Service Date: May 1, 1998

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF MONTANA POWER COMPANY, Application for Financing Order Authorizing Transition Bonds for Recovery of Gas Utility Transition Costs Approved in Docket No. D96.2.22, Order No. 5898d	)))))	UTILITY DIVISION DOCKET NO. D97.11.219 ORDER NO. 6035a

FINAL ORDER / FINANCING ORDER

BACKGROUND

On November 17, 1997, The Montana Power Company (Applicant), a corporation organized and existing under the laws of the State of Montana, filed with the Montana Public Service Commission (Commission), its application pursuant to §§ 69-8-503, 69-8-103, and 69-3-1403, Montana Code Annotated (1997) (MCA), requesting the Commission to issue a financing order (Financing Order) authorizing the issuance of Transition Bonds for the recovery of the Transition Costs allowed in Docket No. D96.2.22, Order No. 5898d, issued on October 31, 1997 (Final Order).

The timing and issuance of Transition Bonds is an integral component of Stipulation Agreement #3, dated May 6, 1997, which has been approved by this Commission in the Final Order and became effective on Applicant's gas transportation system on November 1, 1997. Applicant's Rate Schedules CTC-GP-1 and CTC-RA-1 are the tariffs under which the Transition Costs allowed in the Final Order will be recovered. Because § 69-8-503(1), MCA, requires costs saving associated with and resulting from a Transition Bond financing to benefit customers, and because § 69-3-1403, MCA, gives the Applicant the opportunity to finance fixed Transition Costs using Transition Cost financing, Applicant agreed to pass the cost savings of the Transition Bond financing to ratepayers, upon the effective date of the Final Order, in advance of the financing. The rate schedules are currently based on the assumption that the Transition Costs will be financed pursuant to Transition Bond financing at an interest rate of 8%, which was used to estimate a total cost, including all associated costs and expenses. Since the rate schedules assume 100% debt financing with a cost of capital which is less than the Applicant's current overall cost of capital, customers are currently receiving the anticipated benefits of the Transition Bond financing in the form of rates which are lower than the rates which would otherwise be in effect.

The 1997 Montana Legislature demonstrated its support for the collection of Transition Costs and issuance of Transition Bonds in SB 396, the "Natural Gas Utility Restructuring and Customer Choice Act" and SB 390, the "Electric Utility Restructuring and Customer Choice Act," now codified at §§ 69-3-1401 through 69-3-1409, MCA, and §§ 69-8-101 through 69-8-503, MCA, respectively. The Natural Gas Utility Restructuring and Customer Choice Act, provides, in pertinent part:

> 69-3-1403. Customer choice.
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> (2) If a customer choice offering results in transition costs, the commission may allow those transition costs to be recovered in separate identifiable charges to customers. Upon commission approval, the natural gas utility must have the opportunity but not the obligation to finance the fixed transition costs and related

financing costs using transition cost financing as provided for in 69-8-103 and 69-8-503.

The Final Order establishes stranded costs, defined as Transition Costs in § 69-3-1402(9), MCA, resulting from regulatory assets in the amount of $ 25.7 million (as adjusted to update the regulatory assets amounts as of November 1, 1997 in the Applicant's Compliance Filing in Docket No. D96.2.22) and for out-of-market gathering and production costs in the amount of $33.8 million (as adjusted to update for the Applicant's Bearpaw sale and North Lake sale[1] in Applicant's Compliance Filing in Docket No. D96.2.22). These Transition Costs will be recovered through Applicant's Rate Schedules CTC-RA-1 (regulatory assets) and CTC-GP-1 (gathering and production). Rate Schedules CTC-GP-1 and CTC-RA-1 will be effective for fifteen years from November 1, 1997, the effective date of the Final Order. Upon issuance of this Financing Order, the Rate Schedules CTC-RA-1 and CTC-GP-1 will reflect fixed transition amounts (FTA), as defined in § 69-8-103(11), MCA, and include the Transition Costs and the costs of "recovering, reimbursing, financing, or refinancing" the Transition Costs, and acquiring Transition Property, including the costs of "issuing, servicing, and retiring transition bonds," as contemplated by Stipulation Agreement #3, approved in the Final Order.

The CTC-GP-1 will be paid by all present core customers and customers who converted to transportation after September 1, 1993, and those core customers who convert or have converted to transportation service after December 31, 1996. Noncore customers that began

[1] The "Bearpaw" sale and the "North Lake" sale are sales of certain utility ratebased property, located in Montana, that would have been transferred to The Montana Power Supply Division with other production property, pursuant to the Final Order, if they had been sold. The proceeds from the sales, which took place in 1997, will be treated as provided for in Section 3 of Stipulation Agreement #3.

transportation before September 1, 1993, and new customers, connecting since November 1, 1991, not previously Applicant customers, that have annual usage of 60,000 MMBTUs or greater will not be required to pay any part of the CTC-GP-1.

All customers will pay the CTC-RA-1 except: (i) Conoco, Inc.; (ii) Cenex, Inc.; and (iii) new customers who were connected to Applicant's transmission or distribution systems after December 31, 1996, with annual loads of 5,000 Dekatherms or greater.

Stipulation Agreement #3, approved in the Final Order, provides that certain proceeds, if any, as described therein, from the sale of the production property, transferred out of utility rate base, shall offset Rate Schedule CTC-GP-1. In accordance with § 69-8-503, MCA, once the Transition Bonds have been issued, the Commission may not rescind or amend the Financing Order. Therefore, customers must receive the credit for a property sale via a mechanism other than adjusting Rate Schedule CTC-GP-1. Applicant proposes that the proceeds from such a sale that would otherwise offset Rate Schedule CTC-GP-1 be flowed through to customers that pay Rate Schedule CTC-GP-1 via a separate credit rate schedule that would benefit those customers. Such a rate would be established when and if such a sale and resulting net proceeds occur. Such a credit rate would reduce charges otherwise payable to Applicant but could not be applied by customers to reduce amounts payable under Rate Schedules CTC-GP-1 or CTC-RA-1.

TRANSITION BOND ISSUANCE

Proposed Structure of the Transition Bond Transaction

Applicant has provided a general description of the transaction structure in its application. This proposed structure is subject to modification, depending upon marketing of the Transition Bonds and negotiations with the nationally recognized credit rating agencies, which will be asked to rate the Transition Bonds. The final structure will be determined by the Special Purpose Entity (SPE, discussed below) at the time the Transition Bonds are marketed and after input from the rating agencies, the Internal Revenue Service (IRS), and the underwriters.

As described in Applicant's application, the principal asset to be used to support the Transition Bonds is the Transition Property. Applicant will form a SPE, a bankruptcy-remote business entity, wholly-owned by Applicant, and will contribute equity (expected to be approximately 0.50% of the aggregate principal amount of the Transition Bonds to be issued) to the SPE. The Transition Property will be sold by Applicant to the SPE.

The SPE will issue Transition Bonds secured by the Transition Property, the initial equity contribution to the SPE and certain other collateral. Proceeds from the issuance of the Transition Bonds will be paid by the SPE to Applicant in exchange for the Transition Property.

Timing of Transaction

Issuance of the Transition Bonds, which may be in one or more series, is expected to commence as soon as practicable after Applicant's receipt of this Financing Order.

Issuance Costs

In accordance with § 69-8-103(11), MCA, "the costs of recovering, reimbursing, financing, or refinancing the transition costs and acquiring transition property through a plan approved by the Commission in the financing order, including the costs of issuing, servicing, and retiring transition bonds" are recoverable through the FTA charges. Thus, Applicant proposes to finance such costs by the issuance of Transition Bonds. Applicant estimates the issuance costs associated with the transaction to be approximately $2.2 million. These costs include underwriters fees and expenses, legal fees, rating agency fees, accounting fees, trustees fees, printing fees, and miscellaneous costs. These costs will be recovered in the Transition Bonds transaction and will be paid out of the proceeds of the issuance of the Transition Bonds, or to the extent prior payment is required, will be paid by Applicant and reimbursed through the proceeds of the Transition Bonds.

Ongoing Transaction Costs

The primary ongoing transaction cost will be the servicing fee paid to Applicant or a substitute servicer for servicing the Transition Bonds. In order to support the SPE's legal status as a separate entity from Applicant, the servicing fee paid to Applicant, as servicer, must be market-based. The servicing fee will be a part of the servicing agreement and will be included in the determination of the FTA charges.

The full amount of the market-based servicing fee will be included in the FTA charges. However, as long as Applicant is servicer, Applicant proposes a ratemaking mechanism that will provide a credit to ratepayers equal in value to any amounts it receives as compensation, since these servicing costs will generally be included in the Applicant's overall cost of service. Such a credit would reduce charges otherwise payable to Applicant but could not be applied by a customer to reduce amounts payable under Rate Schedules CTC-GP-1 or CTC-RA-1. Applicant proposes to adjust this credit in annual adjustments that may take place at the same time as the annual FTA true-up adjustment. As long as current costs, such as billing and metering costs, remain in ratebase, the servicing fee will not have an impact on rates. However, in the event that, as a result of a future revenues requirements docket, these servicing costs are not recovered in regulated rates, Applicant proposes to recover those costs from revenues received from the servicing fee, thus reducing or eliminating the credit to ratepayers. Servicing costs include the amounts needed to cover incremental, out-of-pocket costs and expenses incurred by Applicant to service the Transition Bonds. These types of expenses would include, but not be limited to, required audits related to Applicant's role as servicer, and legal and accounting fees related to the servicing obligation.

Additional ongoing costs associated with the Transition Bond transaction will include trustees fees, rating agency fees, and other administrative costs. These costs will also be recovered through the FTA charges.

FTA Charges

Following the pricing, Applicant will file an Issuance Advice Letter with the Commission, which will set forth the actual terms of the Transition Bonds and the resulting adjustments to Rate Schedules CTC-GP-1 and CTC-RA-1 (which will be the initial FTA charges). The Issuance Advice Letter and the FTA charges set forth therein will automatically take effect five days after filing without further Commission consideration unless the resulting FTA charges are beyond the variance of estimated amounts disclosed in Appendix A of the Application.

The charges under Rate Schedules CTC-GP-1 and CTC-RA-1 became effective on November 1, 1997 and will be in place for fifteen years from that date.

Applicant, as servicer (or any successor servicer (Successor Servicer)), will remit FTA charges to a Trustee appointed under an indenture or similar agreement in connection with the related Transition Property. The Trustee will deposit these remittances to a collection account. The Trustee will release money from the collection account, or one or more subaccounts of the collection account, to pay servicing compensation and the other SPE and Trustee expenses, as well as accrued interest and principal in respect of the Transition Bonds.

FTA charges will be set at a level sufficient to service scheduled interest and principal on the Transition Bonds, in accordance with the amortization schedule for the Transition Bonds determined at the time of issuance, plus an overcollateralization amount as well as related financing costs and fees, including servicing fees, based on assumptions including sales forecasts, charge-offs, and lags between FTA charge billing and collection. The FTA charges shall remain in effect until the earlier of (i) the date on which all interest on and principal of the Transition Bonds has been paid in full and (ii) the date on which Applicant is no longer entitled to levy and collect FTA charges.

FTA Charge True-Up Mechanism

In addition to the debt service on the Transition Bonds, the FTA charges will include servicing fees and other ongoing costs associated with the Transition Bond Transaction. Although this Financing Order and the designated FTA charges are irrevocable, §§ 69-8-503(2)(b) and 69-8-503(5), MCA, require the Commission to approve an FTA True-up Mechanism which will allow for adjustment of the FTA charges at least annually. This true-up mechanism will allow the FTA charges to be periodically adjusted to ensure that the Transition Bonds are repaid in a timely manner and in accordance with the proposed payment schedule, regardless of any variations that would otherwise affect the collection of FTA charges and thereby cause the actual amortization of the Transition Bonds to diverge from the scheduled amortization. The design and implementation of the FTA True-up Mechanism is critical to the rating agencies in their determination of the reliability and adequacy of debt service payments. The allowed frequency of FTA charges adjustments, as well as the timely Commission review and approval of true-up filings, will be important factors in the rating agencies' evaluation of the credit quality of the Transition Bonds. Applicant has requested that the Commission approve the FTA True-up Mechanism described below.

On each anniversary date of the issuance of this Financing Order, the Commission shall provide for adjustments, if required, to be approved within 60 days of the anniversary date. In order to determine whether or not an FTA charge adjustment is required in a subsequent period, the Applicant shall submit an FTA True-up Filing to the Commission during the month following the anniversary date of this Financing Order. The True-up filing will be submitted within the month following the anniversary date in order to allow the Commission to meet the 60 day requirement.

During each twelve month period, the Applicant will track the respective collections of the FTA charges and determine the level of actual collections to targeted collections differences. To the extent the actual collections of FTA charges are greater or less than the amounts needed to satisfy scheduled debt service payments on the Transition Bonds, related costs and any required amount of overcollateralization, the differences will be accumulated for treatment in the subsequent period. Discrepancy between actual collections of the FTA charges and targeted level of collections could arise from a number of causes, including, for example, actual dekatherm usage differing from estimated dekatherm usage, servicer defaults, unexpected losses due to weather or load loss, or changes in administrative fees and expenses.

For example, assuming an anniversary date of May 1, 1998, the Applicant would submit its first annual true-up filing during the month of May, 1999. In this example, the initial tracking period would cover the period May, 1998 through April, 1999. The adjusted FTA charges would become effective, at the latest, on July 1, 1999. The cycle would be repeated starting May 1st of each year. Because each annual true-up to the FTA charges will lag the preceding period by as much as 60 days, subsequent periods will also have to account for and true-up any differences associated with the lag period. As such, the initial period's FTA charges will be effective for up to 14 months and each subsequent period's FTA charges will be effective for 12 months (subject in each case to possible interim adjustment as described below).

Each annual FTA True-up Filing adjustment will be handled as a uniform percentage adjustment to the then-current FTA charges using a forecast market for the subsequent period the charges will be effective. This will assist in ensuring that the amount requested for adjustment most closely matches the period in which charges will be in effect.

While § 69-8-503(5), MCA, requires annual FTA True-up Filings at a minimum, the statute contemplates that additional, more timely adjustments may be requested as necessary. Given that the Applicant will be tracking FTA charges collections on a daily basis, it will be able to determine if a significant difference is developing between actual and projected collections of FTA charges that requires a more timely true-up request to the Commission. The Commission hereby authorizes the implementation of a quarterly True-Up filing to be used only if actual debt service payments fluctuate more than a specified percent (which is expected to be approximately 2%) from scheduled debt service payments, so that the FTA charges can be routinely adjusted to better match the scheduled payments on the Transition Bonds. Such specified percentage will be determined upon consultation will the rating agencies and the IRS at the time the Transition Bonds are priced and will be specified in the Issuance Advice Letter. If, upon quarterly review, the threshold is reached, the Applicant may file an FTA True-up Filing no later than 15 days before the end of the next quarter to make the foregoing adjustment to the FTA charges. The revised FTA charges will be effective on the first day of the following quarter without further Commission action since the Commission will have the opportunity to review the FTA adjustments in connection with each annual adjustment.

The Commission hereby authorizes the use of non-routine FTA True-up Filings, as necessary, to be filed when necessary and implemented by the Commission as soon as possible but not later than the first day of the next quarter. Non-routine filings would be used in the event of an unusual situation, such as the loss of a major customer, abnormal weather conditions or economic crisis, or if the models used to establish FTA charges no longer accurately calculate such charges, which may require an adjustment to the FTA charges.

In the final FTA charges period (the last year), it may be necessary to make FTA charges adjustments more frequently than quarterly in order to redeem the Transition Bonds and extinguish the FTA charges in an orderly fashion.

This true-up mechanism is similar in form to the Applicant's annual Gas Cost Tracking Filings.

Transition Property

Transition Property is contemplated to be transferred to an SPE, bankruptcy-remote from Applicant, which then will issue the Transition Bonds. These structural elements are expected to enable the Transition Bonds to receive a credit rating superior to Applicant's. The Transition Property used to secure the Transition Bonds will be a property right created by §§ 69-8-103(24) and 69-8-503(6), MCA. Thus, the Commission finds that upon the effective date of the Issuance Advice Letter associated with the Financing Order, all of the Transition Property constitutes a current property right and shall thereafter continuously exist as a property right for all purposes. The Transition Property shall, without limitation, include (1) the right, title and interest in and to the FTA charges, approved in this Financing Order, as adjusted in the Issuance Advice Letter to reflect the issuance of the Transition Bonds and as thereafter adjusted from time to time, (2) the right to be paid the total amounts of the Transition Costs allowed in the Final Order, (3) the right, title and interest in and to all revenues, collections, claims, payments, money, or proceeds of or arising from the FTA charges, and (4) all rights to obtain adjustments to such FTA charges under the FTA True-Up Mechanism.

In addition, the Commission finds that the owner of the Transition Property is entitled to recover Fixed Transition Amounts charges in the aggregate amount equal to the principal amount of the Transition Bonds, plus interest payable on such principal amount, plus, to the extent not otherwise included in the principal amount of the Transition Bonds, reasonably incurred issuance costs, taxes (if any), debt and equity retirement and buyback premiums, costs of credit enhancements and ongoing transaction costs until such amounts have been paid in full or earlier if the FTA charges collection period expires.

Sale of Transition Property to the SPE

The Commission approves the sale by Applicant in one or more transactions of the Transition Property identified herein and in the Final Order to the SPE. Upon the sale of the Transition Property to the SPE, the SPE will have all the rights originally held by Applicant with respect to the Transition Property, including, without limitation, the right to exercise any and all rights and remedies to collect any amounts payable by any customer in respect of the Transition Property, notwithstanding any objection or direction to the contrary by Applicant, and any payment by any such customer to the SPE shall discharge the customer's obligations in respect of such Transition Property to the extent of the payment, notwithstanding any objection or direction to the contrary by Applicant.

Issuance of Transition Bonds

The Commission approves the pledge by the SPE to a trustee or representative of the holders of the Transition Bonds, of the Transition Property to secure the SPE's obligations pursuant to the financing of the Transition Bonds.

Prevention of FTA Charge Bypass

A person or entity which was a customer otherwise liable to pay FTA charges is required to pay its share of the established FTA charges if it remains physically located within the historical service territory of Applicant and continues to use natural gas but bypasses Applicant's transmission or distribution system. In the event of bypass, each such former customer is required to continue to pay on an ongoing basis the applicable FTA charge based on the last twelve months of such former customer's recorded pre-departure usage for as long as the FTA charges are in effect.

Ratepayer Benefits

Because § 69-8-503(l), MCA, requires costs saving associated with and resulting from a Transition Bond financing to benefit customers, and because § 69-3-1403, MCA, gives the natural gas utility the opportunity to finance fixed Transition Costs using Transition Cost financing, Applicant agreed to pass the cost savings of Transition Bond financing to ratepayers, upon the effective date of the Final Order, in advance of the financing. The rate schedules are currently based on the assumption that the Transition Costs will be financed pursuant to Transition Bond financing at an interest rate of 8%, which was used to estimate a total cost, including all associated costs and expenses. Since the rate schedules assume 100% debt financing with a cost of capital which is less than the Applicant's current overall cost of capital, customers are currently receiving the anticipated benefits of the Transition Bond financing in the form of the rates which are lower than the rates which would otherwise be in effect.

Related Issues

As Applicant describes in its application, there are several related issues that have a potentially significant impact on the Transition Bonds transaction. The following sections of this Financing Order discuss those issues.

Tax Considerations

The possibility that the IRS would assess income taxes when Applicant receives the initial proceeds from the Transition Bonds, rather than when FTA charge revenues are collected, is a risk associated with financing the transition costs. In addition to having tax consequences, the economics of issuing the Transition Bonds would be adversely affected if Applicant's income tax payments associated with the FTA charges were to be accelerated and become due when the Transition Bonds are issued rather than when FTA charges are collected.

As a result, Applicant has submitted a ruling request to the IRS seeking confirmation that (1) the Transition Bonds will be treated as debt of the utility for federal income tax purposes, and (2) the FTA charges will be included in Applicant's gross income in the year in which the related service is provided to customers and not at the time of debt issuance.

If the receipt of Transition Bonds proceeds yields current income taxation of those proceeds, the benefits of the financing transaction assumed in Stipulation Agreement #3 would be substantially reduced. Should the IRS choose not to provide a ruling or rule adversely, Applicant would have to reassess the transaction and, if possible, modify it to reduce the risk of current taxation. If the structure of the transaction changes beyond the bounds contemplated in its Application or this Financing Order, Applicant will take appropriate steps to modify its request with the Commission.

Financial Accounting

The amount financed will be recorded as debt of the SPE for financial reporting purposes. Applicant, the SPE and the holders of the Transition Bonds will expressly agree pursuant to the terms of the applicable documents to treat the Transition Bonds as debt of the SPE secured by, among other things, the Transition Property, the equity of the SPE and certain other collateral for all purposes. Because the SPE is consolidated with Applicant for financial reporting purposes, the amounts financed will appear as debt in Applicant's consolidated financial statements. This is not expected to impact Applicant's corporate credit ratings, as it is expected that the rating agencies will determine that the Transition Bonds, which are not supported by Applicant's general revenue stream, do not affect Applicant's creditworthiness.

Credit Rating Agency Considerations

True-Sale Opinion

Credit rating agencies will require an acceptable opinion of bankruptcy counsel at the time the Transition Bonds are issued for assurance that the Transition Property transferred from Applicant to the SPE is a "true sale" for bankruptcy purposes and that, in the event of a bankruptcy of the Applicant, the bankruptcy court should not treat the Applicant and the SPE as a single consolidated entity.

Section 69-8-503(16), MCA, expressly provides that certain transfers of Transition Property approved in a financing order and intended by the parties to constitute absolute transfers or true sales shall be so treated for all purposes, subject to certain limited exceptions.

In furtherance of this true-sale analysis, Applicant envisions that it will give sufficient notice to third parties that the Transition Property is owned by the SPE and is not available to creditors of Applicant by, among other things, including FTA charges as a separate line item on customers' bills as authorized by this decision.

Allocation of Collection Shortfalls

In order to preserve the bankruptcy-remote status of the Transition Property once it is transferred to the SPE, Applicant cannot have any claim on the FTA charges. In particular, if Applicant collects less than the full amount that is billed to customers, it cannot favor itself over the owner of the Transition Property. It must be allocated on a pro rata basis, or as otherwise required by the rating agencies, to the rate schedule components of the customers' bills, including the FTA charges, up to the full amounts owing on such non-commodity components, and thereafter any remaining revenues shall be allocated to the commodity component of the customers' bills, to the extent that Applicant bills customers for the commodity component.

Credit Enhancement

Additional credit enhancement for the Transition Bonds in the form of overcollateralization is expected to be required by the rating agencies and may be required by the IRS as a condition to giving a favorable tax ruling to the Applicant. The purpose of the overcollateralization amount is to provide security to investors and to enhance the credit rating of the Transition Bonds by providing an additional financed amount to cover shortfalls in FTA charge collection payments to the Trustee. In other words, the FTA charges will be set to collect an amount slightly in excess of the payments required to amortize the Transition Bonds as scheduled. Overcollateralization thus provides further assurance that holders of Transition Bonds will receive all principal and interest in a manner consistent with the ratings on the Transition Bonds. The rating agencies, the IRS, and the SPE will determine the amount of needed overcollateralization, although such amount is expected to represent 0.50% of the initial principal amount of the Transition Bonds. The overcollateralization amount will be sized by the rating agencies based on the application of assumptions which are consistent with the desired rating of the transaction and which include Applicant's expected level of delinquencies, losses and usage volatility and may also reflect requirements imposed by the IRS as a condition to granting a favorable tax ruling. The Commission authorizes the FTA charges to include overcollateralization amounts as the rating agencies, the IRS, and the SPE determine to be necessary. Such overcollateralization amount will be included in the Issuance Advice Letter. Upon the retirement of the Transition Bonds, the Commission shall determine the extent, if any, to which customers should be given a credit in future rates for any such overcollateralization amount which remains after payment of the Transition Bonds and related costs in full.

Other forms of credit enhancement customary for securitization transactions may also be used. Such credit enhancement may include, but is not limited to, cash reserve accounts or a liquidity facility provided by one or more qualified institution or institutions. Any such liquidity facility would also be secured by the collateral for the Transition Bonds. If determined to be cost-effective and if required by rating agencies, such enhancements would be implemented at the time the Transition Bonds are issued.

Sequestration

Consistent with § 69-8-503(15), MCA, the Commission agrees that, in the event of a default by Applicant in payment of the FTA charges to the SPE, the Commission will, upon application by the Trustee, order the sequestration and payment to the SPE, or such other party as designated by the Trustee, of revenues arising with respect to the Transition Property. This will provide additional certainty that the FTA charges will benefit the owner of the transition property, and should serve to enhance the credit quality of Transition Bonds.

Servicing

To the extent that any interest in Transition Property is sold or assigned or is so pledged as collateral, the Commission is required to authorize the Applicant or any Successor Servicer to continue to operate its system to provide service to its customers, and as servicer under the transaction documents associated with the Transition Bonds, collect amounts in respect of the FTA for the benefit and account of the SPE or its assigns, and account for and remit those amounts to or for the account of the SPE. The servicing agreement will provide that the Applicant, as initial servicer, may not voluntarily resign its duties as servicer without obtaining the prior approval of the Commission.

FINDINGS OF FACT

1. The designation of the Fixed Transition Amounts and the issuance of up to $65 million of Transition Bonds in connection with such Fixed Transition Amounts will result in cost savings that directly benefits Applicant's customers.

2. Applicant estimates total costs of issuance to be approximately $2.2 million.

3. The owner of the Transition Property is entitled to recover Fixed Transition Amounts ("FTA") in the aggregate amount equal to the principal amount of the Transition

Bonds, plus interest payable on such principal amount, plus, to the extent not otherwise included in the principal amount of the Transition Bonds, reasonably incurred costs, taxes (if any), debt and equity retirement and buyback premiums (if any), costs of credit enhancements and ongoing transaction costs until such amounts have been paid in full or earlier if the FTA charges collection period expires.

4. The methodology used to calculate the FTA charges associated with Transition Bond issuance as described in Applicant's application is reasonable.

5. The methodology to calculate FTA charge adjustments as described in Applicant's application is reasonable.

6. If customers fail to pay their utility bills in full, any revenues received must be first allocated on a pro rata basis to the rate schedule components of the customers' bills up to the full amounts owing on such non-commodity components, and thereafter any remaining revenues must be allocated to the commodity component of the customers' bills, or as otherwise required by the rating agencies, to avoid Applicant favoring its own interests.

7. The rate collection methods described in Applicant's application to ensure that the FTA charges are nonbypassable are reasonable.

8. The ratemaking mechanism described in the application to credit customers that pay Rate Schedule CTC-GP-1 (the "Rate Schedule CTC-GP-1 Credit Mechanism") via a separate credit rate in the event certain proceeds from the sale of production property are required to offset Rate Schedule CTC-GP-1 pursuant to Stipulation #3 is reasonable.

9. To the extent a customer credit exists pursuant to the Rate Schedule CTC-GP-1 Credit Mechanism or any other customers' credit rate, such customers may not apply such credit to reduce amounts otherwise payable under Rate Schedule CTC-GP-1 or CTC-RA-1.

CONCLUSIONS OF LAW

1. Because the designation of the Fixed Transition Amounts and the issuance of Transition Bonds in connection with such Fixed Transition Amounts was the basis for establishing rates under Rate Schedules CTC-GP-1 and CTC-RA-1 and because such rates, as adjusted in accordance with this Financing Order, are lower than the applicable rates which would otherwise be in effect, the customers of Applicant are receiving the benefits of such designation of Fixed Transition Amounts and the issuance of Transition Bonds and, therefore, a financing order should be adopted, pursuant to § 69-8-503, MCA.

2. The amount of Transition Bonds to be issued should be determined as described in Applicant's application.

3. Since charges under Rate Schedules CTC-GP-1 and CTC-RA-1 became effective on November 1, 1997 and will be in place for fifteen years from that date and since the collection of the amounts billed in the last months of the last year of such charges will probably occur subsequent to the termination of such Rate Schedules, the final expected maturity of the Transition Bonds shall not exceed 16 years from November 1, 1997.

4. The SPE should determine underwriter fees, underwriter counsel fees, rating agency fees, printing fees, and other expenses related to the sale of the Transition Bonds.

5. FTA charges should be filed with the Commission in an advice letter (the Issuance Advice Letter).

6. FTA charges should be included as a separate line item on customers' bills if practicable.

7. The rate collection methods described in Applicant's application to ensure that the FTA charges are nonbypassable should be approved.

8. The Issuance Advice Letter associated with this Financing Order, so long as the resulting FTA charges set forth therein do not exceed the amounts currently in effect on Rate Schedules CTC-GP-1 and CTC-RA-1 by more than 15%, shall be effective five days after filing, upon which it should be deemed a part of this Financing Order for purposes of § 69-8-503, MCA, and the FTA charges established thereby will constitute Fixed Transition Amounts.

9. Procedures are required for the expeditious approval by the Commission of periodic adjustments (the "FTA True-up Mechanisms") to the FTA charges (as may be necessary to ensure timely recovery of all Transition Costs that are the subject of this Financing Order, and the costs of capital associated with the provision, recovery, financing, or refinancing thereof, including the costs of issuing, servicing and retiring the Transition Bonds and any required overcollateralization contemplated by this Financing Order) shall be as described in the Application, and that such FTA True-up Mechanisms shall continue until the earlier of (i) the date on which all interest on and principal of the Transition Bonds has been paid in full and (ii) the date on which Applicant is no longer entitled to levy and collect FTA charges.

10. The methodology to calculate FTA charge adjustments should be as described in Applicant's Application.

11. FTA charge adjustments should be filed with the Commission in FTA True-Up Mechanism advice letters.

12. An FTA True-up Mechanism filing shall be filed within 30 days following each anniversary of the issuance of this Financing Order, and the Commission shall determine, whether adjustments to the FTA charges are required, with the resulting adjustments to the FTA charges, if necessary, to be implemented within 60 days of the Finance Order issuance anniversary, as required by § 69-8-503(5), MCA.

13. Because quarterly True-Up Mechanism Filings to be filed in accordance with the adjustment calculation methodology found reasonable in this Financing Order are to use the pro forma FTA charge quarterly True-Up Mechanism Filings attached to this Financing Order as Appendix C, no protests to such advice letter filings should be allowed, and the resulting FTA charge adjustments should be effective as requested in such filings.

14. Non-routine True-Up Mechanism advice letters should be permitted to be filed at any time necessary and the resulting adjustments to the FTA charges shall be implemented as soon as possible by the Commission but not later than the beginning of the next calendar quarter. Because non-routine True-Up Mechanism Filings to be filed in accordance with this Financing Order are to use the pro forma FTA charge non-routine True-Up Mechanism Filings attached to this Financing Order as Appendix D, no protests to such advice letter filings should be allowed.

15. The provisions described in Applicant's application to ensure that the FTA charges are nonbypassable should be approved.

16. Upon the effective date of the Issuance Advice Letter associated with this Financing Order, all of the Transition Property will constitute a current property right and will thereafter continuously exist as property for all purposes.

17. The Transition Property identified in this Financing Order and the Issuance Advice Letter associated with this Financing Order will, without limitation, include (1) the right, title and interest in and to the FTA charges approved in the Final Order, as adjusted in the Issuance Advice Letter to reflect the issuance of the Transition Bonds and as thereafter adjusted from time to time, (2) the right to be paid the total amounts of the Transition Costs allowed in the Final Order, (3) the right, title and interest in and to all revenues, collections, claims, payments, money, or proceeds of or arising from such FTA charges, and (4) all rights to obtain adjustments to such FTA charges under the FTA True-Up Mechanisms.

18. The owner of the Transition Property is entitled to recover Fixed Transition Amounts in the aggregate amount equal to the principal amount of the Transition Bonds, plus interest payable on such principal amount, plus, to the extent not otherwise included in the principal amount of the Transition Bonds, reasonably incurred issuance costs, taxes (if any), debt and equity retirement and buyback provisions (if any), costs of credit enhancements and ongoing transaction costs until such amounts have been paid in full or earlier if the FTA charges collection period expires.

19. The Commission should approve the sale by Applicant of the Transition Property to the SPE.

20. Upon the sale by Applicant of the Transition Property to the SPE, (1) the SPE will have all of the rights originally held by Applicant with respect to such Transition Property, including, without limitation, the right to exercise any and all rights and remedies to collect any amounts payable by any customer in respect of such Transition Property, notwithstanding any objection or direction to the contrary by Applicant and (2) any payment by any customer to the SPE will discharge such customer's obligations in respect of such Transition Property to the extent of such payment, notwithstanding any objection or direction to the contrary by Applicant.

21. Upon the sale by Applicant of the Transition Property to the SPE, Applicant shall not be entitled to recover the FTA charges associated with such Transition Property other than for the benefit of the SPE and the holders of the Transition Bonds, in accordance with Applicant's duties as servicer.

22. The pledge by the SPE to a trustee or representative of the holders of the Transition Bonds of the Transition Property to secure the SPE's obligations pursuant to the financing is hereby approved.

23. The issuance of the Transition Bonds in one or more series is hereby approved; provided, however, that the aggregate principal amount of Transition Bonds associated with this Financing Order shall not exceed $65 million.

24. Any default under the documents relating to the Transition Bonds shall entitle the holders of the Transition Bonds or the trustees or representatives for such holders to exercise any

and all rights or remedies such holders or such trustees or representatives therefor may have by virtue of having a perfected security interest in the Transition Property in accordance with § 69-8-503, MCA.

25. In the event of default by Applicant or any Successor Servicer in payment to or for the benefit of the SPE of the FTA charges, the Commission, upon the application by (1) the holders of the Transition Bonds or the trustees or representatives therefor, (2) the SPE or its assignees, or (3) pledgees or transferees, including transferees under § 69-8-503(15), MCA, of the Transition Property, shall order the sequestration and payment to or for the benefit of the SPE or such other party of revenues arising with respect to the Transition Property.

26. The Rate Schedule CTC-GP-1 Credit Mechanism described in the application should be approved.

27. Regardless of who is responsible for billing, customers shall continue to be responsible for FTA charges.

28. If a third party meters or bills for the FTA charges, Applicant must have access to customer billing and usage information to provide for proper reporting to the SPE and to perform its obligations as servicer.

29. In the case of a third party bankruptcy or a default in payment of any amounts owed to the Applicant, individually and in its role as servicer, or any Successor Servicer, for the benefit of the Applicant or the SPE, billing responsibilities must be promptly transferred to the Applicant, as servicer, or any Successor Servicer, within 10 days to minimize losses.

30. Applicant should not voluntarily resign as initial servicer without the prior approval of the Commission.

31. The equity contribution by the Applicant to the SPE should be approved.

ORDER

IT IS HEREBY ORDERED that:

1. The application of The Montana Power Company (Applicant) for a financing order pursuant to § § 69-8-503, 69-8-103 and 69-3-1403, MCA, is approved subject to the terms and conditions stated in the following ordering paragraphs.

2. Applicant may recover its Transition Costs as defined by § 69-3-1402(9), MCA, and the costs of providing, recovering, financing and refinancing Transition Costs in an aggregate principal amount of up to $65 million from proceeds of one or more series of Transition Bonds to be issued by the SPE (as defined below), which shall include all costs of issuance, and that the owner of the Transition Property may recover principal, interest and related costs associated with the Transition Bonds through Fixed Transition Amounts, as described in this Financing Order.

3. Applicant may sell and assign all or portions of its interest in Transition Property arising from or constituting the FTA charges that are the subject of this Financing Order to an affiliate of Applicant, of the character described in the application as a Special Purpose Entity (SPE). Upon the sale by Applicant of the Transition Property to the SPE, (1) such SPE shall have all of the rights originally held by Applicant with respect to such Transition Property,

including, without limitation, the right to exercise any and all rights and remedies to collect any amounts payable by any customer in respect of such Transition Property, notwithstanding any objection or direction to the contrary by Applicant and (2) any payment by any customer to such SPE shall discharge such customer's obligations in respect of such Transition Property to the extent of such payment, notwithstanding any objection or direction to the contrary by Applicant. Upon the sale by Applicant of the Transition Property to the SPE, Applicant shall not be entitled to recover the FTA charges associated with such Transition Property other than for the benefit of the SPE and the holders of the Transition Bonds in accordance with Applicant's duties as servicer. Applicant may also make an equity contribution to the SPE as described in this Financing Order.

4. The initial FTA charges for such Transition Property shall be filed with the Commission in an advice letter substantially in the form attached to this Financing Order as Appendix A as a pro forma Issuance Advice Letter, which shall not be subject to protest so long as the initial FTA charges set forth therein do not exceed the amounts currently in effect on Rate Schedules CTC-GP-1 and CTC-RA-1 by more than 15%, which shall be completed in accordance with the methodology described by Applicant in its application, which shall be effective five days after filing with the Commission so long as the initial FTA charges set forth therein do not exceed the amounts currently in effect on Rate Schedules CTC-GP-1 and CTC-RA-1 by more than 15%, upon which it shall be deemed a part of this Financing Order for purposes of § 69-8-503, MCA, and that the FTA charges established thereby constitute Fixed Transition Amounts.

5. The SPE may pledge all or portions of its interest in such Transition Property to a trustee or representative of the holders of the Transition Bonds, to secure the SPE's obligations pursuant to the financing of the Transition Bonds.

6. The SPE may issue up to $65 million aggregate principal amount of Transition Bonds in one or more series in connection with such Transition Property upon the terms and conditions approved by the SPE so long as the final expected maturity does not exceed 16 years from November 1, 1997 and, unless otherwise approved by the Commission, the initial FTA charges set forth in the Issuance Advice Letter do not exceed the amounts currently in effect on Rate Schedules CTC-GP-1 and CTC-RA-1 by more than 15%.

7. To the extent that any interest in such Transition Property is so sold or assigned, or is so pledged as collateral, Applicant, or any Successor Servicer, is authorized to continue to operate its system to provide service to its customers, and, as servicer under the transaction documents associated with the Transition Bonds, collect amounts in respect of the FTA for the benefit and account of the SPE or its assigns, and account for and remit these amounts to or for the account of the SPE.

8. Applicant, as servicer, and any Successor Servicer shall separately state FTA charges for the purpose of each customer's bill to the extent practical.

9. To the extent feasible, if customers fail to pay their utility bills in full, any revenues received shall first be allocated on a pro rata basis, or as otherwise required by rating agencies, to the rate schedule components of the customers' bills up to the full amounts owing on such non-commodity components, and thereafter any remaining revenues shall be allocated to the

commodity component of the customers' bills.

10. In the event of failure of any customer to pay FTA charges, Applicant, as servicer, or any Successor Servicer is authorized to shut-off service to such customer in accordance with Commission-approved shut-off policies, at the direction of the related servicer.

11. Applicant is authorized to implement the rate collection methods described in the application to ensure that the FTA charges are nonbypassable.

12. Applicant, as servicer, or any Successor Servicer, on behalf of the SPE is authorized to file routine, non-routine, and statutorily required FTA charge adjustments (FTA True-Up Mechanisms), which shall continue until the earlier of (i) the date on which all interest on and principal of the Transition Bonds has been paid in full and (ii) the date on which Applicant is no longer entitled to levy and collect FTA charges. FTA True-Up Mechanism filings shall be in substantially the form attached to this Financing Order as Appendices B, C, and D and shall be completed in accordance with the methodology described in Applicant's application.

13. A non-routine FTA True-Up Mechanism filing may be filed and the resulting adjustments to the FTA charges shall be implemented as soon as possible by the Commission but not later than the beginning of the next quarter.

14. An FTA True-Up Mechanism filing shall be filed within 30 days following each anniversary of the issuance of this Financing Order. The Commission shall determine whether adjustments to the FTA charges are required, with the resulting adjustments to the FTA charges, if necessary, to be implemented within 60 days of this Financing Order issuance anniversary, as

required by § 69-8-503(5), MCA.

15. Third party servicers that propose to collect FTA charges shall meet the creditworthiness criteria to be established by the Commission through its licensing rulemaking.

16. The third party servicers, other than any Successor Servicer, shall comply with the following billing, collection and remittance procedures, or such other procedures as the rating agencies may require, unless the third party servicer has at least an "A" or equivalent rating from Moody's Investors Service ("Moody's") and Standard & Poor's Rating Services ("S&P");

a. All funds paid by end-use customers shall be sent directly to a segregated lock-box account maintained, at the third party servicer's expense, by the trust department of a bank rated at least "A" or the equivalent by S&P, and Moody's, where the funds will be segregated by the lock-box trustee or other appointed collateral agent and allocated (i) first, pro rata between the SPE and the Applicant for its distribution and universal systems benefit charge charges, and (ii) then to the third party servicer; or

b. The third party servicer shall post a bond, letter of credit from a bank or trust company rated at least "A" or the equivalent by S&P, and Moody's, or cash deposit, for the benefit of the SPE equal at all times to two months of estimated collections from charges due pursuant to Rate Schedules CTC-GP-1 and CTC-RA-1, as agreed upon by the Applicant, in its role as Servicer of the Transition Property, or any Successor Servicer, and the third party servicer.

17. In the case of a third party bankruptcy or a default in payment of any amounts owed to the Applicant, individually and in its role as servicer, or any Successor Servicer, for the

benefit of the Applicant or the SPE, billing responsibilities shall be promptly transferred to the Applicant, as servicer, or any Successor Servicer, within 10 days to minimize losses.

18. Applicant is authorized to establish by filing, the Rate Schedule CTC-GP-1 Credit Mechanism as described in the application. Such a credit rate, and any other credit rates established by the Commission, would reduce charges otherwise payable to Applicant but can not be applied by a customer to reduce amounts payable under Rate Schedules CTC-GP-1 or CTC-RA-1.

19. Applicant shall not voluntarily resign as initial servicer without the prior approval of the Commission.

20. The Commission shall not approve a Successor Servicer without first confirming that such approval will not cause the then current ratings of the Transition Bonds to be downgraded or withdrawn.

21. This Financing Order shall become effective in accordance with its terms and conditions only when Applicant files with the Commission its written consent to all terms and conditions of this Financing Order.

22. This Financing Order shall be of no effect unless and until Applicant files its written consent to all terms and conditions of this Financing Order.

Done and dated this 27th day of April, 1998 by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DAVE FISHER, Chair

NANCY MCCAFFREE, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.

Appendix A
Pro Forma
Issuance
Advice Letter

[date]

ADVICE ________________-E
(U39E)

DEPARTMENT OF PUBLIC SERVICE REGULATION
PUBLIC SERVICE COMMISSION OF THE STATE OF MONTANA

SUBJECT: Issuance Advice Filing for Transition Bonds

Pursuant to the Montana Public Service Commission (the "Commission") Order No. ___________ (the "Order"), Ordering Paragraph No. _____, The Montana Power Company ("MPC") hereby transmits for filing, on the pricing date of this series of Transition Bonds, the initial FTA charges for the series. This Issuance Advice Filing is for the Rate Transition Bonds series ____________, class(es) ________________.

PURPOSE

This filing establishes initial FTA charges for rate schedules for certain customers. This filing also establishes the Transition Property to be sold to the Transition Property Owner (SPE).

BACKGROUND

In Order No. ____________, the Commission authorized MPC to file an Issuance Advice Letter when pricing terms for Transition Bonds have been established. The Issuance Advice Letter filing enables MPC to use the FTA charge methodology found reasonable by the Commission in Order No. _____________ to establish initial FTA charges for the Transition Bonds. Using the methodology approved by the Commission in Order No. _____________ this filing establishes FTA charges.

The FTA charges shall replace the estimated amounts for Rates Schedules CTC-GP-1 and CTC-RA-1. The new rate schedules will automatically be effective five days following the filing of this Issuance Advice Letter and prior to the actual issuance of the Transition Bonds; provided that the resulting initial FTA charges do not exceed the amount of FTA charges currently in effect on Rates Schedules CTC-GP-1 and CTC-RA-1 by more than 15%.

ISSUANCE INFORMATION:

Transition Bond Name:
Transition Property Owner (SPE):
Trustee(s):
Closing Date:
Bond Rating:
Amount Issued:
Issuance Costs:
Issuance Costs as a Percent of Amounts Issued:
Transition Costs Financed:
Coupon Rate(s):
Call Features:
Expected Principal Amortization Schedule: See Attachment 1
Expected Final Maturity:
Legal Final Maturity:
Annual Servicing Fee as a percent of the issuance amount:
Overcollateralization amount for the series:

Quarterly Variance Trigger Mechanism

Each quarter the Servicer will compare actual debt service payments to expected debt service payments as set forth in Attachment 1. If the variance is greater than __%, a change to the FTA charges will be requested via an FTA True-up Mechanism Filing in accordance with Order No. _________.

FTA Charges

Attachment 2 to this Issuance Advice Letter sets forth the initial FTA charges.

Transition Property

Transition Property is the property described in the Montana Code Annotated ("MCA") '69-8-103(24) relating to the FTA charges set forth herein, including, without limitation, all of the following:

(1) The right, title and interest in and to the FTA charges approved in Order No. 5898d, as adjusted herein, and as hereafter adjusted from time to time.

(2) The right to be paid the total amounts shown on Attachment 1.

(3) The right, title and interest in and to all revenues, collections, claims, payments, money, or proceeds of or arising from the FTA charges, set forth herein.

(4) All rights to obtain adjustments to the FTA charges under the FTA True-Up Mechanism.

These FTA charges, as adjusted from time to time, shall remain in place until the earlier of (i) the date on which the total amounts in Attachment 1 are paid in full to the owner of the transition property, or its assignee(s) and (ii) the date on which MPC is no longer entitled to levy and collect FTA charges.

EFFECTIVE DATE

In accordance with Order No. ___________, these initial FTA charges shall be effective five days after filed; provided that the resulting initial FTA charges do not exceed the amount of FTA charges currently in effect on Rates Schedules CTC-GP-1 and CTC-RA-1 by more than 15%. Such initial FTA charges will continue to be effective unless changed by an FTA True-Up Mechanism Filing.

NOTICE

Copies of this filing are being furnished to the parties on the service list in this Docket.

Enclosures

cc:

Attachment 1
Amounts Receivable And Expected Principal Amount Amortization
Series ____, Class ___

The total amount payable to the owner of the Transition Property, or its assignee(s), pursuant to this issuance advice letter is a $_______ principal amount, plus interest on such the principal amount, plus a $______ overcollateralization amount, plus other ongoing costs, to be obtained from initial FTA charges calculated in accordance with ______________.

The initial FTA charges shall be adjusted from time to time, at least annually, via the FTA True-Up Mechanism in accordance with ________________.

The following amounts are scheduled to be paid by the ______________ from FTA charges it has received. These payment amounts include principal plus interest, overcollateralization, and other ongoing costs.

Payment Date	Receipt Amount	Payment Amount	Outstanding Principal
[date 1]	[$receipt 1]	[$payment 1]	[$outstanding principal]
M	M	M	M
M	M	M	M
M	M	M	M
[date n]	[$receipt n]	[$payment n]	[$outstanding principal n] [$0]

Appendix B
Pro Forma
Annual FTA True-Up Mechanism
Filing

[Draft Pro Forma Annual FTA Adjustment Filing]

[date]

FILING -E
(U39E)

DEPARTMENT OF PUBLIC SERVICE REGULATION
PUBLIC SERVICE COMMISSION OF THE STATE OF MONTANA

SUBJECT: Annual FTA True-Up Mechanism Filing

Pursuant to the Montana Public Service Commission (the "Commission") Order No. _________ (the "Order"), Ordering Paragraph No. __, The Montana Power Company ("MPC") as servicer of the Transition Bonds and on behalf of [Bond Trustee, as assignee of] is required to apply for adjustment to FTA charges within 30 days following each anniversary of the issuance of the Order.

PURPOSE

This filing establishes revised FTA charges for rate schedules for customers. The revised FTA charges shall replace the existing FTA charges.

BACKGROUND

In Order No. __________, the Commission authorized MPC to file True-Up Mechanism Filings on an annual basis, within 30 days following the anniversary of the issuance of the Order. FTA True-Up Mechanism filings are those where MPC uses the methodology found reasonable by the Commission in Order No. ____________ to revise existing FTA charges.

Using the methodology approved by the Commission in Order No. ____________, this filing modifies the variables used in the FTA charge calculation and provides the resulting modified FTA charges. Table I shows the revised assumptions for each of the variables used in calculating the FTA charges for customers. The assumptions underlying the current FTA charges were filed in Filing _______-E, an Issuance Advice Letter, as authorized by Order No. ____________.

Attachment 1 shows the revised payment schedule.

ILLUSTRATIVE TABLE I **Input Values For Revised FTA Charges**	
Monthly customer Dkt sales (Core, Utility and Noncore)	
Percent of revenue requirement allocated to customers (Core, Utility and Noncore)	
Percent of customers' revenue written off (Core, Utility and Noncore)	
Percent of customers' billed amounts expected to be uncollected (Core, Utility and Noncore)	
Percent of billed amounts collected in current month	
Percent of billed amounts collected in second month after billing	
Percent of billed amounts collected in third month after billing	
Percent of billed amounts collected in fourth month after billing	
Percent of billed amounts collected in fifth month after billing	
Percent of billed amounts collected in sixth month after billing	
Percent of billed amounts remaining less uncollectibles	
Monthly ongoing transaction expenses	
Expected FTA outstanding principal balance as of __/__/__	
Over-or undercollection of principal to be reflected in the new FTA charges	

Table II shows the revised FTA charges calculated for customers. The FTA calculations are shown in Attachment 2.

TABLE II	
CTC-GP-1 Charge	
CTC-RA-1 Charge	

Attached are proposed changes to MPC's Rate Schedules CTC-GP-1 and CTC-RA-1 to show FTA charges to be effective ____________ __, [year]

EFFECTIVE DATE

In accordance with Order No. ___________, FTA True-Up Mechanism Filing for required annual FTA charge adjustments shall be filed within 30 days following each anniversary of the issuance of the Order and these adjustments to FTA charges shall be effective 60 days following each anniversary of the issuance of the Order.

NOTICE

Copies of this filing are being furnished to the parties on the service list in Docket No._______.

Enclosures

cc:

Attachment 1
Amounts Receivable And Expected Principal Amount Amortization

The total amount payable to the owner of the transition property, or its assignee(s), pursuant to this advice letter is a $_____________ principal amount, plus interest on such principal amount, plus a $____ overcollateralization amount, plus other ongoing costs, to be obtained from FTA charges calculated in accordance with _______________.

The FTA charges shall be adjusted from time to time, at least annually, via the FTA True-Up Mechanism in accordance with _________________.

The following amounts are scheduled to be paid by the _______________ from FTA charges it has received. These payment amounts include principal plus interest, overcollateralization, and other ongoing costs.

Payment Date	Receipt Amount	Payment Amount	Outstanding Principal
[date 1]	[$receipt 1]	[$payment 1]	[$outstanding principal]
M	M	M	M
M	M	M	M
M	M	M	M
[date n]	[$receipt n]	[$payment n]	[$outstanding principal n] [$0]

Appendix C
Pro Forma
Quarterly FTA True-Up Mechanism
Filing

[Draft Pro Forma Quarterly FTA Adjustment Filing]

[date]

FILING -E
(U39E)

DEPARTMENT OF PUBLIC SERVICE REGULATION
PUBLIC SERVICE COMMISSION OF THE STATE OF MONTANA

SUBJECT: Quarterly FTA True-Up Mechanism Filing

Pursuant to the Montana Public Service Commission (the "Commission") Order No. _________ (the "Order"), Ordering Paragraph No. __, The Montana Power Company ("MPC") as servicer of the Transition Bonds and on behalf of [Bond Trustee, as assignee of] may apply for adjustment to FTA charges, at any time necessary, if in the previous quarter the variance between the expected outstanding FTA principal balance and the actual outstanding principal balance exceeds certain limits.

Attachment 1, MPC's Quarterly Servicer Certificate for the quarter of 19_, shows that the variance between scheduled debt service payments and actual debt service payments exceeds the limit of __%. Therefore, in accordance with Ordering Paragraph No. ___, MPC, as servicer of the Transition Bonds, hereby transmits for filing this Filing to revise the FTA charges.

PURPOSE

This filing establishes revised FTA charges for rate schedules for customers. The revised FTA charges shall replace the existing FTA charges.

BACKGROUND

In Order No. __________, the Commission authorized MPC, to the extent required, to file True-Up Mechanism Filings on a quarterly basis, at least 15 days before the end of any quarter and the resulting adjustments to the FTA charges shall be implemented on the first day of the following quarter. FTA True-Up Mechanism filings are those where MPC uses the methodology found reasonable by the Commission in Order No. ____________ to revise existing FTA charges.

Using the methodology approved by the Commission in Order No. ____________, this filing modifies the variables used in the FTA charge calculation and provides the resulting modified FTA charges. Table I shows the revised assumptions for each of the variables used in calculating the FTA charges for customers. The assumptions underlying the current FTA charges were filed in Filing _______-E, an Issuance Advice Letter, as authorized by Order No. ____________.

Attachment 2 shows the revised payment schedule.

ILLUSTRATIVE TABLE I
Input Values For Revised FTA Charges

Monthly customer Dkt sales (Core, Utility and Noncore)	
Percent of revenue requirement allocated to customers (Core, Utility and Noncore)	
Percent of customers' revenue written off (Core, Utility and Noncore)	
Percent of customers' billed amounts expected to be uncollected (Core, Utility and Noncore)	
Percent of billed amounts collected in current month	
Percent of billed amounts collected in second month after billing	
Percent of billed amounts collected in third month after billing	
Percent of billed amounts collected in fourth month after billing	
Percent of billed amounts collected in fifth month after billing	
Percent of billed amounts collected in sixth month after billing	
Percent of billed amounts remaining less uncollectibles	
Monthly ongoing transaction expenses	
Expected FTA outstanding balance as of __/__/__	
Over-or undercollection of principal to be reflected in the new FTA charges	

Table II shows the revised FTA charges calculated for customers. The FTA calculations are shown in Attachment 3.

TABLE II	
CTC-GP-1 Charge	
CTC-RA-1 Charge	

Attached are proposed changes to MPC's Rate Schedules CTC-GP-1 and CTC-RA-1 to show FTA charges to be effective ____________ __, [year]

EFFECTIVE DATE

In accordance with Order No. ___________, FTA True-Up Mechanism Filing for quarterly FTA charge adjustments may be filed at least 15 days before the end of any quarter and the resulting adjustments to the FTA charges shall be effective on the first day of the following quarter. No Commission resolution is required. Therefore, these FTA charges shall be effective ___________ __, [year] through __________ __, [year] unless they are changed by a quarterly adjustment prior to ____________ __, [year].

NOTICE

Copies of this filing are being furnished to the parties on the service list in Docket No. ________.

Enclosures

cc:

Attachment 1
MPC's Quarterly Servicer Certificate

Attachment 2
Amounts Receivable And Expected Principal Amount Amortization

The total amount payable to the owner of the transition property, or its assignee(s), pursuant to this advice letter is a $_____________ principal amount, plus interest on such principal amount, plus a $____ overcollateralization amount, plus other ongoing costs, to be obtained from FTA charges calculated in accordance with _______________.

The FTA charges may be adjusted from time to time, at least quarterly, via the FTA True-Up Mechanism in accordance with _________________.

The following amounts are scheduled to be paid by the _______________ from FTA charges it has received. These payment amounts include principal plus interest, overcollateralization, and other ongoing costs.

Payment Date	Receipt Amount	Payment Amount	Outstanding Principal
[date 1]	[$receipt 1]	[$payment 1]	[$outstanding principal]
M	M	M	M
M	M	M	M
M	M	M	M
[date n]	[$receipt n]	[$payment n]	[$outstanding principal n] [$0]

Appendix D
Pro Forma
Non-Routine FTA True-Up Mechanism
Filing

[Draft Pro Forma Non-Routine FTA Filing]

, [year]

FILING -E
(U39E)

DEPARTMENT OF PUBLIC SERVICE REGULATION
PUBLIC SERVICE COMMISSION OF THE STATE OF MONTANA

SUBJECT: Non-Routine FTA True-Up Mechanism Filing

Pursuant to the Montana Public Service Commission (the "Commission") Order No. ___________ (the "Order"), Ordering Paragraph No. ____, The Montana Power Company ("MPC") as servicer of the Transition Bonds and on behalf of [Bond Trustee, as assignee of] may apply for non-routine FTA charges.

PURPOSE

This filing establishes revised FTA charges for rate schedules for customers. The revised FTA charges shall replace the existing FTA charges.

BACKGROUND

In Order No. ____________, the Commission authorized MPC, to the extent necessary, to file non-routine True-Up Mechanism Filings at any time and the resulting adjustments to the FTA charges shall be implemented as soon as possible but no later than the first day of the next quarter. Non-routine filings are those where MPC uses the methodology found reasonable by the Commission in Order No. ___________ to revise existing FTA charges.

Using the methodology approved by the Commission in Order No. ___________, this filing modifies the variables used in the FTA charge calculation and provides the resulting modified FTA charges. Table I shows the revised assumptions for each of the variables used in calculating the FTA charges for customers. The assumptions underlying the current FTA charges were filed in Filing -E, an Issuance Advice Letter, as authorized by Order No. ____________.

Attachment 1 shows the revised payment schedule.

ILLUSTRATIVE TABLE I
Input Values For Revised FTA Charges

Monthly customer Dkt sales (Core, Utility and Noncore)	
Percent of revenue requirement allocated to customers (Core, Utility and Noncore)	
Percent of customers' revenue written off (Core, Utility and Noncore)	
Percent of customers' billed amounts expected to be uncollected (Core, Utility and Noncore)	
Percent of billed amounts collected in current month	
Percent of billed amounts collected in second month after billing	
Percent of billed amounts collected in third month after billing	
Percent of billed amounts collected in fourth month after billing	
Percent of billed amounts collected in fifth month after billing	
Percent of billed amounts collected in sixth month after billing	
Percent of billed amounts remaining less uncollectibles	
Monthly ongoing transaction expenses	
Expected FTA outstanding balance as of __/__/__	
Over-or undercollection of principal to be reflected in the new FTA charges	

Table II shows the FTA charges calculated for customers. The FTA calculations are shown in Attachment 2.

TABLE II

CTC-GP-1 Charge	
CTC-RA-1 Charge	

Attached are proposed changes to MPC's Rate Schedules CTC-GP-1 and CTC-RA-1 to show FTA charges to be effective __, [year].

EFFECTIVE DATE

In accordance with Order No. ____________, non-routine FTA True-Up Mechanism for non-routine FTA charge adjustments shall be filed at any time as necessary and these adjustments to FTA charges shall be effective as soon as possible by the Commission but no later than the beginning of the next quarter.

NOTICE

Copies of this filing are being furnished to the parties on the service list in Docket No. __________.

Enclosures

cc:

Attachment 1
Amounts Receivable And Expected Principal Amount Amortization

The total amount payable to the owner of the transition property, or its assignee(s), pursuant to this advice letter is a $ principal amount, plus interest on such principal amount, plus a $ overcollateralization amount, plus other ongoing costs, to be obtained from FTA charges calculated in accordance with ______________.

The FTA charges may be adjusted from time to time, at least annually, via the non-routine FTA True-Up Mechanism in accordance with _____________.

The following amounts are scheduled to be paid by the __________________ from FTA charges it has received. These payment amounts include principal plus interest, overcollateralization, and other ongoing costs.

Payment Date	Receipt Amount	Payment Amount	Outstanding Principal
[date 1]	[$receipt 1]	[$payment 1]	[$outstanding principal]
M	M	M	M
M	M	M	M
M	M	M	M
[date n]	[$receipt n]	[$payment n]	[$outstanding principal n] [$0]