equivalents.

Accounts Receivable

Accounts receivables are presented net of allowance for doubtful accounts and sales credits of $10,292,000 in 2000 and $744,000 in 1999. We evaluate and provide for our allowance for doubtful accounts and sales credits based upon a percentage of 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 and partially assembled components. When appropriate, we have made provisions to reduce obsolete or unusable inventory to realizable values.

Property, Plant, and Equipment

We record property, plant, and equipment at cost. We charge maintenance and repairs to costs of services provided 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 network expansions, we record the total costs of construction reduced by reimbursements received, resulting in a net cost of the asset constructed. We record fiber-use rights acquired by exchange (swaps) at the cost of the asset transferred plus cash paid, if any, or, if cash is received, at 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 the straight-line basis over the estimated useful lives of the assets.

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Intangibles

We amortize our intangible assets on the straight-line basis over the estimated useful lives of the assets, between 3 and 5 years. These intangibles resulted from our acquisition of properties on June 30, 2000 and subsequent other disbursements related to that acquisition. The amount shown on the Balance Sheet at December 31, 2000, is net of amortization of $2,043,000. For further information on our acquisition, see Note 4, "Acquisition of Telecommunications Properties."

Asset Impairment

In accordance with Statement of Financial Accounting Standards (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.

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 6, "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 SFAS 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, 2000 and 1999. 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.

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 telecommunication services delivered to customers but not yet billed at month-end. Our telecommunications service revenues are comprised of 1.) network services, which include capacity leasing (wholesale bandwidth and optical wave services), private line, and packet-based data services, and 2.) retail sales, which include commercial and residential voice services (long-distance) and wireless.

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 on the disposition 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 provided to the customer.

We have changed our revenue recognition policy, effective July 1, 1999, with the Financial Accounting Standards Board (FASB) issuance of Interpretation No. 43, "Real Estate Sales," an Interpretation of SFAS No. 66, "Accounting for Sales of Real Estate." 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.

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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 5, "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.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. These changes had no impact on previously reported financial position, results of operations, or cash flows.

Recently Issued Accounting Pronouncements

Staff Accounting Bulletin (SAB) No. 101: "Revenue Recognition in Financial Statements" was issued by the Securities and Exchange Commission in December 1999. We adopted SAB No. 101 effective January 1, 2000.

SAB No. 101 requires, among other things, that particular one-time charges received from customers be recognized as revenues over the period of time that the charges are earned rather than as revenues when assessed or paid. We record receivables for one-time fees on such items as installations and activations. Under SAB No. 101, we recognize these revenues over the period in which they are earned, which coincides with the number of years that those customers are anticipated to be our customers. The one-time charges all are received either from wholesale or commercial customers and, due to the number of transactions, the amounts cannot be segregated into the two customer classes. Under our policy, therefore, we amortize these deferred revenues over the average life of wholesale and commercial customers. We have not deferred any expense for the costs associated with the installations, activations, or subscriber acquisitions.

We have evaluated SAB No. 101, and the cumulative catch-up for its adoption had no material effect on our financial position, results of operations, or cash flows. The adoption of SAB No. 101 affected only our 2000 operations.

SFAS No. 133, No. 137, and No. 138: SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" was issued by the FASB in June 1998. It establishes reporting and accounting standards requiring that all derivative instruments be recorded on an entity's balance sheet as either an asset or liability at fair value. SFAS No. 133 was amended through the release of SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities: Deferral of the Effective Date of FASB Statement No. 133" in July 1999. SFAS No. 137 delayed for one year the effective date of SFAS No. 133, meaning that we are required to adopt SFAS No. 133 on January 1, 2001. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amends some accounting and reporting standards of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." We have reviewed our contracts to evaluate exposure to potential embedded derivatives.

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

We do not anticipate the adoption of SFAS No. 133 to have a material effect on our financial position, results of operations, or cash flows.

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	
	2000	1999
	(Thousands of Dollars)	
TW Wireless, LLC (TWW)	$ 16,075	$ 13,626
FTV Communications, LLC (FTV)	7,063	16,355
Northern Colorado Telecommunications, LLC	3,643	9,276
Sierra Touch America, LLC	2,681	-
American Fiber Touch, LLC (AFT)	509	-
Other investments	477	433
	$ 30,448	$ 39,690

For a detailed discussion regarding the individual investments listed above, see Note 10, "Commitments and Contingencies."

NOTE 3 – PROPERTY, PLANT, AND EQUIPMENT:

The following table provides year-end balances of the major classifications of our property, plant, and equipment, which we record at cost:

	Useful Lives	December 31	
		2000	1999
		(Thousands of Dollars)	
Land	--	$ 705	$ 579
Buildings and structures	30	8,382	3,762
Fiber optic network	20	225,746	48,995
Communications equipment	10	165,425	55,195
Office furniture and computer equipment	3-5	12,102	1,182
Vehicles	3-5	7,035	684
Construction work in progress	--	353,701	132,069
		773,096	242,466
Less: Accumulated depreciation and amortization		41,392	21,360
Property, plant, and equipment, net		$ 731,704	$ 221,106

At December 31, 2000, $125,234,000 related to a 20-year Indefeasible Right-of-Use Agreement (IRU) is included in "Fiber optic network."

Interest is capitalized as part of the cost of constructing our fiber optic network. During the year ended December 31, 2000, the amount of interest capitalized was approximately $3,280,000. During the year ended December 31, 1999, we had no capitalized interest.

NOTE 4 – ACQUISITION OF TELECOMMUNICATIONS PROPERTIES:

On June 30, 2000, in accordance with a previously executed stock purchase agreement, we acquired wholesale, private line, long-distance, and other telecommunications services in the former U S WEST fourteen-state region associated with Qwest's interLATA businesses for approximately $206,000,000, subject to customary closing adjustments. We estimate that our related capital expenditures, mainly to install optronics on new routes, will be an additional $70,000,000. The fourteen-state region covers approximately 250,000 customer accounts for voice, data, and video services. We also acquired a fiber optic network of 1,800 route miles and associated optronics and switches that will connect to our existing fiber optic network. As a result of the acquisition, we retained 173 sales and sales-support personnel in the fourteen-state region.

We accounted for the acquisition using the purchase method of accounting. As a result, we have allocated our cost of the acquisition to the assets acquired and liabilities assumed based on our estimates of their fair values as of the June 30, 2000 acquisition date. Accordingly, we recorded approximately $185,500,000 of property and equipment and approximately $20,500,000 of intangible assets related to this acquisition. We are amortizing the acquired property and equipment and intangible assets over their estimated useful lives on the straight-line basis in accordance with our stated policies.

Subsequent to the June 30, 2000 payment of approximately $206,000,000, we have capitalized an additional $3,100,000 incurred in relation to the above acquisition. Approximately $2,000,000 relates to network provisioning, monitoring and maintenance charges incurred in accordance with the Transition Service Agreement that have been capitalized as property, plant, and equipment. The remaining $1,100,000 relates to additional charges incurred for the assembled workforce.

The following table presents summarized revenues and results of operations for the years ended December 31, 2000 and 1999 on an unaudited, pro forma basis as though this June 30, 2000 acquisition had occurred as of January 1, 1999:

	Pro Forma Consolidated Results of Operations (Unaudited)	
	2000	1999
	(Thousands of Dollars)	
Revenues	$ 472,817	$ 374,333
Net Income from Operations	49,593	52,989

NOTE 5 – INCOME TAXES:

Income taxes charged (credited) to income are as follows:

	Year Ended December 31	
	2000	1999
	(Thousands of Dollars)	
Current		
Federal	$ 9,464	$ 93,560
State	886	16,168
	10,350	109,728
Deferred		
Federal	7,756	(81,403)
State	909	(14,363)
Total deferred	8,665	(95,766)
Total provision	$ 19,015	$ 13,962

NOTE 5 – INCOME TAXES: (CONTINUED)

Deferred income taxes liabilities (assets) are comprised of the following:

	December 31	
	2000	1999
	(Thousands of Dollars)	
Plant – depreciation, amortization, and dispositions	$ 8,828	$ 5,329
Other temporary differences	4,989	3,963
Gross deferred tax liabilities	13,817	9,292
Revenues for tax reporting	(99,594)	(105,080)
Revenues for financial reporting	(2,691)	(965)
Book expenses non-deductible for tax purposes	(440)	(820)
Gross deferred tax assets	(102,725)	(106,865)
Net deferred assets	$ (88,908)	$ (97,573)

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	
	2000	1999
	(Thousands of Dollars)	
Expected income taxes	$ 17,637	$ 12,691
Adjustments for the tax effects of:		
State income taxes net of federal benefit	1,171	1,227
Intangibles	102	-
Other	105	44
Actual income taxes	$ 19,015	$ 13,962

Deferred income taxes consist of the following:

	Year Ended December 31	
	2000	1999
	(Thousands of Dollars)	
Depreciation and amortization	$ 3,499	$ 1,442
Deferred revenues	3,783	(100,993)
Deferred expenses	313	(78)
State taxes	1,070	3,863
	$ 8,665	$ (95,766)

NOTE 6 – DEFERRED REVENUE:

Deferred revenue at December 31, 2000 and 1999 relates primarily to a $257,000,000 prepayment received in January 1999, representing all amounts due for the then remaining initial term (twelve years) of a telecommunications contract for a capacity lease. We are recognizing this revenue ratably over the remaining term of the contract.

NOTE 7 – 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.

NOTE 7 – CONCENTRATION OF CREDIT RISK AND SIGNIFICANT CUSTOMERS: (CONTINUED)

A small number of customers account for a significant amount of our total revenues. For the year ended December 31, 2000, two customers accounted for approximately 24 percent of our total revenues. For the year ended December 31, 1999, we had one significant customer, which represented 24 percent of our total revenues.

NOTE 8 – RETIREMENT PLANS:

Under Montana Power's Pension Plan, we maintain trusteed, noncontributory retirement plans covering approximately one-third of our workforce. Retirement benefits are 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.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets for the years ended December 31, 2000 and 1999, and a statement of the funded status as of December 31, 2000 and 1999, relating to our employees and retirees:

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
	(Thousands of Dollars)			
Change in benefit obligation:				
Benefit obligation, January 1	$ 1,896	$ 2,043	$ 248	$ 246
Service cost on benefits earned	217	236	38	35
Interest cost on projected benefit obligation	157	153	28	19
Assumption changes	93	-	-	-
Actuarial gain (loss)	160	(515)	835	(52)
Transfer	(244)	-	-	-
Gross benefits paid	(2)	(21)	-	-
Benefit obligation, December 31	$ 2,277	$ 1,896	$ 1,149	$ 248
Change in plan assets:				
Fair value of plan assets, January 1	$ 1,435	$ 1,366	$ -	$ -
Actual return on plan assets	(67)	90	-	-
Transfers in	2,641	-	-	-
Transfers out	(2,879)	-	-	-
Gross benefits paid	(2)	(21)	-	-
Fair value of plan assets, December 31	$ 1,128	$ 1,435	$ -	$ -
Reconciliation of funded status:				
Funded status, end of year	$ (1,149)	$ (461)	$ (1,149)	$ (248)
Unrecognized net:				
Actuarial gain (loss)	(320)	(892)	719	(115)
Prior service cost	365	399	23	25
Transition obligation	12	15	51	55
Net amount recognized, December 31	$ (1,092)	$ (939)	$ (356)	$ (283)

NOTE 8 – RETIREMENT PLANS (CONTINUED):

An accrued pension benefit cost of $1,092,000 and $939,000 and an accrued other benefit cost of $356,000 and $283,000 for the years 2000 and 1999, respectively, was 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 2000 and 1999:

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
	(Thousands of Dollars)			
Service cost on benefits earned	$ 217	$ 236	$ 38	$ 35
Interest cost on projected benefit obligation	157	153	28	19
Expected return on plan assets	(104)	(122)	-	-
Amortization of:				
Transition obligation	3	3	4	4
Prior service cost	34	34	2	2
Actuarial gain	(29)	(15)	(2)	(2)
Net periodic benefit cost	$ 278	$ 289	$ 70	$ 58

The following assumptions were used in the determination of actuarial present values of the projected benefit obligations:

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Weighted average assumptions as of December 31:				
Discount rate	7.50%	7.75%	7.50%	7.75%
Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	4.40%	4.40%	4.40%	4.40%

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 1 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	$ 3	$ (2)
Effect on the health care component of the accumulated postretirement benefit obligation	29	(24)

The assumed 2001 health care cost trend rates used to measure the expected cost of benefits covered by the plans is 9.00 percent. The trend rate decreases through 2007 to 5.50 percent.

NOTE 9 – 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	
	2000	1999
	(Thousands of Dollars)	
Accounts and notes receivable – Montana Power	$ 520	$ 211
Accounts and notes receivable – Entech	6,858	1,008
Accounts and notes receivable – FTV Communications, LLC	36	-
Accounts and notes receivable – TW Wireless	3,209	315
Accounts and notes receivable – Iowa Telecommunications Services	-	2,953
Accounts and notes receivable – American Fiber Touch, LLC	6,809	-
Accounts and notes receivable – Sierra Touch America, LLC	474	-
Accounts and notes receivable – Tetragenics	11,492	-
Accounts and notes receivable – Montana Power Services Company	1,838	-
Accounts and notes receivable – Minnesota PCS, LP	17,365	-
Accounts and notes receivable – Other	13	40
	$ 48,614	$ 4,527
Accounts payable – Montana Power	$ 20,881	$ 1,007
Accounts payable – Entech	-	46,404
Accounts payable – Tetragenics	9,124	-
Accounts payable – Northern Colorado Telecommunications, LLC	-	7,772
Accounts and notes payable – Montana Power Services Company	14,656	-
Accounts payable – Other	-	162
	$ 44,661	$ 55,345

Related Party Revenues and Interest Income

During 2000 and 1999, revenues from affiliated companies totaled approximately $13,733,747 and $768,000, respectively. In addition, during 2000 and 1999, we earned approximately $943,865 and $613,000, respectively, of interest income from outstanding notes receivable from affiliated companies.

Related Party Expenses

We receive general and administrative services from Montana Power Services Company, a wholly owned subsidiary of Montana Power. Our direct and allocated expenses incurred for these services were approximately $1,153,000 and $1,995,000 in 2000 and 1999, respectively. We also receive construction and maintenance services from Tetragenics, a wholly owned subsidiary of Entech. The expenses incurred for these services were approximately $10,200,000 and $443,000 in 2000 and 1999, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

COMMITMENTS

Network Expansions

Northern Telecom Inc.: We have contracted with Northern Telecom, Inc. (Nortel) to furnish and install optical electronic equipment on certain of our fiber optic networks. In 2000, we paid approximately $26,400,000 for these installations and will schedule additional payments in 2001 as segments of fiber optic networks under construction are completed. We also entered into an arrangement with Nortel for an estimated $70,000,000 of installations of Nortel's optical electronic equipment related to our June 30, 2000 acquisition of telecommunications properties, discussed in Note 4, "Acquisition of Telecommunications Properties." At December 31, 2000, we had paid approximately $48,900,000 of the estimated $70,000,000 installation cost.

AT&T Corp: In October 1999, we entered into a contract with AT&T Corp (AT&T) to expand both of our networks with the installation of a high-speed, fiber optic network. The contract allows us to install our own fiber optic network at the same time and along the same routes we are installing 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, completion target dates. All routes are scheduled for completion by year-end 2001. The cost of the project is estimated at $488,000,000, of which approximately $205,000,000 was expended in 2000 and $283,000,000 is projected for 2001. 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.

Cisco Systems, Inc.: In November 2000, we contracted with Cisco Systems, Inc. (Cisco) to install computer equipment at 7 Points of Presence (POPs) on our fiber optic networks in the western United States. This equipment will allow us to sell IP at those sites. We expect completion of the installations within the second quarter 2001, and will pay Cisco $6,400,000 upon completion.

Adesta Communications, Inc. and Chicago Transit Authority: In July 2000, we entered into two separate agreements involving a route from Minneapolis to Chicago. This route makes up 500 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:

> ***Adesta Communications, Inc.:*** An agreement with Adesta Communications, Inc. gives us the exclusive and indefeasible right to use up to 6 ducts along routes totaling approximately 151 miles within metropolitan Chicago for 24 years, with an option to renew for an additional 20 years at then-existing market rates. We agreed to pay $16,000,000 for these rights, of which $14,000,000 has been paid through December 2000. This amount has been recorded within Construction Work in Progress on the Balance Sheet. Annual maintenance fees are expected to be approximately $200,000.
>
> ***Chicago Transit Authority:*** An agreement with the Chicago Transit Authority gives us an exclusive and indefeasible right to use 6 ducts along an approximately 18-mile route within metropolitan Chicago for 22 years, with an option to renew upon the mutual agreement of the parties. We will pay $9,000,000 for these rights, of which $8,200,000 has been paid through December 2000. We have recorded this amount within Construction Work in Progress on the Balance Sheet. Annual maintenance fees are expected to be approximately $45,000.

Investments

We have entered into strategic alliances to expand our network and increase our revenues. In accordance with the agreements governing these relationships, we are committed to contribute capital at various times.

NOTE 10 – COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Sierra Touch America, LLC: In May 2000, we and Sierra Pacific Communications, LLC, a subsidiary of Sierra Pacific Resources, formed a 50-50 joint venture, named Sierra Touch America, LLC, 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 the construction of a fiber optic network for AT&T. Sierra Touch America has begun construction of this route and expects to complete the route in mid-2001 at an estimated cost of $100,000,000. We will purchase 4 of the 6 conduits of the network from Sierra Touch America and then sell 3 to AT&T and exchange another with an independent party. Sierra Touch America, LLC will retain ownership of the remaining 2 conduits, of which each partner will have an equal share. At year-end 2000, we and Sierra Pacific Communications each contributed $2,675,000 to the joint venture, and we paid Sierra Touch America $10,000,000 toward the purchase of the 4 conduits. We have recorded the $10,000,000 payment as Construction Work in Progress on the Balance Sheet. The terms of the joint venture agreement give Sierra Touch America a partial interest in the metropolitan fiber networks that Sierra Pacific Communications operates in Reno and Las Vegas.

American Fiber Touch, LLC: In January 2000, we and AEP Communications LLC, a subsidiary of American Electric Power, formed a 50-50 joint venture named American Fiber Touch, LLC (AFT) to connect national and regional fiber optic networks between Plano, Illinois and St. Louis, Missouri. This network will make up 296 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 discussed above. AFT has begun construction of the Plano-St. Louis route and expects to complete it in the second quarter 2001 at an estimated cost of $43,000,000. At year-end 2000, we had advanced $6,950,000 for construction costs, and plan to contribute $14,600,000 in 2001.

Northern Colorado Telecommunications, LLC: In August 1999, we and Xcel (formerly New Century Energies or NCE) formed a 50-50 joint venture called Northern Colorado Telecommunications, LLC to provide a full range of telecommunication services, including private-line service, to enterprises in the Denver metropolitan area. For the venture, Xcel contributed long-term indefeasible rights-of-use of its existing fiber optic network in the Denver metropolitan area; we will construct six miles of fiber optic cable and install optical electronic equipment at an estimated cost of $10,000,000. Since the project's inception, we have contributed $3,800,000 and plan to contribute $4,500,000 in 2001 and $500,000 in both 2002 and 2003.

TW Wireless (TWW): In August 1999, we and Qwest Wireless (formerly known as U S West Wireless) entered into a 49.9-50.1 joint venture, TW Wireless, 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. Both companies contributed PCS licenses to the venture. To date, we have contributed approximately $20,700,000 toward the costs of the wireless infrastructure and estimate that we will contribute an additional total of $35,800,000 more in 2001 through 2003.

FTV Communications, LLC: In November 1999, FTV Communications LLC (FTV), the limited liability company formed by us, 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 the second quarter 2001, and our share of the costs is approximately $3,800,000.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED):

Minnesota PCS, LP: In January 2000, we 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, we made an initial equity investment of $2,700,000 in MPCS and in August 2000 loaned MPCS $12,000,000 in interest-bearing notes due on October 1, 2002. From October through December 2000, we loaned an additional $4,375,000 to MPCS to cover network construction and operating costs. We have recorded the loaned amounts as notes receivable and the equity contribution within Investments on the Balance Sheet. As of December 31, 2000, our investment balance had been reduced to zero due to operating losses incurred throughout the year. We also have guaranteed the payment of $7,420,000 in loans made to MPCS through 2007.

Iowa Telecommunications Services: In June 1999, we and Iowa Network Services, Inc. (INS) formed Iowa Telecommunications Services, Inc. (ITS) to purchase from a third party domestic access lines connected to telephone exchanges in Iowa. However, because the organizational and capital structure of ITS did not fit our growth strategy, we exited from our equity position in ITS in April 2000 for our investment balance, resulting in no gain or loss being recorded. Under the terms of the exit agreement:

- We sold our 31 percent interest in ITS to INS, and INS released us from our share of the ITS obligations;
- Upon the closing of the third-party purchase transaction, which occurred on June 30, 2000, INS reimbursed us approximately $7,600,000 for our cash outlays to ITS, with interest on the funds extended; and
- We withdrew our $14,000,000 letter of credit from ITS upon the closing of the third-party purchase transaction.

Exchanges

Williams Communications: In March 2000, we and Williams Communications, Inc. agreed to an exchange of fiber and cash to expand both companies' fiber optic networks. We received 24 fibers on a 1,053-mile route and $650,000 in exchange for 24 fibers on a 1,213-mile route. This exchange will expand our network from Denver to Kansas City, Missouri to Des Moines to Minneapolis. Construction of the route was completed and the routes were exchanged in the first quarter 2001.

Leases

Velocita: In January 2000, we entered into a Reciprocal IRU Lease and Exchange Option Agreement with Velocita (formerly known as PF.Net). This agreement is a 20-year IRU lease with an option to exchange the leased property at a future date. Under the agreement, we will lease approximately 5,900 route miles from Velocita and Velocita will lease approximately 4,400 miles of fiber from us. Prior to commencement of the lease, we will prepay $48,500,000 for the difference in route miles. The prepayment will be amortized to expense over the 20-year lease term. As of December 31, 2000, approximately $12,000,000 had been paid and we have recorded this amount as prepaid lease on the Balance Sheet.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED):

Other: We have also entered into operating lease agreements for private-line, long-distance, local-access, and other equipment services, as well as office space, with varying termination dates. Total rent expense incurred during 2000 and 1999 was $1,303,000 and $776,000 respectively.

At December 31, 2000, the total minimum annual rental commitment under these leases were as follows:

	Minimum Annual Rental Payment (Thousands of Dollars)
2001	$ 4,421
2002	4,580
2003	4,212
2004	3,763
2005	3,252
Thereafter	14,631

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 11– LONG TERM DEBT:

On November 8, 2000, we entered into a $400,000,000 5-year Senior Secured Credit Facility. The loan facility consists of a $200,000,000 term loan and $200,000,000 revolver, either of which we may use for short- or long-term borrowing. At December 31, 2000, there was $100,000,000 outstanding under the term loan. Because the term loan must be prepaid and permanently reduced under certain conditions, one of which is the sale of Montana Power's remaining energy businesses, the amount has been classified as due within one year on the Balance Sheet. The sale of one of the energy businesses (Continental Energy Services) in February of 2001 required us to pay down $27,600,000 on March 8, 2001. With this repayment, the term loan portion of the facility is permanently reduced from $200,000,000 to $172,400,000. Under this facility, interest is assessed against outstanding balances at a variable rate based on our credit rating and the London Interbank Offered Rate. At December 31, 2000, the rate was 9.5 percent. Annual commitment fees are based on the amount of loans outstanding, and at December 31, 2000, these commitment fees were 1.0 percent on the unused revolver and 0.75 percent on the unused portion of the term loan.

We additionally have a capital lease obligation for our lease of the Hennessy Building in Butte, Montana. As the total remaining amount of $1,300,000 is due within one year, we have recorded this on the Balance Sheet as a current liability.

NOTE 12 – EQUITY:

During the year ended December 31, 2000, we received from our parent company, Entech, a capital contribution of $500,000,000. We have recorded this amount within the Additional Paid-In Capital component of Shareholder's Equity.

NOTE 13 – SUBSEQUENT EVENTS:

Siemens Carrier Networks, LLC: In February 2001, we contracted Siemens Carrier Networks, LLC (Siemens) to implement a new provisioning, order entry, and billing system, which we anticipate completing in mid-year 2001. We expect to pay Siemens $7,500,000 for implementation costs and approximately $1,300,000 for maintenance costs in 2001.