UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file number 1-3701

THE WASHINGTON WATER POWER COMPANY
(Exact name of registrant as specified in its charter)

Washington	91-0462470
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1411 East Mission Avenue, Spokane, Washington	99202-2600
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 509-489-0500
Web site: http://www.wwpco.com

None
(Former name, former address and former fiscal year, if changed since last report)

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

Yes [X] No [ ]

At July 31, 1998, 55,960,360 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

THE WASHINGTON WATER POWER COMPANY

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CONSOLIDATED STATEMENTS OF INCOME
The Washington Water Power Company

For the Three Months Ended June 30
Thousands of Dollars

	1998	1997
OPERATING REVENUES	$ 632,995	$ 236,274
OPERATING EXPENSES:		
Resource costs	476,001	106,025
Operations and maintenance	50,654	41,263
Administrative and general	35,795	25,832
Depreciation and amortization	17,452	17,458
Taxes other than income taxes	11,151	11,027
Total operating expenses	591,053	201,605
INCOME FROM OPERATIONS	41,942	34,669
OTHER INCOME (EXPENSE):		
Interest expense	(16,855)	(16,200)
Interest on income tax recovery	--	47,337
Net gain on subsidiary transactions	--	3,339
Other income (deductions)-net	(89)	(6,340)
Total other income (expense)-net	(16,944)	28,136
INCOME BEFORE INCOME TAXES	24,998	62,805
INCOME TAXES	9,355	14,330
NET INCOME	15,643	48,475
DEDUCT-Preferred stock dividend requirements	788	1,812
INCOME AVAILABLE FOR COMMON STOCK	$ 14,855	$ 46,663
Average common shares outstanding (thousands)	55,960	55,960
EARNINGS PER SHARE OF COMMON STOCK, BASIC AND DILUTED	$ 0.27	$ 0.83
Dividends paid per common share	$ 0.31	$ 0.31

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME
The Washington Water Power Company

For the Six Months Ended June 30
Thousands of Dollars

	1998	1997
OPERATING REVENUES	$ 1,204,664	$ 520,285
OPERATING EXPENSES:		
Resource costs	885,256	230,601
Operations and maintenance	97,864	84,026
Administrative and general	62,418	46,014
Depreciation and amortization	34,602	34,920
Taxes other than income taxes	25,882	25,997
Total operating expenses	1,106,022	421,558
INCOME FROM OPERATIONS	98,642	98,727
OTHER INCOME (EXPENSE):		
Interest expense	(34,060)	(32,516)
Interest on income tax recovery	--	47,337
Net gain on subsidiary transactions	7,611	3,454
Other income (deductions)-net	4,947	360
Total other income (expense)-net	(21,502)	18,635
INCOME BEFORE INCOME TAXES	77,140	117,362
INCOME TAXES	29,265	39,039
NET INCOME	47,875	78,323
DEDUCT-Preferred stock dividend requirements	1,612	3,590
INCOME AVAILABLE FOR COMMON STOCK	$ 46,263	$ 74,733
Average common shares outstanding (thousands)	55,960	55,960
EARNINGS PER SHARE OF COMMON STOCK, BASIC AND DILUTED	$ 0.83	$ 1.34
Dividends paid per common share	$ 0.62	$ 0.62

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED BALANCE SHEETS
The Washington Water Power Company

Thousands of Dollars

	June 30, 1998	December 31, 1997
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 30,386	$ 30,593
Temporary cash investments	13,832	22,641
Accounts and notes receivable-net	227,833	176,882
Energy commodity assets	301,957	76,449
Materials and supplies, fuel stock and natural gas stored	48,573	42,148
Prepayments and other	36,733	28,130
Total current assets	659,314	376,843
UTILITY PROPERTY:		
Utility plant in service-net	2,069,490	2,031,026
Construction work in progress	35,972	37,446
Total	2,105,462	2,068,472
Less: Accumulated depreciation and amortization	659,901	635,349
Net utility plant	1,445,561	1,433,123
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net	65,876	69,013
Non-utility properties and investments-net	215,234	195,046
Energy commodity assets	370,189	13,103
Other-net	23,665	20,065
Total other property and investments	674,964	297,227
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	173,722	176,682
Conservation programs	50,878	53,338
Unamortized debt expense	22,880	23,978
Prepaid power purchases	12,794	18,134
Other-net	29,362	32,460
Total deferred charges	289,636	304,592
TOTAL	$3,069,475	$2,411,785
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable	$ 231,088	$ 154,312
Energy commodity liabilities	291,683	70,135
Taxes and interest accrued	26,887	35,705
Other	66,294	79,586
Total current liabilities	615,952	339,738
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Energy commodity liabilities	356,520	10,556
Non-current liabilities	30,984	25,515
Deferred income taxes	358,750	352,749
Other deferred credits	14,430	17,230
Total non-current liabilities and deferred credits	760,684	406,050
CAPITALIZATION (See Consolidated Statements of Capitalization)	1,692,839	1,665,997
COMMITMENTS AND CONTINGENCIES (Note 5)		
TOTAL	$3,069,475	$2,411,785

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CAPITALIZATION
The Washington Water Power Company

Thousands of Dollars

	June 30, 1998	December 31, 1997
LONG-TERM DEBT:		
First Mortgage Bonds:		
7 1/8% due December 1, 2013	$ 66,700	$ 66,700
7 2/5% due December 1, 2016	17,000	17,000
Secured Medium-Term Notes:		
Series A - 5.95% to 8.06% due 2000 through 2023	211,500	211,500
Series B - 6.20% to 8.25% due 1999 through 2010	150,000	150,000
Total first mortgage bonds	445,200	445,200
Pollution Control Bonds:		
6% Series due 2023	4,100	4,100
Unsecured Medium-Term Notes:		
Series A - 7.94% to 9.58% due 1998 through 2007	52,500	52,500
Series B - 6.75% to 8.23% due 1999 through 2023	115,000	115,000
Series C - 6.37% to 6.88% due 2028	45,000	--
Total unsecured medium-term notes	212,500	167,500
Notes payable (due within one year) to be refinanced	80,000	108,500
Other	46,681	36,885
Total long-term debt	788,481	762,185
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES:		
7 7/8%, Series A, due 2037	60,000	60,000
Floating Rate, Series B, due 2037	50,000	50,000
Total company-obligated mandatorily redeemable preferred trust securities	110,000	110,000
PREFERRED STOCK-CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
$8.625 Series I; 100,000 shares outstanding ($100 stated value)	--	10,000
$6.95 Series K; 350,000 shares outstanding ($100 stated value)	35,000	35,000
Total subject to mandatory redemption	35,000	45,000
COMMON EQUITY:		
Common stock, no par value; 200,000,000 shares authorized; 55,960,360 shares outstanding	594,852	594,852
Note receivable from employee stock ownership plan	(9,770)	(9,750)
Capital stock expense and other paid in capital	(10,173)	(10,143)
Unrealized investment gain-net	946	2,077
Retained earnings	183,503	171,776
Total common equity	759,358	748,812
TOTAL CAPITALIZATION	$ 1,692,839	$ 1,665,997

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents
The Washington Water Power Company

For the Six Months Ended June 30
Thousands of Dollars

	1998	1997
OPERATING ACTIVITIES:		
Net income	$ 47,875	$ 78,323
NON-CASH ITEMS INCLUDED IN NET INCOME:		
Depreciation and amortization	34,602	34,920
Provision for deferred income taxes	9,923	34,983
Allowance for equity funds used during construction	(692)	(599)
Power and natural gas cost deferrals and amortizations	71	(12,850)
Gains/losses on sales and other-net	(17,194)	(15,685)
(Increase) decrease in working capital components:		
Receivables and prepaid expense	(63,139)	11,793
Materials & supplies, fuel stock and natural gas stored	(6,425)	(3,556)
Payables and other accrued liabilities	60,802	(1,583)
Other	3,892	12,710
NET CASH PROVIDED BY OPERATING ACTIVITIES	69,715	138,456
INVESTING ACTIVITIES:		
Construction expenditures (excluding AFUDC-equity funds)	(39,933)	(37,625)
Other capital requirements	(5,760)	(4,079)
Decrease in other noncurrent balance sheet items-net	1,898	8,255
Proceeds from sale of subsidiary investments	16,385	71
Assets acquired and investments in subsidiaries	(33,517)	(1,760)
NET CASH USED IN INVESTING ACTIVITIES	(60,927)	(35,138)
FINANCING ACTIVITIES:		
Decrease in short-term borrowings	(28,500)	(85,000)
Proceeds from issuance of preferred trust securities	--	110,000
Redemption of preferred stock	(10,000)	(20,000)
Proceeds from issuance of long-term debt	51,000	--
Redemption and maturity of long-term debt	(6,000)	(20,000)
Cash dividends paid	(36,343)	(38,360)
Other-net	20,848	(28,248)
NET CASH USED IN FINANCING ACTIVITIES	(8,995)	(81,608)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(207)	21,710
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,593	8,211
CASH & CASH EQUIVALENTS AT END OF PERIOD	$ 30,386	$ 29,921

	1998	1997
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period:		
Interest	$ 31,764	$ 36,913
Income taxes	29,296	33,955
Noncash financing and investing activities:		
Property purchased under capitalized leases	396	1,290

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
The Washington Water Power Company

For the Three Months Ended June 30
Thousands of Dollars

	1998	1997
OPERATING REVENUES:		
Energy Delivery	$ 81,883	$ 77,874
Generation and Resources	120,127	120,509
National Energy Trading and Marketing	380,864	2,018
Non-energy	53,429	35,899
Intersegment eliminations	(3,308)	(26)
Total operating revenues	$ 632,995	$ 236,274
RESOURCE COSTS:		
Energy Delivery:		
Natural gas purchased for resale	$ 18,570	$ 17,594
Other	(734)	(43)
Generation and Resources:		
Power purchased	73,613	64,857
Fuel for generation	7,819	5,981
Other	10,188	15,996
National Energy Trading and Marketing:		
Cost of sales	366,545	1,640
Total resource costs (excluding Non-energy)	$ 476,001	$ 106,025
GROSS MARGINS:		
Energy Delivery	$ 64,047	$ 60,323
Generation and Resources	28,507	33,675
National Energy Trading and Marketing	14,319	378
Total gross margins (excluding Non-energy) .	$ 106,873	$ 94,376
ADMINISTRATIVE AND GENERAL EXPENSES:		
Energy Delivery	$ 14,618	$ 14,217
Generation and Resources	4,855	5,163
National Energy Trading and Marketing	7,717	1,955
Non-energy	8,605	4,497
Total administrative and general expenses ..	$ 35,795	$ 25,832
DEPRECIATION AND AMORTIZATION EXPENSES:		
Energy Delivery	$ 8,639	$ 8,102
Generation and Resources	6,260	6,440
National Energy Trading and Marketing	180	--
Non-energy	2,373	2,916
Total depreciation and amortization expenses	$ 17,452	$ 17,458
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):		
Energy Delivery	$ 18,000	$ 14,935
Generation and Resources	14,950	19,739
National Energy Trading and Marketing	6,419	(2,065)
Non-energy	2,573	2,060
Total income from operations	$ 41,942	$ 34,669
INCOME AVAILABLE FOR COMMON STOCK:		
Energy Delivery and Generation and Resources ..	$ 9,491	$ 44,845
National Energy Trading and Marketing	4,017	(1,313)
Non-energy	1,347	3,131
Total income available for common stock	$ 14,855	$ 46,663

ASSETS: (1997 amounts at December 31)		
Energy Delivery	$ 1,046,798	$ 1,051,585
Generation and Resources	606,583	620,142
Other utility	256,708	255,012
National Energy Trading and Marketing	885,544	214,630
Non-energy	273,842	270,416
Total assets	$ 3,069,475	$ 2,411,785
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):		
Energy Delivery	$ 16,268	$ 18,940
Generation and Resources	3,990	(1,837)
National Energy Trading and Marketing	742	360
Non-energy	2,733	3,229
Total capital expenditures	$ 23,733	$ 20,692

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
The Washington Water Power Company

For the Six Months Ended June 30
Thousands of Dollars

	1998	1997
OPERATING REVENUES:		
Energy Delivery	$ 209,176	$ 196,016
Generation and Resources	247,038	247,207
National Energy Trading and Marketing	651,921	2,129
Non-energy	101,113	75,000
Intersegment eliminations	(4,584)	(67)
Total operating revenues	$ 1,204,664	$ 520,285
RESOURCE COSTS:		
Energy Delivery:		
Natural gas purchased for resale	$ 56,489	$ 49,933
Other	(1,960)	(475)
Generation and Resources:		
Power purchased	159,508	136,764
Fuel for generation	17,289	15,643
Other	22,503	27,096
National Energy Trading and Marketing:		
Cost of sales	631,427	1,640
Total resource costs (excluding Non-energy)	$ 885,256	$ 230,601
GROSS MARGINS:		
Energy Delivery	$ 154,647	$ 146,558
Generation and Resources	47,738	67,704
National Energy Trading and Marketing	20,494	489
Total gross margins (excluding Non-energy)	$ 222,879	$ 214,751
ADMINISTRATIVE AND GENERAL EXPENSES:		
Energy Delivery	$ 25,790	$ 25,738
Generation and Resources	8,379	8,967
National Energy Trading and Marketing	11,720	2,599
Non-energy	16,529	8,710
Total administrative and general expenses	$ 62,418	$ 46,014
DEPRECIATION AND AMORTIZATION EXPENSES:		
Energy Delivery	$ 17,315	$ 16,223
Generation and Resources	12,442	13,055
National Energy Trading and Marketing	346	59
Non-energy	4,499	5,583
Total depreciation and amortization expenses	$ 34,602	$ 34,920
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):		
Energy Delivery	$ 63,372	$ 55,866
Generation and Resources	21,713	40,499
National Energy Trading and Marketing	8,416	(3,055)
Non-energy	5,141	5,417
Total income from operations	$ 98,642	$ 98,727
INCOME AVAILABLE FOR COMMON STOCK:		
Energy Delivery and Generation and Resources	$ 31,759	$ 72,215
National Energy Trading and Marketing	6,080	(1,954)
Non-energy	8,424	4,472
Total income available for common stock	$ 46,263	$ 74,733

ASSETS: (1997 amounts at December 31)		
Energy Delivery	$ 1,046,798	$ 1,051,585
Generation and Resources	606,583	620,142
Other utility	256,708	255,012
National Energy Trading and Marketing	885,544	214,630
Non-energy	273,842	270,416
Total assets	$ 3,069,475	$ 2,411,785
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):		
Energy Delivery	$ 32,300	$ 32,490
Generation and Resources	6,663	483
National Energy Trading and Marketing	902	468
Non-energy	5,208	3,996
Total capital expenditures	$ 45,073	$ 37,437

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

THE WASHINGTON WATER POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying financial statements of The Washington Water Power Company (Company) for the interim periods ended June 30, 1998 and 1997 are unaudited but, in the opinion of management, reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results of operations for those interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters which would be included in full fiscal year financial statements; therefore, they should be read in conjunction with the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (1997 Form 10-K).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NEW ACCOUNTING STANDARDS

As of January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (FAS No. 130), "Reporting Comprehensive Income." It requires companies to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. For the three months ended June 30, 1998 and 1997, accumulated comprehensive income totaled $(1.3) million and $3.6 million, respectively. For the six months ended June 30, 1998 and 1997, accumulated comprehensive income totaled $(0.9) million and $4.3 million, respectively.

The Financial Accounting Standards Board (FASB) issued FAS No. 133, entitled "Accounting for Derivative Instruments and Hedging Activities" which will be effective for fiscal years beginning after June 15, 1999. The statement requires that all derivative financial instruments be recognized as either assets or liabilities on the company's balance sheets. The Company does not expect any significant impact on the Company's financial position or results of operations as a result of adopting this standard, but additional footnote disclosure will likely be required.

ALLOCATION OF REVENUES AND EXPENSES FOR REPORTING BUSINESS SEGMENTS

A portion of the utility's revenues and expenses have been allocated between two business segments in order to report results of operations by the individual lines of business - (1) Energy Delivery and (2) Generation and Resources. The Energy Delivery business reports the results of the Company's transmission and distribution services for retail electric operations and all natural gas operations. Costs associated with electric energy commodities, such as purchased power expense, as well as the revenues attributable to the recovery of such costs from retail customers, have been eliminated from the Energy Delivery line of business and are reflected in the results of the Generation and Resources line of business. The results of all natural gas operations are included in the Energy Delivery line of business because natural gas trackers allow natural gas costs to pass through within that line of business without the commodity prices having a material income effect. The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas commodity trading and wholesale marketing primarily to other utilities and power brokers in the western United States.

NOTE 2. ENERGY COMMODITY TRADING

Notional Amounts and Terms The notional amounts and terms of Avista Energy's outstanding financial instruments at June 30, 1998 are set forth below:

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
Energy commodities (volumes)			
Natural gas (mmBTU)	744,958,504	684,834,123	13
Electric (MWh)	53,738,270	41,642,984	9

At June 30, 1998, Avista Energy also had sales and purchase commitments associated with contracts based on market prices totaling 336,352,251 mmBTUs, with terms extending up to 5 years. The fixed index electric transactions totaled 1,955,880 MWhs, with terms extending up to 3 years.

Notional amounts reflect the volume of transactions but do not necessarily represent the amounts exchanged by the parties to the commodity derivative instruments. Accordingly, notional amounts do not accurately measure Avista Energy's exposure to market or credit risks. The maximum terms in years detailed above are not indicative of likely future cash flows as these positions may be offset in the markets at any time in response to Avista Energy's risk management needs.

Fair Value The fair value of Avista Energy's financial instruments as of June 30, 1998, and the average fair value of those instruments held during the six months ended June 30, 1998 are set forth below (dollars in thousands):

	Fair Value as of June 30, 1998				Average Fair Value for the six months ended June 30, 1998			
	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities
Natural gas	88,235	24,844	82,960	26,140	72,237	16,026	70,150	15,400
Electric	213,722	345,345	208,723	330,380	114,933	127,832	110,191	120,160
Total	301,957	370,189	291,683	356,520	187,170	143,858	180,341	135,560

The weighted average term of Avista Energy's natural gas and related commodity derivative instruments as of June 30, 1998 was approximately three months. The weighted average term of Avista Energy's electric commodity derivatives at June 30, 1998 was approximately ten months. The change in the fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk from December 31, 1997 to June 30, 1998 was $9.0 million and is included on the Consolidated Statements of Income in operating revenues.

NOTE 3. NATIONAL ENERGY TRADING AND MARKETING EQUITY INVESTMENT

Effective August 1, 1997, Howard Energy Marketing, which serves customers in the upper Midwest and Northeast United States, and Avista Energy formed Howard/Avista Energy, LLC (Howard/Avista), a limited liability company. Avista Energy's initial equity investment in Howard/Avista was $25 million, resulting in a 50% ownership interest. The investment in Howard/Avista is accounted for using the equity method of accounting. Under this method, equity in the net income or losses of Howard/Avista is reflected in Other Income (Deductions)-net on the Consolidated Statements of Income for the three and six months ended June 30, 1998. The net investment in the net assets of Howard/Avista is included in Non-utility Properties and Investments-net on the Consolidated Balance Sheets at June 30, 1998 and December 31, 1997.

The following selected financial information reflects Howard/Avista's financial position on a total (100%) basis and operating results as of and for the three and six months ended June 30, 1998:

RESULTS OF OPERATIONS (thousands of dollars)

	Three months ended June 30, 1998	Six months ended June 30, 1998
Revenues	$ 473,653	$ 1,153,231
Operating Expenses	(475,311)	(1,153,866)
Other Income-net	1,565	2,214
Net Income (pre-tax)	$ (93)	$ 1,579
Avista Energy's equity in earnings of Howard/Avista Energy LLC (pre-tax)	$ (47)	$ 790

FINANCIAL POSITION (thousands of dollars)

	June 30, 1998	December 31, 1997
Current Assets	$285,890	$400,150
Other Assets	3,844	1,960
Total Assets	$289,734	$402,110
Current Liabilities	$234,612	$348,339
Other Liabilities	--	228
Total Liabilities	234,612	348,567
Equity	55,122	53,543
Total Liabilities and Equity	$289,734	$402,110

Avista Energy's equity investment

in Howard/Avista Energy LLC (pre-tax)	$ 27,561	$ 26,772

NOTE 4. FINANCINGS

The Company issued $45 million of Unsecured Medium-Term Notes, Series C during the second quarter of 1998, with rates between 6.37% and 6.88% and maturity dates in 2028.

The Company restricted 2.5 million shares of its common stock for a long-term incentive plan for officers of the Company. No shares had been issued and no proceeds had been collected under this plan as of June 30, 1998.

Reference is made to the information relating to financings and borrowings as discussed under the caption "Liquidity and Capital Resources" in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

NOTE 5. COMMITMENTS AND CONTINGENCIES

The Company believes, based on the information presently known, the ultimate liability for the matters discussed in this note, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the consolidated financial position of the Company, but could be material to results of operations or cash flows for a particular quarter or annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular lawsuit. To-date, there have been no material developments since the 1997 Form 10-K was issued, with the exception of the Itron litigation.

NEZ PERCE TRIBE

On December 6, 1991, the Nez Perce Tribe filed an action against the Company in U. S. District Court for the District of Idaho alleging, among other things, that two dams formerly operated by the Company, the Lewiston Dam on the Clearwater River and the Grangeville Dam on the South Fork of the Clearwater River, provided inadequate passage to migrating anadromous fish in violation of rights under treaties between the Tribe and the United States made in 1855 and 1863. The Lewiston and Grangeville Dams, which had been owned and operated by other utilities under hydroelectric licenses from the Federal Power Commission (the "FPC", predecessor of the Federal Energy Regulatory Commission (FERC)) prior to acquisition by the Company, were acquired by the Company in 1937 with the approval of the FPC, but were dismantled and removed in 1973 and 1963, respectively. Allegations of actual loss under different assumptions range between $425 million and $650 million, together with $100 million in punitive damages.

On November 21, 1994, the Company filed a Motion for Summary Judgment of Dismissal. On March 28, 1996, a U.S. District judge entered a summary judgment in favor of the Company dismissing the complaint. The Tribe filed a notice of appeal to the Ninth Circuit Court of Appeals on April 24, 1996. A mediation conference was held on October 11, 1996. Following the conclusion of that conference, briefing schedules were vacated indefinitely to accommodate a mediation process, which is continuing.

OIL SPILL

The Company completed an updated investigation of an oil spill from an underground storage tank that occurred several years ago in downtown Spokane at the site of the Company's steam heat plant. Underground soil testing conducted in 1993 showed that the oil had migrated approximately one city block beyond the steam plant property. The Clean-up Action Plan determined by the Department of Ecology (DOE) is underway, and remediation facilities have been constructed and installed and are being operated.

On August 17, 1995, a lawsuit was filed against the Company in Superior Court of the State of Washington for Spokane County by Davenport Sun International Hotels and Properties, Inc., the owner of a hotel property in downtown Spokane, Washington. The Complaint alleged that the oil released from the Company's Central Steamplant trespassed on property owned by the plaintiff. In addition, the plaintiff claimed that the Steamplant has caused a diminution of value of plaintiff's land. After mediation, the matter was resolved by settlement and compromise, subject to certain conditions. In December 1997, the settlement was restructured, certain amounts were paid, the litigation was dismissed with prejudice, a release was obtained, and other conditions remain to be fulfilled, none of which would affect the dismissal of this action.

The Company pursued recovery from insurers and has reached settlement with one of the two insurance carriers. On December 13, 1996, the Company filed a Complaint for declaratory relief and money damages against Underwriters at Lloyds of London (Lloyds), the remaining carrier, in Spokane County Superior Court. The purpose of this action is to seek a declaration of the insurance policies issued to the Company by Lloyds with respect to any liabilities of the Company for environmental damage associated with the oil spill at the Central Steam Plant and other environmental remediation efforts. The policies at issue were in effect during the period between 1926 and 1979; thereafter, the Company maintained its policies with a new underwriter, Aegis. The Company's Complaint seeks money damages in excess of $16 million.

ITRON LITIGATION

On August 19, 1997, a class action lawsuit was filed in the Superior Court of Spokane County against Itron, Inc. (Itron), and certain named individuals, as well as the Company, alleging violation of the Washington State Securities Act, the Washington Consumer Protection Act, and negligent misrepresentation. It is alleged that the Company was a controlling person of Itron by virtue of its ownership, at one time, of approximately 12% of the outstanding shares of Itron, and knew or should have known of the alleged false or misleading statements relating to the development of Itron's fixed network meter reading systems and the market therefor. On July 31, 1998, the court issued a memorandum decision dismissing the action, finding that the plaintiffs had failed to state a cause of action.

SPOKANE GAS PLANT

The Company is participating with the Washington State Department of Transportation in an environmental study relating to the former Spokane Natural Gas Plant site (which was operated as a coal gasification plant for approximately 60 years until 1948) acquired by the Company through a merger in 1958. The Company no longer owns the property. Initial core samples taken from the site indicate environmental contamination at the site. At this time, the Company and other participants in the environmental study are in the process of determining the specific nature and extent of the contamination, and any necessary remedial action, as well as the cost thereof.

NOTE 6. ACQUISITIONS AND DISPOSITIONS

During the first quarter of 1998, Pentzer Corporation (Pentzer) sold Systran Financial Services, resulting in an after-tax gain of $5.5 million.

In April, 1998, Pentzer completed the purchase of two new companies. Universal Showcase, Ltd., in Toronto, Canada and Triangle Systems, Inc., in New York, both produce store fixtures.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Washington Water Power Company (Company) operates as a regional utility providing electric and natural gas sales and services and as a national entity providing both energy and non-energy products and services. The utility portion of the Company consists of two lines of business which are subject to state and federal price regulation -- (1) Energy Delivery and (2) Generation and Resources. The national businesses are conducted under Avista Corp., which is the parent company to the Company's subsidiaries.

The Energy Delivery line of business includes transmission and distribution services for retail electric operations, all natural gas operations, and other energy products and services. The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas sales, trading and wholesale marketing primarily to other utilities and power brokers in the Western Systems Coordinating Council.

Avista Corp. owns the Company's National Energy Trading and Marketing and Non-energy businesses. The National Energy Trading and Marketing businesses are conducted by Avista Energy and Avista Advantage. Avista Energy focuses on commodity trading, energy marketing and other related businesses on a national basis. Avista Advantage provides a variety of energy-related products and services, such as consolidated billing and resource accounting, to commercial and industrial customers on a national basis. The Non-energy business is conducted primarily by Pentzer Corporation (Pentzer), which is the parent company to the majority of the Company's Non-energy businesses.

Changes underway in the utility and energy industries are creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company is shifting its strategic direction to growth, which could subject the Company to a higher degree of risk than that of a traditional regulated public utility company.

RESULTS OF OPERATIONS

OVERALL OPERATIONS

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THREE MONTHS ENDED JUNE 30, 1997

Second quarter 1998 net income available for common stock was $14.9 million compared to second quarter 1997 income of $46.7 million. The decrease in earnings was primarily the result of the receipt of $41.4 million in the second quarter of 1997 in interest income from an income tax recovery, partially offset by $9.8 million, after taxes, in non-recurring accounting transactions. The 1998 net income figures include increased earnings from National Energy Trading and Marketing activities, which were partially offset by decreased earnings from Generation and Resources operations, due in large part to increased resource costs in the second quarter of 1998 as compared to the same period in 1997.

Earnings per share for the second quarter of 1998 were $0.27 as compared to $0.83 in the second quarter of 1997. Energy Delivery and Generation and Resources contributed $0.17 to earnings per share for the second quarter of 1998 compared to $0.80 in the second quarter of 1997, with the decrease resulting from the income tax recovery. National Energy Trading and Marketing operations contributed $0.07 to earnings per share in the second quarter of 1998 compared to a loss of $0.02 in the same period in 1997. Non-energy operations contributed $0.03 to earnings per share for the second quarter of 1998 compared to $0.05 in the same period in 1997, primarily due to a $2.0 million transactional gain on the sale of a portfolio company by Pentzer during the second quarter of 1997.

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997

Net income available for common stock for the first half of 1998 was $46.3 million compared to $74.7 million for the first six months of 1997. The decrease in earnings was primarily the result of the receipt of $41.4 million in the second quarter of 1997 in interest income from the income tax recovery, partially offset by $9.8 million in non-recurring accounting transactions. The 1998 net income figures include increased earnings from National Energy Trading and Marketing activities and a $5.5 million transactional gain, net of taxes, from the sale of a portfolio company by Pentzer which occurred in the first quarter of 1998. The increase in earnings was partially offset by decreased earnings from Generation and Resources operations, due in large part to increased resource costs in the first six months of 1998 as compared to the same period in 1997.

Earnings per share for the first half of 1998 were $0.83 as compared to $1.34 in the first six months of 1997. Energy Delivery and Generation and Resources contributed $0.57 to earnings per share for the first half of 1998 compared to $1.29 in the first six months of 1997. The reduction in the 1998 figures was primarily due to the income tax recovery in 1997. Ongoing operations for the first six months of 1997 (removing the effects of the income tax recovery and non-recurring transactions) would have resulted in total earnings per share of $0.77 and utility earnings of $0.72 per share. National Energy Trading and Marketing operations contributed $0.11 to earnings per share in the first six months of 1998 compared to a loss of $0.03 in the same period in 1997. Non-energy operations contributed $0.15 to earnings per

share for the first half of 1998 compared to $.08 in the same period in 1997, due to a $0.10 per share contribution from the 1998 $5.5 million transactional gain discussed above.

ENERGY DELIVERY

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THREE MONTHS ENDED JUNE 30, 1997

Energy Delivery's pre-tax income from operations increased $3.0 million, or 20%, in the second quarter of 1998 over the same period in 1997. The increase was primarily the result of customer growth and the positive impact of a natural gas price increase effective January 1998. Energy Delivery's operating revenues and expenses increased $4.0 million and $1.0 million, respectively, during the second quarter of 1998 as compared to 1997.

Natural gas revenues increased $3.8 million in the second quarter of 1998 over 1997 due to a combination of customer growth and increased prices approved by the Washington Utilities and Transportation Commission (WUTC) in November 1997, which was effective January 1, 1998.

Total operating expenses increased $1.0 million in the second quarter of 1998 from 1997 due to increased purchased natural gas costs as a result of both higher prices paid during 1998 and increased therm sales due to customer growth.

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997

Energy Delivery's pre-tax income from operations increased $7.5 million, or 13%, in the first six months of 1998 over 1997. The increase was primarily the result of customer growth and the positive impact of a natural gas price increase effective January 1998. Energy Delivery's operating revenues and expenses increased $13.2 million and $5.7 million, respectively, during the first half of 1998 as compared to 1997.

Natural gas revenues increased $13.5 million in the first six months of 1998 over 1997 due to a combination of increased sales due to a greater volume of sales for resale and 5% customer growth and increased prices approved by the WUTC.

Purchased natural gas costs increased $6.6 million in the first half of 1998, primarily from increased therm sales due to higher sales for resale and customer growth. Other operating and maintenance expenses decreased slightly from the previous year primarily due to milder weather and fewer storms through the first half of 1998.

GENERATION AND RESOURCES

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THREE MONTHS ENDED JUNE 30, 1997

Generation and Resources' pre-tax income from operations decreased $4.8 million, or 24%, in the second quarter of 1998 from the same period in 1997. The decrease was primarily due to hydroelectric generation that was 16% lower in the second quarter of 1998 compared to 1997, which resulted in higher levels of purchased power to meet sales commitments, and the impact of a shifting product mix as described below. Streamflows in the second quarter of 1998 were 86% of normal, compared to 178% in the second quarter of 1997.

Increased wholesale sales and decreased hydroelectric generation caused purchased power volumes to increase 11%, which, combined with purchased power prices 3% higher than last year, resulted in an $8.8 million, or 14%, increase in purchased power costs in the second quarter of 1998 over 1997. This increase accounts for the majority of the increase in Generation and Resources' operating expenses and the decline in gross margins and pre-tax operating income.

During 1997 there was a significant shift in product mix between short- and long-term sales which continued into 1998. This trend is expected to continue due to the expiration of older sales contracts with higher margins, fewer long-term contracts being entered into and tightening margins on new sales contracts. Revenues from short-term sales, typically with smaller margins, increased $23.2 million, or 63%, while short-term sales volumes increased 727.9 million mwhs, or only 23%, during the second quarter of 1998 over 1997, reflecting higher prices for purchased power in the region. Revenues from long-term sales, typically with higher margins, decreased $23.2 million, or 54%, while long-term sales volumes decreased 312.6 million mwhs, or 30%, during the same period.

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997

Generation and Resources' pre-tax income from operations decreased $18.8 million, or 46%, in the first six months of 1998 from the same period in 1997. The decrease was primarily due to hydroelectric generation that was 22% lower in the first half of 1998 compared to 1997, which resulted in higher levels of purchased power to meet sales commitments and the impact of a shifting product mix as described below. Streamflows in the first six months of 1998 were 91% of normal, compared to 180% in the first half of 1997.

Increased wholesale sales and decreased hydroelectric generation caused purchased power volumes to increase 8%, which, combined with purchased power prices 8% higher than last year, resulted in a $22.7 million, or 17%, increase in purchased power costs in the first half of 1998 over 1997. This increase accounts for the majority of the increase in Generation and Resources' operating expenses and the decline in gross margins and pre-tax operating income.

The same shift in product mix and the reasons behind it, as discussed above, were also relevant to the results for the six months ended June 30, 1998. Revenues from short-term sales, typically with smaller margins, increased $43.1 million, or 61%, while short-term sales volumes increased 1,271.2 million mwhs, or 22%, during the first six months of 1998 over 1997, reflecting higher prices for purchased power in the region. Revenues from long-term sales, typically with higher margins, decreased $38.1 million, or 47%, while long-term sales volumes decreased 697.1 million mwhs, or 30%, during the same period.

NATIONAL ENERGY TRADING AND MARKETING

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THREE MONTHS ENDED JUNE 30, 1997

National Energy Trading and Marketing includes the results of Avista Energy, the national energy marketing subsidiary, and Avista Advantage, the energy services subsidiary. Although both companies began incurring start-up costs during 1996, Avista Energy only became operational in July 1997. National Energy Trading and Marketing income available for common stock for the second quarter of 1998 was $4.0 million, which was a $5.3 million increase over second quarter 1997 earnings when start-up costs were being incurred. National Energy Trading and Marketing operating revenues and expenses increased $378.8 million and $370.4 million, respectively, during the second quarter of 1998 as compared to 1997 primarily as a result of Avista Energy beginning trading operations in July 1997. During this period, Avista Energy added experienced electricity and natural gas traders both in its Eastern and Western markets.

Credit reserves were reviewed thoroughly during the second quarter in light of events discussed below and are believed to be at adequate levels. National Energy Trading and Marketing's total assets and liabilities increased by approximately $517 million during the second quarter of 1998. This increase resulted from both the volume of transactions increasing and the impact of the market's extreme price volatility on forward price curves, thereby increasing the valuation of Avista Energy's mark-to-market assets and liabilities.

Avista Energy provided positive results for the second quarter despite the extreme price volatility experienced in power markets in the Midwest and East during June. The company was well-positioned in its market, which allowed net gains in its portfolio during the period of high volatility. Avista Energy expected high volatility in Eastern electric markets in the summer of 1998 based on expected demand and the high probability of a weather-related impact on energy prices. As a result, Avista Energy established positions in anticipation of volatile market swings, and in turn experienced positive earnings in its portfolio during this period. However, there is no guarantee that positive results can or will always be achieved. Avista Energy marks its trading portfolio to fair market value on a daily basis, which can cause earnings variability. For additional information about market risk and credit risk, see Liquidity: Energy Trading Business.

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997

National Energy Trading and Marketing income available for common stock for the first six months of 1998 was $6.1 million, which was an $8.0 million increase over the first half of 1997 when start-up costs were being incurred. National Energy Trading and Marketing operating revenues and expenses increased $649.8 million and $638.3 million, respectively, during the first half of 1998 as compared to 1997 primarily as a result of Avista Energy beginning trading operations in July 1997.

NON-ENERGY

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THREE MONTHS ENDED JUNE 30, 1997

Non-energy income available for common stock for the second quarter of 1998 was $1.3 million, compared to second quarter 1997 earnings of $3.1 million. The decrease in 1998 earnings primarily resulted from a second quarter 1997 transactional gain totaling $2.0 million, net of taxes, recorded by Pentzer as a result of the sale of one of its portfolio companies, Safety Speed Cut. Transactional gains decreased $2.8 million in the second quarter of 1998 from 1997, but were partially offset by a $1.4 million increase in non-transactional income primarily from increased earnings from portfolio companies.

Non-energy operating revenues and expenses increased $17.5 million and $17.0 million, respectively, during the second quarter of 1998, as compared to 1997, primarily as a result of acquisitions and increased business activity from several of Pentzer's portfolio companies. Income from operations totaled $2.6 million, which was a $0.5 million increase in 1998 over 1997. During the second quarter of 1998, Pentzer recognized $0.8 million, net of tax, of additional compensation expense related to a change in the vesting schedule for stock options in its portfolio companies previously granted to the retiring CEO of the Company.

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997

Non-energy income available for common stock for the first six months of 1998 was $8.4 million, compared to 1997 earnings of $4.5 million. The 1998 earnings increase primarily resulted from a transactional gain totaling $5.5 million, net of taxes, recorded by Pentzer in the first quarter as a result of the sale of one of its portfolio companies, Systran Financial Services. Transactional gains increased $3.4 million in the first half of 1998 over 1997, while non-transactional income from portfolio companies increased $1.8 million.

Non-energy operating revenues and expenses increased $26.1 million and $26.4 million, respectively, during the first half of 1998, as compared to 1997, primarily as a result of acquisitions and increased business activity from several of Pentzer's portfolio companies. Income from operations totaled $5.1 million, which was a $0.3 million decrease in 1998 from 1997. During the first half of 1998, Pentzer recognized $0.8 million, net of tax, of additional compensation expense related to a change in the vesting schedule for stock options in its portfolio companies previously granted to the retiring CEO of the Company.

LIQUIDITY AND CAPITAL RESOURCES

OVERALL OPERATIONS

Operating Activities Cash available from operating activities in the first six months of 1998 decreased $68.7 million from the same period in 1997, primarily due to the increase in 1997 net income from the income tax recovery. Changes in various working capital components, such as decreased payables and increased receivables caused cashflows to decrease $24.2 million from 1997, primarily due to the growth in Avista Energy's operations. Power and natural gas cost deferrals resulted in slightly increased cashflows in 1998 as compared to decreased cashflows in 1997 when natural gas prices were higher during the first quarter, natural gas customers paid reduced prices and PCA rebates were in effect. See the Consolidated Statements of Cash Flows for additional details.

Investing Activities Cash used in investing activities totaled $60.9 million in the first half of 1998 compared to $35.1 million in the same period in 1997. Net cash used in investing activities was higher during 1998, primarily as a result of acquisitions made by Pentzer, partially offset by proceeds from the sale of subsidiary investments by Pentzer, and $12.5 million of investments in Avista Corp. made by the Company. See the Consolidated Statements of Cash Flows for additional information.

Financing Activities Cash used in financing activities totaled $9.0 million in the first six months of 1998 compared to $81.6 million in 1997. Bank borrowings were reduced by $28.5 million and $16.0 million of preferred stock and medium-term notes matured or were redeemed in the first half of 1998 with the proceeds of the issuance of $45.0 million of unsecured medium-term notes. In the first six months of 1997, bank borrowings decreased $85.0 million and preferred stock and medium-term notes totaling $40.0 million matured or were redeemed with the proceeds of $110 million of Preferred Trust Securities which were issued in January and June 1997. The increase of $20.8 million in Other-net in the first half of 1998 reflects an increase in short- and long-term debt by the non-energy companies as compared to a decrease of $28.2 million in 1997.

ENERGY DELIVERY AND GENERATION AND RESOURCES OPERATIONS

The Company funds capital expenditures with a combination of internally-generated cash and external financing. The level of cash generated internally and the amount that is available for capital expenditures fluctuates annually. Cash provided by operating activities remains the Company's primary source of funds for operating needs, dividends and capital expenditures.

The Company issued $45 million of Unsecured Medium-Term Notes, Series C during the second quarter of 1998, with rates between 6.37% and 6.88%.

Capital expenditures are financed on an interim basis with notes payable (due within one year). The Company has $200 million in a committed line of credit. In addition, the Company may currently borrow up to $100 million through other borrowing arrangements with banks. As of June 30, 1998, $80.0 million was outstanding under other short-term borrowing arrangements and there were no outstanding borrowings under the committed line of credit.

NATIONAL ENERGY TRADING AND MARKETING OPERATIONS

The National Energy Trading and Marketing operations have a credit agreement with a commercial bank that is guaranteed by Avista Corp. The agreement may be terminated by the bank at any time and all extensions of credit under the agreement are payable upon demand, in either case at the bank's sole discretion. The maximum cash component of credit extended by the bank is $15 million, with availability of up to $50 million in the issuance of letters of credit. At June 30, 1998, there were no cash advances (demand notes payable) outstanding, and letters of credit outstanding under the facility totaled $7.0 million. At June 30, 1998, the National Energy Trading and Marketing operations had $9.7 million in cash and cash equivalents.

NON-ENERGY OPERATIONS

The non-energy operations have $47.7 million in short-term borrowing arrangements available ($12.7 million outstanding as of June 30, 1998) to fund Pentzer's portfolio companies' requirements on an interim basis. At June 30, 1998, the non-energy operations had $27.5 million in cash and marketable securities with $56.4 million in long-term debt outstanding.

TOTAL COMPANY

The Company's total common equity increased by $10.5 million during the first six months of 1998 to $759.4 million, primarily due to increased retained earnings. The Company's consolidated capital structure at June 30, 1998, was

47% debt, 8% preferred securities (including the Preferred Trust Securities) and 45% common equity as compared to 46% debt, 9% preferred securities and 45% common equity at year-end 1997.

The Company's current estimates for capital expenditures (as disclosed in the 1997 Form 10-K) do not include any funds that may be required if the Company were to be successful in acquiring additional generation properties. The Company is continually evaluating opportunities as they become available and also continues to evaluate its overall resource portfolio to maximize the value of its resources and minimize its cost of generation.

Year 2000 The Company continues to move forward with a comprehensive program to address areas of risk associated with the year 2000. Systems and programs that may be affected by the year 2000 problem have been identified and activities are underway to make these systems year 2000 ready. At this time, it is the Company's assessment that all identified modifications that are within the Company's operating control will be made within the required time frames. Current estimates of costs remain within the initial range of estimated costs reported in the Company's 1997 Form 10-K.

ENERGY TRADING BUSINESS

The participants in the emerging wholesale energy market are public utility companies and, increasingly, power marketers which may or may not be affiliated with public utility companies or other entities. The participants in this market trade not only electricity and natural gas as commodities but also derivative commodity instruments such as futures, forwards, swaps, options and other instruments. This market is largely unregulated and most transactions are conducted on an "over-the-counter" basis, there being no central clearing mechanism (except in the case of specific instruments traded on the commodity exchanges). Power marketers, whether or not affiliated with other entities, generally do not own production facilities and are not subject to net capital or other requirements of any regulatory agency.

The Company (to the extent that the Generation and Resources segment conducts energy trading) and Avista Energy are subject to the various risks inherent in commodity trading including, particularly, market risk and credit risk.

Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply (in the case of electricity, adequacy of generating reserve margins as well as scheduled and unscheduled outages of generating facilities) and demand (extreme variations in the weather, whether or not predicted). Market risk includes the risk of fluctuation in the market price of associated derivative commodity instruments. All market risk is influenced to the extent that the performance or non-performance by market participants of their contractual obligations and commitments affect the supply of the commodity.

Credit risk relates to the risk of loss that the Company (to the extent of Generation and Resources' trading activities) and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations under the various instruments with the Company or Avista Energy, as the case may be. Credit risk may be concentrated to the extent that one or more groups of counterparties have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. The Company and Avista Energy seek to mitigate credit risk (and concentrations thereof) by applying specific eligibility criteria to prospective counterparties. However, despite mitigation efforts, defaults by counterparties occur from time to time. To date, no such default has had a material adverse effect on the Company or Avista Energy.

Avista Corp. provides guarantees for Avista Energy's line of credit agreement, and in the course of business may provide guarantees to other parties with whom Avista Energy may be doing business. The Company's investment in Avista Corp. totaled $235 million at June 30, 1998.

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS.

The Company is including the following cautionary statement in this Form 10-Q to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements are all statements other than statements of historical fact, including without limitation those that are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," and similar expressions. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those expressed. Such risks and uncertainties include, among others, changes in the utility regulatory environment, wholesale and retail competition, weather conditions and various other matters, many of which are beyond the Company's control. These forward-looking statements speak only as of the date of the report. The Company expressly undertakes no obligation to update or revise any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions, or circumstances on

which any such statement is based. See "Safe Harbor for Forward Looking Statements" in the Company's 1997 Form 10-K under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Future Outlook.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The 1998 Annual Meeting of Shareholders of the Company was held on May 14, 1998. The re-election of three directors with expiring terms and the approval of a long-term incentive plan were the only matters voted upon at the meeting. There were 55,960,360 shares of Common Stock issued and outstanding as of March 19, 1998, the proxy record date, with 48,796,640 shares represented at said meeting. The details of the voting are shown below:

	For	Against or Withheld
Re-election of Directors		
David A. Clack	47,819,351	977,289
Bobby Schmidt	47,817,996	978,644
Larry A. Stanley	47,862,809	933,831
Long-term Incentive Plan	42,326,393	6,470,247

ITEM 5. OTHER INFORMATION.

OTHER.

New Chief Executive Officer T.M. "Tom" Matthews was selected as the Company's new chairman of the board and chief executive officer, effective July 1, 1998, replacing Paul Redmond. Since December 1996, Mr. Matthews has served as the president of Houston-based NGC Corporation. Prior to his time with NGC, Mr. Matthews held the positions of vice president of Texaco, Inc., president of Texaco's Global Gas and Power Division, and president and chief executive officer of Texaco Natural Gas. He also held positions in Texaco as vice president of gas for Texaco U.S.A. and president of Texaco Refining and Marketing, Inc. Prior to joining Texaco, Mr. Matthews spent eight years at Tenneco as president of Tennessee Gas Pipeline Company and executive vice president of Tenneco Gas. He also spent 16 years with Exxon in various domestic and international engineering, management, and executive positions.

Federal Energy Regulatory Commission (FERC) Order On April 30, 1998, the FERC issued a show cause order asserting that the Company and Avista Energy had violated Orders No. 888 and 889. The order directed the companies to show cause why, as a result of the alleged violations, the FERC should not require refunds of certain market-based power sales profits and, further, suspend, for six months, Avista Energy's use of its market-based power sales tariff for any transaction that would use the Company's transmission system.

Background: On October 30, 1997, Avista Energy submitted a request on the Company's open-access same-time information system (OASIS) for interruptible firm transmission service, pursuant to the Western Systems Power Pool agreement, to transmit 29 MW for a two-month period (November and December 1997). The Company and Avista Energy entered into an agreement to provide Avista Energy with interruptible firm service which, according to the show cause order, provided terms superior to the terms for non-firm service under the Company's pro forma tariff. The Company provided the wheeling under service schedule D of the Western Systems Power Pool agreement and was under the impression that neither the FERC's affiliate conduct requirements nor Avista Energy's and the Company's code of conduct precluded the Company from providing such service, but that the Company was required to make a separate filing pursuant to section 205 of the Federal Power Act. On November 28, 1997, the Company filed with the FERC the letter agreement under which it was providing the transmission service to Avista Energy. In a January 8, 1998, deficiency letter, the commission staff informed the Company that the proposed letter agreement failed to meet the requirement that Avista Energy must take service under the Company's open-access tariff as a condition of its market-based rate approval.

On June 11, 1998, the FERC directed Avista Energy to disgorge profits earned from the power sale underlying the off-tariff transmission service provided by the Company. The FERC additionally ordered Avista Energy not to engage for 180 days from June 11, 1998 in any power sales under its market-based power sales tariff for any power sales transaction, executed after the date of the June 11, 1998 order, that would use the Company's transmission system. The FERC ordered the Company and Avista Energy to file a compliance report within 30 days of this order. The FERC's orders were complied within their entirety and the disgorgement and the costs of compliance were not material to the consolidated financial position of the Company.

Coeur d' Alene Lake Court Decision On July 28, 1998, the United States District Court for the District of Idaho issued its finding that the Coeur d' Alene Tribe of Idaho owns the bed and banks of the Coeur d' Alene Lake and the St. Joe River lying within the current boundaries of the Coeur d' Alene Reservation. The disputed bed and banks comprise approximately the southern one-third of Lake Coeur d' Alene. This action had been brought by the United States on behalf of the Tribe against the State of Idaho. While the Company is not a party to this action and it is not presently known whether the State of Idaho will appeal this decision to the Ninth Circuit, the Company is continuing to evaluate the impact of this decision on the operation of its hydroelectric facilities on the Spokane River, downstream of the Coeur d' Alene Lake.

ADDITIONAL FINANCIAL DATA.

At June 30, 1998, the total long-term debt of the Company and its consolidated subsidiaries, as shown in the Company's consolidated financial statements, was approximately $788.5 million. Of such amount, $212.5 million represents long-term unsecured and unsubordinated indebtedness of the Company, and $449.3 million represents secured indebtedness of the Company. The balance of $126.7 million includes short-term notes to be refinanced as well as indebtedness of subsidiaries. Consolidated long-term debt does not include the Company's subordinated indebtedness held by the issuers of Company-obligated preferred trust securities.

The following table reflects the ratio of earnings to fixed charges and the ratio of earnings to fixed charges and preferred dividend requirements:

	12 Months Ended	
	June 30, 1998	December 31, 1997
Ratio of Earnings to Fixed Charges	2.88 (x)	3.49 (x)
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements	2.68 (x)	3.12 (x)

The Company has long-term purchased power arrangements with various Public Utility Districts and the interest expense components of these contracts are included in purchased power expenses. These interest amounts are not included in the fixed charges and would not have a material impact on fixed charges ratios.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

4(a) Bylaws of The Washington Water Power Company, as amended May 14, 1998.
12 Computation of ratio of earnings to fixed charges and preferred dividend requirements.
27 Financial Data Schedule.

(b) Reports on Form 8-K.

Dated June 2, 1998, regarding the selection of the Company's new Chairman of the Board and Chief Executive Officer.

SIGNATURE

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

THE WASHINGTON WATER POWER COMPANY
(Registrant)

Date: August 10, 1998

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J. E. Eliassen
Senior Vice President, Chief
Financial Officer and Treasurer
(Principal Accounting and
Financial Officer)

Exhibit 4 (a)

BYLAWS

OF

The Washington Water Power Company

As Amended May 15, 1998

BYLAWS
OF
THE WASHINGTON WATER POWER COMPANY

* * * * *

ARTICLE I.
OFFICES

The principal office of the Corporation shall be in the City of Spokane, Washington. The Corporation may have such other offices, either within or without the State of Washington, as the Board of Directors may designate from time to time.

ARTICLE II.
SHAREHOLDERS

SECTION 1. ANNUAL MEETING. The Annual Meeting of Shareholders shall be held on such date in the month of May in each year as determined by the Board of Directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the day fixed for the Annual Meeting shall be a legal holiday, such meeting shall be held on the next succeeding business day.

SECTION 2. SPECIAL MEETINGS. Special meetings of the shareholders may be called by the President, the Chairman of the Board, the majority of the Board of Directors, the Executive Committee of the Board, and shall be called by the President at the request of the holders of not less than two-thirds (2/3) of the voting power of all shares of the voting stock voting together as a single class. Only those matters that are specified in the call of or request for a special meeting may be considered or voted at such meeting.

SECTION 3. PLACE OF MEETING. Meetings of the shareholders, whether they be annual or special, shall be held at the principal office of the Corporation, unless a place, either within or without the state, is otherwise designated by the Board of Directors in the notice provided to shareholders of such meetings.

SECTION 4. NOTICE OF MEETING. Written or printed notice of every meeting of shareholders shall be mailed by the Corporate Secretary or any Assistant Corporate Secretary, not less than ten (10) nor more than fifty (50) days before the date of the meeting, to each holder of record of stock entitled to vote at the meeting. The notice shall be mailed to each shareholder at his last known post office address, provided, however, that if a shareholder is present at a meeting, or waives notice thereof in writing before or after the meeting, the notice of the meeting to such shareholders shall be unnecessary.

SECTION 5. VOTING OF SHARES. At every meeting of shareholders each holder of stock entitled to vote thereat shall be entitled to one vote for each share of such stock held in his name on the books of the Corporation, subject to the provisions of applicable law and the Articles of Incorporation, and may vote and otherwise act in person or by proxy; provided, however, that in elections of directors there shall be cumulative voting as provided by law and by the Articles of Incorporation.

SECTION 6. QUORUM. The holders of a majority of the number of outstanding shares of stock of the Corporation entitled to vote thereat, present in person or by proxy at any meeting, shall constitute a quorum, but less than a quorum shall have power to adjourn any meeting from time to time without notice. No change shall be made in this Section 6 without the affirmative vote of the holders of at least a majority of the outstanding shares of stock entitled to vote.

SECTION 7. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. For the purposes of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, fifty (50) days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten (10) days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than seventy (70) days and, in case of a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

SECTION 8. VOTING RECORD. The officer or agent having charge of the stock transfer books for shares of the Corporation shall make, at least ten (10) days before each meeting of shareholders, a complete record of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which record, for a period of ten (10) days prior to such meeting, shall be kept on file at the registered office of the Corporation. Such record shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof.

SECTION 9. CONDUCT OF PROCEEDINGS. The Chairman of the Board shall preside at all meetings of the shareholders. In the absence of the Chairman, the President shall preside and in the absence of both, the Executive Vice President shall preside. The members of the Board of Directors present at the meeting may appoint any officer of the Corporation or member of the Board to act as Chairman of any meeting in the absence of the Chairman, the President, or Executive Vice President. The Corporate Secretary of the Corporation, or in his absence, an Assistant Corporate Secretary, shall act as Secretary at all meetings of the shareholders. In the absence of the Corporate Secretary or Assistant Corporate Secretary at any meeting of the shareholders, the presiding officer may appoint any person to act as Secretary of the meeting.

SECTION 10. PROXIES. At all meetings of shareholders, a shareholder may vote in person or by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Corporate Secretary of the Corporation before or at the time of the meeting.

ARTICLE III.
BOARD OF DIRECTORS

SECTION 1. GENERAL POWERS. The powers of the Corporation shall be exercised by or under the authority of the Board of Directors, except as otherwise provided by the laws of the State of Washington and the Articles of Incorporation.

SECTION 2. NUMBER AND TENURE. The number of Directors of the Corporation shall be nine (9); provided, however, that if the right to elect a majority of the Board of Directors shall have accrued to the holders of the Preferred Stock as provided in paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, then, during such period as such holders shall have such right, the number of directors may exceed nine (9). Directors shall be divided into three classes, as nearly equal in number as possible. At each Annual Meeting of Shareholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Shareholders after their election. Notwithstanding the foregoing, directors elected by the holders of the Preferred Stock in accordance with paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation shall be elected for a term which shall expire not later than the next Annual Meeting of Shareholders. All directors shall hold office until the expiration of their respective terms of office and until their successors shall have been elected and qualified.

SECTION 3. REGULAR MEETINGS. The regular annual meeting of the Board of Directors shall be held immediately following the adjournment of the annual meeting of the shareholders or as soon as practicable after said annual meeting of shareholders. But, in any event, said regular annual meeting of the Board of Directors must be held on either the same day as the annual meeting of shareholders or the next business day following said annual meeting of shareholders. At such meeting the Board of Directors, including directors newly elected, shall organize itself for the coming year, shall elect officers of the Corporation for the ensuing year, and shall transact all such further business as may be necessary or appropriate. The Board shall hold regular quarterly meetings, without call or notice, on such dates as determined by the Board of Directors. At such quarterly meetings the Board of Directors shall transact all business properly brought before the Board.

SECTION 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the President, the Executive Vice President or any three (3) directors. Notice of any special meeting shall be given to each director at least two (2) days in advance of the meeting.

SECTION 5. EMERGENCY MEETINGS. In the event of a catastrophe or a disaster causing the injury or death to members of the Board of Directors and the principal officers of the Corporation, any director or officer may call an emergency meeting of the Board of Directors. Notice of the time and place of the emergency meeting shall be given not less than two (2) days prior to the meeting and may be given by any available means of communication. The director or directors present at the meeting shall constitute a quorum for the purpose of filling vacancies determined to exist. The directors present at the emergency meeting may appoint such officers as necessary to fill any vacancies determined to exist. All appointments under this section shall be temporary until a special meeting of the shareholders and directors is held as provided in these Bylaws.

SECTION 6. CONFERENCE BY TELEPHONE. The members of the Board of Directors, or of any committee created by the Board, may participate in a meeting of the Board or of the committee by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation in a meeting by such means shall constitute presence in person at a meeting.

SECTION 7. QUORUM. A majority of the number of directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. The action of a majority of the directors present at a meeting at which a quorum is present shall be the action of the Board.

SECTION 8. ACTION WITHOUT A MEETING. Any action required by law to be taken at a meeting of the directors of the Corporation, or any action which may be taken at a meeting of the directors or of a committee, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors, or all of the members of the committee, as the case may be. Such consent shall have the same effect as a unanimous vote.

SECTION 9. VACANCIES. Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, (a) any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors and any director so elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office and (b) any directorship to be filled by reason of an increase in the number of directors may be filled by the Board of Directors for a term of office continuing only until the next election of directors by the shareholders.

SECTION 10. RESIGNATION OF DIRECTOR. Any director or member of any committee may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein. If no time is specified, it shall take effect from the time of its receipt by the Corporate Secretary, who shall record such resignation, noting the day, hour and minute of its reception. The acceptance of a resignation shall not be necessary to make it effective.

SECTION 11. REMOVAL. Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, any director may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of all of the shares of capital stock of the Corporation entitled generally to vote in the election of directors voting together as a single class, at a meeting of shareholders called expressly for that purpose; provided, however, that if less than the entire Board of Directors is to be removed, no one of the directors may be removed if the votes cast against the removal of such director would be sufficient to elect such director if then cumulatively voted at an election of the class of directors of which such director is a part. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

SECTION 12. ORDER OF BUSINESS. The Chairman of the Board shall preside at all meetings of the directors. In the absence of the Chairman, the officer or member of the Board designated by the Board of Directors shall preside. At meetings of the Board of Directors, business shall be transacted in such order as the Board may determine. Minutes of all proceedings of the Board of Directors, or committees appointed by it, shall be prepared and maintained by the Corporate Secretary or an Assistant Corporate Secretary and the original shall be maintained in the principal office of the Corporation.

SECTION 13. NOMINATION OF DIRECTORS. Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, nominations for the election of directors may be made by the Board of Directors, or a nominating committee appointed by the Board of Directors, or by any holder of shares of the capital stock of the Corporation entitled generally to vote in the election of directors (such stock being hereinafter in this Section called "Voting Stock"). However, any holder of shares of the Voting Stock may nominate one or more persons for election as directors at a meeting only if written notice of such shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Corporate Secretary not later than (i) with respect to an election to be held at an annual meeting of shareholders, ninety (90) days in advance of such meeting and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that such shareholder is a holder of record of shares of the Voting Stock of the Corporation and intends to appear in person or by proxy at the meeting to nominate the person or persons identified in the notice; (c) a description of all arrangements or understandings between such shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement under the Securities

Exchange Act of 1934, as amended, and the rules and regulations thereunder (or any subsequent revisions replacing such Act, rules or regulations) if the nominee(s) had been nominated, or were intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a Director of the Corporation if so elected. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

SECTION 14. PRESUMPTION OF ASSENT. A director of the Corporation who is present at a meeting of the Board of Directors, or of a committee thereof, at which action on any corporate matter is taken, shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Corporate Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 15. RETIREMENT OF DIRECTORS. Directors who are seventy (70) years of age or more shall retire from the Board effective at the conclusion of the Annual Meeting of Shareholders held in the year in which their term expires, and any such Director shall not be nominated for election at such Annual Meeting. The foregoing shall be effective in 1988 and thereafter as to any Director who is seventy (70) years of age or more during the year in which his or her term expires.

ARTICLE IV.
EXECUTIVE COMMITTEE
AND
ADDITIONAL COMMITTEES

SECTION 1. APPOINTMENT. The Board of Directors, by resolution adopted by a majority of the Board, may designate three or more of its members to constitute an Executive Committee. The designation of such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law.

SECTION 2. AUTHORITY. The Executive Committee, when the Board of Directors is not in session, shall have and may exercise all of the authority of the Board of Directors including authority to authorize distributions or the issuance of shares of stock, except to the extent, if any, that such authority shall be limited by the resolution appointing the Executive Committee or by law.

SECTION 3. TENURE. Each member of the Executive Committee shall hold office until the next regular annual meeting of the Board of Directors following his designation and until his successor is designated as a member of the Executive Committee.

SECTION 4. MEETINGS. Regular meetings of the Executive Committee may be held without notice at such times and places as the Executive Committee may fix from time to time by resolution. Special meetings of the Executive Committee may be called by any member thereof upon not less than two (2) days notice stating the place, date and hour of the meeting, which notice may be written or oral. Any member of the Executive Committee may waive notice of any meeting and no notice of any meeting need be given to any member thereof who attends in person.

SECTION 5. QUORUM. A majority of the members of the Executive Committee shall constitute a quorum for the transaction of business at any meeting thereof. Actions by the Executive Committee must be authorized by the affirmative vote of a majority of the appointed members of the Executive Committee.

SECTION 6. ACTION WITHOUT A MEETING. Any action required or permitted to be taken by the Executive Committee at a meeting may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the members of the Executive Committee.

SECTION 7. PROCEDURE. The Executive Committee shall select a presiding officer from its members and may fix its own rules of procedure which shall not be inconsistent with these Bylaws. It shall keep regular minutes of its proceedings and report the same to the Board of Directors for its information at a meeting thereof held next after the proceedings shall have been taken.

SECTION 8. COMMITTEES ADDITIONAL TO EXECUTIVE COMMITTEE. The Board of Directors may, by resolution, designate one or more other committees, each such committee to consist of two (2) or more of the directors of the Corporation. A majority of the members of any such committee may determine its action and fix the time and place of its meetings unless the Board of Directors shall otherwise provide.

ARTICLE V.
OFFICERS

SECTION 1. NUMBER. The Board of Directors shall elect one of its members Chairman of the Board and shall elect one of its members as President of the Corporation and the offices of Chairman and President may be held by the same person. The Board of Directors shall also elect one or more Vice Presidents, a Corporate Secretary, a Treasurer and may from time to time elect such other officers as the Board deems appropriate. The same person may be appointed to more than one office except the offices of President and Corporate Secretary.

SECTION 2. ELECTION AND TERM OF OFFICE. The officers of the Corporation shall be elected by the Board of Directors at the annual meeting of the Board. Each officer shall hold office until his successor shall have been duly elected and qualified.

SECTION 3. REMOVAL. Any officer or agent may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 4. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or otherwise may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 5. POWERS AND DUTIES. The officers shall have such powers and duties as usually pertain to their offices, except as modified by the Board of Directors, and shall have such other powers and duties as may from time to time be conferred upon them by the Board of Directors.

ARTICLE VI.
CONTRACTS, CHECKS AND DEPOSITS

SECTION 1. CONTRACTS. The Board of Directors may authorize any officer or officers or agents, to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 2. CHECKS/DRAFTS/NOTES. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 3. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors by resolution may select.

ARTICLE VII.
CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors and shall contain such information as prescribed by law. Such certificates shall be signed by the President or a Vice President and by either the Corporate Secretary or an Assistant Corporate Secretary, and sealed with the corporate seal or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. TRANSFER OF SHARES. Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Corporate Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes. The Board of Directors shall have power to appoint one or more transfer agents and registrars for transfer and registration of certificates of stock.

ARTICLE VIII.
CORPORATE SEAL

The seal of the Corporation shall be in such form as the Board of Directors shall prescribe.

ARTICLE IX.
INDEMNIFICATION

SECTION 1. INDEMNIFICATION OF DIRECTORS AND OFFICERS. The Corporation shall indemnify and reimburse the expenses of any person who is or was a director, officer, agent or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another enterprise or employee benefit plan to the extent permitted by and in accordance with Article SEVENTH of the Company's Articles of Incorporation and as permitted by law.

SECTION 2. LIABILITY INSURANCE. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, other enterprise, or employee benefit plan against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the laws of the State of Washington.

SECTION 3. RATIFICATION OF ACTS OF DIRECTOR, OFFICER OR SHAREHOLDER. Any transaction questioned in any shareholders' derivative suit on the ground of lack of authority, defective or irregular execution, adverse interest of director, officer or shareholder, nondisclosure, miscomputation, or the application of improper principles or practices of accounting may be ratified before or after judgment, by the Board of Directors or by the shareholders in case less than a quorum of directors are qualified; and, if so ratified, shall have the same force and effect as if the questioned transaction had been originally duly authorized, and said ratification shall be binding upon the Corporation and its shareholders and shall constitute a bar to any claim or execution of any judgment in respect of such questioned transaction.

ARTICLE X.
AMENDMENTS

Except as to Section 6 of Article II of these Bylaws, the Board of Directors may alter or amend these Bylaws at any meeting duly held, the notice of which includes notice of the proposed amendment. Bylaws adopted by the Board of Directors shall be subject to change or repeal by the shareholders; provided, however, that Section 2 of the Article II, Section 2 (other than the provision thereof specifying the number of Directors of the Corporation), and Sections 9, 11 and 13 of Article III and this proviso shall not be altered, amended or repealed, and no provision inconsistent therewith or herewith shall be included in these Bylaws, without the affirmative votes of the holders of at least eighty percent (80%) of the voting power of all the shares of the Voting Stock voting together as a single class.

EXHIBIT 12

THE WASHINGTON WATER POWER COMPANY

Computation of Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements Consolidated
(Thousands of Dollars)

	12 Mos. Ended June 30, 1998	Years Ended December 31 1997	1996	1995	1994
Fixed charges, as defined:					
Interest on long-term debt	$ 64,863	$ 63,413	$ 60,256	$ 55,580	$ 49,566
Amortization of debt expense and premium - net	2,942	2,862	2,998	3,441	3,511
Interest portion of rentals	4,362	4,354	4,311	3,962	1,282
Total fixed charges	$ 72,167	$ 70,629	$ 67,565	$ 62,983	$ 54,359
Earnings, as defined:					
Net income from continuing ops.	$ 84,349	$114,797	$ 83,453	$ 87,121	$ 77,197
Add (deduct):					
Income tax expense	51,426	61,075	49,509	52,416	44,696
Total fixed charges above	72,167	70,629	67,565	62,983	54,359
Total earnings	$207,942	$246,501	$200,527	$202,520	$176,252
Ratio of earnings to fixed charges	2.88	3.49	2.97	3.22	3.24
Fixed charges and preferred dividend requirements:					
Fixed charges above	$ 72,167	$ 70,629	$ 67,565	$ 62,983	$ 54,359
Preferred dividend requirements (2)	5,495	8,261	12,711	14,612	13,668
Total	$ 77,662	$ 78,890	$ 80,276	$ 77,595	$ 68,027
Ratio of earnings to fixed charges and preferred dividend requirements	2.68	3.12	2.50	2.61	2.59

(1) Calculations have been restated to reflect the results from continuing operations (ie. excluding discontinued coal mining operations).

(2) Preferred dividend requirements have been grossed up to their pre-tax level.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF THE WASHINGTON WATER POWER COMPANY, INCLUDED IN THE QUARTERLY REPORT ON FORM 10-Q FOR THE SIX MONTHS ENDED JUNE 30, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

6-MOS
DEC-31-1998
JAN-01-1998
JUN-30-1998
PER-BOOK
1,445,561
674,964
659,314
289,636
0
3,069,475
585,082
(9,227)
183,503
759,358
35,000
110,000
634,118
92,702
39,956
0
40,157
0
5,406
2,404
1,350,374
3,069,475
1,204,664
29,265
1,106,022
1,106,022
98,642
12,558
111,200
34,060
47,875
1,612
46,263
17,348
0
69,715
0.83
0.83

LONG-TERM DEBT-NET DOES NOT MATCH THE AMOUNT REPORTED ON THE COMPANY'S CONSOLIDATED STATEMENT OF CAPITALIZATION AS LONG-TERM DEBT DUE TO THE OTHER CATEGORIES REQUIRED BY THIS SCHEDULE.
OTHER ITEMS CAPITAL AND LIABILITIES INCLUDES THE CURRENT LIABILITIES, DEFERRED CREDITS AND MINORITY INTEREST, LESS CERTAIN AMOUNTS INCLUDED UNDER LONG-TERM DEBT-CURRENT PORTION AND LEASES-CURRENT, FROM THE COMPANY'S CONSOLIDATED BALANCE SHEET.
THE COMPANY DOES NOT INCLUDE INCOME TAX EXPENSE AS AN OPERATING EXPENSE ITEM. IT IS INCLUDED ON THE COMPANY'S STATEMENT AS A BELOW-THE-LINE ITEM.
INCOME BEFORE INTEREST EXPENSE IS NOT A SPECIFIC LINE ITEM ON THE COMPANY'S INCOME STATEMENTS. THE COMPANY COMBINES TOTAL INTEREST EXPENSE AND OTHER INCOME TO CALCULATE INCOME BEFORE INCOME TAXES.