

YEAR 1998

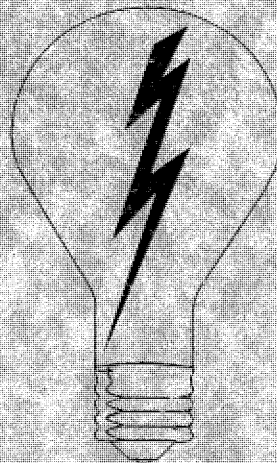
ANNUAL REPORT
OF

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MAY 03 1999
MONT. P. S. COMMISSION

Montana Power Company

ELECTRIC UTILITY



TO THE
PUBLIC SERVICE COMMISSION
STATE OF MONTANA
1701 PROSPECT AVENUE
P.O. BOX 202601
HELENA, MT 59620-2601

ELECTRIC ANNUAL REPORT

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IDENTIFICATION1
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Legal Name of Respondent: The Montana Power Company

Name Under Which Respondent Does Business: The Montana Power Company

Date Utility Service First Offered in Montana: Electricity - Dec 12, 1912
Gas - Jan 01, 1933
Propane - Oct 13, 1995

Person Responsible for Report: Ernest J. Kindt

Telephone Number for Report Inquiries: (406) 497-2233

Address for Correspondence Concerning Report: 40 East Broadway
Butte, Montana 59701

If direct control over respondent is held by another entity, provide below the name, address, means by which control is held and percent ownership of controlling entity.

NOT APPLICABLE

BOARD OF DIRECTORS

		<u>Director's Name & Address (City, State)</u>	<u>Remuneration</u>
1	1/	Alan F. Cain	\$22,100
2		Blue Cross and Blue Shield of Montana	
3		404 Fuller Ave	
4		Helena, MT 59601	
5			
6	1/	R. D. Corette	\$22,600
7		Corette, Pohlman & Kebe Law Firm	
8		P. O. Box 509	
9		Butte, MT 59703	
10			
11	1/	Kay Foster	\$22,600
12		Planteriors Unlimited	
13		1916 3rd Ave. N.	
14		Billings, MT 59102	
15			
16	1/	Beverly D. Harris	\$22,600
17		Empire Federal Savings & Loan Association	
18		123 South Main Street	
19		Livingston, MT 59047	
20			
21	1/	Carl Lehrkind, III	\$24,100
22		Lehrkind's, Inc.	
23		P. O. Box 399	
24		Bozeman, MT 59715	
25			
26	1/	N. E. Vosburg	\$24,100
27		Pacific Steel & Recycling	
28		P. O. Box 1549	
29		Great Falls, MT 59403	
30			
31	1/	Chase T. Hibbard - Resigned 02/04/99	\$24,100
32		Sieben Livestock	
33		P. O. Box 835	
34		Helena, MT 59624	
35			
36	1/	John R. Jester	\$25,100
37		Bargain Street, LLC	
38		300 Queen Anne Avenue N, Suite 406	
39		Seattle, WA 98109	
40			
41	1/	Tucker Hart Adams	\$24,600
42		The Adams Group, Inc.	
43		Colorado National Bank	
44		950 17th Street, Suite 300	
45		Denver, CO 80202	
46			
47	1/	John G. Connors	\$22,600
48		Microsoft Corporation	
49		One Microsoft Way	
50		Redmond, WA 98052	
51			

Sch. 2 cont.		<u>BOARD OF DIRECTORS</u>	
		<u>Director's Name & Address (City, State)</u>	<u>Remuneration</u>
1	2/	Robert P. Gannon	\$0
2		Montana Power Company	
3		40 East Broadway	
4		Butte, MT 59701	
5			
6	2/	Jerrold P. Pederson	\$0
7		Montana Power Company	
8		40 East Broadway	
9		Butte, MT 59701	
10			
11			
12	1/	Remuneration:	
13		Non-employee Directors are paid \$19,600 per year, effective 12/1/96, plus \$500 for each meeting of a	
14		Committee of the Board attended, except those held in conjunction with regular Board meetings.	
15			
16		They also receive \$850 per special meeting of the Board, when such special meetings are held	
17		in addition to the regularly scheduled Board meeting in any one month.	
18			
19		The Company has Deferred Compensation Plans for non-employee Directors.	
20		Directors may elect to defer their payments as Directors until retirement from the Board.	
21		No compensation was deferred in 1998.	
22		Deferred payments earn interest based on Moody's average Baa Corporate Bond Rates.	
23			
24		The Company has Stock Compensation Plans for non-employee Directors.	
25		The Plan provides annual grants of 480 shares of the Company's common stock.	
26		The Plan also allows a Director to elect to receive any portion of the annual retainer in the Company's	
27		common stock.	
28		Directors may elect to defer receipt of the stock payment until they cease to be a Director of the Company	
29		or until such other date the Director elects.	
30		At the end of the deferral period, the Director will be paid for the stock units in Company common stock	
31		or the equivalent value in cash based upon the market value of the Company's common stock at that time.	
32			
33		All Company Directors participated in a non-qualified retirement plan (the Benefit Restoration	
34		Plan for directors).	
35		The Plan was implemented in 1986 for all eligible Directors.	
36		This Plan provides for annual benefit payments to vested participants upon retirement.	
37		It is intended to allow for supplemental income to the Director at the time of retirement or to	
38		beneficiaries in the event of the Director's death.	
39		Trust owned life insurance is carried on Plan participants.	
40		The Company and participants in the Plan contribute to the cost of the life insurance.	
41		All death proceeds are specifically directed to the Plan Trust for the sole purpose of paying for	
42		Plan benefits and premium costs.	
43		The board curtailed the Plan, effective 12/31/97, by closing it to additional participants and by capping the	
44		maximum annual benefits to eliminate further increases to benefits as the annual retainer increases.	
45			
46	2/	Employee Directors do not receive compensation for board and/or committee meetings.	
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OFFICERS

	<u>Title</u>	<u>Department Supervised</u>	<u>Name</u>
1			
2	Chairman of the Board,	Executive -	Robert P. Gannon
3	President and Chief	Shared Administrative Services	
4	Executive Officer	(Corporate Communications)	
5		(Governmental Affairs)	
6		(Corporate Community Relations)	
7			
8	Vice President, Chief	Executive -	Jerrold P. Pederson
9	Financial and Information	Shared Administrative Services	
10	Officer	(Audit Services)	
11		(Controller Services)	
12		(Information Services)	
13		(Strategic Planning)	
14		(Treasury Services)	
15		(Commodity Risk)	
16		(EVA Planning)	
17			
18	Vice President, Human	Executive -	Pamela K. Merrell
19	Resources and Secretary	Shared Administrative Services	
20		(Investor Services)	
21		(Corp. Environmental Compliance)	
22		(Flight Services)	
23		(Human Resources)	
24			
25	Vice President and	Executive -	Michael E. Zimmerman
26	General Counsel	Shared Administrative Services	
27		(Legal)	
28		(Land & Environmental Services)	
29			
30	Vice President	Marketing	W. Stephen Dee
31		(Market Analysis and Planning)	
32		(Advertising)	
33			
34	Executive Vice President and	Energy Services Division	John D. Haffey
35	Chief Operating Officer		
36			
37	Vice President	Distribution Services	David A. Johnson
38			
39	Vice President	Transmission Services	William A. Pascoe
40			
41	Vice President	Corporate Business Development	Perry J. Cole
42			
43	Executive Vice President and	Telecommunications Division	Michael J. Meldahl
44	Chief Operating Officer		
45			
46	Executive Vice President and	Energy Supply Division	Richard F. Cromer
47	Chief Operating Officer		
48			
49	Vice President	Oil and Gas Operations	Ralph P. Madison
50			(Retired 01/31/99)
51			
52			
53			

OFFICERS

	<u>Title</u>	<u>Department Supervised</u>	<u>Name</u>
1			
2			
3	Vice President	Colstrip Project Division	Michael C. Enterline
4			
5	Treasurer	Treasury Services	Ellen M. Senechal
6			
7	Controller	Controller Services	David S. Smith
8			
9	Assistant Controller	Controller Services	Ernest J. Kindt
10			
11	Assistant Treasurer	Treasury Services	Harry J. Freebourn
12			
13	Assistant Secretary	Executive -	Susan D. Breining
14		Shared Administrative Services	
15			
16	Assistant Secretary	Investor Services	Rose Marie Ralph
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Sch. 4		CORPORATE STRUCTURE		
	Subsidiary/Company Name	Line of Business	Earnings (000)	% of Total
1				
2	THE MONTANA POWER COMPANY			
3	Utility Operations		\$51,485	31.79%
4	Electric Utility	Electric Utility		
5	Natural Gas Utility	Natural Gas Utility		
6	Canadian-Montana Pipeline Company	Gas Transmission		
7	Glacier Gas Company	Production & Transport of Natural Gas		
8	Colstrip Community Services Company	Water and Refuse Services		
9	Montana Power Services Company	Service Provider for the Company		
10	Montana Power Capital 1	Financing		
11	MPC Natural Gas Funding Trust	Bond Transition Financing		
12				
13	Nonutility Operations		\$110,445	68.21%
14	Colstrip Unit 4 Lease Mgmt Division	1/ Wholesale Sales of Electric Power		
15	Continental Energy Services, Inc.	Independent Power & Cogen. Dev. & Invest.		
16	EMPECO, Inc.	Independent Power & Cogen. Dev. & Invest.		
17	EMPECO II, Inc.	Independent Power & Cogen. Dev. & Invest.		
18	EMPECO III, Inc.	Independent Power & Cogen. Dev. & Invest.		
19	EMPECO V, Inc.	Independent Power & Cogen. Dev. & Invest.		
20	EMPECO VI-TE, Inc.	Independent Power & Cogen. Dev. & Invest.		
21	EMPECO VII-TX3, Inc.	Independent Power & Cogen. Dev. & Invest.		
22	Montana Energy, Inc.	Independent Power & Cogen. Dev. & Invest.		
23	ECI Energy, Ltd.	2/ Investment in British Partnership in a		
24		Gas-Fired Cogeneration Project		
25	Enserch Development Corp. One, Inc.	Generate Electricity		
26	Montana Grimes County, Inc.	Ownership in Electric Power Generating Facility		
27	Montana Grimes Frontier, Inc.	Ownership in Electric Power Generating Facility		
28	CES International	Independent Power & Cogen. Dev. & Invest.		
29	Barge Energy LLC	Holding Co. for Power Plant Investment		
30	PAK Energy LLC	Holding Co. for Power Plant Investment		
31	Entech, Inc.	Admin. & Mgmt. of Nonutility Services, excluding		
32		Colstrip 4 Lease & Continental Energy Services		
33	Canadian-Montana Gas Company Ltd.	Gas Exploration & Development		
34	Altana Exploration Company	Oil & Gas Exploration & Development		
35	Montana Power Ventures, Inc.	Information & Gas Transportation Services		
36	Entech Gas Ventures, Inc.	Information & Gas Transportation Services		
37	Altana Exploration, Ltd.	Oil & Gas Exploration & Development		
38	The Montana Power Gas Company	Gas Supplier for Montana Markets		
39	North American Resources Company	Oil & Gas Exploration & Development		
40	Western Energy Company	Coal & Minerals Mining		
	Western Syncoal Company	Develop Coal Drying Technology		
41	Syncoal, Inc.	Develop Coal Drying Technology		
42	Montana Energy Development	Investment in Mining Resource Ventures		
43	Participacoes, Ltda.			
44	Finaciera Ulken Sociedad Anonima	Financing		
45	Northwestern Resources Company	Lignite & Minerals Mining		
46	Basin Resources, Inc.	Underground Coal Mining		
47	Horizon Coal Services, Inc.	Coal Sales & Development		
48	North Central Energy Company	Exploration, Develop. & Production of Coal		
49				
50	1/ Colstrip Unit 4 Lease Management Division is an operating division of The Montana Power Company.			
51				
52	2/ Continental Energy Services owns 47.5 % of the value and 50% of the voting power of this corporation.			

CORPORATE STRUCTURE

	<u>Subsidiary/Company Name</u>	<u>Line of Business</u>	<u>Earnings</u> (000)	<u>% of</u> <u>Total</u>
1	SynCoal, Incorporated	Clean Coal Technology Development		
2	Tetragenics Company	Process Control Systems		
3	Touch America, Inc.	Telecommunications Systems & Equipment		
4	The Montana Power Trading and	Energy Brokerage and Marketing		
5	Marketing Company			
6				
7	TOTAL		\$161,930	100.00%
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CORPORATE ALLOCATIONS

	<u>Departments Allocated</u>	<u>Description of Services</u>	<u>Allocation Method</u>	<u>\$ to MT EI & Gas Utilities</u>	<u>MT %</u>	<u>\$ to Other</u>
1	Shared Administrative					
2	Services - 1/					
3						
4	Executive Management &	Includes the following departments: CEO &	All overhead costs not charged directly	\$10,376,558	73.48%	\$3,745,423
5	Office of the Corporation	Chairman; Vice Pres. & Secretary;	are allocated to the Utility & Nonutilities			
6	Secretary	Vice Pres., CFO & CIO; Vice Pres. & CLC;	based on number of employees or on %'s			
7		Corporate Communication; Flight Services;	developed using formulas based on net			
8		Governmental and Legislative Affairs;	plant, revenues and gross payroll.			
9		Land & Environmental Compliance;				
10		Investor Services; Community Relations;				
11		MPC Foundation; Vice Pres.-Marketing;				
12		Market Research & Planning; Strategic				
13		Planning				
14						
15	Human Resources	Includes the following departments: Human	All overhead costs not charged directly	\$23,477,033	76.50%	\$7,211,835
16		Resources; Benefits; Compensation & Labor	are allocated to the Utility & Nonutilities			
17		Relations; Employment; Organizational	based on number of employees or on %'s			
18		Development; Technology Training;	developed using formulas based on net			
19		HR Liaison to Energy Supply; HR Liaison	plant, revenues and gross payroll.			
20		to Energy Services				
21						
22	Financial Accounting	Includes the following departments: Audit	All overhead costs not charged directly	\$7,001,991	69.54%	\$3,066,357
23		Services; Commodity Risk; Controller	are allocated to the Utility & Nonutilities			
24		Services; Corporate Accounting; Property	based on number of employees or on %'s			
25		Records; Corporate Tax; Disbursements;	developed using formulas based on net			
26		Financial Reporting; CS Liaison to Energy	plant, revenues and gross payroll.			
27		Supply; CS Liaison to Energy Services;				
28		G&T Admin. Services; Gas Oper. Admin.				
29		Services				
30						
31	Treasury Services &	Includes the following departments:	All overhead costs not charged directly	\$7,868,310	72.41%	\$2,998,411
32	Facilities	Treasury Services; Facilities; Mailing	are allocated to the Utility & Nonutilities			
33		Services; Financial Services; Financial	based on number of employees or on %'s			
34		Systems; Investor Relations; Risk Mgmt.;	developed using formulas based on net			
35		Credit and Cash	plant, revenues and gross payroll.			
36						
37						

CORPORATE ALLOCATIONS

1	Departments Allocated Information Services	Description of Services Includes the following departments: Information Services; IS Customer Services; Admin. & User Support; Applications; Text Services; Information Tech Services; Data Administration; Data Center Operations; Network Services; Security & Disaster Recovery; IS Liaison to Energy Supply; IS Liaison to Energy Services; IS Liaison to SAS; Internet Communications	Allocation Method All overhead costs not charged directly are allocated to the Utility & Nonutilities based on %'s developed using formulas based on net plant, revenues and gross payroll.	\$ to MT EL & Gas Utilities \$13,188,677	MT % 78.90%	\$ to Other \$3,526,454
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13	Legal Services	Legal Services Department	All overhead costs not charged directly are allocated to the Utility & Nonutilities based on %'s developed using formulas based on net plant, revenues and gross payroll.	\$1,185,160	71.12%	\$481,337
14						
15						
16						
17						
18	Common Items	Includes: accruals for injuries and damages; pension trust fund payments; deferred savings plan payments	All overhead costs not charged directly are allocated to the Utility & Nonutilities based on number of employees or on %'s developed using formulas based on net plant, revenues and gross payroll.	\$95,275	100.00%	\$0
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28	TOTAL			\$63,193,003	75.03%	\$21,029,816
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1/ - Shared Administrative Services (SAS) became effective August 1, 1996. The purpose of SAS is to centralize overhead functions that are shared by all business units. Prior to August 1, 1996, only corporate costs were allocated. However, with the development of SAS, several departments that were separately maintained within MPC and Entech have been combined and are now being allocated to the business segments.

Sch. 6 AFFILIATE TRANSACTIONS - PRODUCTS & SERVICES PROVIDED TO UTILITY						
	<u>Affiliate Name</u>	<u>Products & Services</u>	<u>Method to Determine Price</u>	<u>Charges to Utility</u>	<u>% of Total Affil. Revs.</u>	<u>Charges to MT Utility</u>
1						
2	Nonutility Subsidiaries					
3	Western Energy Company	Coal sales & transportation	Contract Rates	\$25,355,311	3.32%	\$25,355,311
4		Misc. Services	Actual Costs Incurred	33,987	0.00%	33,987
5	North American Resources	By-product sales	Market Rates	99,097	0.01%	99,097
6	MP Gas Company	Gas Sales	Market Rates	18,857,825	2.47%	18,857,825
7	Tetragenics	Engineering Services	Market Rates	305,078	0.04%	305,078
8	Touch America	Communication Services	Market Rates	1,192,368	0.16%	1,192,368
9	Entech, Inc.	Gas royalty payment processing	Contract Rates	617,082	0.08%	617,082
10	North American Energy Services	Power plant O & M Services	Market Rates	1,514,101	0.20%	1,514,101
11	Continental Energy Services, Inc.	Interest on loans	Interest rate used is average of MPC's short term borrowing rate & Colstrip Unit 4's portfolio investment rate.	3,875,866	0.51%	3,875,866
12			1998 Annual Average Rate=5.530%			
13						
14						
15	Colstrip Unit 4 -	Interest on loans	Interest rate used is average of MPC's short term borrowing rate & Colstrip Unit 4's portfolio investment rate.	1,006,806	0.13%	1,006,806
16	Lease Management Division		1998 Annual Average Rate=5.530%			
17						
18						
19		Electric Sales	Spot Market Prices	837,638	0.11%	837,638
20	Total Nonutility Subsidiaries			\$53,695,159	7.02%	\$53,695,159
21	Total Nonutility Subsidiaries Revenues			\$764,572,000		
22	Utility Subsidiaries					
23	Glacier Gas Company	Gas sales	Based Upon Rate Base	\$224,116	0.04%	\$224,116
24	Colstrip Community Services	Property mgmt/utility services	Actual Costs Incurred	209,775	0.04%	209,775
25	Total Utility Subsidiaries			\$433,891	0.08%	\$433,891
26	Total Utility Subsidiaries Revenues			\$566,074,000		
27	TOTAL AFFILIATE TRANSACTIONS			\$54,129,050		\$54,129,050
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Sch. 7

AFFILIATE TRANSACTIONS - PRODUCTS & SERVICES PROVIDED BY UTILITY

	<u>Affiliate Name</u>	<u>Products & Services</u>	<u>Method to Determine Price</u>	<u>Charges to Affiliate</u>	<u>% of Total Affil. Exp.</u>	<u>Revenues to MT Utility</u>
1						
2	Nonutility Subsidiaries					
3	Western Energy Company	Sales of Electricity	Tariff Schedules	\$3,397,187	0.57%	\$3,397,187
4		Project Services	Actual Costs Incurred	71,091	0.01%	71,091
5	North American Resources	Gas Transportation	Monthly Bid Rate(FERC Tariff)	98,510	0.02%	98,510
6			& Fixed Rate (NEB)			
7	Touch America	Sales of Gas & Electricity	Tariff Schedules	46,709	0.01%	46,709
8	Entech, Inc.	Sales of Gas & Electricity	Tariff Schedules		0.00%	0
9	Colstrip Unit 4 -			719,006	0.12%	719,006
10	Lease Management Division	Sales of Electricity	Spot Market Prices		0.00%	0
11		Sale of Coal	Actual Costs Incurred	183,219	0.03%	183,219
12	Total Nonutility Subsidiaries			\$4,515,722	0.75%	\$4,515,722
13	Total Nonutility Subsidiaries Expenses			\$599,157,000		
14	Utility Subsidiaries					
15	Colstrip Community Services	Project Services	Actual Costs Incurred	\$43,160	0.01%	\$43,160
16	Total Utility Subsidiaries			\$43,160	0.01%	\$43,160
17	Total Utility Subsidiaries Expenses			\$426,214,000		
18	TOTAL AFFILIATE TRANSACTIONS			\$4,558,882		\$4,558,882
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MONTANA UTILITY INCOME STATEMENT - ELECTRIC (EXCLUDES UNIT 4)

	<u>Account Number & Title</u>	<u>This Year Cons. Utility</u>	<u>Yellowstone National Park</u>	<u>This Year Montana</u>	<u>Last Year Montana</u>	<u>% Change</u>
1						
2	400 Operating Revenues	\$477,630,166	\$2,981,163	\$474,649,003	\$437,686,962	8.44%
3						
4	Total Operating Revenues	\$477,630,166	\$2,981,163	\$474,649,003	\$437,686,962	8.44%
5						
6	Operating Expenses					
7						
8	401 Operation Expenses	\$220,425,367	\$1,405,348	\$219,020,019	\$193,900,501	12.95%
9	402 Maintenance Expense	29,523,859	190,130	29,333,729	32,604,761	-10.03%
10	403 Depreciation Expense	49,766,127	376,191	49,389,936	49,085,758	0.62%
11	404-405 Amort. of Electric Plant	2,681,682		2,681,682	2,421,336	10.75%
12	406 Amort. of Plant Acquisition Adj.	94,914		94,914	94,914	0.00%
13	407 Amort. of Property Losses, Unrecovered Plant, and Regulatory Study Costs					
14						
15						
16	408.1 Taxes Other Than Income Taxes	46,316,076		46,316,076	47,984,960	-3.48%
17	409.1 Income Taxes - Federal	25,376,651	203,311	25,173,340	19,452,296	29.41%
18	- Other	4,805,645	13,369	4,792,276	3,992,571	20.03%
19	410.1 Deferred Income Taxes-Dr.	2,348,525	76,620	2,271,905	4,734,066	-52.01%
20	411.1 Deferred Income Taxes-Cr.					
21	411.4 Investment Tax Credit Adj.	(1,246,840)	(3,765)	(1,243,075)	(1,455,411)	14.59%
22	411.6 Gain from Disposition of Property					
23	411.7 Loss from Disposition of Property					
24						
25	Total Operating Expenses	\$380,092,006	\$2,261,204	\$377,830,802	\$352,815,752	7.09%
26	NET OPERATING INCOME	\$97,538,160	\$719,959	\$96,818,201	\$84,871,210	14.08%
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MONTANA REVENUES - ELECTRIC (EXCLUDES UNIT 4)

	Account Number & Title	This Year Cons. Utility	Yellowstone National Park	This Year Montana	Last Year Montana	% Change
1						
2	Sales to Ultimate Consumers					
3						
4	440 Residential	\$127,863,738	\$110,328	\$127,753,410	\$124,614,941	2.52%
5	442 Commercial & Industrial-Small	168,517,580	306,937	168,210,643	157,960,971	6.49%
6	Commercial & Industrial-Large	80,525,263		80,525,263	87,048,701	-7.49%
7	444 Public Street & Highway Lighting	5,643,393	5,552	5,637,841	5,419,101	4.04%
8	445 Other Sales to Public Authorities	4,469,329	2,558,346	1,910,983	1,887,918	1.22%
9	446 Sales to Railroads & Railways					
10	448 Interdepartmental Sales	746,062		746,062	695,166	7.32%
11						
12	Total Sales to Ultimate Consumers	\$387,765,365	\$2,981,163	\$384,784,202	\$377,626,798	1.90%
13	447 Sales for Resale	\$72,644,108		\$72,644,108	\$50,788,082	43.03%
14						
15	Total Sales of Electricity	\$460,409,473	\$2,981,163	\$457,428,310	\$428,414,880	6.77%
16	449.1 Provision for Rate Refunds			\$0	\$261,233	-100.00%
17						
18	Total Revenue Net of Rate Refunds	\$460,409,473	\$2,981,163	\$457,428,310	\$428,676,113	6.71%
19						
20	Other Operating Revenues					
21						
22	451 Miscellaneous Service Revenue	\$10,897		\$10,897	\$3,631	200.11%
23	453 Sales of Water & Water Power	2,953,820		2,953,820	3,125,739	-5.50%
24	454 Rent From Electric Property	2,423,846		2,423,846	2,270,187	6.77%
25	455 Interdepartmental Rents					
26	456 Other Electric Revenues	11,832,130		11,832,130	3,611,292	227.64%
27						
28	Total Other Operating Revenue	\$17,220,693	\$0	\$17,220,693	\$9,010,849	91.11%
29	TOTAL OPERATING REVENUE	\$477,630,166	\$2,981,163	\$474,649,003	\$437,686,962	8.44%
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MONTANA OPERATION & MAINTENANCE EXPENSES - ELECTRIC (EXCLUDES UNIT 4)

	<u>Account Number & Title</u>	<u>This Year Cons. Utility</u>	<u>Yellowstone National Park</u>	<u>This Year Montana</u>	<u>Last Year Montana</u>	<u>% Change</u>
1	Power Production Expenses					
2	Steam Power Generation-Operation					
3	500 Supervision & Engineering	\$1,363,808		\$1,363,808	\$1,113,897	22.44%
4	501 Fuel	30,210,113		30,210,113	28,703,891	5.25%
5	502 Steam Expenses	2,935,865		2,935,865	2,453,971	19.64%
6	503 Steam from Other Sources	(2,283)		(2,283)	(3,495)	34.67%
7	505 Electric Plant	2,254,243		2,254,243	1,782,100	26.49%
8	506 Miscellaneous Steam Power	3,147,264		3,147,264	2,197,954	43.19%
9	507 Rents	(33,680)		(33,680)	0	-100.00%
10	Total Operation-Steam Power Gen.	\$39,875,329	\$0	\$39,875,329	\$36,248,318	10.01%
11	Steam Power Generation-Maintenance					
12	510 Supervision & Engineering	\$507,767		\$507,767	\$631,459	-19.59%
13	511 Structures	1,014,260		1,014,260	1,403,729	-27.75%
14	512 Steam Boiler Plant	6,941,240		6,941,240	9,652,581	-28.09%
15	513 Electric Plant	1,414,180		1,414,180	3,788,888	-62.68%
16	514 Miscellaneous Steam Plant	1,177,004		1,177,004	1,076,048	9.38%
17	Total Maintenance-Steam Power Gen.	\$11,054,452	\$0	\$11,054,452	\$16,552,705	-33.22%
18	Total Steam Power Generation	\$50,929,781	\$0	\$50,929,781	\$52,801,023	-3.54%
19	Hydro Power Generation-Operation					
20	535 Supervision & Engineering	\$1,812,263		\$1,812,263	\$1,369,699	32.31%
21	536 Water for Power	570,200		570,200	769,689	-25.92%
22	537 Hydraulic Expenses	724,744		724,744	600,514	20.69%
23	538 Electric Expenses	1,931,736		1,931,736	1,285,620	50.26%
24	539 Miscellaneous Hydraulic Power	782,198		782,198	657,538	18.96%
25	540 Rents	13,818,633		13,818,633	13,942,555	-0.89%
26	Total Operation-Hydro Power Gen.	\$19,639,773	\$0	\$19,639,773	\$18,625,615	5.44%
27	Hydro Power Generation-Maintenance					
28	541 Supervision & Engineering	\$239,170		\$239,170	\$172,043	39.02%
29	542 Structures	251,741		251,741	212,475	18.48%
30	543 Reservoirs, Dams & Waterways	1,070,977		1,070,977	1,203,274	-10.99%
31	544 Electric Plant	768,699		768,699	792,683	-3.03%
32	545 Miscellaneous Hydro Plant	295,091		295,091	224,463	31.47%
33	Total Maintenance-Hydro Power Gen.	\$2,625,678	\$0	\$2,625,678	\$2,604,938	0.80%
34	Total Hydraulic Power Generation	\$22,265,452	\$0	\$22,265,452	\$21,230,553	4.87%
35	Other Power Generation-Operation					
36	546 Supervision & Engineering					
37	547 Fuel	\$27,574	\$27,574	0	0	0.00%
38	548 Generation Expenses	2,430	2,430	0	0	0.00%
39	549 Miscellaneous Other Power	1,254	1,254	0	0	0.00%
40	Total Operation-Other Power Gen.	\$31,258	\$31,258	\$0	\$0	0.00%
41	Other Power Generation-Maintenance					
42	551 Supervision & Engineering					
43	552 Structures	\$221	\$221	\$0	\$0	0.00%
44	553 Generating & Electric Plant	66,219	66,219	0	0	0.00%
45	554 Miscellaneous Other Power Plant	2,994	2,994	0	0	0.00%
46	Total Maintenance-Other Power Gen.	\$69,434	\$69,434	\$0	\$0	0.00%
47	Total Other Power Generation	\$100,692	\$100,692	\$0	\$0	0.00%
48	Other Power Supply Expenses					
49	555 Purchased Power	\$83,552,556	\$1,016,737	\$82,535,819	\$60,329,805	36.81%
50	556 System Control & Load Dispatch	6,843		6,843	41,293	-83.43%
51	557 Other Expenses	0		0	4,892,471	-100.00%
52	Total Other Power Supply Expenses	\$83,559,399	\$1,016,737	\$82,542,662	\$65,263,569	26.48%
53	Total Power Production Expenses	\$156,855,323	\$1,117,429	\$155,737,894	\$139,295,145	11.80%

MONTANA OPERATION & MAINTENANCE EXPENSES - ELECTRIC (EXCLUDES UNIT 4)

	<u>Account Number & Title</u>	<u>This Year Cons. Utility</u>	<u>Yellowstone National Park</u>	<u>This Year Montana</u>	<u>Last Year Montana</u>	<u>% Change</u>
1						
2	Transmission Expenses					
3						
4	Transmission-Operation					
5	560 Supervision & Engineering	\$2,341,258	\$18,880	\$2,322,379	\$1,489,223	55.95%
6	561 Load Dispatching	1,298,097		1,298,097	1,004,303	29.25%
7	562 Station Expenses	196,951		196,951	134,807	46.10%
8	563 Overhead Lines	705,779	19,783	685,996	543,297	26.27%
9	564 Underground Lines					
10	565 Transmission of Elec. by Others	4,612,845		4,612,845	985,865	367.90%
11	566 Miscellaneous Transmission	300,342		300,342	184,340	62.93%
12	567 Rents	1,897,104		1,897,104	2,195,636	-13.60%
13	Total Operation-Transmission	\$11,352,375	\$38,663	\$11,313,712	\$6,537,471	73.06%
14	Transmission-Maintenance					
15	568 Supervision & Engineering	\$416,149	\$205	\$415,944	\$263,466	57.87%
16	569 Structures	886		886	10,407	-91.48%
17	570 Station Equipment	1,567,385		1,567,385	1,532,803	2.26%
18	571 Overhead Lines	1,901,444	\$75,156	1,826,288	1,806,163	1.11%
19	572 Underground Lines	259		259	1,809	100.00%
20	573 Miscellaneous Transmission Plant	6,330		6,330	473	1238.34%
21	Total Maintenance-Transmission	\$3,892,454	\$75,361	\$3,817,093	\$3,615,121	5.59%
22	Total Transmission Expenses	\$15,244,829	\$114,024	\$15,130,805	\$10,152,592	49.03%
23						
24	Distribution Expenses					
25						
26	Distribution-Operation					
27	580 Supervision & Engineering	\$1,131,657		\$1,131,657	\$1,892,603	-40.21%
28	581 Load Dispatching	7		7	128	100.00%
29	582 Station Expenses	793,601	31,287	762,313	535,998	42.22%
30	583 Overhead Lines	2,972,609	80,632	2,891,977	2,745,637	5.33%
31	584 Underground Lines	1,138,483	19,529	1,118,953	1,030,752	8.56%
32	585 Street Lighting & Signal Systems	852,873		852,873	592,081	44.05%
33	586 Meters	2,392,902	841	2,392,061	1,647,398	45.20%
34	587 Customer Installations	1,306,665	483	1,306,182	1,159,188	12.68%
35	588 Miscellaneous Distribution	2,085,203		2,085,203	1,627,605	28.11%
36	589 Rents	82,192		82,192	102,420	-19.75%
37	Total Operation-Distribution	\$12,756,192	\$132,773	\$12,623,420	\$11,333,810	11.38%
38	Distribution-Maintenance					
39	590 Supervision & Engineering	\$711,751		\$711,751	\$455,009	56.43%
40	591 Structures	86		86	6,637	-98.71%
41	592 Station Equipment	1,445,173	\$12,075	1,433,098	1,285,150	11.51%
42	593 Overhead Lines	6,728,168	15,886	6,712,282	5,867,170	14.40%
43	594 Underground Lines	1,498,982	13,177	1,485,806	1,116,442	33.08%
44	595 Line Transformers	650,825	4,197	646,628	527,530	22.58%
45	596 Street Lighting, Signal Systems	528,010		528,010	395,083	33.65%
46	597 Meters	511,820		511,820	372,947	37.24%
47	598 Miscellaneous Distribution Plant	994		994	0	100.00%
48	Total Maintenance-Distribution	\$12,075,811	\$45,335	\$12,030,476	\$10,025,968	19.99%
49	Total Distribution Expenses	\$24,832,003	\$178,107	\$24,653,895	\$21,359,778	15.42%
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MONTANA OPERATION & MAINTENANCE EXPENSES - ELECTRIC (EXCLUDES UNIT 4)

	<u>Account Number & Title</u>	<u>This Year Cons. Utility</u>	<u>Yellowstone National Park</u>	<u>This Year Montana</u>	<u>Last Year Montana</u>	<u>% Change</u>
1						
2	Customer Accounts Expenses					
3						
4	Customer Accounts-Operation					
5	901 Supervision	\$0		\$0	\$34,879	-100.00%
6	902 Meter Reading	2,392,282		2,392,282	1,960,566	22.02%
7	903 Customer Records & Collection	3,469,297		3,469,297	3,454,099	0.44%
8	904 Uncollectible Accounts	1,298,872		1,298,872	1,714,569	-24.25%
9	905 Miscellaneous Customer Accts.	211		211	1,837	-88.54%
10	Total Customer Accounts Expenses	\$7,160,662	\$0	\$7,160,662	\$7,165,950	-0.07%
11						
12	Customer Service & Information					
13						
14	Customer Service-Operation					
15	907 Supervision	\$80,876		\$80,876	\$100,134	-19.23%
16	908 Customer Assistance	2,071,131		2,071,131	1,922,481	7.73%
17	909 Inform. & Instruct. Advertising	570,915		570,915	979,489	-41.71%
18	910 Misc. Customer Service & Info.	731		731	1,173	-37.68%
19	Total Customer Service & Info. Expense	\$2,723,653	\$0	\$2,723,653	\$3,003,277	-9.31%
20						
21	Sales Expenses					
22						
23	Sales-Operation					
24	911 Supervision	\$232,769		\$232,769	\$198,747	17.12%
25	912 Demonstrating & Selling	849,045		849,045	865,600	-1.91%
26	913 Advertising	379,087		379,087	440,162	-13.88%
27	916 Miscellaneous Sales	2,664		2,664	1,518	75.47%
28	Total Sales Expenses	\$1,463,563	\$0	\$1,463,563	\$1,506,027	-2.82%
29						
30	Administrative & General Expenses					
31						
32	Admin. & General-Operation					
33	920 Admin. & General Salaries	\$20,784,035	\$110,244	\$20,673,792	\$17,452,090	18.46%
34	921 Office Supplies & Expenses	5,026,487	26,662	4,999,825	3,970,715	25.92%
35	922 Admin. Expense Transferred-Cr.	(3,314,810)	(17,583)	(3,297,227)	(4,232,302)	22.09%
36	923 Outside Services Employed	3,913,815	20,760	3,893,055	3,512,291	10.84%
37	924 Property Insurance	560,938	2,975	557,963	555,334	0.47%
38	925 Injuries & Damages	3,775,871	20,028	3,755,842	3,211,025	16.97%
39	926 Employee Pensions & Benefits	(5,955,369)	(29,321)	(5,926,048)	10,667,656	-155.55%
40	927 Franchise Requirements					
41	928 Regulatory Commission Expenses	974,095		974,095	1,620,498	-39.89%
42	407 Amortization of Property Losses	6,071,821		6,071,821	127,174	4674.42%
43	929 Duplicate Charges-Cr.					
44	930 Miscellaneous General Expenses	4,435,606	23,528	4,412,078	4,037,944	9.27%
45	931 Rents	2,649,790	14,055	2,635,735	767,356	243.48%
46	Total Operation-Admin. & General	\$38,922,279	\$171,347	\$38,750,932	\$41,689,781	-7.05%
47	Admin. & General-Maintenance					
48	935 General Plant	\$2,746,915	\$14,571	\$2,732,344	\$2,332,712	17.13%
49	Total Maintenance-Admin. & General	\$2,746,915	\$14,571	\$2,732,344	\$2,332,712	17.13%
50	Total Admin. & General Expenses	\$41,669,194	\$185,919	\$41,483,276	\$44,022,493	-5.77%
51	TOTAL OPER. & MAINT. EXPENSES	\$249,949,226	\$1,595,478	\$248,353,748	\$226,505,262	9.65%
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MONTANA TAXES OTHER THAN INCOME - ELECTRIC (EXCLUDES UNIT 4)

	Description	Last Year	This Year	% Change
1				
2	<u>Federal Taxes</u>			
3	Social Security Old Age	\$3,384,280	\$2,788,630	-17.60%
4	Social Security Unemployment	86,435	97,708	13.04%
5	Excise Tax on Insurance Premiums			
6	Environmental Tax	(98,000)	0	-100.00%
7	Medicare	930,964	784,715	-15.71%
8				
9	<u>Montana Taxes</u>			
10	Real Estate & Personal Property	40,526,082	43,785,532	8.04%
11	Social Security Unemployment	168,601	121,139	-28.15%
12	Old Fund Liability	273,889	276,513	0.96%
13	Electric Energy Producer's License	1,669,540	1,671,040	0.09%
14	Consumer Counsel	298,273	294,975	-1.11%
15	Public Service Commission	737,072	918,876	24.67%
16	City Licenses	7,350	8,722	18.67%
17				
18	<u>Wyoming Taxes</u>			
19	Property	0	0	0.00%
20				
21	<u>Washington Taxes</u>			
22	Social Security Unemployment	0	0	0.00%
23				
24	<u>District of Columbia Taxes</u>			
25	Social Security Unemployment	255	518	103.14%
26	Personal Property	219	174	-20.55%
27				
28	<u>Other</u>			
29	Payroll Tax Credit	0	(4,432,466)	0.00%
30				
31	TOTAL TAXES OTHER THAN INCOME	\$47,984,960	\$46,316,076	-3.48%
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Sch. 12		PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES			
	Name of Recipient	Nature of Service	Total	MT	% MT
1	ACE ELECTRIC, INC.	LINE MAINTENANCE	\$246,529	1/	1/
2	ADP INVESTORS COMMUNICATION	MISC. INFORMATION	101,706		
3	ADVANTAGE ELECTRIC INC	ELECTRIC MAINTENANCE	165,449		
4	ADVERTISING EDGE	ADVERTISING	322,805		
5	ALME CONSTRUCTION, INC.	GAS PIPELINE CONSTRUCTION	266,140		
6	AMERICAN PUBLIC LAND EXCHANGE	REAL ESTATE NEGOTIATION	137,256		
7	AMERICAN SOFTWARE USA	SOFTWARE MAINTENANCE	121,800		
8	ARK ASSET MANAGEMENT CO INC	CONSULTING / FUND MGMT	344,112		
9	ASPLUNDH	TREE TRIMMING	1,466,688		
10	ATS, ANDERSON TREE SERVICE	TREE TRIMMING	355,590		
11	BERNARD NICHOLLS TRUCKING LLC	HAULING	264,373		
12	BLAZER STRUCTURES	CONSTRUCTION / CONCRETE WORK	243,535		
13	BLUE CROSS/BLUE SHIELD OF MT	ADMINISTRATION - WELFARE PLAN	1,096,402		
14	BUCK CONSULTANTS, INC.	ADMINISTRATION - 401(K) PLAN	148,223		
15	BURNS INT'L. SECURITY SERVICES	SECURITY SERVICE	203,230		
16	BUTTE TIN SHOP, INC.	HVAC SYSTEM ADDITIONS	192,522		
17	CANNON SLINE	SCRUBBER LINING	180,849		
18	CEGELEC ESCA	COMPUTER MAINTENANCE	276,844		
19	COLSTRIP ELECTRIC, INC.	MISC. ELECTRICAL WORK	119,545		
20	COMMUNITY HEALTH OPTIONS	HEALTH SERVICES	242,310		
21	COVINGTON & BURLING	LEGAL	106,180		
22	CREDIT BUREAU OF BUTTE, INC.	COLLECTION	109,132		
23	CROWLEY, HAUGHEY, HANSON & TOOLE	LEGAL	148,827		
24	DAVIS WRIGHT TREMAINE	LEGAL	642,112		
25	DAVIS, GRAHAM & STUBBS L.L.C.	LEGAL	247,190		
26	DELOITTE & TOUCHE	ERP CONSULTING	355,784		
27	DOUMA CONSTRUCTION	EXCAVATION / FOUNDATION WORK	125,639		
28	DYNAMIC INTERIORS	PAINTING SERVICES	151,079		
29	ECSI CORP	SOFTWARE DEVELOPMENT	367,737		
30	E. H. OFTEDAL & SONS, INC.	BOTTOM ASH REMOVAL / MISC. WORK	1,147,188		
31	EPRI	RESEARCH	1,071,329		
32	EXPRESS SERVICES INC	TEMPORARY EMPLOYMENT	990,492		
33	FIRE SUPPRESSION SYSTEMS, INC.	FIRE SECURITY SERVICES	201,658		
34	FIRSTAR INVESTMENT RESEARCH &	INVESTMENT MANAGEMENT SERVICES	139,529		
35	FIRST DATA PAYMENT SERVICES	MISC. INFORMATION	193,828		
36	GOLDMAN SACHS & COMPANY	FINANCIAL CONSULTANT	505,876		
37	HARDY CONSTRUCTION COMPANY	CORETTE REMODELING	108,960		
38	HARP ENGINEERING INC	ENGINEERING SERVICES	114,887		
39	HARP LINE CONSTRUCTORS CO.	LINE CONSTRUCTION AND MAINTENANCE	5,347,837		
40	HEATH CONSULTANTS, INC.	GAS LEAK DETECTION	126,390		
41	HOLLAND SYSTEMS CORPORATION	INFORMATION SYSTEM PLANNING	101,301		
42	HYDROCHEM INDUSTRIAL SERV INC	INDUSTIAL CLEANING SERVICES	106,307		
43	IBM CORPORATION	COMPUTER MAINTENANCE	5,188,255		
44	ICF RESOURCES INC	CONSULTING	132,500		
45	INDEPENDENT INSPECTION COMPANY	ELECTRIC LINE INSPECTION	535,844		
46	INDUSTRIAL LIGHTING SERVICE	LIGHTING SERVICES	108,912		
47	INTERLINK GROUP, INC.	COMPUTER SYSTEMS SUPPORT	121,031		
48	INTERIM PERSONNEL BUTTE MT	TEMPORARY EMPLOYMENT	272,035		
49	INTERNATIONAL COOLING TOWER, INC.	COOLING TOWER WORK	581,092		
50	ITRON INC	HARDWARE / SOFTWARE MAINTENANCE	123,401		
51	JAMES J MURPHY	CONSULTING	163,000		
52	JOHN E CHANCE & ASSOC INC	SURVEYING	186,600		
53	JOHNSON CONTROLS, INC.	HVAC SYSTEM ADDITIONS	207,125		
54	KIP KEIM	CONSTRUCTION	150,861		

PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES

	<u>Name of Recipient</u>	<u>Nature of Service</u>	<u>Total</u>	<u>MT</u>	<u>% MT</u>
1	KPMG PEAT MARWICK	MANAGEMENT CONSULTING	183,130		
2	LEWIS CONSTRUCTION COMPANY	MAINTENANCE / CONSTRUCTION	1,297,429		
3	LEWIS MFG & CONSTRUCTION, INC.	FOUNDATION CONSTRUCTION	616,749		
4	MEYLAN ENTERPRISES, INC.	HIGH PRESSURE WASHING	326,587		
5	MIKE BOYLAN EXCAVATING, INC.	CONSTRUCTION / MAINTENANCE	674,039		
6	MILBANK TWEED HADLEY & MCCLOY	LEGAL	1,201,875		
7	MILLER MECHANICAL INC	PLUMBING SERVICES	210,299		
8	MISSOULA DESIGN GROUP	HVAC SYSTEM DESIGN	137,960		
9	MORRIS MARKETING CO., INC	GAS CREDIT CARD SERVICES	125,373		
10	MOUNTAIN POWER INC	LINE CONSTRUCTION AND MAINTENANCE	4,745,123		
11	NICHOLSON CONSTRUCTION CO	CONSTRUCTION	196,674		
12	NORTHERN TRUST COMPANY	CONSULTING 401(K) / PENSION	220,619		
13	NORTHWEST ENERGY EFFICIENCY	ENERGY SERVICES	365,729		
14	OSMOSE WOOD PRESERVING, INC.	POLE TESTING AND TREATMENT	150,084		
15	PAR ELECTRICAL CONTRACTORS INC	LINE MAINTENANCE	604,466		
16	PILKO & ASSOCIATES INC	CONSULTING	432,191		
17	PRECISION BLASTING	BLASTING SERVICES	339,600		
18	PRICEWATERHOUSECOOPER LLP	AUDITING	826,998		
19	ROBERT T O'LEARY	LEGAL	100,596		
20	SAFETY-KLEEN/LAIDLAW	PCB DISPOSAL	220,150		
21	SIEMANS WESTINGHOUSE POWER	TURBINE MODIFICATION	1,070,796		
22	SLETTEN CONSTRUCTION COMPANY	CONSTRUCTION	191,633		
23	SON-HAUL INC	ENGINEERING / REDESIGN	124,711		
24	SPIKER COMMUNICATIONS INC	ADVERTISING / TYPESETTING	3,153,214		
25	STRATEGIC MANAGEMENT GROUP INC	MANAGEMENT CONSULTING	133,703		
26	STSTCS INC	LINE LOCATING	1,361,173		
27	TABBERT CONSTRUCTION	TRENCHING	275,073		
28	THE BRATTLE GROUP	LEGAL	109,277		
29	THELEN REID & PRIEST LLP	LEGAL	627,789		
30	THOMAS BUILT-UP ROOFING, INC.	ROOFING	136,681		
31	TOWERS, PERRIN	CONSULTING / ACTUARY	660,704		
32	TRADE MARK ELECTRIC INC	ELECTRICAL WORK	184,263		
33	TRI-COUNTY MECHANICAL AND	MISC. PLUMBING	257,314		
34	U S PIPELINE INC	CN PROJECT SERVICES	279,500		
35	UTILITY TRENCHING	TRENCHING	591,475		
36	VALMET AUTOMATION (USA) INC	INFORMATION SYSTEM PLANNING	355,231		
37	WALSH PLUMBING & HEATING	MISC. PLUMBING	481,984		
38	WESTINGHOUSE ELECTRIC CORP.	DESIGN & MANUF. TURBINE ROTOR	2,250,030		
39	WESTINGHOUSE POWER GENERATION	OIL FLUSH TURBINE AND TECH. SUPPOR	286,005		
40	WESTERN SYS COORDINATING COUNCIL	ENERGY SERVICES	123,220		
41	WHITESIDE & ASSOCS	TRAFFIC CONSULTANTS	218,661		
42	WOLFER PRINTING COMPANY	PRINTING SERVICES	193,460		
43	XEROX CORPORATION	MAINTENANCE	178,802		
44	ZACHA CONSTRUCTION, INC.	CONSTRUCTION / MAINTENANCE	628,497		
45					
46					
47					
48					
49					
50					
51					
52					
53	TOTAL PAYMENTS FOR SERVICE		\$53,524,693		
54	1/ Due to the multiple % allocations, it is not practical to separately identify amounts charged to the electric or gas utility.				

POLITICAL ACTION COMMITTEES / POLITICAL CONTRIBUTIONS

	<u>Description</u>	<u>Total Company</u>	<u>Montana</u>	<u>% Montana</u>
1				
2	The Montana Power Company does not make any contributions to Political Action			
3	Committees (PACs) or candidates.			
4				
5	There is an employee PAC - Citizens for Responsible Government / Employees of			
6	the Montana Power Company (CRG). CRG is an organization of employees and			
7	shareholders of Montana Power and its subsidiaries. All of the money contributed by			
8	members goes to support political candidates. No company funds may be spent in			
9	support of a political candidate or issues affecting the Company. Officers and local			
10	representatives of CRG donate their time. Nominal administrative costs for such			
11	things as duplicating and postage are paid by the Company. These costs are charged			
12	to shareholder expense.			
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PENSION COSTS

	Description	Last Year	This Year	% Change
1	Plan Name: Retirement Plan for Employees			
2	of the Montana Power Company			
3	Defined Benefit Plan	Yes	Yes	
4	Defined Contribution Plan (See Schedule 14A)			
5	Is the Plan overfunded?	Yes - 2/	Yes - 3/	
6				
7				
8	Actuarial Cost Method	Projected Unit Credit Method		
9	IRS Code			
10	Annual Contribution by Employer	\$4,000,000	\$0	
11				
12	Accumulated Benefit Obligation	\$153,944,567	\$220,164,382	43.02%
13	Projected Benefit Obligation	\$187,207,266	\$181,421,763	-3.09%
14	Fair Value of Plan Assets	\$227,496,249	\$222,484,326	-2.20%
15				
16	Discount Rate for Benefit Obligations	7.00%	6.75%	
17	Expected Long-Term Return on Assets	9.00%	9.00%	
18				
19	Net Periodic Pension Cost:			
20	Service Cost	\$4,632,979	\$4,320,941	-6.74%
21	Interest Cost	12,430,891	11,975,208	-3.67%
22	Return on Plan Assets (Expected)	(35,745,008)	(17,592,262)	50.78%
23	Net Amortization	17,239,828	(513,324)	-102.98%
24	Total Net Periodic Pension Cost	(\$1,441,310)	(\$1,809,437)	-25.54%
25				
26	Minimum Required Contribution			
27	Actual Contribution	\$0	\$0	0.00%
28	Maximum Amount Deductible	\$6,809,365	\$6,106,050	-10.33%
29	Benefit Payments	\$7,758,302	\$8,799,269	13.42%
30				
31	Montana Intrastate Costs:			
32	Pension Costs		NOT AVAILABLE	
33	Pension Costs Capitalized			
34	Accumulated Pension Asset (Liability) at Year End			
35				
36	Number of Company Employees : 1/			
37	Covered by the Plan			
38	Active	2,124	1,595	-24.91%
39	Retired	721	803	11.37%
40	Vested Former Employees (Deferred Inactive)	384	424	10.42%
41	Total Covered by the Plan	3,229	2,822	-12.60%
42	Total Not Covered by the Plan			

1/ Obtained from The Actuarial Valuation Report of the Retirement Plan for Employees of The Montana Power Company, prepared as of January 1, 1998 and 1997 respectively. Active employees covered under the Plan decreased during 1998 due to transfers between existing and new plans.

2/ As of December 31, 1997, the fair value of assets was \$227.5 million and the projected benefit obligation was \$187.2 million. However, there was an unrecognized net gain of \$42.7 million that has not been fully amortized pursuant to SFAS Statement No. 87. There is an prepaid pension cost of \$2.3 million as of December 31, 1997.

3/ As of December 31, 1998, the fair value of assets was \$222.5 million and the projected benefit obligation was \$181.4 million. However, there was an unrecognized net gain of \$44.3 million that has not been fully amortized pursuant to SFAS Statement No. 87. There is an prepaid pension cost of \$4.0 million as of December 31, 1998.

PENSION COSTS

	Description	Last Year - 2/	This Year	% Change
1	Plan Name: Retirement Savings Plan			
2				
3	Defined Benefit Plan (See Schedule 14)			
4	Defined Contribution Plan	Yes	Yes	
5	Is the Plan overfunded?			
6				
7				
8	Actuarial Cost Method			
9	IRS Code			
10	Annual Contribution by Employer			
11				
12	Accumulated Benefit Obligation			
13	Projected Benefit Obligation			
14	Fair Value of Plan Assets	\$242,551,624	\$330,350,727	36.20%
15				
16	Discount Rate for Benefit Obligations			
17	Expected Long-Term Return on Assets			
18				
19	Net Periodic Pension Cost:			
20	Service Cost			
21	Interest Cost		NOT APPLICABLE	
22	Return on Plan Assets (Actual)			
23	Net Amortization			
24	Total Net Periodic Pension Cost			
25				
26	Minimum Required Contribution			
27	Actual Contribution		NOT APPLICABLE	
28	Maximum Amount Deductible			
29	Benefit Payments			
30				
31	Montana Intrastate Costs:			
32	Pension Costs		NOT APPLICABLE	
33	Pension Costs Capitalized			
34	Accumulated Pension Asset (Liability) at Year End			
35				
36	Number of Company Employees :			
37	Covered by the Plan -- Eligible	2,425	2,442	0.70%
38	Not Covered by the Plan	0	0	0.00%
39	Active -- Participating	1,786	1,767	-1.06%
40	Retired			0.00%
41	Vested Former Employees, Retirees and	639	675	5.63%
42	Active-Noncontributing			
43	Total Covered by the Plan	2,425	2,442	0.70%
44	Total Not Covered by the Plan	0	0	
45				
46				
47				
48				
49				
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54				
55				

OTHER POST EMPLOYMENT BENEFITS (OPEBS)

	Description	Last Year - 5/ 1/	This Year 2/	% Change
1	General Information			
2	Discount Rate for Benefit Obligations	7.50%	7.00%	-6.67%
3	Expected Long-Term Return on Assets	9.00%	9.00%	0.00%
4	Medical Cost Inflation Rate 3/	8.50%, 5.00%: 7	8.00%, 5.00%: 6	
5	Actuarial Cost Method	Projected Unit Credit Actuarial Cost Method allocated from date of hire to full eligibility date.		
6				
7				
8	List each method used to fund OPEBs (ie: VEBA, 401(h)):			
9	Method - Tax Advantaged (Yes or No) YES			
10	Union Employees - VEBA			
11	Non-Union Employees - 401(h)			
12	Describe Changes to the Benefit Plan: None.			
13				
14	Total Company			
15				
16	Accumulated Post Retirement Benefit Obligation (APBO)	\$20,142,625	\$24,412,733	21.20%
17	Fair Value of Plan Assets	\$8,168,281	\$8,781,999	7.51%
18				
19	List the amount funded through each funding method:			
20	VEBA	\$883,512	\$860,014	-2.66%
21	401(h)	919,573	688,343	-25.15%
22	Other: Cash	916,979	1,016,441	10.85%
23	Total Amount Funded	\$2,720,064	\$2,564,798	-5.71%
24				
25	List amount that was tax deductible for each type of funding:			
26	VEBA	\$883,512	\$860,014	-2.66%
27	401(h)	919,573	688,343	-25.15%
28	Other: Cash	916,979	1,016,441	10.85%
29	Total Amount Tax Deductible	\$2,720,064	\$2,564,798	-5.71%
30				
31	Net Periodic Post Retirement Benefit Cost:			
32	Service Cost	\$466,540	\$775,597	66.24%
33	Interest Cost	1,346,369	1,658,296	23.17%
34	Return on Plan Assets	(458,697)	(670,497)	-46.17%
35	Net Gain/(Loss) During Period Def. for Later Rec	1,035,528	1,095,162	5.76%
36	Amort. of Transition Oblig. & Regulatory Asset	0	68,832	100.00%
37	Amortization of Gains or Losses	(346,896)	(273,925)	21.04%
38	Total Net Periodic Post Retirement Benefit Cost	\$2,042,844	\$2,653,465	29.89%
39	Benefit Cost Expensed	\$1,243,275	\$1,614,899	29.89%
40	Benefit Cost Capitalized	343,402	446,047	29.89%
41	Benefit Cost Charged to MPC Subs & Colstrip Owners	456,167	592,519	29.89%
42	Total Benefit Costs	\$2,042,844	\$2,653,465	29.89%
43	Benefit Payments	\$916,979	\$1,016,441	10.85%
44				
45	Number of Company Employees :			
46	Covered by the Plans			
47	Active	2,120	1,579	-25.52%
48	Retired	611	645	5.56%
49	Retired Spouse/Dependents	184	72	-60.87%
50	Total Covered by the Plans	2,915	2,296	-21.23%
51	Total Not Covered by the Plans	295	230	-22.03%
52	1/ Obtained from MPC's 1997 FASB 106 Valuation. Assumptions and data are as of December 31, 1997.			
53	2/ Obtained from MPC's 1998 FASB 106 Valuation. Assumptions and data are as of December 31, 1998.			
54	3/ First Year, Ultimate, Years to Reach Ultimate.			

OTHER POST EMPLOYMENT BENEFITS (OPEBS)

	Description	Last Year	This Year	% Change
1	General Information	4/	4/	
2	Discount Rate for Benefit Obligations			
3	Expected Long-Term Return on Assets			
4	Medical Cost Inflation Rate 3/			
5	Actuarial Cost Method			
6				
7				
8	List each method used to fund OPEBs (ie: VEBA, 401(h)):			
9	Method - Tax Advantaged (Yes or No) YES			
10	Union Employees - VEBA			
11	Non-Union Employees - 401(h)			
12	Describe Changes to the Benefit Plan: None.			
13				
14	Montana	4/	4/	
15				
16	Accumulated Post Retirement Benefit Obligation (APBO)			
17	Fair Value of Plan Assets			
18				
19	List the amount funded through each funding method:			
20	VEBA			
21	401(h)			
22	Other: Cash			
23	Total Amount Funded			
24				
25	List amount that was tax deductible for each type of funding:			
26	VEBA			
27	401(h)			
28	Other: Cash			
29	Total Amount Tax Deductible			
30				
31	Net Periodic Post Retirement Benefit Cost:			
32	Service Cost			
33	Interest Cost			
34	Return on Plan Assets - Estimated			
35	Amort. of Transition Oblig. & Regulatory Asset			
36	Amortization of Gains or Losses			
37	Total Net Periodic Post Retirement Benefit Cost			
38	Benefit Cost Expensed			
39	Benefit Cost Capitalized			
40	Benefit Cost Charged to MPC Subs & Colstrip Owners			
41	Total Benefit Costs			
42	Benefit Payments			
43				
44	Number of Company Employees :			
45	Covered by the Plans			
46	Active			
47	Retired			
48	Retired Spouse/Dependents			
49	Total Covered by the Plans			
50	Total Not Covered by the Plans			
51	4/ Substantially all of the amounts are subject to the MPSC jurisdiction. Actual amounts that will be			
52	expensed, will reflect reductions for amounts billed to others or allocated to Yellowstone National Park.			
53				

TOP TEN MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)

	<u>Name/Title</u>	<u>Base Salary</u> 1/	<u>Other Comp.</u> 2/	<u>Total Comp.</u>	<u>Total Comp.</u> <u>Last Year</u>	<u>% Change</u>
1	R. P. Gannon	\$362,523	\$6,400 <B			
2	Chairman of the Board		115,920 <C			
3	President and Chief Executive		51,757 <D			
4	Officer		544,655 <E			
5			1,817 <G			
6			274 <H			
7			588 <I			
8			603 <J			
9				\$1,084,537	\$339,641	219%
10	R.F. Cromer	\$193,920	\$9,792 <A			
11	Executive Vice President &		6,400 <B			
12	Chief Operating Officer, Energy		48,960 <C			
13	Supply Division		48,976 <D			
14			555 <E			
15			885 <G			
16			379 <H			
17			152 <I			
18				\$310,019	\$248,741	25%
19	J. D. Haffey	\$190,890	\$22,244 <A			
20	Executive Vice President &		6,400 <B			
21	Chief Operating Officer, Energy		48,195 <C			
22	Services Division		16,771 <D			
23			144,346 <E			
24			1,064 <G			
25			575 <H			
26			654 <I			
27				\$431,139	\$224,025	92%
28	J. P. Pederson	\$186,850	\$15,241 <A			
29	Vice President & Chief Financial		6,400 <B			
30	& Information Officer		48,563 <C			
31			25,505 <D			
32			1,884 <G			
33			564 <I			
34				\$285,007	\$209,758	36%
35	W. S. Dee	\$181,800	\$6,400 <B			
36	Vice President, Marketing		25,988 <C			
37			1,949 <G			
38			479 <I			
39				\$216,616	\$125,929	72%
35	R. P. Madison	CONFIDENTIAL INFORMATION NOT REQUIRED FOR GENERAL DISTRIBUTION				
36	Vice President, Oil & Gas					
37	Operations (Retired 01/31/99)					
38						
40	P. Gatzemeier					
41	Vice President, Coal Operations					
42						
43						
44	M. E. Zimmerman					
45	Vice President & General					
46	Counsel					
47						
48						
49						
50						
51						

Sch. 16 cont. TOP TEN MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)						
	Name/Title	Base Salary 1/	Other Comp. 2/	Total Comp.	Total Comp. Last Year	% Change
1	M. Meldahl	CONFIDENTIAL INFORMATION NOT REQUIRED FOR GENERAL DISTRIBUTION				
2	Executive Vice President &					
3	Chief Operating Officer,					
4	Telecommunications Division					
5						
6	D. Johnson					
7	Vice President, Distribution					
8	Services					
9						
10						
11	1/ Salary includes the employees' annual base federally taxable earnings, pretax contributions to the					
12	Company's Deferred Savings and Employee Stock Ownership (401(K)) Plan, pretax Section 125					
13	flexible spending account contributions, pretax medical premium contributions, and, in some cases, tax					
14	deferred Executive Benefit Restoration Plan contributions.					
15						
16	2/ All Other Compensation for named employees consists of the following:					
17						
18	A> Vacation time sold back to the Company. The vacation sellback program is available to all employees.					
19						
20	B> The value of the Company's matching contribution of stock made to the employee's accounts under					
21	the Deferred Savings and Employee Stock Ownership (401(K)) Plan sponsored by the Company.					
22						
23	C> Incentive Compensation Plan which were earned under the 1997 and 1998 EVA® Bonus Plan.					
24						
25	D> Dividend equivalents on stock options awarded under the Long-Term Incentive Plan in 1995. These awards,					
26	approved by the Personnel Committee, were based on certain performance criteria.					
27						
28	E> Gains on exercised stock options.					
29						
30	F> Payout of stock under the Restricted Stock Plan. The Plan was based on certain 1995 performance criteria.					
31						
32	G> Imputed taxable income on Company paid life insurance premiums.					
33						
34	H> Company-paid physical examinations.					
35						
36	I> Employee discounts on electric and gas utilities. Discounts are available to all Utility employees.					
37						
38	J> Personal use of company vehicles.					
39						
40	K> Spot cash bonus awards.					
41	approved by the Personnel Committee, were based on certain performance criteria.					
42						
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COMPENSATION OF TOP FIVE CORPORATE EMPLOYEES - SEC INFORMATION

	<u>Name/Title</u>	<u>Base Salary</u> 1/	<u>Other Comp.</u> 2/	<u>Total Comp.</u>	<u>Total Comp.</u> <u>Last Year</u>	<u>% Change</u>
1	R. P. Gannon	\$362,523	\$6,400 <B			
2	Chairman of the Board		115,920 <C			
3	President and Chief Executive		51,757 <D			
4	Officer		544,655 <E			
5			1,817 <G			
6			274 <H			
7			588 <I			
8			603 <J			
9				\$1,084,537	\$339,641	219%
10	R.F. Cromer	\$193,920	\$9,792 <A			
11	Executive Vice President &		6,400 <B			
12	Chief Operating Officer, Energy		48,960 <C			
13	Supply Division		48,976 <D			
14			555 <E			
15			885 <G			
16			379 <H			
17			152 <I			
18				\$310,019	\$248,741	25%
19	J. D. Haffey	\$190,890	\$22,244 <A			
20	Executive Vice President &		6,400 <B			
21	Chief Operating Officer, Energy		48,195 <C			
22	Services Division		16,771 <D			
23			144,346 <E			
24			1,064 <G			
25			575 <H			
26			654 <I			
27				\$431,139	\$224,025	92%
28	J. P. Pederson	\$186,850	\$15,241 <A			
29	Vice President & Chief Financial		6,400 <B			
30	& Information Officer		48,563 <C			
31			25,505 <D			
32			1,884 <G			
33			564 <I			
34				\$285,007	\$209,758	36%
35	W. S. Dee	\$181,800	\$6,400 <B			
36	Vice President, Marketing		25,988 <C			
37			1,949 <G			
38			479 <I			
39				\$216,616	\$125,929	72%
40						
41	1/ Salary includes the employees' annual base federally taxable earnings, pretax contributions to the					
42	Company's Deferred Savings and Employee Stock Ownership (401(K)) Plan, pretax Section 125					
43	flexible spending account contributions, pretax medical premium contributions, and, in some cases, tax					
44	deferred Executive Benefit Restoration Plan contributions.					
45						
46	2/ All Other Compensation for named employees consists of the following:					
47	A> Vacation time sold back to the Company. The vacation sellback program is available to all employees.					
48	B> The value of the Company's matching contribution of stock made to the employee's accounts under					
49	the Deferred Savings and Employee Stock Ownership (401(K)) Plan sponsored by the Company.					
50	C> Incentive Compensation Plan which were earned under the 1997 and 1998 EVA® Bonus Plan.					
51	D> Dividend equivalents on stock options awarded under the Long-Term Incentive Plan in 1994. These awards,					
52	approved by the Personnel Committee, were based on certain performance criteria.					
53	E> Gains on exercised stock options.					
54	F> Payout of stock under the Restricted Stock Plan. The Plan was based on certain 1994 performance criteria.					
55	G> Imputed taxable income on Company paid life insurance premiums.					
56	H> Company-paid physical examinations.					
57	I> Employee discounts on electric and gas utilities. Discounts are available to all Utility employees.					
58	J> Personal use of company vehicles.					

SUMMARY COMPENSATION TABLE

The following table shows compensation paid by the Company for services rendered during the fiscal years 1998, 1997, and 1996 for named executive officers.

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation		
		Salary ¹ (\$)	Bonus ² (\$)	Awards	Payouts	All Other Compensation ⁴ (\$)
				Securities Underlying Options (#)	LTIP Payouts ³ (\$)	
R. P. Gannon CEO, Chairman of the Board & President	1998	362,523	115,920	42,000	51,757	6,400
	1997	297,500	0	0	32,242	6,653
	1996	265,935	0	21,000	0	17,035
W. S. Dee Vice President, Marketing	1998	212,706	25,988	12,000	0	6,400
	1997	124,444	0	0	0	1,485
	1996		0	0	0	0
R. F. Cromer Executive VP & COO, Energy Supply Division	1998	193,920	48,960	21,000	48,976	16,192
	1997	187,800	0	0	38,796	21,145
	1996	180,500	0	14,000		13,712
J. D. Haffey Executive VP & COO, Energy Services Division	1998	190,890	48,195	21,000	16,771	28,644
	1997	183,500	0	0	10,210	28,460
	1996	172,440	0	14,000	0	27,180
J. P. Pederson VP, Chief Financial & Information Officer	1998	186,850	48,563	21,000	25,505	21,641
	1997	179,500	0	0	0	27,998
	1996	172,000	0	13,900	0	26,704

¹Includes \$33,623 for 1998 and \$20,968 for 1997 for Mr. Dee, who has a non-funded deferred compensation arrangement with the Company that became effective May 27, 1997.

²Awards earned in 1997 and paid in 1998 under the 1997 Interim Bonus Plan. Awards earned under the 1998 EVA® Bonus Plan have not been determined and approved by the Personnel Committee in time to include their amounts herein.

³This column represents dividend equivalent awards on options awarded in 1995. These awards, approved by the Personnel Committee, were based on certain objective performance criteria including a comparison of the Company's total shareholder return for the years 1995-1997 to Peer Companies' as described in the performance graph in the Personnel Committee Report supra.

⁴This column represents the value of the Company's matching contribution of stock made under the Company's Retirement Savings Plan (401(k)). And, also represents compensation received for selling unused vacation time back to the Company, which is available to all employees, in the following amounts: \$9,792 for Mr. Cromer, \$22,244 for Mr. Haffey, and \$15,241 for Mr. Pederson. The amounts may include vacation accrued in prior years.

BALANCE SHEET 1/, 2/

	Account Title	Last Year	This Year	% Change
1	Assets and Other Debits			
2	Utility Plant			
3	101 Plant in Service	\$2,112,275,371	\$2,143,205,818	1.46%
4	105 Plant Held for Future Use	4,302,538	1,774,042	-58.77%
5	107 Construction Work in Progress	39,424,981	37,966,278	-3.70%
6	108 Accumulated Depreciation Reserve	(663,983,436)	(711,771,021)	-7.20%
7	111 Accumulated Amortization & Depletion Reserves	(12,807,470)	(9,440,753)	26.29%
8	114 Electric Plant Acquisition Adjustments	3,106,285	3,106,285	0.00%
9	115 Accumulated Amortization-Electric Plant Acq. Adj.	(1,967,313)	(2,062,228)	-4.82%
10	117 Gas Stored Underground-Noncurrent	43,419,215	47,175,719	8.65%
11	Total Utility Plant	\$1,523,770,171	\$1,509,954,140	-0.91%
12	Other Property and Investments			
13	121 Nonutility Property	\$2,318,288	\$2,506,480	8.12%
14	122 Accumulated Depr. & Amort.-Nonutility Property	(1,672)	(17,617)	-953.82%
15	123.1 Investments in Subsidiary Companies	306,599,409	358,756,086	17.01%
16	123.* Investments in Colstrip Unit 4 & YNP	150,218,544	195,078,954	29.86%
17	124 Other Investments	17,315,533	19,082,522	10.20%
18	128 Miscellaneous Special Funds	1,420,034	1,170,816	-17.55%
19	Total Other Property & Investments	\$477,870,136	\$576,577,241	20.66%
20	Current and Accrued Assets			
21	131 Cash	(\$5,756,681)	\$2,519,043	143.76%
22	132-134 Special Deposits	0	0	0.00%
23	135 Working Funds	146,442	150,378	2.69%
24	136 Temporary Cash Investments	0	98,007	100.00%
25	141 Notes Receivable	737,781	288,038	-60.96%
26	142 Customer Accounts Receivable	49,757,685	46,384,351	-6.78%
27	143 Other Accounts Receivable	5,609,838	7,028,508	25.29%
28	144 Accumulated Provision for Uncollectible Accounts	(983,926)	(1,043,926)	-6.10%
29	145 Notes Receivable-Associated Companies	9,092,369	79,981,743	779.66%
30	146 Accounts Receivable-Associated Companies	34,479,911	88,018,784	155.28%
31	151 Fuel Stock	1,153,786	942,237	-18.34%
32	153 Residuals and Extracted Products			
33	154 Plant Materials and Operating Supplies	18,115,636	16,848,767	-6.99%
34	163 Stores Expense Undistributed	526,583	1,191,255	126.22%
35	165 Prepayments	4,440,169	7,997,177	80.11%
36	166 Advances for Gas Expl., Development & Production	(104)	0	100.00%
37	171 Interest and Dividends Receivable	691,198	1,196,938	73.17%
38	172 Rents Receivable	76,509	185,879	142.95%
39	173 Accrued Utility Revenues	25,338,748	27,103,026	6.96%
40	174 Miscellaneous Current and Accrued Assets			
41	Total Current & Accrued Assets	\$143,425,943	\$278,890,205	94.45%
42	Deferred Debits			
43	181 Unamortized Debt Expense	\$4,825,621	\$4,684,108	-2.93%
44	182 Regulatory Assets	285,262,745	227,539,178	-20.24%
45	183 Preliminary Survey and Investigation Charges	625,340	625,340	0.00%
46	184 Clearing Accounts	(340,057)	(132,271)	61.10%
47	185 Temporary Facilities	(24,592)	(25,821)	-5.00%
48	186 Miscellaneous Deferred Debits	22,714,421	22,529,275	-0.82%
49	188 Research, Devel. & Demonstration	2,705	0	100.00%
50	189 Unamortized Loss on Reacquired Debt	9,345,517	8,393,398	-10.19%
51	190 Accumulated Deferred Income Taxes	53,275,540	52,486,150	-1.48%
52	191 Unrecovered Purchased Gas Costs	5,900,988	4,646,939	-21.25%
53	Total Deferred Debits	\$381,588,228	\$320,746,295	-15.94%
54	TOTAL ASSETS and OTHER DEBITS	\$2,526,654,478	\$2,686,167,880	6.31%

BALANCE SHEET 1/, 2/

	<u>Account Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1	Liabilities and Other Credits			
2	Proprietary Capital			
3	201 Common Stock Issued	\$695,203,357	\$702,503,756	1.05%
4	204 Preferred Stock Issued	58,063,500	58,063,500	0.00%
5	211 Miscellaneous Paid-In Capital	2,106,407	2,167,132	2.88%
6	213 Discount on Capital Stock	(815,700)	(815,700)	0.00%
7	214 Capital Stock Expense	(93,888)	(93,888)	0.00%
8	215 Appropriated Retained Earnings	6,238,312	6,238,312	0.00%
9	216 Unappropriated Retained Earnings	309,753,515	377,888,556	22.00%
10	Total Proprietary Capital	\$1,070,455,503	\$1,145,951,667	7.05%
11	Long Term Debt			
12	221 Bonds	\$420,705,000	\$405,205,000	-3.68%
13	224 Other Long Term Debt	329,335,143	364,960,700	10.82%
14	225 Unamortized Premium on Long Term Debt			
15	226 Unamortized Discount on Long Term Debt-Debit	(3,967,074)	(3,708,422)	6.52%
16	Total Long Term Debt	\$746,073,069	\$766,457,279	2.73%
17	Other Noncurrent Liabilities			
18	227 Obligations Under Capital Leases-Noncurrent	\$911,946	\$525,824	-42.34%
19	228.1 Accumulated Provision for Property Insurance	164,942	(231,010)	-240.06%
20	228.2 Accumulated Provision for Injuries and Damages	2,454,997	2,228,780	-9.21%
21	228.3 Accumulated Provision for Pensions and Benefits	7,530,256	15,037,859	99.70%
22	228.4 Accumulated Miscellaneous Operating Provisions	120,441	265,960	120.82%
23	Total Other Noncurrent Liabilities	\$11,182,582	\$17,827,412	59.42%
24	Current and Accrued Liabilities			
25	231 Notes Payable	\$69,100,000	\$0	-100.00%
26	232 Accounts Payable	32,026,638	21,087,865	-34.16%
27	233 Notes Payable to Associated Companies	67,882,998	173,047,150	154.92%
28	234 Accounts Payable to Associated Companies	10,558,572	36,252,928	243.35%
29	235 Customer Deposits	74,293	132,933	78.93%
30	236 Taxes Accrued	30,377,235	36,372,395	19.74%
31	237 Interest Accrued	13,932,676	13,732,068	-1.44%
32	238 Dividends Declared	21,313,667	21,388,056	0.35%
33	241 Tax Collections Payable	275,108	252,517	-8.21%
34	242 Miscellaneous Current and Accrued Liabilities	21,758,206	27,058,265	24.36%
35	243 Obligations Under Capital Leases-Current	789,603	381,891	-51.64%
36	Total Current and Accrued Liabilities	\$268,088,996	\$329,706,068	22.98%
37	Deferred Credits			
38	252 Customer Advances for Construction	\$14,750,506	\$16,498,385	11.85%
39	253 Other Deferred Credits	20,952,536	19,682,097	-6.06%
40	254 Regulatory Liabilities	8,743,087	9,313,392	6.52%
41	255 Accumulated Deferred Investment Tax Credits	35,181,659	33,819,066	-3.87%
42	257 Unamortized Gain on Reacquired Debt	50,118	40,865	-18.46%
43	281-283 Accumulated Deferred Income Taxes	351,176,423	346,871,649	-1.23%
44	Total Deferred Credits	\$430,854,329	\$426,225,454	-1.07%
45	TOTAL LIABILITIES and OTHER CREDITS	\$2,526,654,478	\$2,686,167,880	6.31%

1/ Includes CMP and Montana Power Capital I; excludes Colstrip Unit 4, Yellowstone National Park and nonregulated propane.

2/ The Gas Utility transferred the majority of its natural gas production properties in the United States and all of its Canadian natural gas production properties to nonregulated operations on November 1, 1997. It should be noted, any schedule pertaining to the balance sheet excludes the production properties at December 31, 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of significant accounting policies:

Basis of accounting:

The Company's accounting policies conform to generally accepted accounting principles. With respect to utility operations, such policies are in accordance with the accounting requirements and ratemaking practices of the regulatory authorities having jurisdiction.

Use of estimates:

Preparing financial statements requires the use of estimates. Management makes appropriate estimates and judgments based upon available information. Actual results may differ from accounting estimates as new events occur or additional information is obtained.

Financial statement presentation:

The financial statements are presented on the basis of the accounting requirements of the Federal Energy Regulatory Commission (FERC) as set forth in its applicable Uniform System of Accounts. This report differs from generally accepted accounting principles due to FERC requiring the reflection of subsidiaries on the equity method of accounting which differs from Statement of Financial Accounting Standards No. 94 "Consolidation of All Majority-Owned Subsidiaries" (SFAS No. 94). SFAS No. 94 requires that all majority-owned subsidiaries be consolidated. The other differences are comparative statements of retained earnings and cash flows and net income per share are not presented.

Plant, property, depreciation and amortization:

The year-end balances of the major classifications of property, plant, and equipment are detailed in the following table:

		December 31	
		1998	1997
		Thousands of Dollars	
Utility plant:			
Electric:			
Production	\$ 721,995	\$ 716,021	
Transmission.....	371,638	362,658	
Distribution	544,653	514,057	
Other.....	192,494	216,513	
Natural Gas:			
Production and storage.....	73,115	67,699	
Transmission.....	152,804	148,295	
Distribution	146,896	138,676	
Other.....	29,633	38,609	
Total Utility	<u>\$2,233,228</u>	<u>\$2,202,528</u>	

The cost of additions to and replacement of plant, including an allowance for funds used during construction (AFUDC) of utility plant, is capitalized. The rate used to compute AFUDC is determined in accordance with a formula established by the FERC and was an average of 8.3 percent for 1998 and 8.0 percent for 1997. Costs of utility depreciable units of property retired plus costs of removal less salvage are charged to accumulated depreciation and no gain or loss is recognized. Maintenance and repairs of plant and property, as well as replacements and renewals of items determined to be less than established units of plant, are charged to operating expenses.

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With respect to the sale of the regulated generation assets, the Company first expects to recover the book value of those assets and the costs of the sale transaction. Proceeds in excess of the book value and transaction costs are expected to reduce the amounts to be collected from ratepayers in the form of competitive transition charges (CTC).

Included in the plant classifications are Utility plant under construction in the amounts of \$37,966,000 and \$39,425,000 for 1998 and 1997, respectively. Also included in the table above are electric generating and transmission assets held for sale with an approximate cost and accumulated depreciation of \$822,000,000 and \$299,000,000, respectively. However, the sale is subject to the satisfaction of various conditions and the receipt of required regulatory approvals. Final determination of proceeds and the related transmission facilities to be included in the sale are subject to the sales of two other owners' interests in the Colstrip plants, which must be approved by those owners' state regulatory commissions. The sale of the Company's unregulated leasehold interest in Colstrip Unit 4 is subject to approval by the purchasers of power under two long-term sales agreements related to that unit. Although the Agreement is not contingent upon inclusion of Colstrip Unit 4, such inclusion, or the potential exclusion, will impact the amount of proceeds received as well as the amount of transmission facilities included in the sale. The Company anticipates this transaction will be completed by the end of 1999.

Provisions for depreciation and depletion are recorded at amounts substantially equivalent to calculations made on straight-line and unit-of-production methods by application of various rates based on useful lives of properties determined from engineering studies. The provisions for Utility depreciation and depletion approximated 3.0 percent for 1998 and 1997 of the depreciable and depletable Utility plant at the beginning of the year.

Utility revenue and expense recognition:

Operating revenues are recorded on the basis of service rendered. In order to match revenues with associated expenses, the Company accrues unbilled revenues for electric and natural gas services delivered to customers but not yet billed at month-end.

Regulatory assets:

For its regulated operations, the Company follows SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Pursuant to this pronouncement, certain expenses and credits, normally reflected in income as incurred, are recognized when included in rates and recovered from or refunded to the customers. The significant regulatory assets the Company has recorded are discussed below.

In the ratemaking process, tax costs and benefits related to certain temporary differences are recovered in rates on an as paid or "flow-through" basis. SFAS No. 109 "Accounting for Income Taxes", requires that tax assets and liabilities be reflected on the Balance Sheet on an accrual basis. This timing difference requires the Company to recognize a regulatory asset for taxes accrued but not yet recovered in rates. That regulatory asset was \$119,080,000 and \$119,643,000 as of December 31, 1998 and 1997, respectively.

The Montana Public Service Commission (PSC) provided in its August 1985 order a carrying charge and recovery of depreciation that was deferred and is being charged to income over the remaining life of Colstrip Unit 3 to compensate the Company for unrecovered costs of its investment for the period the plant was in service from January 10, 1984 to August 29, 1985. At December 31, 1998 and 1997, the unamortized amounts were \$40,325,000 and \$42,156,000, respectively.

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Also included in other regulatory assets are costs related to the Company's Demand Side Management (DSM) programs in the amounts of \$33,353,000 and \$33,965,000 for 1998 and 1997, respectively. The amounts are included in the Company's rate base and are being charged to income over a ten-year period.

Competitive transition charges, which relate to natural gas properties that were removed from regulation on November 1, 1997, are being recovered through rates over 15 years. The unamortized balances at December 31, 1998 and 1997 were \$56,059,000 and \$58,983,000, respectively.

Certain other costs are being amortized currently or are subject to regulatory confirmation in future ratemaking proceedings.

Changes in regulation or changes in the competitive environment could cause recovery of these costs through rates to become uncertain, resulting in the Company not meeting the criteria of SFAS No. 71. If the Company were to discontinue application of SFAS No. 71 for some or all of its operations, the regulatory assets related to those portions would have to be eliminated from the balance sheet and included in income in the period when the discontinuation occurred unless recovery of those costs was provided through rates charged to those customers in a portion of the business that remains regulated. In conjunction with the ongoing changes in the electric and natural gas industries, the Company will continue to evaluate the applicability of this accounting principal to those businesses.

As a consequence of the issuance by the PSC of the natural gas restructuring order, the Company's natural gas production assets were removed from SFAS No. 71 accounting in the fourth quarter of 1997. The timing of the removal of the electric generating assets from SFAS No. 71 is expected to coincide with the sale of the Company's interests in the generating facilities. Recovery of the Company's existing regulatory assets related to the natural gas production assets was provided in the order and recovery of existing regulatory assets related to electric generation is provided in the electric restructuring legislation.

Cash and cash equivalents:

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Storm damage and environmental remediation costs:

The estimated costs of storm damage and environmental remediation obligations for Utility operations are charged against established, regulator approved operating reserves when such losses are probable and reasonably estimatable. The reserves are adequate to provide for all known obligations and may be increased, if appropriate, by adjusting the annual accrual rate. The reserves' balances at December 31, 1998 and 1997 were approximately \$9,350,000 and \$2,600,000, respectively, and are included in other noncurrent liabilities on the Consolidated Balance Sheet.

Income taxes:

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. For further information on income taxes see "Regulatory assets and liabilities" in this note and also Note 5 - "Income tax expense".

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Asset impairment:

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In 1998, the Company recorded an expense of \$4,100,000 in accordance with SFAS No. 121.

Comprehensive income:

SFAS No. 130, "Reporting Comprehensive Income", defines comprehensive income as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. SFAS No. 130 requires that an enterprise report all components of comprehensive income in the period in which they are recognized. These components are net income and other comprehensive income. Net income includes such items as income from continuing operations, discontinued operations, extraordinary items, and cumulative effects of changes in accounting principle. Other comprehensive income includes foreign currency translations, adjustments of minimum pension liability, and unrealized gains and losses on certain investments in debt and equity securities.

For the years ended December 31, 1998 and 1997, the Company's sole items of other comprehensive income were foreign currency translation adjustments of \$7,363,000 and \$2,181,000, respectively, to retained earnings. There are no current income tax effects resulting from the adjustments. The 1998 adjustment included both the change in the valuation of the assets of the Company's Canadian operations and a change in the rate used to adjust certain Canadian assets. Until November 1, 1997, the plant of the Company's natural gas utility operations, owned by a wholly owned subsidiary, was included in the natural gas utility rate base. As such, the Company earned a rate of return on these assets stated at their historical costs, converted to U.S. dollars using historical foreign currency exchange rates. When the assets were transferred from the Company's regulated operations to the Nonutility operations, and removed from utility rate base, they were converted to U.S. dollars using current foreign currency exchange rates which resulted in a decrease of approximately \$5,100,000 in retained earnings in 1998.

Fair value of significant financial instruments:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Thousands of Dollars			
Assets:				
Other significant investments.....	\$ 19,044	\$ 19,044	\$ 17,316	\$ 17,316
Liabilities:				
Long-term debt (including due within one year)	\$766,457	\$807,509	\$746,073	\$760,810

The following methods and assumptions were used to estimate fair value:

Other investments - The carrying value of the investments approximates fair value as the investments have short maturities or the carrying value equals their cash surrender value.

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Long-term debt - The fair value was estimated using quoted market rates for the same or similar instruments. Where quotes were not available, fair value was estimated by discounting expected future cash flows using year-end incremental borrowing rates.

NOTE 2 - Contingencies:

The Company is required by an order of the Federal Energy Regulatory Commission (FERC) to implement a plan to mitigate the impact of Kerr Project operations on fish, wildlife and habitat. Implementation will require payments of approximately \$135,000,000 between 1985 and 2020, the license term. The net present value of the total payments, assuming a 9.5 percent discount rate, is approximately \$57,000,000, an amount the Company recognized as license costs in plant and long-term debt in the Consolidated Balance Sheet in 1997. Included in the \$135,000,000 is a payment of approximately \$15,600,000 to fund the Fish and Wildlife Implementation Strategy for the 1985 to 1997 period.

FERC's order is subject to judicial review by the United States Court of Appeals for the District of Columbia Circuit. Pursuant to a related FERC order, the Company is not obligated to pay approximately \$15,600,000 to fund the Fish and Wildlife Implementation Strategy for the 1985 to 1997 while the order is subject to judicial review.

In November 1992, the Company applied to FERC to relicense nine Madison and Missouri River hydroelectric projects, a generating capacity of 292 megawatts (Project 2188). The Company estimates that the cost of environmental mitigation proposed by FERC's staff in the license proceeding is approximately \$162,000,000, net present value. A license order is expected in late 1999 or early 2000.

The Kerr Project and Project 2188 are assets to be sold under the terms of the Agreement for the Company's sale of its generation assets. For further information on the sale of the Company's interest in the generating facilities see Note 4 - "Deregulation and Asset Divestiture". At closing of the sale, PP&L Global will assume the obligation to make payments required to comply with the license conditions. The Company, however retained the obligation to make (i) the \$15,600,000 payment for the Fish and Wildlife Implementation Strategy referred to above and (ii) to the extent not reimbursed by PP&L Global through the capital and maintenance budget to be agreed upon by the Company and PP&L Global, other payments regarding "pre-closing" license compliance expenditures.

The Company and its subsidiaries are party to various other legal claims, actions and complaints arising in the ordinary course of business. Management does not expect disposition of these matters to have a material adverse effect on the Company's consolidated financial position or its consolidated results of operations.

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NOTE 3 - Commitments:Purchase commitments:

In 1994, the Company entered a contract to purchase 98 megawatts of seasonal capacity from Basin Electric Power Cooperative (Basin). The rate for the contract year beginning in November 1997 was approximately 3.2 cents per kWh and will increase each subsequent year to approximately 7.4 cents per kWh in the final contract year, which begins in November 2009. This contract is included in the asset sale agreement with PP&L Global for the sale of the Company's interest in the generating facilities. Although not specifically named in the restructuring legislation, costs associated with disposal and reassignment of this contract are also expected to be collectable through the Competitive Transition Charges (CTC).

The Company also has long-term purchase contracts with certain qualifying facilities (QF's) and natural gas producers. The purchased power contracts provide for capacity payments subject to a facility meeting certain operating standards, and payments based on energy received. The Company currently has 15 QF contracts, with expiration terms ranging from 2003 through 2031. Three contracts account for 96 percent of the 101 MWs of capacity provided by these facilities. These QF contracts were intended to be sold or reassigned in conjunction with the Company's sale of electric generating facilities, however, they were excluded from the asset sale agreement with PP&L Global. Management is evaluating options for dealing with these contracts. In accordance with the restructuring legislation, costs associated with disposal and reassignment of these contracts are also expected to be collected through the CTC.

The Company's gas purchase contracts also provide for take-or-pay payments.

Total payments under all of these contracts for the prior three years were as follows:

	Thousands of Dollars		
	Utility		Total
	Electric	Natural Gas	
1997	44,153	7,554	51,707
1998	50,611	2,998	53,609

The present value of future minimum payments, at an assumed discount rate of 8 percent, under the above agreements is estimated as follows:

	Thousands of Dollars		
	Utility		Total
	Electric	Natural Gas	
1999	\$ 15,979	\$ 3,554	\$ 19,533
2000	15,113	3,225	18,338
2001	14,787	2,767	17,554
2002	14,587	2,433	17,020
2003	14,346	746	15,092
Remainder	151,801	1,291	153,092
	<u>\$ 226,613</u>	<u>\$ 14,016</u>	<u>\$ 240,629</u>

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Lease commitments:

There are no material minimum operating lease payments. Capitalized leases are also not material and are included in other long-term debt.

Rental expense for the prior two years was \$31,589,650 and \$24,096,000 for 1998 and 1997, respectively.

Note 4 – Deregulation and asset divestiture:

Natural Gas

Since 1991, the Company's natural gas utility business has been in transition to a competitive environment to provide commodity and related services to wholesale and retail customers. In Montana, the "Natural Gas Restructuring and Customer Choice Act" was signed into law in May 1997 allowing natural gas utilities to open their systems to full customer choice for gas supply.

In response to the Company's restructuring filing, in October 1997, the PSC approved an order (Order) giving additional natural gas customers of the Company the right to choose their own suppliers. The decision allowed approximately 230 smaller industrial and larger commercial customers using 5,000 dekatherms or more of natural gas annually, to have choice beginning in November 1997. The 24 former natural gas supply customers using 60,000 or more dekatherms of natural gas annually, who represented approximately 49 percent of the pre-choice load, have had choice since 1991. The Company's remaining 140,000 customers will have choice no later than July 1, 2002. Pilot programs for natural gas customers began on November 2, 1998. Through December 1998, approximately 232 customers, representing approximately 54 percent of the Utility's pre-choice natural gas supply load have chosen alternate suppliers.

Natural gas transmission, distribution, and storage will remain regulated by the PSC and the Company retains the right to seek rate adjustments related to these services after a two year rate freeze. The Company will also continue to offer regulated supply service at rates set by the PSC for the transition period or such shorter period as determined by the PSC. Following this period, the Company will offer natural gas supply to retail and wholesale customers through its unregulated business segments.

In accordance with the Order, in November 1997, significantly all of the Utility natural gas production assets were transferred to an unregulated affiliate at an agreed-to amount, which was \$33,600,000 below the existing book value. This difference between transfer value and the book value and the existing \$25,400,000 of regulatory assets related to the natural gas production assets were approved as a Competitive Transition Charge (CTC) to be recovered from transmission and distribution customers in rates over a 15-year period. The transition plan also includes a fixed-price supply contract through 2002 between the unregulated gas supply division and the regulated distribution division to serve the remaining customers who have not chosen other suppliers.

The Order also froze base rates for two years and accepted the continuation of the gas cost tracker and the Gas Transportation Clause (GTAC) procedures.

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Electric

Montana's "Electric Industry Restructuring and Customer Choice Act" was also signed into law in May 1997. The legislation provided for choice of electricity supplier for the Company's large customers by July 1, 1998, for pilot programs for residential and small commercial customers by July 1, 1998 and choice for all customers no later than July 1, 2002. Through December 1998, approximately 50 customers, representing approximately 10 percent of the Utility's pre-choice load have chosen alternate suppliers. As with the Utility natural gas business, transmission and distribution services will remain fully regulated by FERC and the PSC and the Company retained the right to seek rate adjustments related to these services.

The legislation provides the collection of CTC's by the Company in order to recover its non-mitigatable transition costs, specifically recovery of above-market qualifying facility power-purchase contract costs and regulatory assets associated with the generation business, and recovery for utility-owned above-market generation costs over the transition period of up to four years. The legislation also established a rate moratorium on electric rates for all customers for two years beginning July 1, 1998, and an electric-energy supply component rate moratorium for an additional two years for smaller customers. The legislation provides that rates cannot be increased under the rate moratorium except under limited circumstances.

As required by the electric legislation, the Company filed a comprehensive transition plan with the PSC in July 1997. The filing contained the Company's transition plan, including the proposed handling and resolution of transition costs, and addressed other issues required by the legislation. Initial hearings on the filing began in April 1998 and the issues involved in the restructuring filing were separated into groups. The PSC rendered a decision in June 1998 on the issues relating to customer choice for the large industrial group and the pilot programs. Pilot programs for electric customers began concurrently with the natural gas pilot program on November 2, 1998. The Company expects a decision on the remaining issues, including the amount of transition costs, the effect of the sale of the generation assets discussed below, and the Uniform Systems Benefits Charge once the details of the sale are final.

On November 2, 1998, the Company announced that it had entered into a definitive Asset Purchase Agreement (the Agreement) with PP&L Global, Inc (PP&L Global), a subsidiary of PP&L Resources, Inc. Under the Agreement, PP&L Global agreed to purchase the Company's interest in 12 of its 13 hydroelectric facilities, all four coal-fired thermal generating plants, and a leasehold interest in Colstrip Unit 4 for a total gross capacity of 1,557 MWs. PP&L Global will also acquire the power purchase contract with Basin and two power exchange agreements. The sale does not include the power purchase contracts with QF's or the 3-MW Milltown Dam near Missoula, Montana.

The sale is subject to the satisfaction of various conditions and the receipt of required regulatory approvals. The transfer of the Company's licenses to operate the hydroelectric facilities is subject to approval by the FERC. Final determination of proceeds and the related transmission facilities to be included in the sale are subject to the sales of two other owners' interests in the Colstrip plants, which must be approved by those owners' state regulatory commissions. The sale of the Company's unregulated leasehold interest in Colstrip Unit 4 is subject to approval by the purchasers of power under two long-term sales agreements related to that unit. Although the Agreement is not contingent upon inclusion of Colstrip Unit 4, such inclusion, or the potential exclusion, will impact the amount of proceeds received as well as the amount of transmission facilities included in the sale. The Company anticipates this transaction will be completed by the end of 1999.

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Although the Company has remained in the electric trading business to take full advantage of the opportunities to sell excess and buy needed electricity, and fulfill contractual commitments, the Company will exit the electric commodity trading and marketing business following the sale.

The costs of completion of these potential transactions include legal, accounting, and consulting fees, employee-related costs, asset relocation costs, and other expenses. Total transaction costs may reach \$50,000,000 and will reduce the proceeds realized from the sale. There may also be income taxes associated with the transactions.

The Company's Mortgage and Deed of Trust imposes a lien on all physical properties including the generation assets and pollution control equipment on some of the thermal generating facilities, therefore, restrictions may exist on the use of proceeds.

This divestiture is expected to be a complex process involving many factors. The Company may have little or no direct control over some of these factors; therefore, it can give no assurance as to the successful implementation. If the Company is unsuccessful in implementing the sale of the generation assets or any other elements of the deregulation process, the potential exists for writeoff of regulatory assets and the recording of effects of adverse purchase power contracts. The restructuring legislation does, however, provide for, and management is expecting, full recovery of all regulatory assets and other transition costs.

On March 30, 1998, the Company submitted a filing with the FERC requesting increased rates for bundled wholesale electric service to two rural electric cooperatives. Resolution of this filing is expected before the end of 1999.

As in the natural gas legislation, the issuance of transition bonds was approved to lower transition costs. During the electric transition period, savings related to these financings are available to the Company to offset cost increases that would not be reflected in rates due to the rate moratorium. In addition, under the legislation, if, during the transition period, the earnings of the electric utility fall below a predetermined return on equity, the utility's obligation to flow investment tax credit (ITC) benefits to ratepayers in future years is reduced. Any such ITC reduction in the utility's regulatory obligation provides an economic benefit to the Company and increases income in that year. No such benefit was recognized in the results of operations for 1998.

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NOTE 5 - Income tax expense:

NOTE 5 - Income tax expense (a):

Income before income taxes was as follows:

	<u>1998</u>	<u>1997</u>
	Thousands of Dollars	
United States.....	\$ 81,708	\$ 98,744
Canada	99	2,348
	<u>\$ 81,807</u>	<u>\$ 101,092</u>

The provision for income taxes differs from the amount of income tax that would be expected by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of the following differences:

	<u>1998</u>	<u>1997</u>
	Thousands of Dollars	
Computed "expected" income tax expense	\$ 28,633	\$ 35,382
Adjustments for tax effects of:		
Tax credits	(1,363)	(7,816)
State income tax, net.....	3,975	4,411
Reversal of utility book/tax depreciation	2,784	5,636
Other.....	(7,504)	(1,290)
Actual income tax expense	<u>\$ 26,525</u>	<u>\$ 36,323</u>

Income tax expense as shown in the Consolidated Statement of Income consists of the following components:

	<u>1998</u>	<u>1997</u>
	Thousands of Dollars	
Current:		
United States	\$ 22,816	\$ 29,058
Canada	63	670
State.....	7,068	6,569
	<u>29,947</u>	<u>36,297</u>
Deferred:		
United States	(2,764)	(230)
Canada	0	0
State.....	(658)	256
	<u>(3,422)</u>	<u>26</u>
	<u>\$ 26,525</u>	<u>\$ 36,323</u>

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Deferred tax liabilities (assets) are comprised of the following:

	December 31	
	1998	1997
	Thousands of Dollars	
Plant related	\$ 312,976	\$ 312,475
Other	<u>33,745</u>	<u>37,842</u>
Gross deferred tax liabilities	<u>346,721</u>	<u>350,317</u>
Amortization of gain on sale/leaseback	(5,441)	(5,532)
Investment tax credit amortization	(21,833)	(22,862)
Other	<u>(25,061)</u>	<u>(24,022)</u>
Gross deferred tax assets	<u>(52,061)</u>	<u>(52,416)</u>
Net deferred tax liabilities	<u>\$ 294,386</u>	<u>\$ 297,901</u>

The change in net deferred tax liabilities differs from current year deferred tax expense as a result of the following:

	Thousands of Dollars
Change in noncurrent deferred tax	\$ (3,515)
Regulatory assets related to income taxes	552
Amortization of investment tax credits	(1,363)
Other	<u>902</u>
Deferred tax expense	<u>\$ (3,424)</u>

NOTE 6 - Common stock:

The Company has a Shareholder Protection Rights Plan that provides one preferred share purchase right (Right) on each outstanding common share of the Company. Each Right entitles the registered holder, upon the occurrence of certain events, to purchase from the Company one one-hundredth of a share of Participating Preferred Shares, A Series, without par value. If it should become exercisable, each Right would have economic terms similar to one share of common stock of the Company. The Rights trade with the underlying shares and will, except under certain circumstances described in the Plan, expire on June 6, 2009, unless redeemed earlier or exchanged by the Company.

The Company's Board of Directors has authorized a share repurchase program over the next five years to repurchase up to 10,000,000 shares, or 18 percent, of the Company's outstanding common stock.

As of yearend 1998, the Company had 55,060,520 common shares outstanding. The repurchase of common stock may be made, from time to time, on the open market or in privately negotiated transactions. The number of shares to be purchased and the timing of the purchases will be based on the level of cash balances, general business conditions, and other factors, including alternative investment opportunities.

The Company's Dividend Reinvestment and Stock Purchase Plan permits participants to:
(a) acquire additional shares of common stock through the reinvestment of dividends on all or any

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specified number of common and/or preferred shares registered in their own names, or through optional cash payments of up to \$60,000 per year; (b) deposit common and preferred stock certificates into their Plan accounts for safekeeping; and allows for other interested investors (residents of certain states) to make initial purchases of common shares with a minimum of \$100 and a maximum of \$60,000 per year.

The Company has a Retirement Savings Plan (Plan) that covers all regular eligible employees. The Company, on behalf of the employee, contributes a matching percentage of the amount contributed to the Plan by the employee. In 1990, the Company borrowed \$40,000,000 at an interest rate of 9.2 percent to be repaid in equal annual installments over 15 years. The proceeds of the loan were lent on similar terms to the Plan Trustee, which purchased 1,922,297 shares of Company common stock. The loan, which is reflected as long-term debt, is offset by a similar amount in common shareholders' equity as unallocated stock. Company contributions plus the dividends on the shares held under the Plan are used to meet principal and interest payments on the loan. Shares acquired with loan proceeds are allocated to Plan participants. As principal payments on the loan are made, long-term debt and the offset in common shareholders' equity are both reduced. At December 31, 1998, 1,122,347 shares had been allocated to the participants' accounts. Expense for the Plan is recognized using the Shares Allocated Method, and the pre-tax expense was \$3,801,000, \$3,999,000 for 1998 and 1997, respectively.

Under the Long-Term Incentive Plan, options have been issued to Company employees. Options issued to employees are not reflected in balance sheet accounts until exercised, at which time (i) authorized, but unissued shares are issued to the employee, (ii) the capital stock account is credited with the proceeds and (iii) no charges or credits to income are made. Options were granted at the average of the high and low prices as reported on the New York Stock Exchange composite tape on the date granted, and expire ten years from that date.

Option activity is summarized below:

	1998		1997	
	Shares	Wtd Avg Exercise Price	Shares	Wtd Avg Exercise Price
Outstanding, beginning of year	540,665	\$22.01	694,804	\$21.91
Granted	1,117,329	49.00	--	--
Exercised	351,281	22.51	125,753	21.45
Cancelled	32,266	26.94	28,386	22.02
Outstanding, end of year	<u>1,274,047</u>	<u>\$45.42</u>	<u>540,665</u>	<u>\$22.01</u>

Shares under option at December 31, 1998 are summarized below:

Exercise Price Range	Options Outstanding			Options Exercised	
	Shares	Wtd Avg Exercise Price	Wtd Avg Exercise Life (yrs)	Shares	Wtd Avg Exercise Price
\$20.06 to \$22.63	180,718	\$22.01	6	143,750	\$22.10
\$36.00 to \$38.34	258,000	37.06	9	--	--
\$53.06	835,329	53.06	10	--	--
	<u>1,274,047</u>			<u>143,750</u>	

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As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation", the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Disclosure of pro-forma information regarding net income and earnings per share is required by SFAS No. 123. This information has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The weighted-average fair value of options granted in 1998 was \$7.12 per share. The fair value of each option grant was estimated on the date of grant using the binomial option-pricing model with the following weighted-average assumptions used for grants in 1998: risk-free interest rate of 5.08 percent; expected life of 10 years; expected volatility of 19.34 percent and a dividend yield of 6.51 percent. Had the Company used SFAS No. 123, compensation expense would have increased \$795,000 and \$195,000 for 1998 and 1997, respectively.

NOTE 7 - Preferred stock:

The number of authorized shares of preferred stock is 5,000,000. No dividends may be declared or paid on common stock while cumulative dividends have not either been declared and set apart or paid on any of the preferred stock.

Preferred stock is in three series as detailed in the following table:

Series	Stated and Liquidation Price*	Shares Issued and Outstanding		Thousands of Dollars	
		1998	1997	1998	1997
\$6.875	\$100	360,800	360,800	\$36,080	\$36,080
6.00	100	159,589	159,589	15,959	15,959
4.20	100	60,000	60,000	6,025	6,025
Discount				(410)	(410)
		<u>580,389</u>	<u>580,389</u>	<u>\$57,654</u>	<u>\$57,654</u>

*Plus accumulated dividends.

The preferred stock is redeemable at the option of the Company upon the written consent or affirmative vote of the holders of a majority of the common shares on thirty days notice at \$110 per share for the \$6.00 series and \$103 per share for the \$4.20 series, plus accumulated dividends. The \$6.875 series is redeemable in whole or in part, at anytime on or after November 1, 2003 for a price beginning at \$103.438 per share with annual decrements through October 2013, after which the redemption price is \$100 per share.

NOTE 8 - Company obligated mandatorily redeemable preferred securities of subsidiary trust:

Montana Power Capital I (Trust) was established as a wholly owned business trust of the Company for the purpose of issuing common and preferred securities (Trust Securities) and holding Junior Subordinated Deferrable Interest Debentures (Subordinated Debentures) issued by the Company. At December 31, 1998 and 1997, the Trust held 2,600,000 units of 8.45 percent Cumulative Quarterly Income Preferred Securities, Series A (QUIPS). Holders of the QUIPS are entitled to receive quarterly distributions at an annual rate of 8.45 percent of the liquidation preference value of \$25 per security. The sole asset of the Trust is \$67,000,000 of

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Subordinated Debentures, 8.45 percent Series due 2036, issued by the Company. The Trust will use interest payments received on the Subordinated Debentures it holds to make the quarterly cash distributions on the QUIPS.

The Trust Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at maturity or redemption. The Company has the option at any time on or after November 6, 2001, to redeem the Subordinated Debentures, in whole or in part. The Company also has the option, upon the occurrence of certain events, to redeem the Subordinated Debentures, in whole but not in part, which would result in the redemption of all the Trust Securities. The Company has the right to terminate the Trust at any time and cause the pro rata distribution of the Subordinated Debentures to the holders of the Trust Securities.

In addition to the Company's obligations under the Subordinated Debentures, the Company has guaranteed, on a subordinated basis, payment of distributions on the Trust Securities, to the extent the Trust has funds available to pay such distributions and has agreed to pay all of the expenses of the Trust (such additional obligations collectively, the Back-up Undertakings). Considered together with the Subordinated Debentures, the Back-up Undertakings constitute a full and unconditional guarantee by the Company of the Trust's obligations under the QUIPS. The Company is the owner of all the common securities of the Trust, which constitute 3 percent of the aggregate liquidation amount of all the Trust Securities.

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NOTE 9 - Long-term debt:

The Company's Mortgage and Deed of Trust (the Mortgage) imposes a first mortgage lien on all physical properties owned, exclusive of subsidiary company assets, and certain property and assets specifically excepted. The obligations collateralized are First Mortgage Bonds, including those First Mortgage Bonds designated as Secured Medium-Term Notes and those securing Pollution Control Revenue Bonds. The Mortgage may impose some restrictions on the use of proceeds realized from the sale of the electric generating assets and power purchase contracts.

Long-term debt consists of the following:

	December 31	
	1998	1997
	Thousands of Dollars	
First Mortgage Bonds:		
7.7% series, due 1999	\$ 55,000	\$ 55,000
7 1/2% series, due 2001	25,000	25,000
7% series, due 2005	50,000	50,000
8 1/4% series, due 2007	55,000	55,000
8.95% series, due 2022	50,000	50,000
Secured Medium-Term Notes -		
maturing 1999-2025 7.20%-8.11%	88,000	108,000
Pollution Control Revenue Bonds:		
City of Forsyth, Montana		
6 1/8% series, due 2023	90,205	90,205
5.9% series, due 2023	80,000	80,000
Sinking Fund Debentures -7 1/2%, due 1998		15,500
Natural Gas Transition Bonds -6.20%, due 2012		62,700
ESOP Notes Payable - 9.2%, due 2004	22,392	25,104
Unsecured Medium-Term Notes:		
Series A - maturing 1998-2022 8.68%-8.9%	19,500	22,000
Series B - maturing 2006-2026 7.07%-7.96%	115,000	55,000
Other	55,069	54,230
Unamortized Discount and Premium	(3,709)	(3,966)
	<u>\$ 766,457</u>	<u>\$ 746,073</u>

The Company has a Revolving Credit Agreement that allows it to borrow up to \$60,000,000, all of which was unused at December 31, 1998. Under terms of the agreement borrowings outstanding at December 2, 1999 must be repaid on this date. Fixed or variable interest rate options are available under the facility with commitment fees on the unused portions.

In June 1997, in response to FERC's decision regarding the Kerr mitigation plan discussed at Page 18-F, "Notes to the Financial Statements", the Company recognized long-term debt of approximately \$57,000,000. At December 31, 1998, approximately \$55,000,000 is included in "Other" in the table above.

Debt repayments for the five years ending December 31, 2003, on the long-term debt outstanding at December 31, 1998, amount to: \$92,000,000 in 1999; \$35,000,000 in 2000; \$30,000,000 in 2001; \$5,000,000 in 2002; and \$21,000,000 in 2003.

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NOTE 10 - Short-term borrowing:

The Company has short-term borrowing facilities with commercial banks that provide both committed, as well as uncommitted lines of credit, and the ability to sell commercial paper. Bank borrowings either bear interest at the lender's floating base rate and may be repaid at any time, or have fixed rates of interest and maturities. Commercial paper has fixed rates of interest and maturities.

At December 31, 1998, the Company had lines of credit consisting of \$55,000,000 committed and \$80,000,000 uncommitted. There are facility fees or commitment fees on the committed lines of credit which are not significant. The Company has the ability to issue up to \$115,000,000 of commercial paper based on the total of unused committed lines of credit and revolving credit agreements.

Short-term borrowings and average interest rates were as follows:

	December 31			
	1998		1997	
	Amount	Rate	Amount	Rate
	Thousands of Dollars			
Notes payable to banks.....	\$69,100	6.64%	\$39,717	7.37%

NOTE 11 - Retirement plans:

The Company maintains trustee, noncontributory retirement plans covering substantially all employees. Retirement benefits are based on salary, years of service and social security integration levels.

The assets of the plans consist primarily of domestic and foreign corporate stocks, domestic corporate bonds and U.S. Government securities.

The Company also has an unfunded, nonqualified benefit plan for senior management executives and directors. In December 1998, the Company curtailed the plan and in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans" accrued approximately \$4,000,000 of expense.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care and life insurance benefits for eligible retired employees. In 1994, the Company established a pre-funding plan for postretirement benefits for Utility employees retiring after January 1, 1993. The assets of the plan consist primarily of domestic and foreign corporate stocks, domestic corporate bonds and U.S. Government securities. The PSC allows the Company to include in rates all Utility OPEB cost on the accrual basis provided by SFAS No. 106.

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The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 1998, and a statement of the funded status as of December 31 of both years:

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
	Thousands of Dollars			
Benefit obligation at January 1	\$211,407	\$193,168	\$ 20,142	\$ 20,417
Service cost on benefits earned	4,701	5,063	512	467
Interest cost on projected benefit obligation	13,635	13,982	1,376	1,346
Plan amendments	3,872	324		
Actuarial (gain)/loss	(17,200)	7,807	5,055	(1,405)
Curtailments	(3,923)	137		
Gross benefits paid	(9,826)	(9,074)	(2,672)	(683)
Assets allocated to related Companies			(4,332)	
Benefit obligation at December 31	<u>\$202,666</u>	<u>\$211,407</u>	<u>\$20,081</u>	<u>\$20,142</u>
Fair value of plan assets at January 1	\$227,496	\$195,509	\$ 8,168	\$ 5,740
Actual return on plan assets	3,141	35,745	1,036	993
Employer contributions		4,000	1,842	1,803
Gross benefits paid	(8,153)	(7,758)	(2,264)	(368)
Assets allocated to related Companies			(884)	
Fair value of plan assets at December 31	<u>\$222,484</u>	<u>\$227,496</u>	<u>\$ 7,898</u>	<u>\$ 8,168</u>

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
	Thousands of Dollars			
Funded status at January 1	\$ 19,818	\$ 16,089	\$(12,183)	\$(11,974)
Unrecognized net:				
Actuarial gain	(40,423)	(35,154)	(1,631)	(6,669)
Prior service cost	7,414	8,031	448	
Transition obligation	(337)	631	13,366	15,533
Net amount recognized at December 31	<u>\$ (13,433)</u>	<u>\$ (10,403)</u>	<u>\$ 0</u>	<u>\$ (3,110)</u>

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The following table provides the amounts recognized in the statement of financial position as of December 31 of both years:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	Thousands of Dollars			
Prepaid benefit cost	\$ 3,963	\$ 2,344		
Accrued benefit cost	(17,396)	(21,124)	\$ 0	\$ (3,110)
Additional minimum liability (net)	(3,848)	(3,881)		
Intangible asset	<u>3,848</u>	<u>3,881</u>		
Net amount recognized at December 31	<u><u>\$(13,433)</u></u>	<u><u>\$(10,403)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ (3,110)</u></u>

The following tables provide the components of net periodic benefit cost for the pension and other postretirement benefit plans, portions of which have been deferred or capitalized, for fiscal years 1998 and 1997:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	Thousands of Dollars			
Service cost on benefits earned	\$ 4,701	\$ 5,063	\$ 512	\$ 467
Interest cost on projected benefit Obligation	13,634	13,982	1,376	1,346
Expected return on plan assets	(17,592)	(17,428)	(618)	(459)
Amortization of				
Transition obligation (asset)	196	201	955	1,036
Prior service cost (credit)	1,009	860	37	
Actuarial (gain) loss	<u>(743)</u>	<u>(1,205)</u>	<u>(230)</u>	<u>(347)</u>
Net periodic benefit cost	1,205	1,473	2,032	2,043
Curtailment (gain) loss	<u>3,307</u>	<u>660</u>		
Net periodic benefit cost after curtailments	<u><u>\$ 4,512</u></u>	<u><u>\$ 2,133</u></u>	<u><u>\$ 2,032</u></u>	<u><u>\$ 2,043</u></u>

In 1998, funding for pension costs exceeded SFAS No. 87 pension expense by \$1,780,000. In 1997, pension costs exceeded SFAS No. 87 pension expense by \$5,441,000. The differences were deferred for recognition in future periods as funding is reflected in rates. At December 31, 1998, the regulatory liability was \$4,125,000.

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

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Weighted average assumptions as of December 31				
Discount rate.....	6.75%	7.00%	6.75%	7.00%
Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	3.75%	4.50%	3.75%	4.50%

Assumed health care costs trend rates have a significant effect on the amounts reported for the health care plans. An one percent change in assumed health care cost trend rates would have the following effects:

	<u>1% Increase</u>	<u>1% Decrease</u>
	Thousands of Dollars	
Effect on total of service and interest cost component of net periodic post-retirement health care benefit cost.....	\$ 160	\$ (150)
Effect on the health care component of the accumulated postretirement benefit obligation.....	1,220	(1,225)

The assumed 1999 health care cost trend rates used to measure the expected cost of benefits covered by the plans is 7.50 percent. The trend rate decreases through 2004 to 5 percent.

MONTANA PLANT IN SERVICE - ELECTRIC (EXCLUDES UNIT 4)

	Account Number & Title	This Year Cons. Utility	Yellowstone National Park	This Year Montana	Last Year Montana	% Change
1						
2	Intangible Plant					
3	301 Organization	\$19,995		\$19,995	\$19,995	0.00%
4	302 Franchises and Consents	2,004		2,004	2,004	0.01%
5	303 Miscellaneous Intangible Plant	65,657,772		65,657,772	67,606,416	-2.88%
6	Total Intangible Plant	65,679,771	0	65,679,771	67,628,415	-2.88%
7						
8	Production Plant					
9						
10	Steam Production					
11	310 Land and Land Rights	2,550,541		2,550,541	2,545,577	0.20%
12	311 Structures and Improvements	112,695,285		112,695,285	112,527,433	0.15%
13	312 Boiler Plant Equipment	283,286,268		283,286,268	280,601,104	0.96%
14	313 Engines, Engine Driven Generator					
15	314 Turbogenerator Units	76,915,744		76,915,744	74,799,344	2.83%
16	315 Accessory Electric Equipment	33,289,577		33,289,577	33,209,064	0.24%
17	316 Misc. Power Plant Equipment	11,190,337		11,190,337	10,993,591	1.79%
18	Total Steam Production Plant	519,927,752	0	519,927,752	514,676,113	1.02%
19						
20	Nuclear Production					
21	320 - 325 Not Applicable					
22	Total Nuclear Production Plant	0	0	0	0	0.00%
23						
24	Hydraulic Production					
25	330 Land and Land Rights	6,113,019		6,113,019	6,113,019	0.00%
26	331 Structures and Improvements	40,918,973		40,918,973	40,837,488	0.20%
27	332 Reservoirs, Dams and Waterways	89,861,771		89,861,771	88,025,355	2.09%
28	333 Water Wheel, Turbine, Generators	44,318,727		44,318,727	43,602,131	1.64%
29	334 Accessory Electric Equipment	12,579,724		12,579,724	12,579,724	0.00%
30	335 Misc. Power Plant Equipment	3,262,471		3,262,471	2,762,363	18.10%
31	336 Roads, Railroads and Bridges	3,243,463		3,243,463	3,169,105	2.35%
32	Total Hydraulic Production Plant	200,298,148	0	200,298,148	197,089,185	1.63%
33						
34	Other Production					
35	340 Land and Land Rights					
36	341 Structures and Improvements	26,050	15,967	10,083	0	100.00%
37	342 Reservoirs, Dams and Waterways	112,083	112,083	0	0	0.00%
38	343 Water Wheel, Turbine, Generators					
39	344 Accessory Electric Equipment	2,270,065	2,255,293	14,772	0	100.00%
40	345 Misc. Power Plant Equipment	119,307	101,896	17,411	0	100.00%
41	346 Roads, Railroads and Bridges	2,355	2,355	0	0	0.00%
42	Total Other Production Plant	2,529,860	2,487,594	42,266	0	0.00%
43	Total Production Plant	722,755,760	2,487,594	720,268,166	711,765,298	1.19%
44						
45						
46						
47						
48						
49						
50						
51						
52						
53						

MONTANA PLANT IN SERVICE - ELECTRIC (EXCLUDES UNIT 4)

	<u>Account Number & Title</u>	<u>This Year Cons. Utility</u>	<u>Yellowstone National Park</u>	<u>This Year Montana</u>	<u>Last Year Montana</u>	<u>% Change</u>
1						
2	Transmission Plant					
3	350 Land and Land Rights	14,735,259	900	14,734,359	14,598,482	0.93%
4	352 Structures and Improvements	3,792,444		3,792,444	3,756,747	0.95%
5	353 Station Equipment	126,359,672		126,359,672	124,488,545	1.50%
6	354 Towers and Fixtures	17,443,758	456	17,443,302	17,431,175	0.07%
7	355 Poles and Fixtures	109,721,913	698,391	109,023,522	104,567,763	4.26%
8	356 Overhead Conductors & Devices	95,343,136	590,883	94,752,253	92,734,558	2.18%
9	357 Underground Conduit	95,289	102,286	(6,997)	(8,809)	20.57%
10	358 Undergrnd Conductors & Devices	811,537	554,036	257,501	(5,344)	4918.51%
11	359 Roads and Trails	2,220,552	44,906	2,175,646	1,989,177	9.37%
12	Total Transmission Plant	370,523,560	1,991,858	368,531,702	359,552,294	2.50%
13						
14	Distribution Plant					
15	360 Land and Land Rights	3,264,992	601	3,264,391	3,224,810	1.23%
16	361 Structures and Improvements	3,597,050	141,867	3,455,183	3,241,867	6.58%
17	362 Station Equipment	83,235,383	1,921,771	81,313,612	76,571,281	6.19%
18	363 Storage Battery Equipment					
19	364 Poles, Towers, and Fixtures	97,163,014	222,854	96,940,160	92,355,953	4.96%
20	365 Overhead Conductors & Devices	61,204,481	325,922	60,878,559	58,067,262	4.84%
21	366 Underground Conduit	16,873,353	92,647	16,780,706	15,341,435	9.38%
22	367 Undergrnd Conductors & Devices	57,543,991	2,472,898	55,071,093	50,216,196	9.67%
23	368 Line Transformers	111,972,056	715,939	111,256,117	106,820,302	4.15%
24	369 Services	54,852,781	209,869	54,642,912	50,830,760	7.50%
25	370 Meters	26,624,914	66,886	26,558,028	24,700,814	7.52%
26	371 Installations on Cust. Premises					
27	372 Leased Property on Cust. Premises					
28	373 Street Lighting and Signal Systems	34,511,533	19,872	34,491,661	32,686,037	5.52%
29	Total Distribution Plant	550,843,548	6,191,126	544,652,422	514,056,717	5.95%
30						
31	General Plant					
32	389 Land and Land Rights	304,480		304,480	304,480	0.00%
33	390 Structures and Improvements	6,984,358	\$84,577	6,899,781	6,865,598	0.50%
34	391 Office Furniture and Equipment	1,007,287		1,007,287	1,051,631	-4.22%
35	392 Transportation Equipment	23,188,896	94,843	23,094,053	22,128,642	4.36%
36	393 Stores Equipment	413,177		413,177	384,351	7.50%
37	394 Tools, Shop & Garage Equipment	4,174,638	44,753	4,129,885	4,042,389	2.16%
38	395 Laboratory Equipment	4,518,655	8,259	4,510,396	4,598,794	-1.92%
39	396 Power Operated Equipment	2,241,963		2,241,963	2,240,703	0.06%
40	397 Communication Equipment	17,708,363	76,170	17,632,193	16,199,397	8.84%
41	398 Miscellaneous Equipment	159,625	95,695	63,930	65,902	-2.99%
42	399 Other Tangible Equipment	815,467		815,467	798,940	2.07%
43	Total General Plant	61,516,909	404,297	61,112,612	58,680,827	4.14%
44	Total Plant in Service	1,771,319,548	11,074,875	1,760,244,673	1,711,683,551	2.84%
45						
46	4101 EI Plant Allocated from Common	26,305,400		26,305,400	50,795,964	-48.21%
47	105 EI Plant Held for Future Use	1,727,225		1,727,225	4,255,721	-59.41%
48	107 EI Construction Work in Progress	37,713,878		37,713,878	38,568,092	-2.21%
49	114.2 EI Plant Acquisition Adjustment	3,106,285		3,106,285	3,106,285	0.00%
50						
51	TOTAL ELECTRIC PLANT	\$1,840,172,336	\$11,074,875	\$1,829,097,461	\$1,808,409,613	1.14%
52						
53						

MONTANA DEPRECIATION SUMMARY - ELECTRIC (EXCLUDES UNIT 4)

	<u>Functional Plant Class</u>	<u>Montana Plant Cost</u>	<u>This Year Cons. Utility</u>	<u>Yellowstone National Park</u>	<u>This Year Montana</u>	<u>Last Year Montana</u>	<u>Current Avg. Rate</u>
1	Accumulated Depreciation						
2							
3	Steam Production	\$519,927,752	\$235,699,409		\$235,699,409	\$221,831,080	2.78%
4							
5	Nuclear Production						
6							
7	Hydraulic Production	200,298,148	59,989,360		59,989,360	57,234,623	1.45%
8							
9	Other Production	42,266	1,119,792	1,119,792	0	0	0.00%
10							
11	Transmission	368,531,702	98,851,381	975,201	97,876,180	87,206,386	2.89%
12							
13	Distribution	544,652,422	177,301,267	1,994,445	175,306,822	157,048,171	3.86%
14							
15	General and Intangible	126,792,382	29,832,186	191,674	29,640,512	25,714,224	5.06%
16							
17	Common	26,305,400	5,883,960		5,883,960	16,158,097	4.29%
18							
19	TOTAL DEPRECIATION	\$1,786,550,072	\$608,677,355	\$4,281,112	\$604,396,243	\$565,192,581	3.04%
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Sch. 21		MONTANA MATERIALS & SUPPLIES (ASSIGNED & ALLOCATED) - ELECTRIC (EXCLUDES UNIT4)				
	<u>Account Number & Title</u>	<u>This Year Cons. Utility</u>	<u>Yellowstone National Park</u>	<u>This Year Montana</u>	<u>Last Year Montana</u>	<u>%Change</u>
1						
2	151 Fuel Stock	\$942,237		\$942,237	\$1,153,786	-18.34%
3						
4	152 Fuel Stock Expenses Undistributed					
5						
6	153 Residuals					
7						
8	154 Plant Materials & Operating Supplies					
9	Assigned and Allocated to;					
10	Operation & Maintenance					
11	Construction					
12	Production Plant	8,920,162		8,920,162	9,091,437	-1.88%
13	Transmission Plant	1,707,815		1,707,815	1,901,189	-10.17%
14	Distribution Plant	2,538,945		2,538,945	2,735,647	-7.19%
15						
16	155 Merchandise					
17						
18	156 Other Materials & Supplies					
19						
20	157 Nuclear Materials Held for Sale					
21						
22	163 Stores Expense Undistributed	1,191,255		1,191,255	526,583	126.22%
23						
24	TOTAL MATERIALS & SUPPLIES	\$15,300,414	\$0	\$15,300,414	\$15,408,642	-0.70%
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MONTANA REGULATORY CAPITAL STRUCTURE & COSTS - ELECTRIC

		<u>% Capital Structure</u>	<u>% Cost Rate</u>	<u>Weighted Cost</u>
1	Commission Accepted - Most Recent 1/			
2				
3	Docket Number: 95.9.128			
4	Order Number : 5865d			
5				
6	Common Equity	46.35%	11.00%	5.10%
7	Preferred Stock	7.91%	7.13%	0.56%
8	Long Term Debt	45.74%	7.44%	3.40%
9	Other			
10	TOTAL	100.00%		9.06%
11				
12	Actual at Year End			
13				
14	Common Equity	43.10%	11.00%	4.74%
15	Preferred Stock	4.60%	6.40%	0.29%
16	QUIPS Preferred 2/	5.18%	8.54%	0.44%
17	Long Term Debt 3/	47.12%	7.25%	3.42%
18	Other			
19	TOTAL	100.00%		8.89%

1/ Docket 95.9.128, Order 5865d only specified the return on equity component of the rate of return. The capital structure and the rates for long-term debt and preferred as filed in Rebuttal Testimony of P. J. Cole were not contested by the intervenors in the settlement stipulation. As such, the Company assumes the capital structure to be accepted by the Commission with the ordered change to return on equity.

2/ The cost of the QUIPS securities is treated as tax deductible for income tax purposes. See footnote on Schedule 25.

3/ The cost rate can not be tied directly to Schedule 24, which is presented on a consolidated basis.

STATEMENT OF CASH FLOWS (INCLUDES UNIT 4) - 1/

	Description	This year	Last Year	% Change
1	Increase/(decrease) in Cash & Cash Equivalents:			
2	Cash Flows from Operating Activities:			
3	Net Income	\$165,620,479	\$129,706,779	27.69%
4	Depreciation	63,647,638	65,424,372	-2.72%
5	Amortization	94,914	99,417	-4.53%
6	Deferred Income Taxes - Net	(968,073)	4,054,901	-123.87%
7	Investment Tax Credit Adjustments - Net	(1,362,593)	(7,816,233)	82.57%
8	Change in Operating Receivables - Net	(119,523,739)	(13,919,734)	-758.66%
9	Change in Materials, Supplies & Inventories - Net	(1,018,940)	1,594,718	-163.89%
10	Change in Operating Payables & Accrued Liabilities - Net	150,306,893	7,796,828	1827.80%
11	Allowance for Funds Used During Construction (AFUDC)	(1,687,683)	(1,758,009)	4.00%
12	Change in Other Assets & Liabilities - Net	28,215,585	51,427,217	-45.13%
13	Other Operating Activities:			
14	Undistributed Earnings from Subsidiary Companies	(108,043,440)	(59,760,248)	-80.79%
15	Amortization of Loss on Long-Term Sale of Power	0	(1,406,000)	100.00%
16	Other (net)	1,072,800	13,455,371	-92.03%
17	Change in Regulatory Assets	57,723,568	(33,659,237)	271.49%
18	Change in Regulatory Liabilities	(1,774,132)	(1,119,078)	-58.54%
19	Net Cash Provided by/(Used in) Operating Activities	\$232,303,277	\$154,121,064	50.73%
20	Cash Inflows/Outflows From Investment Activities:			
21	Construction/Acquisition of Property, Plant and Equipment	(\$77,705,271)	(\$131,427,871)	40.88%
22	(net of AFUDC & Capital Lease Related Acquisitions)			
23	Investments In and Advances to Affiliates	0	1,000	-100.00%
24	Contributions In and Advances to Affiliates	(20,001,000)	0	-100.00%
25	Other Investing Activities:			
26	Miscellaneous Special Funds	249,218	(80,949)	407.87%
27	Net Cash Provided by/(Used in) Investing Activities	(\$97,457,053)	(\$131,507,820)	25.89%
28	Cash Flows from Financing Activities:			
29	Proceeds from Issuance of:			
30	Long-Term Debt	\$65,356,067	\$56,475,569	15.72%
31	Common Stock	7,360,080	2,201,475	234.32%
32	Other: Mandatorily Redeem. Pref. Securities of Sub. Trust			
33	Dividends from Subsidiaries	6,500,000	0	100.00%
34	Net Increase in Short-Term Debt	(69,100,000)	29,382,635	-100.00%
35	Other: Return of Subsidiary Capital			
36	Payment for Retirement of:			
37	Long-Term Debt	(44,971,857)	(34,218,994)	-31.42%
38	Preferred Stock	0	(66,758)	100.00%
39	Net Decrease in Short-Term Debt			
40	Dividends on Preferred Stock	(3,690,034)	(3,690,034)	0.00%
41	Dividends on Common Stock	(88,008,355)	(87,422,274)	-0.67%
42	Other Financing Activities (explained on attached page)			
43	Net Cash Provided by (Used in) Financing Activities	(\$126,554,099)	(\$37,338,381)	-238.94%
44				
45	Net Increase/(Decrease) in Cash and Cash Equivalents	\$8,292,125	(\$14,725,137)	156.31%
46	Cash and Cash Equivalents at Beginning of Year	(\$5,651,562)	\$9,073,575	-162.29%
47	Cash and Cash Equivalents at End of Year	\$2,640,563	(\$5,651,562)	146.72%

1/ The cash balances on the 1998 and 1997 balance sheets includes CMP, whereas the cash flows statement does not.

LONG TERM DEBT 1/

Description	Issue Date	Maturity Date	Principal Amount	Net Proceeds	Outstanding Per Balance Sheet	Yield to Maturity	Annual Net Cost Inc. Prem./Disc.	Total Cost %
First Mortgage Bonds								
7.50% Series, Due 2001	04/21/71	04/01/01	\$25,000,000	\$24,695,993	\$24,983,594	7.500%	\$1,885,134	7.55%
8.25% Series, Due 2007	12/05/91	02/01/07	55,000,000	54,550,100	54,760,218	8.260%	4,612,964	8.42%
8.95% Series, Due 2022	12/05/91	02/01/22	50,000,000	49,536,500	49,645,333	8.957%	4,511,145	9.09%
7.00% Series, Due 2005	03/01/93	03/01/05	50,000,000	49,375,000	49,678,820	7.075%	3,588,897	7.22%
7.70% Series, Due 1999	12/05/91	02/01/99	55,000,000	54,656,250	54,996,003	7.700%	4,662,552	8.48%
Total First Mortgage Bonds			\$235,000,000	\$232,813,843	\$234,063,968		\$19,260,692	8.23%
Pollution Control Bonds								
6-1/8% Series, Due 2023	06/30/93	05/01/23	\$90,205,000	\$88,199,743	\$88,569,427	5.841%	\$5,648,352	6.38%
5.90% Series, Due 2023	12/30/93	12/01/23	80,000,000	79,040,800	79,197,570	6.428%	4,894,714	6.18%
Total Pollution Control Bonds			\$170,205,000	\$167,240,543	\$167,766,997		\$10,543,066	6.28%
Other Long Term Debt								
Land Purchase	06/84	06/99	\$60,000	\$60,000	\$3,792		\$398	10.50%
Quarterly Income Preferred Securities, 8.45%, Series A (QUIPS) 2/	11/96	11/01	65,000,000	65,000,000	65,000,000		5,492,500	8.45%
Kerr Mitigation	Various	Various	56,701,106	56,701,106	23,711,774		2,242,660	9.46%
Medium Term Notes-Unsecured Series A	Various	Various	17,000,000	17,000,000	17,000,000		1,535,538	9.03%
Medium Term Notes-Secured Series	Various	Various	88,000,000	88,000,000	88,000,000		6,585,591	7.48%
Medium Term Notes-Unsecured Series B	Various	Various	115,000,000	114,665,614	114,665,614		7,652,425	6.67%
Total Other Long Term Debt			\$341,761,106	\$341,426,720	\$308,381,180		\$23,509,112	7.62%
TOTAL LONG TERM DEBT			\$746,966,106	\$741,481,106	\$710,212,145		\$53,312,870	7.51%

1/ Total Long-Term Debt does not include ESOP debt of \$19,431,000, as ESOP debt is not used for rate making purposes.

Total Long-Term Debt does not include amounts due within 1 year of \$36,814,134.

2/ The Company believes and intends to take the position that the securities associated with the QUIPS issue will constitute indebtedness for United States federal income tax purposes. As such, the cost of QUIPS are deemed to be tax deductible. The Company will have the right to redeem securities (i) on or after November 6, 2001 or (ii) upon occurrence and continuation of a Tax Event or an Investment Company Event, as defined in the Prospectus dated November 1, 1996.

PREFERRED STOCK

Series	Issue Date	Shares Issued	Par Value	Call Price	Net Proceeds	Cost of Money	Principal Outstanding	Annual Cost	Embedded Cost %
1									
2 \$6.00 Series Cumulative	1929-1932	159,589	\$100	\$110.000	\$15,958,900	6.00%	\$15,958,900	\$957,534	6.00%
3									
4 \$4.20 Series Cumulative	May 1954	60,000	\$100	\$103.000	6,024,600	4.18%	6,024,600	252,000	4.18%
5									
6 \$6.875 Series Cumulative 1/	Nov 1993	360,800	\$100	\$103.438	35,670,412	6.88%	35,670,412	2,480,500	6.95%
7									
8									
9									
TOTAL PREFERRED STOCK		580,389			\$57,653,912	6.40%	\$57,653,912	\$3,690,034	6.40%

1/ Not redeemable prior to November 1, 2003, at which point call price will decrease by .344 per year to equal 100.00 at November 1, 2013.

COMMON STOCK

		<u>Avg. Number of Shares Outstanding</u>	<u>Book Value Per Share</u>	<u>Earnings Per Share</u>	<u>Dividends Per Share (Declared)</u>	<u>Retention Ratio</u>	<u>Market Price</u>		<u>Price/ Earnings Ratio</u>
		1/	2/				High	Low	
1									
2									
3									
4	January	54,814,747	\$18.71				\$31.75	\$29.06	
5									
6	February	54,888,934	18.88				32.19	29.88	
7									
8	March	54,921,409	18.67	\$0.64	\$0.40		36.81	31.94	
9									
10	April	54,953,429	18.76				38.50	35.33	
11									
12	May	54,996,279	18.90				37.31	34.56	
13									
14	June	54,999,879	18.65	\$0.40	\$0.40		37.31	33.80	
15									
16	July	55,002,479	18.77				35.75	33.25	
17									
18	August	55,013,014	19.07				40.69	34.88	
19									
20	September	55,024,778	18.89	\$0.65	\$0.40		45.25	39.00	
21									
22	October	55,035,600	19.16				46.38	41.13	
23									
24	November	55,058,078	19.92				54.25	42.94	
25									
26	December	55,060,520	19.77	\$1.26	\$0.40		57.13	50.31	
27									
28	TOTAL COMMON	54,980,762	\$19.77	\$2.95	\$1.60	45.76%	\$56.56		19.2

1/ Monthly shares are actual shares outstanding at month-end. Total year-end shares are average shares for 1998.

2/ All Book Value Per Share amounts are based on actual shares and include unallocated stock held by Trustee for the Deferred Savings and Employee Ownership Plans.

MONTANA EARNED RATE OF RETURN - ELECTRIC

	<u>Description</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1	Rate Base			
2	101 Plant in Service	\$1,702,672,990	\$1,768,756,449	3.88%
3	108 Accumulated Depreciation	(550,753,524)	(583,188,741)	-5.89%
4				
5	Net Plant in Service	\$1,151,919,466	\$1,185,567,708	2.92%
6	Additions:			
7	154, 156 Materials & Supplies	\$14,063,593	\$13,681,727	-2.72%
8	165 Prepayments			0.00%
9	Other Additions 1/	202,079,998	196,718,767	-2.65%
10				
11	Total Additions	\$216,143,591	\$210,400,494	-2.66%
12	Deductions:			
13	190 Accumulated Deferred Income Taxes 1/	\$237,151,675	\$232,067,195	-2.14%
14	252 Customer Advances for Construction	11,168,941	13,610,664	21.86%
15	255 Accumulated Def. Investment Tax Credits	0	0	0.00%
16	Other Deductions	49,311,742	14,515,019	-70.56%
17				
18	Total Deductions	\$297,632,358	\$260,192,878	-12.58%
19	Total Rate Base	\$1,070,430,699	\$1,135,775,324	6.10%
20	Net Earnings	\$84,871,210	\$96,818,201	14.08%
21	Rate of Return on Average Rate Base	7.929%	8.524%	7.51%
22	Rate of Return on Average Equity 2/	7.119%	8.802%	23.64%
23				
24	Major Normalizing and			
25	Commission Ratemaking Adjustments			
26				
27	Rate Schedule Revenues	(\$873,430)	\$1,254,221	243.60%
28	Off-System Sales Market	3,750,758	8,020,866	113.85%
29	Sales-Purchased Power	(149,969)	(314,040)	-109.40%
30	Hydro Generation	(12,117,841)	(3,840,564)	68.31%
31	Thermal Generation	4,108,243	309,851	-92.46%
32				
33				
34	Non-Allowables:			
35	Advertising	440,162	1,667,568	278.85%
36	Benefit Restoration Plan	1,211,647	2,408,398	98.77%
37	Dues, Contributions, Other	95,120	78,388	-17.59%
38	Corporate Overhead	0	13,292	100.00%
39	Other Settlement Items	2,500,000	2,500,000	0.00%
40				
41	Workforce Reduction	1,940,219		-100.00%
42	Associated Income Taxes	(356,421)	(4,765,092)	-1236.93%
43	Total Adjustments	\$548,488	\$7,332,888	1236.93%
44	Revised Net Earnings	\$85,419,698	\$104,151,089	21.93%
45	Adjusted Rate of Return on Average Rate Base	7.980%	9.170%	14.91%
46	Adjusted Rate of Return on Average Equity 2/,3/	7.233%	10.300%	42.40%
47				
48	1/ Includes adjustments related to FAS 109.			
49				
50	2/ ROE calculation utilizes the common equity component on Sch. 22 of this Report, applied to			
51	rate base for the denominator of the equations. The 1997 common equity component applied			
52	to rate base was 45.03%.			
53				

MONTANA EARNED RATE OF RETURN - ELECTRIC

	Description	Last Year	This Year	% Change
1				
2	Detail - Other Additions			
3	FAS 109 Regulatory Asset	\$114,138,802	\$112,025,239	-1.85%
4	Conservation Expenditures	34,412,307	33,109,339	-3.79%
5	Cost of Refinancing Debt	8,458,338	7,595,972	-10.20%
6	Colstrip Unit 3 Carrying Charge	43,071,290	41,240,546	-4.25%
7	Corette PS&I	413,171	373,821	-9.52%
8	Fuel	1,163,183	1,043,755	-10.27%
9	Division Centralization	0	93,953	100.00%
10	1995 & 1996 Severance Costs	0	813,235	100.00%
11	1994 Severance Costs	422,907	422,907	0.00%
12	Total Other Additions	\$202,079,998	\$196,718,767	-2.65%
13				
14	Detail - Other Deductions			
15	Personal Injury and Property Damage	\$2,113,591	\$1,729,059	-18.19%
16	Deferred Taxes - CIAC	1,427,596	0	-100.00%
17	Unamortized Gain on Reacquired Debt	91,505	45,492	-50.28%
18	Gross Cash Requirements	13,118,675	9,906,912	-24.48%
19	Mystic Lake Adjustment	551,595	501,903	-9.01%
18	Kerr Mitigation	29,372,720	0	100.00%
19	Storm Damage Reserve	259,838	(77,054)	-129.65%
20	WAPA/BPA Billing Adjustment	2,198,666	2,198,666	0.00%
21	Materials & Supplies Non-Consumable Parts	177,556	210,041	18.30%
22				
23	Total Other Deductions	\$49,311,742	\$14,515,019	-70.56%
24	<p>3/ In accordance with accounting order no. 5865e received as a result of Docket No. D95.9.128, \$6,160,676 of 1997 ITC was flowed through to income in nonoperating accounts and therefore was not included in this return calculation.</p>			
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Sch. 28		MONTANA COMPOSITE STATISTICS - ELECTRIC (EXCLUDES UNIT 4 & YNP)	
	<u>Description</u>		<u>Amount</u>
1			
2	Plant (Intrastate Only)		
3			
4	101	Plant in Service (Includes Allocation from Common)	\$1,786,550,073
5	105	Plant Held for Future Use	1,727,225
6	107	Construction Work in Progress	37,713,878
7	114	Plant Acquisition Adjustments	3,106,285
8	151-163	Materials & Supplies	15,300,414
9		(Less):	
10	108, 111	Depreciation & Amortization Reserves	604,396,243
11	252	Contributions in Aid of Construction	13,913,495
12	NET BOOK COSTS		\$1,226,088,137
13			
14	Revenues & Expenses		
15			
16	400	Operating Revenues	\$474,649,003
17			
18	Total Operating Revenues		\$474,649,003
19			
20	401-402	Other Operating Expenses	\$248,353,748
21	403-407	Depreciation & Amortization Expenses	52,166,532
22	408.1	Taxes Other than Income Taxes	46,316,076
23	409-411	Federal & State Income Taxes	30,994,446
24			
25	Total Operating Expenses		\$377,830,802
26	Net Operating Income		\$96,818,201
27			
28	415-421.1	Other Income	(\$211,871)
29	421.2-426.5	Other Deductions	(2,098,424)
30	NET INCOME BEFORE INTEREST EXPENSE		\$98,704,753
31			
32	Average Customers (Intrastate Only)		
33		Residential	231,835
34		Commercial	44,834
35		Industrial	3,512
36		Other	3,200
37	TOTAL AVERAGE NUMBER OF CUSTOMERS		283,381
38			
39	Other Statistics (Intrastate Only)		
40		Average Annual Residential Use (Kwh)	8,379
41		Average Annual Residential Cost per (Kwh)	\$0.066
42		Average Residential Monthly Bill	\$45.93
43			
44		Plant in Service (Gross) per Customer	\$6,304
45			
46			
47			
48			
49			
50			

	<u>City/Town</u>	<u>Population</u> 1/	<u>Residential</u> <u>Customers</u>	<u>Commercial</u> <u>Customers</u>	<u>Industrial</u> <u>& Other</u> <u>Customers</u>	<u>Total</u> <u>Customers</u> 2/
1	Absarokee (CDP)		451	106	15	572
2	Alberton	396	425	89	23	537
3	Alder/Laurin		176	53	7	236
4	Amsterdam		1			1
5	Anaconda	10,093	4,199	661	60	4,920
6	Augusta		238	80	16	334
7	Avon		89	47	4	140
8	Barber		46	4		50
9	Basin		153	57	9	219
10	Bearcreek/Washoe	42	65	13	3	81
11	Belfry		191	51	21	263
12	Belgrade	4,846	3,801	705	51	4,557
13	Belt	596	595	175	17	787
14	Benchland					0
15	Big Sandy	724	383	120	17	520
16	Big Sky		1,461	286	5	1,752
17	Big Timber	1,698	1,148	337	28	1,513
18	Billings	91,195	39,163	6,639	753	46,555
19	Boulder	1,589	715	195	25	935
20	Box Elder		125	62	9	196
21	Bozeman	28,522	16,884	2,953	165	20,002
22	Brady		1		2	3
23	Bridger	807	393	117	29	539
24	Broadview	190	224	146	8	378
25	Butte	34,051	14,526	2,001	398	16,925
26	Carter		119	49	13	181
27	Cascade	750	954	195	25	1,174
28	Chester	952	521	248	26	795
29	Chinook	1,586	845	260	37	1,142
30	Choteau	1,791	962	314	36	1,312
31	Clancy		1,295	198	5	1,498
32	Clinton		91	26	5	122
33	Coffee Creek		33	15		48
34	Colstrip (CDP)		922	139	61	1,122
35	Columbus	1,897	887	237	39	1,163
36	Conrad	2,873	1,248	325	134	1,707
37	Corbin/Jefferson		191	31	3	225
38	Corvallis		584	126	53	763
39	Darby	851	653	179	31	863
40	Deer Lodge	3,782	1,992	434	70	2,496
41	Denton	373	160	34	4	198
42	Dillon	4,382	1,929	454	62	2,445
43	Dodson	132	122	43	15	180
44	Drummond	270	573	236	55	864
45	Dutton	396	253	96	34	383
46	East Helena	1,720	2,127	266	27	2,420
47	Edgar		271	69	11	351
48	Elliston		185	52	16	253
49	Ennis/Jeffers	1,000	1,586	455	26	2,067
50	Fairfield	685	404	126	25	555
51	Florence		310	89	17	416
52	Flowree		106	52	11	169
53	Fort Benton	1,654	811	290	39	1,140

MONTANA CUSTOMER INFORMATION-ELECTRIC (EXCLUDES UNIT 4 & YNP)

	<u>City/Town</u>	<u>Population</u> 1/	<u>Residential</u> <u>Customers</u>	<u>Commercial</u> <u>Customers</u>	<u>Industrial</u> <u>& Other</u> <u>Customers</u>	<u>Total</u> <u>Customers</u> 2/
1	Fromberg	430	299	61	18	378
2	Gallatin Gateway		884	215	11	1,110
3	Gardiner		721	253	14	988
4	Garrison		102	42	11	155
5	Geraldine	296	279	103	7	389
6	Geyser		55	13	4	72
7	Giffen					
8	Gilford		95	60	13	168
9	Glasgow	3,656	1,902	593	104	2,599
10	Great Falls	57,758	27,328	4,125	431	31,884
11	Greycliff		52	22	5	79
12	Hamilton	4,059	4,392	995	131	5,518
13	Hardin	3,225	1,385	390	59	1,834
14	Harlem	976	869	252	46	1,167
15	Harlowton	1,127	654	180	21	855
16	Harrison		155	43	15	213
17	Haugan/Deborgia		186	60	4	250
18	Havre	10,232	4,955	926	225	6,106
19	Helena	27,982	18,967	3,475	285	22,727
20	Hingham	178	110	58	9	177
21	Hinsdale		142	42	9	193
22	Hobson	227	144	29		173
23	Inverness		50	25	7	82
24	Jardine		5	1		6
25	Joliet	613	352	76	22	450
26	Joplin		111	54	8	173
27	Judith Gap	146	93	21	3	117
28	Kremlin		76	37	5	118
29	Laurel	6,125	2,833	250	30	3,113
30	Lavina	165	177	80	10	267
31	Lennepe/Ringling		59	38	1	98
32	Lewistown	6,380	3,238	715	98	4,051
33	Lima					0
34	Lincoln		968	207	7	1,182
35	Livingston	7,509	4,089	857	105	5,051
36	Logan		3	6	4	13
37	Lohman		19	10	10	39
38	Lolo		1,137	145	37	1,319
39	Malta	2,303	1,380	391	71	1,842
40	Manhattan	1,380	1,454	269	60	1,783
41	Martinsdale		142	33	2	177
42	Marysville		200	45	6	251
43	Melstone	190	123	85	86	294
44	Missoula	51,204	27,847	4,627	718	33,192
45	Moccasin		37	17	3	57
46	Monarch		319	30	4	353
47	Moore	381	99	16	4	119
48	Muir					
49	Musselshell		53	12	2	67
50	Nashua	381	208	58	8	274
51	Neihart	53	183	25	1	209
52	Norris		64	30	4	98
53	Paradise		147	42	17	206

MONTANA CUSTOMER INFORMATION-ELECTRIC (EXCLUDES UNIT 4 & YNP)

	<u>City/Town</u>	<u>Population</u> 1/	<u>Residential</u> <u>Customers</u>	<u>Commercial</u> <u>Customers</u>	<u>Industrial</u> <u>& Other</u> <u>Customers</u>	<u>Total</u> <u>Customers</u> 2/
1	Park City		387	31	6	424
2	Philipsburg	940	1,502	233	26	1,761
3	Plains	1,201	1,225	291	98	1,614
4	Pony		113	21	3	137
5	Power		78	41	7	126
6	Radersburg		104	55	29	188
7	Raynesford		69	24	3	96
8	Red Lodge	2,204	1,619	335	24	1,978
9	Reedpoint		125	47	7	179
10	Roberts		142	16		158
11	Roundup	2,049	1,128	352	76	1,556
12	Rudyard		165	69	9	243
13	Ryegate	283	142	61	8	211
14	Saco	247	165	67	14	246
15	Saint Regis		373	119	16	508
16	Saltese		36	19	4	59
17	Sand Coulee		264	58	6	328
18	Sapphire Village					0
19	Shawmut		43	16	1	60
20	Sheridan	723	757	176	16	949
21	Springdale		35	15	3	53
22	Square Butte		19	5		24
23	Stanford	533	284	82	11	377
24	Stevensville	1,965	1,552	423	69	2,044
25	Stockett		167	38	5	210
26	Sun River		1			1
27	Superior	978	737	239	27	1,003
28	Thompson Falls	1,540	904	250	56	1,210
29	Three Forks	1,481	1,092	365	50	1,507
30	Townsend	2,004	1,007	237	37	1,281
31	Trident		2			2
32	Twin Bridges	421	313	136	15	464
33	Twodot		30	9	3	42
34	Ulm		322	83	7	412
35	Valier	532	98	51	35	184
36	Vaughn		219	31	7	257
37	Victor		677	204	21	902
38	Virginia City	158	145	71	5	221
39	Wagner		45	17	1	63
40	White Sulphur Springs	964	769	286	29	1,084
41	Whitehall	1,326	916	199	56	1,171
42	Wickes					0
43	Willow Creek		124	47	11	182
44	Windham		27	9	1	37
45	Winston		90	24	2	116
46	Wolf Creek		469	117	8	594
47	Zurich		102	48	11	161
48	TOTAL MT CUSTOMERS ONLY		233,312	45,091	6,123	284,526
49	1/ Population figures are taken from the census conducted by the U.S. Bureau of the Census. The					
50	population for these revenue towns are the 1996 estimates for "Incorporated Places" only.					
51						
52	2/ Total customers may exceed population due to "Revenue Town" boundaries encompassing a					
53	greater area than that of the "Incorporated Place".					

MONTANA EMPLOYEE COUNTS

	<u>Department</u>	<u>Year Beginning</u>	<u>Year End</u>	<u>Average</u>
1		1/	1/	
2				
3	Utility Operations			
4	Executive			
5	Financial, Risk Mgmt. & Information Services			
6	Administrative & Regulatory Affairs			
7	Utility Services & Division Administration	769	795	782
8	Corporate Administration	206	211	209
9	Business Development & Regulatory Affairs	35	23	29
10	Transmission	200	152	176
11	Generation	503	486	495
12	Total Utility	1,713	1,667	1,690
13				
14	Other Corporate			
15	Office of the Corporation			
16	Total Other Corporate	0		0
17	TOTAL EMPLOYEES	1,713	1,667	1,690

1/ Part time employees have been converted to full time equivalents.

MONTANA CONSTRUCTION BUDGET (ASSIGNED & ALLOCATED) - 1998

	<u>Project Description</u>	<u>Total Company</u>	<u>Total Montana</u>
1			
2	Electric Operations		
3			
4	Three Rivers Auto Changeout	\$1,039,000	\$1,039,000
5	Rainbow - Helena 100KV "A" & "B" Tower Lines	1,750,000	1,750,000
6	2188 Relicensing /1	1,454,020	1,454,020
7	2188 Protection, Mitigation & Enhancements /1	1,581,254	1,581,254
8	Horizontal Superheater Upgrade 1/	1,116,540	1,116,540
9	Milltown License Surrender and Disposal 1/	10,000,000	10,000,000
10			
11			
12			
13	All Other Projects < \$1 Million Each 2/	45,272,985	45,272,985
14			
15	Total Electric Utility Construction Budget	\$62,213,799	\$62,213,799
16			
17	Gas Operations		
18			
19	Greycliff to Absarokee 12" Pipeline	\$6,500,000	\$6,500,000
20	Dry Creek Storage Compression	1,320,000	1,320,000
21			
22	All Other Projects < \$1 Million Each	11,925,495	11,925,495
23			
24	Total Gas Utility Construction Budget	\$19,745,495	\$19,745,495
25			
26	Common		
27			
28	HVAC Project	1,106,000	1,106,000
29			
30			
31	All Other Projects < \$1 Million Each	6,059,690	6,059,690
32			
33	Total Common Utility Construction Budget	\$7,165,690	\$7,165,690
34			
35	Colstrip Unit 4		
36			
37			
38			
39	All Other Projects < \$1 Million Each	800,626	
40			
41	Total Colstrip Unit 4 Construction Budget	\$800,626	\$0
42	TOTAL CONSTRUCTION BUDGET	\$89,925,610	\$89,124,984

1/ - These amounts are included in the Generation Construction Budget for 1999.

2/ - This includes \$10,700,991 for Other Generation Construction.

TOTAL SYSTEM & MONTANA PEAK AND ENERGY

		System Peak and Energy				
		Peak Day	Peak Hour	Peak Day Volume Megawatts	Total Monthly Volumes Energy (Mwh)	Non-Requirements Sales For Resale (Mwh)
1	January	11	1900	1,367	1,077,542	220,283
2	February	2	1900	1,181	949,127	232,444
3	March	6	900	1,192	1,014,204	235,102
4	April	15	900	1,076	1,009,780	303,840
5	May	29	1700	1,072	900,249	244,508
6	June	30	1700	1,134	890,193	193,345
7	July	27	1700	1,350	1,140,588	306,430
8	August	6	1700	1,312	1,089,665	372,486
9	September	2	1700	1,254	1,006,416	328,305
10	October	20	800	1,142	1,069,426	386,488
11	November	23	1800	1,222	1,073,412	448,370
12	December	21	1900	1,560	1,284,108	419,620
13	TOTALS				12,504,710	3,691,221
14	Montana Peak and Energy					
15		Peak Day	Peak Hour	Peak Day Volume Megawatts	Total Monthly Volumes Energy (Mwh)	Non-Requirements Sales For Resale (Mwh)
16						
17	January					
18	February					
19	March					
20	April					
21	May					
22	June					
23	July					
24	August					
25	September					
26	October					
27	November					
28	December					
29	TOTALS				0	0
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TOTAL SYSTEM SOURCES & DISPOSITION OF ENERGY

	<u>Sources</u>	<u>Megawatthours</u>	<u>Dispositions</u>	<u>Megawatthours</u>
1	Generation (Net of Station Use)			
2	Steam	6,199,845		
3	Nuclear		Sales to Ultimate Consumers	7,107,820
4	Hydro - Conventional	3,741,873	(Include Interdepartmental)	
5	Hydro - Pumped Storage			
6	Other	439	Sales for Resale	
7	(Less) Energy for Pumping		Requirement Sales	556,648
8	Net Generation	9,942,157	Non-Requirement Sales	3,691,221
9	Purchases	2,463,599	Sales for Resale	4,247,869
10	Power Exchanges		Energy Furnished w/o Charge	
11	Received	1,861,518		
12	Delivered	1,847,532		
13	Net Power Exchanges	13,986	Energy Furnished	0
14	Transmission Wheeling for Others		Energy Used Within Utility	
15	Received	2,348,053	Electric Department	
16	Delivered	2,263,085	(Less) Station Use	
17	Net Transmission Wheeling	84,968	Net Energy Used Within Util.	0
18	Transmission by Others Losses	0	Energy Losses	1,149,021
19	TOTAL SOURCES	12,504,710	TOTAL DISPOSITIONS	12,504,710
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SOURCES OF ELECTRIC SUPPLY

	<u>Type</u>	<u>Plant Name</u>	<u>Location</u>	<u>Annual Peak (MW)</u>	<u>Annual Energy (Mwh)</u>
1	Thermal	J.E. Corette	Billings, MT	156.0	595,069.0
2	Thermal	Colstrip 1&2	Colstrip, MT	312.0	2,235,350.0
3	Thermal	Colstrip 3&4	Colstrip, MT	455.0	3,369,426.0
4	Subtotal			923.0	6,199,845.0
5					
6	Hydro	Black Eagle	Great Falls, MT	20.0	146,871.4
7	Hydro	Cochrane	Great Falls, MT	55.0	337,795.2
8	Hydro	Hauser	Helena, MT	17.0	141,376.0
9	Hydro	Holter	Helena, MT	50.0	360,983.0
10	Hydro	Kerr	Polson, MT	195.0	1,013,017.2
11	Hydro	Morony	Great Falls, MT	49.0	352,868.8
12	Hydro	Mystic Lake	Columbus, MT	11.0	47,558.0
13	Hydro	Rainbow	Great Falls, MT	37.0	262,025.4
14	Hydro	Ryan	Great Falls, MT	60.0	495,401.0
15	Hydro	Thompson Falls	Thompson Falls, MT	90.0	505,681.0
16	Hydro	Madison	Ennis, MT	9.0	59,351.5
17	Hydro	Milltown	Missoula, MT	3.0	18,944.3
18	Subtotal			596.0	3,741,872.8
19	Internal Combustion	Lake	Yellowstone Nat'l Park	0.0	93.5
20	Internal Combustion	Old Faithful	Yellowstone Nat'l Park	0.0	125.6
21	Internal Combustion	Tower Falls	Yellowstone Nat'l Park	0.0	2.2
22	Internal Combustion	Grant Village	Yellowstone Nat'l Park	0.0	217.7
23	Subtotal			0.0	439.0
24	Purchases	Small Power Producers	Colstrip Energy, Ltd.	0.0	297,030.0
25	Purchases	Small Power Producers	Billings Generation, Inc.	0.0	392,573.0
26	Purchases	Small Power Producers	State of Montana - DNRC	0.0	58,746.0
27	Purchases	Small Power Producers	Others		17,007.0
28					
29	Purchases	Nonassociated Utilities	Pacificorp	0.0	87,481.0
30	Purchases	Nonassociated Utilities	Idaho Power Company	0.0	41,296.0
31	Purchases	Nonassociated Utilities	Puget Sound Power & Light	0.0	46,178.0
32	Purchases	Nonassociated Utilities	Portland General Electric	0.0	44,672.0
33	Purchases	Nonassociated Utilities	Washington Water Power	0.0	518,710.0
34	Purchases	Nonassociated Utilities	Others	0.0	37,891.0
35					
36	Purchases	Other Public Authorities	Bonneville Power Adm.	0.0	55,811.0
37	Purchases	Other Public Authorities	Western Area Power Adm.	0.0	348,403.0
38	Purchases	Other Public Authorities	Others	0.0	50,231.0
39					
40	Purchases	Marketing Agencies	Cargill Alliance	0.0	15,280.0
41	Purchases	Marketing Agencies	Aquila	0.0	5,651.0
42	Purchases	Marketing Agencies	Avista Energy	0.0	3,345.0
43	Purchases	Marketing Agencies	Other	0.0	4,420.0
44					
45	Purchases	Municipalities	Los Angeles Dept. of Water	0.0	19,775.0
46	Purchases	Municipalities	Tacoma City Light	0.0	170.0
47	Purchases	Municipalities	Seattle City Light	0.0	200.0
48					
49	Purchases	Cooperatives	Basin Electric Cooperative	0.0	360,584.0
50	Purchases	Cooperatives	Rocky Mtn. Cooperative	0.0	58,145.0
51	Subtotal			0.0	2,463,599.0

Sch. 34 cont.		<u>SOURCES OF ELECTRIC SUPPLY</u>			
1	Exchange Transactions	Nonassociated Utilities	Idaho Power Company	0.0	(909.0)
2	Exchange Transactions	Nonassociated Utilities	Puget Sound Energy	0.0	749.0
3	Exchange Transactions	Nonassociated Utilities	Pacificorp	0.0	1,955.0
4	Exchange Transactions	Nonassociated Utilities	Portland General Electric	0.0	(308.0)
5	Exchange Transactions	Nonassociated Utilities	Washington Water Power	0.0	389.0
6	Exchange Transactions	Other Public Authorities	Bonneville Power Adm.	0.0	12,412.0
7	Exchange Transactions	Other Public Authorities	Western Area Power Adm.	0.0	(302.0)
8	Exchange Transactions		Others	0.0	0.0
9	Subtotal			0.0	13,986.0
10	Wheeling Transactions	Cooperatives	Western Area Power Adm.	0.0	17,113.0
11	Wheeling Transactions	Other Public Authorities	Bonneville Power Adm.	0.0	29,090.0
12	Wheeling Transactions		Others	0.0	38,765.0
13	Subtotal			0.0	84,968.0
14	TOTAL			1,519.0	12,504,709.8
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Sch. 34	cont.	OUTAGES	
	<u>Start Date</u>	<u>Description</u>	<u>Duration(Hrs)</u>
1		J.E. CORETTE	
2	01/17/98	Loss Excitation	1.63
3	01/20/98	Clean Boiler	131.12
4	02/03/98	Repair PO4 Line	21.65
5	02/15/98	Tube Leak	46.08
6	03/16/98	Loss Excitation	2.43
7			
8		COLSTRIP UNIT #1	
9	01/01/98	Fire at 1B Coal Feeder Deck and Damage to 9 Cable Trays	20.12
10	01/03/98	Tube Leak	14.53
11	01/03/98	Tube Leak	15.27
12	01/04/98	Tube Leak	48.27
13	01/08/98	SSR Trip 1A Circuit	2.02
14	01/08/98	Trip Due to High Stator Cooling Water Temperature	3.33
15	01/26/98	Boiler Control Swing Resulting in Trip from BSCP DP	1.15
16	02/24/98	Repair Safety Valve	24.00
17	02/25/98	Repair 1A Cooling Tower	63.82
18	03/01/98	Trip Due to Testing Intercept Valves	1.85
19	04/15/98	Tube Leak	22.03
20	04/16/98	Ext. Due to Air Preheater PM / Drive Motor 1A Coupling Mis-Alignmen	9.00
21	04/16/98	Trip Due to 1A BFP Suction Pressure Low Caused by Boiler Control	1.43
22	05/27/98	Work on OCB Control Feed Breaker	2.60
23	05/28/98	Clean Air Heaters and Economizer	208.63
24	06/14/98	Superheat Tube Failure Caused by Overheating	98.38
25	08/20/98	Condenser Tube Leak	39.48
26	08/24/98	Boiler Header Leak	57.97
27	08/27/98	Boiler Header Leak	18.30
28	10/03/98	Clean Airpreater and Economizer	168.62
29	10/24/98	Tube Leak	22.52
30	10/27/98	Waterwall Tube Leak	13.12
31	11/01/98	Repair Tubes in Platen Pendent	35.55
32			
33		COLSTRIP UNIT #2	
34	02/28/98	Tube Leak	78.08
35	05/12/98	Repair Tube in Reheat Panels	88.73
36	06/13/98	Condenser Tube Leak	27.62
37	06/24/98	Trip on A-BFP Low Pump Suction Pressure	1.45
38	08/14/98	Trip Due to Control Board Repairs	1.12
39	08/15/98	Tube Leak	102.35
40	09/19/98	Tube Leak	32.05
41	09/20/98	Trip Due to Poor Boiler Chemistry Due to Filtered Raw Water	11.32
42	10/10/98	Outage to Repair Air Preheater	75.92
43	10/18/98	Clinker Slid Off North Slope and Punctured Tube	69.17
44	10/31/98	Trip Due to High Turbine Vibration	3.95
45	11/01/98	Trip Due to High Turbine Vibration	44.72
46	11/05/98	Repair Tube Leak	26.80
47	11/01/98	Trip Due to High Turbine Vibration	44.72

Sch. 34	cont.	<u>OUTAGES</u>	
	<u>Start Date</u>	<u>Description</u>	<u>Duration(Hrs)</u>
1		COLSTRIP #3	
2	01/10/98	Tube Leak	46.05
3	01/11/98	Flame Failure	1.72
4	01/23/98	Tube Leak	18.00
5	01/23/98	Repair Thinned Reheat Tubes	37.83
6	02/19/98	Tube Leak	100.23
7	02/23/98	Trip Due to Anti Motor Relay Protection	1.85
8	03/06/98	Tube Leak	59.62
9	04/08/98	Blaster Work for Repair of Water Tube	6.00
10	04/08/98	Tube Leak	96.77
11	08/01/98	Repair Tube Leak	50.50
12	08/03/98	Tube Leak	46.60
13	10/03/98	Reheat Tube Rupture	85.97
14	10/07/98	Stator Cooling Water Low Flow	1.05
15	10/24/98	Repair Tube Leak	117.23
16			
17		COLSTRIP UNIT #4	
18	04/29/98	Repair Tube Leak	35.80
19	05/16/98	Scheduled Outage to Foam Clean Turbine	106.34
20	05/16/98	Cooling Tower Distribution Pipe Work	23.63
21	05/16/98	Repair Boiler	106.34
22	05/26/98	#1 Bearing and Journal Repair and Work	303.28
23	07/10/98	Repair Tube Leak	50.87
24	07/25/98	Start -Up Delay Caused by Turbine Overspeed	2.23
25	08/24/98	4B Air Preheater Gearbox Drive Failure	103.20
26	08/31/98	ATR-A Trip Due to Transmission Line Disturbance	1.83
27	09/04/98	Trip Due to Reset of FD Fan Dampers	1.68
28	09/13/98	Remove Ash From Countont Slope	47.75
29	11/09/98	Repair Tube Leak	176.75
30	11/17/98	Trip Due to High Boiler Pressure	4.13
31	12/16/98	Repair Reheat Tube Leak	32.55
32	12/18/98	4A Air Preheater Drive Failure	13.18
33	12/26/98	Trip Due to Low Drum Failure	1.37
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MONTANA CONSERVATION & DEMAND SIDE MANAGEMENT PROGRAMS - ELECTRIC 1/

Program Description	Current Year Expenditures	Last Year Expenditures	% Change	Planned Savings		Achieved Savings		Difference	
				MW	MWH	MW	MWH	MW	MWH
Residential									
1 Technologies for the Home (SGC) 2/	\$122,234	\$13,142	830%	0.000	0	0.000	0	0.000	0
2 Free Weatherization (low income)	396,632	423,320	-6%	0.678	1,458	0.540	1,114	(0.138)	(344)
3 Fuel Switching	288,000	342,313	-16%	1.052	1,833	1.720	3,024	0.668	1,191
4 E+ Audit Program	989,727	619,415	60%	0.982	3,977	0.637	2,604	(0.345)	(1,373)
Commercial/Industrial									
5 Business Partners Retrofit	647,950	693,782	-7%	1.455	8,463	1.047	6,849	(0.408)	(1,614)
6 Business Partners New	120,577	106,905	13%	0.000	0	1.070	3,012	1.070	3,012
7 Audit Strategy	104,079	138,516	-25%	0.150	876	0.144	1,203	(0.006)	327
8 Motors	96,333	86,041	12%	1.309	6,428	2.145	11,361	0.836	4,933
9 Lighting	871,879	658,005	33%						
10 Northwest Energy Efficient Alliance	382,515	179,177	100%						
TOTAL	\$4,019,926	\$3,260,616	23%	5.63	23,035	7.30	29,167	1.68	6,132

1/ Detailed information regarding program initiation, program projected life, program participants and program conservation units may be obtained from the NU-TRACK Report or the Efficiency Plus Annual Report.

2/ Super Good Cents (SGC) is now Technologies for the Home.

MONTANA CONSUMPTION AND REVENUES - ELECTRIC (EXCLUDES UNIT 4 & YNP)

		Operating Revenues		MWH Sold		Average Customers	
		Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
1	Sales of Electricity						
2							
3	Residential	\$127,753,410	\$124,614,941	1,942,293	1,934,946	231,835	228,842
4	Commercial & Industrial - Small	168,210,643	157,960,971	2,826,337	2,722,787	48,310	47,068
5	Commercial & Industrial - Large	80,016,397	86,225,986	2,180,061	2,226,923	60	66
6	Interruptible Industrial	508,866	822,715	4,174	13,253	1	1
7	Public Street & Highway Lighting	5,637,841	5,419,101	33,535	33,489	2,866	2,820
8	Other Sales to Public Authorities	4,066,604	1,887,918	124,200	49,328	3	2
9	Sales to Cooperatives	18,895,905	19,686,379	522,249	581,402	60	62
10	Sales to Other Utilities	51,592,582	31,101,703	2,155,784	2,134,028	26	25
11	Interdepartmental	746,062	695,166	13,934	12,990	225	225
12	TOTAL SALES	\$457,428,310	\$428,414,880	9,802,567	9,709,146	283,386	279,111

