

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997 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>

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Class -----	Name of Each Exchange on Which Registered -----
Common Stock, no par value, together with Preferred Share Purchase Rights appurtenant thereto	New York Stock Exchange Pacific Stock Exchange
7 7/8% Trust Originated Preferred Securities, Series A	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Title of Class

Preferred Stock, Cumulative, Without Par Value

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the Registrant's outstanding Common Stock, no par value (the only class of voting stock), held by non-affiliates is \$1,280,093,235.00, based on the last reported sale price thereof on the consolidated tape on February 28, 1998.

At February 28, 1998, 55,960,360 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

Documents Incorporated By Reference

Document

Part of Form 10-K into Which
Document is Incorporated

Proxy Statement to be filed in
connection with the annual meeting
of shareholders to be held May 14, 1998

Part III, Items 10, 11,
12 and 13

INDEX

Item No. ---		Page No. ---
	Acronyms and Terms.....	iii
Part I		
1.	Business.....	1
	Company Overview.....	1
	Energy Delivery.....	3
	General.....	3
	Electric Operations.....	3
	Natural Gas Operations.....	3
	Natural Gas Resources.....	4
	Regulatory Issues.....	4
	Electric Delivery Operating Statistics.....	6
	Generation and Resources.....	8
	General.....	8
	Electric Requirements.....	8
	Electric Resources.....	8
	Hydroelectric Relicensing.....	9
	Regulatory Issues.....	9
	Generation and Resources Operating Statistics.....	10
	National Energy Trading and Marketing.....	11
	Non-Energy Business.....	13
	Industry Restructuring and Legislative Issues.....	14
	Federal Level.....	14
	State Level.....	14
	Experimental Programs.....	15
	Environmental Issues.....	16
2.	Properties.....	17
	Energy Delivery.....	17
	Generation and Resources.....	18
3.	Legal Proceedings.....	18
4.	Submission of Matters to a Vote of Security Holders.....	18
Part II		
5.	Market for Registrant's Common Equity and Related Stockholder Matters.....	19
6.	Selected Financial Data.....	20
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
	Results of Operations.....	22
	Liquidity and Capital Resources.....	26
	Future Outlook.....	28
8.	Financial Statements and Supplementary Data.....	31
	Independent Auditors' Report.....	32
	Financial Statements.....	33
	Notes to Financial Statements.....	39
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	*
Part III		
10.	Directors and Executive Officers of the Registrant.....	57
11.	Executive Compensation.....	58
12.	Security Ownership of Certain Beneficial Owners and Management.....	58
13.	Certain Relationships and Related Transactions.....	58
Part IV		
14.	Financial Statements, Financial Statement Schedules, Exhibits and Reports on Form 8-K	59
	Signatures.....	60
	Independent Auditors' Consent.....	61
	Exhibit Index.....	62

* = not an applicable item in the 1997 calendar year for the Company

THE WASHINGTON WATER POWER COMPANY

ACRONYMS AND TERMS

(The following acronyms and terms are found in multiple locations within the document)

Acronym/Term -----	Meaning -----
aMW	- Average Megawatt - a measure of electrical energy over time
AFUCE	- Allowance for Funds Used to Conserve Energy; a carrying charge similar to AFUDC (see below) for conservation-related capital expenditures
AFUDC	- Allowance for Funds Used During Construction; represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period
Avista Corp.	- Parent company to the Company's non-regulated businesses
BPA	- Bonneville Power Administration
Capacity	- a measure of the rate at which a particular generating source produces electricity
Centralia	- the coal fired Centralia Power Plant in western Washington State
Colstrip	- the coal fired Colstrip Generating Project in southeastern Montana
CPUC	- California Public Utilities Commission
CT	- combustion turbine; a natural gas fired unit used primarily for peaking needs
DSM	- Demand Side Management - the process of helping customers manage their use of energy resources
Energy	- a measure of the amount of electricity produced from a particular generating source over time
FERC	- Federal Energy Regulatory Commission
IPUC	- Idaho Public Utilities Commission
KV	- Kilovolt - a measure of capacity on transmission lines
KW, KWH	- Kilowatt, kilowatthour, 1000 watts or 1000 watt hours
MW, MWH	- Megawatt, megawatthour, 1000 KW or 1000 KWH
OPUC	- Public Utility Commission of Oregon
Pentzer	- Pentzer Corporation, a wholly owned subsidiary of the Company which is the parent company to the majority of the Company's non-energy businesses
Therm	- Unit of measurement for natural gas; a therm is equal to one hundred cubic feet (volume) or 100,000 BTUs (energy)
Watt	- Unit of measurement for electricity; a watt is equal to the rate of work represented by a current of one ampere under a pressure of one volt
WIDCo	- Washington Irrigation & Development Company, a wholly owned non-energy subsidiary of the Company
WUTC	- Washington Utilities and Transportation Commission
WWP	- The Washington Water Power Company, the Company

PART I

This Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements should be read with the cautionary statements and important factors included in this Form 10-K at Item 7 - - "Management's Discussion and Analysis of Financial Condition and Results of Operations - - Safe Harbor Forward-Looking Statements."

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.

ITEM 1. BUSINESS

COMPANY OVERVIEW

The Washington Water Power Company (Company), which was incorporated in the State of Washington in 1889, primarily operates in the electric and natural gas utility businesses. At December 31, 1997, the Company's employees included 1,467 people in its utility operations and approximately 1,751 people in its majority-owned non-regulated businesses (energy and non-energy). The Company's corporate headquarters are in Spokane, Washington (Spokane), which serves as the Inland Northwest's center for manufacturing, transportation, health care, education, communication, agricultural and service businesses.

Regulatory, economic and technological changes have brought about the accelerating transformation of the electric utility industry from a vertically integrated monopoly to separate market driven businesses. Since 1996, the Company has reorganized its operations to take advantage of the changes in the Company's business environment and to proactively respond to regulatory and structural changes in the industry. The restructuring reinforces the Company's commitment to and advocacy of utility industry deregulation. (See Industry Restructuring and Legislative Issues for additional information).

The Company's utility operations are organized into two lines of business. The Energy Delivery business includes retail electric and natural gas distribution and transmission services. The Generation and Resources business includes generation and production, resource optimization, electric and natural gas commodity trading and wholesale marketing. Both the Energy Delivery and Generation and Resources lines of business are currently conducted by separate business divisions within the Company.

In February 1997, the Company's Board of Directors approved creation of a new subsidiary, Avista Corp. (Avista), which owns all of the Company's non-regulated businesses. Avista was formed to segregate the Company's non-regulated businesses from its regulated businesses and support financing of the non-regulated businesses as they develop and expand. The Company also reorganized by adding a new line of business, National Energy Trading and Marketing. The National Energy Trading and Marketing (energy) business includes Avista Advantage, Inc. (Avista Advantage) and Avista Energy, Inc. (Avista Energy). See Item 1. Business - National Energy Trading and Marketing and Notes 1, 3 and 4 of Notes to Financial Statements for additional information. The non-energy business primarily consists of Pentzer Corporation (Pentzer) which is the parent company to the majority of the Company's non-energy businesses. See Item 1. Business - Non-Energy Business and Notes 1 and 18 of Notes to Financial Statements for additional information.

[Flow chart showing the 1997 Organizational Structure of the Company]

THE WASHINGTON WATER POWER COMPANY

For the twelve months ended December 31, 1997, 1996 and 1995, respectively, the Company derived operating revenues and income/(loss) from operations in the following proportions:

	Operating Revenues			Income/(Loss) from Operations (pre-tax)		
	1997	1996	1995	1997	1996	1995
	----	----	----	----	----	----
Energy Delivery	29%	40%	50%	60%	48%	57%
Generation and Resources	39%	45%	38%	34%	45%	36%
National Energy Trading and Marketing	19%	-	-	1%	(1%)	-
Non-Energy	13%	15%	12%	5%	8%	7%

ENERGY DELIVERY

GENERAL

Energy Delivery provides electricity and natural gas distribution and transmission services in a 26,000 square mile area in eastern Washington and northern Idaho with a population of approximately 825,000. Energy Delivery also provides natural gas service in a 4,000 square mile area in northeast and southwest Oregon and in the South Lake Tahoe region of California, with the population in these areas approximating 495,000.

At the end of 1997, retail electric service was supplied to approximately 301,000 customers in eastern Washington and northern Idaho; retail natural gas service was supplied to approximately 251,000 customers in parts of Washington, Idaho, Oregon and California.

The Company expects economic growth to continue in its eastern Washington and northern Idaho service area. The Company, along with others in the service area, is continuing its efforts to facilitate expansion of existing businesses and attract new businesses to the Inland Northwest. Agriculture, mining and lumber were the primary industries for many years, but health care, education, electronic and other manufacturing, tourism and the service sectors have become increasingly important industries that operate in the Company's service area. The Company also anticipates strong economic growth to continue in its Oregon service area.

The Company anticipates residential and commercial electric load growth to average approximately 2.1% annually for the next five years primarily due to increases in both population and the number of businesses in its service territory. The number of electric customers is expected to increase and the average annual usage by residential customers is expected to remain steady on a weather-adjusted basis.

The Company anticipates natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 2.9% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 2.1% growth annually during that same period. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations: Future Outlook for additional information.

ELECTRIC OPERATIONS

Energy Delivery currently receives all of its electric supply from Generation and Resources. (See Generation and Resources - Electric Resources for additional information.)

Challenges facing the retail electric business include cost management, self-generation and fuel switching by commercial and industrial customers, the costs of increasingly stringent environmental laws and the potential for stranded or non-recoverable utility assets. In April 1996, the Federal Energy Regulatory Commission (FERC) issued Orders No. 888 and No. 889 which require electric utility companies to provide third-party access to their transmission systems and to establish an Open Access Same-time Information System (OASIS) to provide transmission customers with information about available transmission capacity, prices and other information, by electronic means. In addition, state legislatures in the Company's service territory are currently reviewing restructuring the retail electric business to full competition. When electric utility companies are required to provide retail wheeling service, which is the transmission of electric power from another supplier to a customer located within such utility's service area, the Company believes it will face minimal risk for stranded generation, transmission or distribution assets due to its low cost structure. However, the Company cannot predict the potential impact, if any, of restructuring the electric utility industry on the Company's future financial condition and results of operations. (See Industry Restructuring and Legislative Issues and Note 1 of Notes to Financial Statements for additional information.)

NATURAL GAS OPERATIONS

Natural gas remains competitively priced compared to alternative fuel sources for residential, commercial and industrial customers. Because of abundant supplies and competitive markets, natural gas should sustain its market advantage. The Company continues to advise electric customers as to the cost advantages of converting space and water heating needs to natural gas. Significant growth has occurred in the Company's natural gas business in recent years due to increased demand for natural gas in new construction. The Company also makes sales or provides transportation service directly to large natural gas customers and non-retail sales to marketers and producers where points of delivery are outside the Company's retail distribution area.

The Company provides transportation service to customers who obtain their own natural gas supplies. Transportation service was a significant component of the Company's total system deliveries in 1997. The competitive nature of the spot natural gas market results in savings in the cost of purchased natural gas, which encourages large customers with fuel-switching capabilities to continue to utilize natural gas for their energy needs. The total volume transported on behalf of transportation customers was approximately 245.1 million therms in 1997. This volume represented approximately 43% of the Company's total system deliveries in 1997. In addition, the Company sells firm transportation to third parties when it is not needed to serve the Company's customers.

THE WASHINGTON WATER POWER COMPANY

Most of the Company's large industrial customers purchase their own natural gas requirements through gas marketers. For these customers, the Company provides transportation from the Company's pipeline interconnection to the customer's plant. The Company has numerous special contracts for gas transportation service, most of which contain negotiated rates for Company distribution service based on the customer's competitive alternatives. Seven of the Company's largest gas customers are provided gas transportation service by the Company under special contracts. These negotiated contracts were entered into to retain these customers who can either by-pass the Company's distribution system or have competitive alternative fuel capability. All special contracts are subject to regulatory review and approval.

NATURAL GAS RESOURCES

Natural Gas Supply A diverse portfolio of resources allows the Company to capture market opportunities that benefit the Company's natural gas customers. Natural gas supplies are available from both domestic and Canadian sources through both long- and short-term, or spot market, purchases. The Company holds capacity on six pipelines and owns natural gas storage facilities which allow the Company to optimize its available resources.

Firm natural gas supplies are purchased by the Company through negotiated agreements having terms ranging between one month and seven years. During 1997, approximately one-third of the Company's purchases were in the short-term market, with contracts on a month-to-month basis. Approximately 12% of the natural gas supply was obtained from domestic sources, with the remaining 88% from Canadian sources. Nearly all natural gas purchased from Canadian sources is contracted in U.S. dollar denominations, limiting any foreign currency exchange exposure. The Company does not consider Canadian gas supplies to be at greater risk of non-delivery than U.S. supplies.

The Company holds capacity on six natural gas pipelines, Northwest Pipeline Company (NWP), Pacific Gas Transmission (PGT), Paiute Pipeline (Paiute), Tuscarora Gas Transmission Company (Tuscarora), NOVA Pipeline, Ltd. (NOVA) and Alberta Natural Gas Co. Ltd. (ANG), which provide the Company access to both domestic and Canadian natural gas supplies. In 1997, the Company obtained gas from over 25 different suppliers.

The Company contracts with NWP for three types of firm service (transportation, liquefied natural gas storage and underground storage), with Paiute for firm transportation and liquefied natural gas storage and with PGT, Tuscarora, NOVA and ANG for firm transportation only.

Jackson Prairie Natural Gas Storage Project (Storage Project) The Company owns a one-third interest in the Storage Project, which is an underground natural gas storage field located near Chehalis, Washington. The role of the Storage Project in providing flexible natural gas supplies is increasingly important to the Company's natural gas operations as it enables the Company to place natural gas into storage when prices are low or to meet minimum natural gas purchasing requirements, as well as to withdraw natural gas from storage when spot prices are high or as needed to meet high demand periods. The Company, together with the other owners, is pursuing alternatives to increase the potential for both capacity and deliverability at the Storage Project.

The Company has contracted to release some of its Storage Project capacity to two other utilities until 2000 and 2001, with a provision under one of the releases to partially recall the released capacity if the Company determines additional natural gas is required for its own system supply.

REGULATORY ISSUES

The Company, as a regulated public utility, is currently subject to regulation by state utility commissions with respect to prices, accounting, the issuance of securities and other matters. The retail electric operations are subject to the jurisdiction of the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC). The retail natural gas operations are subject to the jurisdiction of the WUTC, the IPUC, the Oregon Public Utility Commission (OPUC) and the California Public Utilities Commission (CPUC). The Company is also subject to the jurisdiction of the FERC for its (wholesale) natural gas rates charged for the release of capacity from the Jackson Prairie Storage Project.

In each regulatory jurisdiction, the price the Company may charge for retail electric and natural gas services (other than specially negotiated retail rates for industrial or large commercial customers, which are subject to regulatory review and approval) is currently determined on a "cost of service" basis and is designed to provide, after recovery of allowable operating expenses, an opportunity to earn a reasonable return on "rate base." "Rate base" is generally determined by reference to the original cost (net of accumulated depreciation) of utility plant in service, subject to various adjustments for deferred taxes and other items (see Note 1 of Notes to Financial Statements for additional information about regulation, depreciation and deferred taxes). Over time, rate base is increased by additions to utility plant in service and reduced by depreciation of utility plant. As the energy business is restructured, traditional "cost of service" ratemaking may evolve into some other form of ratemaking. Rates for transmission services are based on the "cost of service" principles and are set forth in tariffs on file with the FERC. (See Industry Restructuring and Legislative Issues for additional information.)

General Rate Cases The Company's last general electric rate cases were effective in March 1987 for the State of Washington and September 1986 for the State of Idaho; both allowed a return on equity of 12.90%.

On June 27, 1997 the Company filed a general natural gas rate increase of \$7.87 million with the WUTC for the State of Washington. On December 1, 1997, all interested parties filed a settlement agreement with the WUTC. On December 24, 1997, the WUTC accepted the settlement agreement. The resulting \$5 million, or 7.5%, increase was effective January 1, 1998. The agreement included a two-year freeze in general revenue requirements. Such a freeze does not preclude the Company from filing natural gas trackers (see below for additional information) or from filing for recovery of "extraordinary circumstances". Included in the settlement agreement was a stated return on equity of 10.75%. However, the agreements reached in the settlement do not set a precedent for future rate filings. The Company's last general natural gas rate cases involving litigated cost of capital resulted in allowed return on equity of: 12.90% for the State of Washington effective August 1990; 12.75% for the State of Idaho effective October 1989.

Demand Side Management (DSM) The WUTC and IPUC approved as filed, effective January 1, 1997, the Company's proposed electric DSM programs and tariff rider for a three-year extension ending December 31, 1999. The Company's programs, while maintaining a residential electric weatherization program and fuel efficiency awareness programs, now place a greater emphasis on commercial and industrial programs. The tariff rider is a separate revenue source and represents a 1.54% electric revenue surcharge. These surcharge revenues will be used to fund the Company's 1997 through 1999 DSM programs.

In 1993, the OPUC authorized the Company to defer revenue requirements associated with its Oregon DSM investments and established an annual rate adjustment mechanism to reflect the deferred costs on a timely basis. Under this authorization, the Company files annually, concurrent with the Company's annual natural gas "tracker" filing, a rate adjustment to recover DSM program costs and margin losses.

Power Cost Adjustment (PCA) The Company has a PCA in Idaho which tracks changes in hydroelectric generation, surplus energy prices, related changes in thermal generation and the Public Utility Regulatory Policies Act of 1978 (PURPA) contracts, but not changes in revenues or costs associated with other wheeling or power contracts. Rate changes are triggered when the deferred balance reaches \$2.2 million provided no more than two surcharges or rebates are in effect at the same time. See Note 1 of Notes to Financial Statements for additional information.

Purchased Gas Adjustment (Natural Gas Trackers) Natural gas trackers are supplemental tariffs filed with state regulatory commissions which are designed to pass through changes in purchased natural gas costs and do not normally result in any changes in net income to the Company. In November 1997, the Company filed a natural gas tracker with the IPUC requesting a \$3.97 million, or 15.6%, increase which was approved, effective December 15, 1997. In October 1997, the Company filed a natural gas tracker with the OPUC requesting a \$3.67 million, or 8.86%, increase which was approved, effective December 1, 1997. The Oregon gas tracker includes a provision that specifies a sharing of benefits and risks associated with changes in gas prices. In January 1998, the Company filed a natural gas tracker with the WUTC. In February 1998, the WUTC approved a \$1.18 million, or 1.64%, decrease effective February 15, 1998.

ENERGY DELIVERY OPERATING STATISTICS

	Years Ended December 31,		
	1997	1996	1995
RETAIL ELECTRIC OPERATIONS			
ELECTRIC OPERATING REVENUES (Thousands of Dollars):			
Residential.....	\$160,411	\$160,345	\$156,755
Commercial.....	144,952	144,717	140,221
Industrial.....	58,391	62,067	60,979
Public street and highway lighting.....	3,352	3,359	3,345
Total retail electric revenue.....	367,106	370,488	361,300
Transmission revenues.....	19,503	11,907	8,307
Other revenues.....	8,685	6,740	6,107
Transfer to Generation and Resources (1).....	(180,544)	(180,018)	(175,337)
Total electric energy delivery revenues.....	\$214,750	\$209,117	\$200,377
ELECTRIC ENERGY SALES (Thousands of MWhs):			
Residential.....	3,270	3,220	3,150
Commercial.....	2,716	2,674	2,592
Industrial.....	1,759	1,839	1,803
Public street and highway lighting.....	24	24	23
Total retail energy sales.....	7,769	7,757	7,568
ELECTRIC AVERAGE HOURLY LOAD (aMW).....			
	954	973	924
NUMBER OF ELECTRIC CUSTOMERS (Average for Period):			
Residential.....	261,873	257,726	253,364
Commercial.....	33,681	33,043	32,236
Industrial.....	1,145	1,133	1,107
Public street and highway lighting.....	371	363	349
Total retail electric customers.....	297,070	292,265	287,056
ELECTRIC RESIDENTIAL SERVICE AVERAGES:			
Annual use per customer (Kwh).....	12,489	12,493	12,434
Revenue per KWh (in cents).....	4.90	4.98	4.98
Annual revenue per customer.....	\$612.55	\$622.15	\$618.69
NATURAL GAS OPERATIONS			
NATURAL GAS OPERATING REVENUES (Thousands of Dollars):			
Residential.....	\$81,855	\$85,904	\$84,358
Commercial.....	42,731	51,006	52,671
Industrial - firm.....	3,563	3,949	5,470
Industrial - interruptible.....	512	1,131	1,967
Total retail natural gas revenues.....	128,661	141,990	144,466
Non-retail sales.....	19,559	9,862	10,530
Transportation.....	12,678	12,154	12,340
Other revenues.....	4,884	7,305	6,891
Total natural gas energy delivery revenues.....	\$165,782	\$171,311	\$174,227
THERMS DELIVERED (Thousands of Therms):			
Residential.....	182,037	183,927	159,919
Commercial.....	118,494	132,744	120,838
Industrial - firm.....	12,509	12,757	14,658
Industrial - interruptible.....	3,217	4,174	10,621
Total retail sales.....	316,257	333,602	306,036
Non-retail sales.....	105,297	67,656	104,831
Transportation.....	245,139	237,894	221,261
Interdepartmental sales and Company use.....	2,087	22,215	25,043
Total therms - sales and transportation.....	668,780	661,367	657,171

(1) Transfer to Generation and Resources represents the portion of revenues collected by Energy Delivery from retail customers attributable to the sale of the electric energy commodity delivered by Energy Delivery.

ENERGY DELIVERY OPERATING STATISTICS

	Years Ended December 31,		
	1997	1996	1995
SOURCES OF NATURAL GAS SUPPLY (Thousands of Therms):			
Purchases.....	431,646	422,194	429,903
Storage - injections.....	(31,288)	(26,260)	(31,248)
Storage - withdrawals.....	22,183	24,572	32,332
Natural gas for transportation.....	245,139	237,894	221,261
Distribution system gains (losses).....	1,100	2,967	4,923
Total supply.....	668,780	661,367	657,171
NET SYSTEM MAXIMUM CAPABILITY (Thousands of Therms):			
Net system maximum demand (winter).....	3,134	3,273	2,758
Net system maximum firm contractual capacity (winter)	4,220	4,210	4,210
NUMBER OF NATURAL GAS CUSTOMERS (Average for Period):			
Residential.....	214,927	203,245	192,252
Commercial.....	27,171	25,747	24,606
Industrial - firm.....	306	300	281
Industrial - interruptible.....	25	28	31
Total retail customers.....	242,429	229,320	217,170
Non-retail sales.....	17	7	5
Transportation.....	111	93	75
Total natural gas customers.....	242,557	229,420	217,250
NATURAL GAS RESIDENTIAL SERVICE AVERAGES:			
Washington and Idaho			
Annual use per customer (therms).....	927	1,007	919
Revenue per therm (in cents).....	40.44	41.90	48.98
Annual revenue per customer.....	\$374.90	\$421.91	\$450.07
Oregon and California			
Annual use per customer (therms).....	703	724	678
Revenue per therm (in cents).....	55.71	58.55	61.78
Annual revenue per customer.....	\$391.56	\$424.00	\$418.88
HEATING DEGREE DAYS: (1)			
Spokane, WA			
Actual.....	6,510	7,477	6,363
30 year average.....	6,842	6,842	6,842
% of average.....	95%	109%	93%
Medford, OR			
Actual.....	4,144	4,088	3,751
30 year average.....	4,611	4,611	4,611
% of average.....	90%	89%	81%
INCOME FROM ENERGY DELIVERY OPERATIONS (After tax).....	\$77,788	\$64,345	\$76,436

(1) Heating degree days are the measure of the coldness of weather experienced, based on the extent to which the average of high and low temperatures for a day falls below 65 degrees Fahrenheit (annual degree days below historic indicate warmer than average temperatures).

GENERATION AND RESOURCES

GENERAL

The Generation and Resources line of business manages the Company's electric energy resource portfolio, which is used to serve Energy Delivery's retail electric customers and Generation and Resources' wholesale electric customers. The primary business focus of Generation and Resources is to optimize the availability and operation of generation resources. The Company owns and operates nine hydroelectric projects, a wood-waste fueled generating station and two natural gas combustion turbine (CT) peaking units. See Item 2. Properties - Generation and Resources for additional information. The Company also owns a 15% share in two coal-fired generating facilities and leases two additional gas CT peaking units. With this diverse energy resource portfolio, the Company remains one of the nation's lowest-cost producers and sellers of electric energy services.

The Company's wholesale marketing and trading business units within the Generation and Resources line of business are a secondary, but very important part of the Company's overall business strategy. Since 1987, the Company has entered into a number of long-term power sales contracts that have increased its wholesale electric revenues, and the Company is continuing to actively pursue electric wholesale marketing and energy trading business opportunities. Energy trading includes short-term sales and purchases such as next hour, next day and monthly blocks of energy. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Wholesale sales are affected by weather and streamflow conditions and may eventually be affected by the restructuring of the electric utility industry. (See Industry Restructuring and Legislative Issues for additional information.)

Challenges facing Generation and Resources include evolving technologies which provide alternate energy supplies and deregulation of electric and natural gas markets. The Company believes it faces minimal risk for stranded generation assets as a result of deregulation due to its low cost structure. Generation and Resources continues to compete in the wholesale electric market with other western utilities, federal marketing agencies and power marketers. It is expected that competition to sell energy will remain vigorous due to increased competition and surplus capacity in the western United States. Competition in the sale of capacity and energy is influenced by many factors, including the availability of capacity in the western United States, the availability and price of natural gas, and transmission availability. Business challenges affecting the energy trading business include new entrants in the wholesale market, such as power brokers and marketers, and declining per unit margins.

ELECTRIC REQUIREMENTS

The Company's 1997 annual peak requirements, including long-term and short-term contractual obligations, were 4,226 MW. This peak occurred on January 14, 1997, at which time the maximum capacity available from the Company's generating facilities, including long-term and short-term purchases, was 4,684 MW. The electric requirements are affected by both Energy Delivery's electric needs and Generation and Resources' wholesale contractual commitments.

ELECTRIC RESOURCES

The Company's diverse resource mix of hydroelectric projects, thermal generating facilities and power purchases and exchanges, combined with strategic access to regional electric transmission systems, enables the Company to remain one of the nation's lowest-cost producers and sellers of electric energy services. At December 31, 1997, the Company's total owned resources available were 58% hydroelectric and 42% thermal. See Generation and Resources Operating Statistics on page 10 for the Company's energy resource statistics.

Hydroelectric Resources Hydroelectric generation is the Company's lowest cost source of electricity and the availability of hydroelectric generation has a significant effect on the Company's total energy costs. Under average operating conditions, the Company meets about one-third of its total energy requirements (both retail and long-term wholesale), with its own hydroelectric generation and long-term hydroelectric contracts. The streamflows to Company-owned hydroelectric projects were 172%, 145% and 120% of normal in 1997, 1996 and 1995, respectively.

Total hydroelectric resources provide 531 aMW annually.

Thermal Resources The Company has a 15% interest in each of two twin-unit coal-fired facilities-the Centralia Power Plant in western Washington and Units 3 and 4 of the Colstrip Generating Project in southeastern Montana. In addition, the Company owns a wood-waste-fired facility known as the Kettle Falls Generating Station in northeastern Washington and two natural gas-fired CTs, located in Spokane, used for peaking needs. The Company also operates and leases two natural gas-fired CTs in northern Idaho, used for peaking needs. Total thermal resources provide 302 aMW annually.

Centralia, which is operated by PacifiCorp, is supplied with coal under both a fuel supply agreement in effect through December 2020 and various spot market purchases. In 1997, 1996 and 1995, Centralia provided approximately 39%, 46% and 30%, respectively, of the Company's thermal generation. (See Environmental Issues for additional information.)

Colstrip is supplied with fuel under coal supply and transportation agreements in effect through December 2019 from adjacent coal reserves. The Montana Power Company is the operator of Colstrip. In 1997, 1996 and 1995, Colstrip provided approximately 46%, 34% and 47% of the Company's thermal generation,

respectively.

THE WASHINGTON WATER POWER COMPANY

Kettle Falls' primary fuel is wood-waste generated as a by-product from forest industry operations within one hundred miles of the plant. Natural gas may be used as an alternate fuel. A combination of long-term contracts plus spot purchases provides the Company the flexibility to meet expected future fuel requirements for the plant. In 1997, 1996 and 1995, Kettle Falls provided approximately 11%, 10% and 8% of the Company's thermal generation, respectively.

The four CTs are natural gas-fired units, primarily used for peaking needs. The two Rathdrum (Idaho) CTs have access to domestic and Canadian natural gas supplied through PGT. In 1997, 1996 and 1995, these four units provided approximately 4%, 10% and 15%, respectively, of the Company's thermal generation. Thermal generation from CTs during 1997 was lower than prior years primarily due to the cost of natural gas as compared to alternative energy supplies.

Purchases, Exchanges and Sales In 1997, the Company had various purchase contracts equating to 751 MW, with an average remaining life of 3.7 years. Additionally, long-term hydro purchase contracts of 197 MW were available with an average remaining contract life of 11.6 years. The Company also enters into a significant amount of short-term sales and purchases with durations of up to one year. Energy purchases and exchanges for the years 1997, 1996 and 1995 provided approximately 65%, 54% and 36%, respectively, of the Company's total electric energy requirements, which reflects increased wholesale trading activity.

Under PURPA, the Company is required to purchase generation from qualifying facilities, including small hydroelectric and cogeneration projects, at avoided cost rates adopted by the WUTC and the IPUC. The Company purchased approximately 561,000 MWH, or about 2% of the Company's total energy requirements, from these sources at a cost of approximately \$26 million in 1997. These contracts expire in 1999-2022.

HYDROELECTRIC RELICENSING

The Company is a licensee under the Federal Power Act, which regulates certain of the Company's generation resources and is administered by the FERC, and its licensed projects are subject to the provisions of Part I of that Act. These provisions include payment for headwater benefits, condemnation of licensed projects upon payment of just compensation and take-over of such projects after the expiration of the license upon payment of the lesser of "net investment" or "fair value" of the project, in either case plus severance damages. All but one of the Company's hydroelectric plants are regulated by the FERC through project licenses issued for 30-50 year periods. See Item 2. Properties - Generation and Resources for additional information.

The Cabinet Gorge and Noxon Rapids plants are currently in the process of relicensing with an expiration date on the existing license of February 2001. The Company filed a Notice of Intent to relicense in 1996 and has since consulted with resource agencies, Native American tribes, special interest groups and the general public regarding its relicensing. The Company's goal in consultation is to develop settlement agreements with all parties, which will form the basis for the license application expected to be submitted in February 1999. The focus in 1998 will be negotiating settlement agreements and preparing a collaboratively written environmental assessment and license application. An Environmental Impact Statement (EIS) will be written by the FERC in the period between application filing and issuance of a new license.

The Company's approach to relicensing departs from the conventional FERC process. Early FERC involvement and EIS scoping has occurred prior to application and the consultation process has been expanded to a comprehensive collaborative process including all stakeholders. The collaborative process used by the Company is nationally recognized as the model for FERC's alternative approach to relicensing.

The Company has presented to the collaborative participants a proposed comprehensive package of protection, mitigation and enhancement measures that addresses impacts resulting from the continued operations of the Cabinet Gorge and Noxon Rapids projects. The comprehensive package includes issues such as fisheries, water quality, wildlife, recreation, land use, cultural resources and erosion, and represents the results of studies and interests of over 40 organizations and 100 individuals. The preliminary proposal presented by the Company amounts to \$161 million to be spent over a 50-year license term. See Item 2. Properties - Generation and Resources and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional information.

REGULATORY ISSUES

The Company is subject to the jurisdiction of the FERC for its accounting procedures and its wholesale electric rates. Some wholesale electric rates are determined on a "cost-of-service" basis in a manner similar to retail rates. See Energy Delivery - Regulatory Issues for additional information. Also, the Company can enter into wholesale electric sales contracts with rates based on "cost-of-service" principles. Generally, rates for wholesale electric sales by the Company for terms up to five years are based on market prices.

GENERATION AND RESOURCES OPERATING STATISTICS

	Years Ended December		
	1997	1996	1995
	-----	-----	-----
ELECTRIC ENERGY RESOURCES (Thousands of MWhs):			
Hydro generation (from Company facilities).....	4,863	5,045	4,038
Thermal generation (from Company facilities).....	2,627	2,764	2,537
Purchased power - long-term hydro.....	1,212	1,170	1,159
Purchased power - other.....	16,038	10,641	4,113
Power exchanges.....	178	102	156
	-----	-----	-----
Total power resources.....	24,918	19,722	12,003
Energy losses and Company use.....	(739)	(790)	(525)
	-----	-----	-----
Total energy resources (net of losses).....	24,179	18,932	11,478
	=====	=====	=====
ELECTRIC ENERGY REQUIREMENTS (Thousands of MWhs):			
Energy Delivery.....	7,769	7,757	7,568
Long-term wholesale.....	4,307	4,507	1,953
Short-term wholesale.....	12,103	6,668	1,957
	-----	-----	-----
Total energy requirements.....	24,179	18,932	11,478
	=====	=====	=====
RESOURCE AVAILABILITY at time of system peak (MW):			
Total requirements (winter) (1).....	4,226	3,180	2,545
Total resource availability (winter).....	4,684	3,340	2,855
Total requirements (summer) (2).....	4,345	2,978	2,037
Total resource availability (summer).....	4,766	3,357	2,660
ELECTRIC OPERATING REVENUES (Thousands of Dollars):			
Long-term wholesale.....	\$138,730	\$139,116	\$ 84,220
Short-term wholesale.....	187,190	91,443	25,013
Other revenues.....	4,669	7,989	2,042
Transfer from Energy Delivery (3).....	180,544	180,018	175,337
	-----	-----	-----
Total electric energy trading revenues.....	\$511,133	\$418,566	\$286,612
	=====	=====	=====
NUMBER OF ELECTRIC CUSTOMERS (Average for Period):			
Wholesale customers.....	91	60	33
	=====	=====	=====
INCOME FROM GENERATION AND RESOURCES OPERATIONS			
(After tax).....	\$ 47,737	\$ 65,048	\$ 52,325
	=====	=====	=====

(1) Includes long-term contract obligations of 1,022 MW, 744 MW and 733 MW and 1,688 MW, 725 MW and 327 MW of short-term sales in 1997, 1996 and 1995, respectively.

(2) Includes long-term contract obligations of 1,011 MW, 839 MW and 691 MW in 1997, 1996 and 1995, respectively, and short-term sales of 1,966 MW, 739 MW and 25 MW in 1997, 1996 and 1995, respectively.

(3) Transfer from Energy Delivery represents the portion of revenues collected by Energy Delivery from retail customers attributable to the sale of the electric energy commodity delivered by Energy Delivery.

 NATIONAL ENERGY TRADING AND MARKETING

Avista Corp. is the parent company to the Company's National Energy Trading and Marketing businesses. As a result of reorganizing the Company to proactively respond to deregulation, the Company added a new line of business, National Energy Trading and Marketing. Avista Energy and Avista Advantage conduct the National Energy Trading and Marketing businesses. As of December 31, 1997, the Company had an equity investment of approximately \$206.7 million in Avista Corp., of which approximately \$58.3 million was invested in Avista Energy. Wholesale trading and marketing in the Western Systems Coordinating Council (WSCC) are still being done in the Generation and Resources line of business. (See Generation and Resources for additional information.) National Energy Trading and Marketing efforts focus on a national basis, which includes conducting business in the WSCC.

Avista Energy focuses on energy commodity trading, energy marketing and other related businesses on a national basis. Avista Energy's business is affected by several factors, including:

- the demand for and availability of energy throughout the United States,
- an increasing number of power brokers and marketers,
- lower unit margins on new sales contracts,
- fewer long-term power contracts being entered into, resulting in a heavier reliance on short-term power contracts which have lower margins than long-term contracts,
- marginal fuel prices, and
- deregulation of the electric utility industry.

Avista Energy was originally incorporated in February 1996 as WWP Resource Services, Inc. In February 1997, WWP Resource Services, Inc.'s name was changed to Avista Energy, Inc. Avista Energy was non-operating until July 1, 1997 when it began its electric and natural gas trading and marketing activities. In preparation for expansion in the Canadian market, Avista Energy Canada, Ltd., a wholly owned subsidiary of Avista Energy, was formed on July 7, 1997, but conducted no operations in 1997.

Avista Energy's headquarters are in Spokane with offices in Portland, Oregon and Houston, Texas. As noted below, Avista Energy has developed several alliances and partnerships to support its trading and marketing efforts. Avista Energy will continue to explore and pursue additional alliance and investment opportunities in other areas of the country in order to further expand its national energy trading and marketing business.

Avista Energy's current business activities include marketing, scheduling and trading electricity and natural gas. Physical and financial transactions are traded in the North America marketplace. In 1997, Avista Energy sold approximately 4.5 million MWh of electric energy and 66.8 million dekatherms of natural gas.

In 1997, the revenues and income from operations of the National Energy Trading and Marketing business segment were derived primarily from trading operations (rather than marketing operations), in part due to the absence of a fully deregulated marketplace. As Avista Energy's marketing operations develop and more opportunities are presented by an increasing number of states permitting customer choice, the company expects that a greater percentage of Avista Energy's revenues and income will be derived from marketing operations.

In 1996, WWP Resources, Inc. (now Avista Energy) and Mock Energy Services, California's largest natural gas marketer, formed Avista/Mock Energy, LLC, a limited liability company in which Avista Energy has a 50% ownership interest, to provide integrated energy services to customers throughout the State of California. Under the terms of the agreement, Avista/Mock Energy will market electricity and related services to industrial and large commercial customers throughout California. The company will also offer energy-related products and services to its customers through Avista Advantage. The direct access market in California is currently expected to open April 1, 1998.

In April 1997, Avista Energy contracted with Chelan County Public Utility District (Chelan PUD), located in Washington State, to jointly market a significant portion of Chelan PUD's hydroelectric resources to other utilities throughout the Western United States. In addition, Avista Energy began assisting with the real-time scheduling of such output beginning in August 1997. On October 20, 1997, a complaint for declaratory and injunctive relief was filed in Chelan County Superior Court in order to determine whether the joint marketing and real-time scheduling efforts of Chelan PUD and Avista Energy are within Chelan PUD's lawful authority to undertake. The Plaintiff, a taxpayer and ratepayer of the District, requests relief in the form of a judgment declaring the agreements unconstitutional and without force. Briefs by the Plaintiff are due March 17, 1998 and the hearing on the matter is scheduled for March 26, 1998. Avista Energy is presently unable to assess the likelihood of an adverse outcome or estimate an amount or range of potential loss in the event of an adverse outcome.

In June 1997, Avista Energy formed an alliance with Energy West Incorporated, a diversified energy and retail propane company in Montana, to develop and implement a direct access, retail power marketing business in Montana. The

direct access market in Montana is currently expected to open July 1, 1998.

Effective August 1, 1997, Avista Energy and Howard Energy Marketing, Inc., formed Howard/Avista Energy, LLC (Howard/Avista), a limited liability company in which Avista Energy has a 50% ownership interest. Howard/Avista markets natural gas to commercial and industrial end-users, utilities, producers and other marketing companies.

Howard/Avista also provides related services including fuel management, storage, transportation and risk management. Howard/Avista operates primarily in the upper Midwest and Northeast United States, with offices in Michigan, New York, Illinois, Wisconsin, Pennsylvania, Texas and Oklahoma. Avista Energy's initial equity investment in Howard/Avista was \$25 million. The investment in Howard/Avista is accounted for using the equity method of accounting. During its five month existence in 1997, Howard/Avista sold approximately 351 million dekatherms of natural gas, averaging 2.3 million dekatherms per day. See Note 4 of Notes to Financial Statements for additional information.

Avista Advantage provides a variety of energy-related products and services to commercial and industrial customers on a national basis. Its primary product lines include consolidated billing and resource accounting.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations: National Energy Trading and Marketing Operations and Notes 1, 3 and 4 of Notes to Financial Statements for additional information.

NON-ENERGY BUSINESS

Avista Corp. is also the parent company to the Company's non-energy subsidiaries. The Non-energy business is conducted primarily by Pentzer, which is the parent company to the majority of the Company's non-energy businesses. As of December 31, 1997, the Company had an equity investment of approximately \$206.7 million in Avista Corp., of which approximately \$138.0 million was invested in Pentzer and \$10.4 million was invested in the remaining non-energy subsidiaries, the largest of which is Washington Irrigation and Development Company (WIDCo), which maintains a small investment portfolio.

As of December 31, 1997, Avista Corp. had approximately \$484.5 million in total assets, or about 20% of the Company's consolidated assets. Avista Corp's portfolio of non-energy investments includes companies involved in investments, fuel cell research and development, fiber optic technology and real estate. Pentzer's portfolio of investments includes companies involved in consumer product promotion, specialty tool manufacturing, metal fabrication, financial services and electronic technology.

Pentzer's current investment profile focuses on manufacturers and distributors of industrial and consumer products as well as service businesses. The Company seeks businesses with above average records of earnings growth in industries that are not cyclical or dependent upon high levels of research and development. Emphasis is placed on leading companies with strong market franchises, dominant or proprietary product lines or other significant competitive advantages. Pentzer is particularly interested in companies serving niche markets. Total equity investment in any one company is generally limited to \$15 million, and control of the acquired company's board of directors is generally required.

Pentzer's business strategy is to acquire controlling interest in a broad range of middle-market companies, to help these companies grow through internal development and strategic acquisitions, and to sell the portfolio investments either to the public or to strategic buyers when it becomes most advantageous in meeting Pentzer's return on invested capital objectives. Pentzer's goal is to produce financial returns for the Company's shareholders that, over the long-term, should be higher than that of the utility operations. From time to time, a significant portion of Pentzer's earnings contributions may be the result of transactional gains. Transactional gains arise from a one-time event or a specific transaction, such as the sale of an investment or individual company from Pentzer's portfolio of investments. Non-transactional earnings arise out of the ongoing operations of the individual portfolio companies. Accordingly, although the income stream is expected to be positive, it may be uneven from year to year.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations: Non-Energy Operations and Notes 1 and 18 of Notes to Financial Statements for additional information.

INDUSTRY RESTRUCTURING AND LEGISLATIVE ISSUES

FEDERAL LEVEL

Industry restructuring to remove certain barriers to competition in the electric utility industry was initially promoted by federal legislation. The Energy Policy Act of 1992 (Energy Act) confers expanded authority upon the FERC to issue orders requiring electric utilities to transmit power and energy to or for wholesale purchasers and sellers, and to require electric utilities to enlarge or construct additional transmission capacity for the purpose of providing these services.

As previously reported, the FERC issued its final rule in Order No. 888 in April 1996. That order requires public utilities operating under the Federal Power Act to provide access to their transmission systems to third parties pursuant to the terms and conditions of the FERC's pro-forma open access transmission tariff. Utilities were required to file an open access tariff, allowing only limited variations to the pro-forma tariff to reflect regional operating practices. Utilities were also required to take transmission service under this same tariff. The Company filed its open access tariff with the FERC in July 1996 and subsequently began providing transmission service under the tariff. The FERC issued its initial order accepting the non-rate terms and conditions of the Company's tariff in November 1996.

In the FERC's Order No. 889, the companion rule to Order No. 888, the FERC required public utilities to establish a system, OASIS, to provide transmission customers with information about available transmission capacity, prices and other information, by electronic means. This enables customers to obtain transmission service in a non-discriminatory fashion. The final rule required each public utility subject to the rule to functionally separate its transmission and wholesale power merchant functions, and prescribed standards of conduct under which it is assured that a utility's wholesale power merchant function obtains information about its transmission system in the same manner competitors do. The Company filed its "Procedures for Implementing Standards of Conduct under FERC Order No. 889" with the FERC in December 1996 and adopted these Procedures effective January 3, 1997. FERC Orders No. 888 and No. 889 have not had a significant material effect on the operating results of the Company.

In response to FERC Orders No. 888 and 889, the Company and various Northwest utilities began investigating the feasibility of transferring certain operation responsibilities associated with a regional transmission grid to an independent grid operator. In November 1997, the Company withdrew from the effort to establish an independent grid operator in the Northwest because the costs were greater than the perceived benefits. The Company is exploring other regional transmission alternatives intended to help facilitate a competitive electric power market, including the development of an independent grid scheduling entity which might provide quantifiable efficiencies in administering access to the Northwest transmission system in a non-discriminatory fashion.

The North American Electric Reliability Council and the WSCC have undertaken initiatives to establish a series of security coordinators to oversee the reliable operation of the regional transmission system. In connection therewith, the Company, in cooperation with other utilities in the Pacific Northwest, is working to establish the Pacific Northwest Security Coordinator (PNSC) which will oversee daily and short-term operations of the northwest sub-regional transmission grid and have limited authority to direct certain actions of control area operators in the case of a pending transmission system emergency. The PNSC is expected to be operational by June 1998.

STATE LEVEL

Further competition may be introduced by state action. Competition for retail customers is not generally allowed in the Company's service territory. While the Energy Act precludes the FERC from mandating retail wheeling, state regulators and legislators could open service territories to full competition at the retail level. Legislative action at the state level would be required for full retail wheeling to occur in Washington and Idaho. However, the Company believes that competition will ultimately be introduced into the retail electric business.

During 1997, the Idaho Legislature initiated an analysis of impacts on Idaho citizens of restructuring electrical services. The Idaho Legislature enacted legislation requiring the IPUC to compile utilities' costs separately by generation, transmission and distribution. The Company submitted its unbundling cost study on December 18, 1997. The IPUC will audit all investor owned utilities' cost of service studies, including results of operations, methodology and allocations. This process will, most likely, generate hearings and presentation of witnesses.

Bills introduced in the Washington State Legislature to move toward retail competition in the electric business failed during 1997. The proposed legislation would have allowed customer choice beginning July 1, 1999 with unbundling beginning September 1, 1998. Bills introduced in the 1998 Washington Legislative session include proposed legislation to require cost unbundling, development and disclosure of consumer protection policies, and studies of deregulation and system reliability.

The WUTC has initiated a collaborative effort, which includes stakeholders, to examine unbundling and related issues. Unbundling would require utilities to compile costs separately by generation, transmission and distribution. September 1998 is the preliminary date for unbundling cost filings with scope and methodology to be determined in the meantime.

Due to their experiences following telephone deregulation, regulators are sensitive to potential customer service and

reliability issues resulting from electric industry restructuring. The WUTC has launched a staff investigation to examine potential rulemaking in areas of reporting, vegetation management, pole inspection and maintenance, undergrounding and system reliability benchmarks.

The Company has developed a model as an alternative to customer choice for small customers. The Portfolio Access Model (PA Model) was developed as a transition to full direct access. Under the PA Model, large-use customers would receive direct access; small-use customers would be provided a menu of services priced at market rates such as monthly and annual pricing, as well as optional "green rates" for renewable power. The PA Model has served as a regional proposal under discussion by legislative committees and work groups in Washington, Idaho and Oregon. The PA Model will continue to be examined in 1998 with legislation expected to be introduced in 1999. More Options for Power Services II (MOPS II) is the Company's PA Model regulatory pilot. (See Experimental Programs below for additional information.)

Notice of Inquiry (NOI) The WUTC intends to reexamine the eight guiding principles developed in December 1995 as part of its Electric Industry Restructuring Inquiry. The principles state that future WUTC regulatory oversight will balance such issues as reliability, pricing responsive to customers needs and selected public policy concerns.

In August 1995, the WUTC initiated a NOI entitled, "Examining Regulation of Local Distribution Companies in the Face of Change in the Natural Gas Industry." The outcome of the NOI process was a set of conclusions by the WUTC that gas DSM should be evaluated utility by utility, the Gas Integrated Resource Plan process should continue, and the PGA Mechanism and natural gas procurements incentive should be evaluated in a separate NOI entitled "Purchased Gas Adjustment Mechanisms".

EXPERIMENTAL PROGRAMS

To assess impacts of competition and customer choice, the Company implemented the following experimental programs: Direct Access and Delivery Service Tariff (DADS), More Options for Power Services I (MOPS I) tariff and More Options for Power Services II (MOPS II) tariff. The Company has received regulatory approval to defer all costs incurred from implementing the MOPS I and MOPS II pilot programs. In each case, the Company loses some margin (approximately \$0.4 million in total for 1997) which is not material to the Company's consolidated financial condition or results of operations.

Direct Access and Delivery Service Tariff (DADS) To proactively respond to the potential regulatory change of customer choice in the electric business, the Company filed the DADS tariff to better understand how customer choice could affect and benefit its large industrial customers. In May 1996, the Company filed with the WUTC and the IPUC an experimental DADS tariff to allow eligible customers to choose their supplier to serve up to one-third of their electric load. The eligible customers are 30 of the Company's largest customers in Washington and Idaho. This trial tariff is effective through August 31, 1998. As of January 1, 1998, 13 of the eligible customers were taking service under the tariff representing 50% of the eligible load. Five different alternative suppliers are selling energy to those customers mostly with one-year terms at a fixed price for the capacity and energy. The tariff will not affect the rates for other customer classes during or after the experimental period. The Company does not recover any of the lost margin on the commodity which the Company is no longer supplying.

More Options for Power Services I (MOPS I) A MOPS I experimental tariff was filed in February 1997 with the WUTC and IPUC to help the Company assess the potential benefits of direct access for its electric residential and commercial customers and to collect information that will assist in the transition to customer choice for those classes of customers. The pilot allows only the customers in the towns of Odessa and Harrington to participate. This trial tariff is effective through June 30, 1999. Since its implementation date of July 1, 1997, 244 of the 980 eligible customers have elected Grant County PUD as their supplier. This represents a bill savings of approximately 6% - 10% to customers. Originally, six power marketers signed up to participate; all but Grant County PUD withdrew upon California's announcement of full direct access by January 1, 1998. The Company has agreed to absorb 50% of the lost margin on the commodity which the Company is no longer supplying.

More Options for Power Services II (MOPS II) While MOPS I allowed customers to purchase from alternative energy suppliers, MOPS II will provide access to the Company's portfolio of traditional service, monthly market, annual market and renewable resource pricing. (See PA Model above for additional information.) Approximately 7,800 customers in the towns of Deer Park, Washington and Hayden, Idaho would be able to elect alternative energy service from the Company by mid-1998. The Company received approval on this program on December 31, 1997 and January 27, 1998 from the WUTC and IPUC, respectively. This trial tariff is effective through mid-2000. The Company has agreed to absorb 33% of the lost margin on the commodity which the Company is no longer supplying.

ENVIRONMENTAL ISSUES

The Company is subject to environmental regulation by federal, state and local authorities. The generation, transmission, distribution, service and storage facilities in which the Company has an ownership interest have been designed to comply with all environmental laws presently applicable. Furthermore, the Company conducts periodic reviews of all its facilities and operations to anticipate emerging environmental issues. The Company's Board of Directors has an Environmental Committee to deal specifically with these issues.

Air Quality. The Company continues to assess both the potential and actual impact of the 1990 Clean Air Act Amendments (CAAA) on the thermal generating plants in which it maintains an ownership interest. Centralia, which is operated by PacifiCorp, is classified as a "Phase II" coal-fired plant under the CAAA and, as such, will be required to reduce sulfur dioxide (SO₂) emissions. Centralia is also impacted by "visibility impairment" issues related to Mt. Rainier National Park in southwestern Washington, which requires additional reductions in emissions. A RACT (Reasonably Available Control Technology) order was issued by SWAPCA (Southwest Washington Air Pollution Control Agency) which requires a reduction in SO₂ emissions of approximately 90% by the year 2000. The standards in the RACT order were established by a collaborative decision-making group consisting of representatives from federal and state agencies and the plant owners. The Company is currently evaluating its options with regard to Centralia, which include selling the Company's interest in the plant, importing cleaner coal from other sources, employing various scrubbing technologies or closing the plant down. The most likely option is installing additional scrubbers. The Company's estimated share of this option will be incurred over several years and is currently estimated to be \$35 million of capital costs. These estimates of future obligations are included in the projected Company Capital Requirements in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Liquidity. The Company anticipates making a final decision with respect to these options in 1998.

Colstrip, which is also a "Phase II" coal-fired plant and is operated by Montana Power, is not expected to be required to implement any additional SO₂ mitigation in the foreseeable future in order to continue operations. Reduction in nitrogen oxides (NOX) will be required at both Centralia and Colstrip prior to the year 2000. The anticipated share of costs for NOX compliance are not expected to have a major economic impact on the Company.

The Company's other thermal projects also are subject to various CAAA standards. Every five years each project requires an updated operating permit (known as a Title V permit) which addresses, among other things, the compliance of the plant with the CAAA. The permit for the Spokane CTs was received in 1995. The permit for the Company's Kettle Falls plant was issued in 1996. The operating permit application for the Rathdrum CTs in northern Idaho received approval and was issued in 1997.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook and Note 17 to Financial Statements for additional information.

ITEM 2. PROPERTIES

ENERGY DELIVERY

ELECTRIC DISTRIBUTION AND TRANSMISSION PLANT

The Company operates approximately 12,200 miles of primary and secondary distribution lines in its electric system in addition to a transmission system of approximately 550 miles of 230 kV line and 1,550 miles of 115 kV line. The Company also owns a 10% interest in 495 miles of a 500 kV line between Colstrip, Montana and Townsend, Montana, and a 15% interest in three miles of a 500 kV line from Centralia, Washington to the nearest Bonneville Power Administration (Bonneville) interconnection.

The 230 kV lines are used to transmit power from the Company's Noxon Rapids and Cabinet Gorge hydroelectric generating stations to major load centers in the Company's service area as well as to transfer power between points of interconnection with adjoining electric transmission systems. These lines interconnect with Bonneville at five locations and at one location each with PacifiCorp, Montana Power and Idaho Power Company. The Bonneville interconnections serve as points of delivery for power from the Colstrip and Centralia generating stations as well as for the interchange of power with entities outside the Pacific Northwest. The interconnection with PacifiCorp is used to integrate Mid-Columbia hydroelectric generating facilities to the Company's loads as well as for the interchange of power with entities within the Pacific Northwest.

The 115 kV lines provide for transmission of energy as well as providing for the integration of the Spokane River hydroelectric and Kettle Falls wood-waste generating stations with service area load centers. These lines interconnect with Bonneville at nine locations, Grant County Public Utility District (PUD), Seattle City Light and Tacoma City Light at two locations and one interconnection each with Chelan County PUD, PacifiCorp and Montana Power.

Natural Gas Plant

The Company has natural gas distribution mains of approximately 3,650 miles in Washington and Idaho and 1,690 miles in Oregon and California, as of December 31, 1997.

The Company, NWP and Puget Sound Energy each own a one-third undivided interest in the Storage Project, which has a total peak day deliverability of 5.7 million therms, with a total working natural gas inventory of 155.2 million therms.

THE WASHINGTON WATER POWER COMPANY

GENERATION AND RESOURCES

The Company's electric generation properties, located in the States of Washington, Idaho and Montana, include the following:

Generating Plant

	No. of Units	Nameplate Rating (MW)(1)	Present Capability (MW)(2)	Year of FERC License Expiration	
Hydroelectric Generating Stations (River)					
Washington:					
Long Lake (Spokane)	4	70.0	72.8	2007	
Little Falls (Spokane)	4	32.0	36.0	N/A	
Nine Mile (Spokane)	4	26.4	29.0	2007	
Upper Falls (Spokane)	1	10.0	10.2	2007	
Monroe Street (Spokane)	1	14.8	14.8	2007	
Meyers Falls (Colville)	2	1.2	1.3	2023	
Idaho:					
Cabinet Gorge (Clark Fork)	4	221.9	236.0	2001	(3)
Post Falls (Spokane)	6	14.8	18.0	2007	
Montana:					
Noxon Rapids (Clark Fork)	5	466.7	554.0	2001	(3)
		-----	-----		
Total Hydroelectric		857.8	972.1		
Thermal Generating Stations					
Washington:					
Centralia (4)	2	199.5	201.0		
Kettle Falls	1	50.7	48.0		
Northeast (Spokane) CT (5)	2	61.2	69.0		
Idaho:					
Rathdrum CT (5)	2	166.5	176.0		
Montana:					
Colstrip (Units 3 and 4) (4)	2	233.4	222.0		
		-----	-----		
Total Thermal		711.3	716.0		
Total Generation Properties		1,569.1	1,688.1		
		=====	=====		

N/A Not applicable.

- (1) Nameplate Rating, also referred to as "installed capacity", is the manufacturer's assigned power rating under specified conditions.
- (2) Capability is the maximum generation of the plant without exceeding approved limits of temperature, stress and environmental conditions.
- (3) The formal relicensing process began in September 1995 for Cabinet Gorge and Noxon Rapids. (See Generation and Resources - Hydroelectric Relicensing for additional information.)
- (4) Jointly owned; data above refers to Company's respective 15% interests.
- (5) Used primarily for peaking needs.

ITEM 3. LEGAL PROCEEDINGS

In December 1996, the Company filed a Complaint for declaratory relief and money damages against Underwriters at Lloyds of London (Lloyds) 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 another underwriter, Aegis. The Company's Complaint seeks money damages in excess of \$16 million. Refer to Note 17 of Notes to Financial Statements for additional information.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Outstanding shares of Common Stock are listed on the New York and Pacific Stock Exchanges. As of February 28, 1998, there were approximately 29,360 registered shareholders of the Company's no par value Common Stock.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional information about common stock dividends.

Refer to Notes 1 and 16 of Notes to Financial Statements for additional information. For high and low stock price information, refer to Note 20 of Notes to Financial Statements.

THE WASHINGTON WATER POWER COMPANY

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended December 31,				
	1997	1996	1995	1994	1993
	(Thousands of Dollars except Per Share Data and Ratios)				
Operating Revenues:					
Energy Delivery and Generation and Resources *	\$ 890,516	\$ 798,994	\$ 661,216	\$ 608,067	\$ 601,722
National Energy Trading and Marketing	247,646	116	-	-	-
Non-energy	164,010	145,847	93,793	62,698	38,877
Total	1,302,172	944,957	755,009	670,765	640,599
Operating Income/(Loss):					
Energy Delivery and Generation and Resources *	178,289	173,658	176,344	149,051	153,108
National Energy Trading and Marketing	2,191	(1,801)	-	-	-
Non-energy	8,984	15,064	13,496	6,407	7,742
Total	189,464	186,921	189,840	155,458	160,850
Net Income/(Loss):					
Energy Delivery and Generation and Resources *	100,777(1)	62,404	72,310	63,567	69,510
National Energy Trading and Marketing	2,488	(1,161)	-	-	-
Non-energy	11,532	22,210	14,811	13,630	13,266
Total	114,797	83,453	87,121	77,197	82,776
Preferred Stock Dividend Requirements	5,392	7,978	9,123	8,656	8,335
Income Available for Common Stock	109,405(1)	75,475	77,998	68,541	74,441
Outstanding Common Stock (000s):					
Weighted Average	55,960	55,960	55,173	53,538	51,616
Year-End	55,960	55,960	55,948	54,421	52,758
Book Value per Share	\$ 13.36	\$ 12.70	\$ 12.82	\$ 12.45	\$ 12.02
Earnings per Share:					
Energy Delivery and Generation and Resources	1.71(1)	0.97	1.14	1.03	1.19
National Energy Trading and Marketing	0.04	(0.02)	-	-	-
Non-energy	0.21	0.40	0.27	0.25	0.25
Total, Basic and Diluted	1.96(1)	1.35	1.41	1.28	1.44
Dividends Paid per Common Share	1.24	1.24	1.24	1.24	1.24
Total Assets at Year-End:					
Energy Delivery and Generation and Resources	1,926,739	1,921,429	1,869,180	1,817,815	1,701,652
National Energy Trading and Marketing	214,630	899	-	-	-
Non-energy	270,416	254,970	229,722	176,438	136,186
Total	2,411,785	2,177,298	2,098,902	1,994,253	1,837,838
Long-term Debt at Year-End	762,185	764,526	738,287	721,146	647,229
Preferred Stock Subject to Mandatory Redemption at Year-End	45,000	65,000	85,000	85,000	85,000
Company-Obligated Mandatorily Redeemable Preferred Trust Securities	110,000	-	-	-	-
Ratio of Earnings to Fixed Charges	3.49	2.97	3.22	3.24	3.45
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements	3.12	2.50	2.61	2.59	2.77

* Energy Delivery and Generation and Resources figures contain some minor consolidating intersegment eliminations.

(1) Includes the \$41.4 million after-tax effect of the income tax recovery (see Note 9 of Notes to Financial Statements for additional information).

ITEM 7. 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. 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 this line of business without the commodity prices having a material income effect. Usage by retail customers varies from year to year primarily as a result of weather conditions, customer growth and the economy in the Company's service area. Other factors which may influence long-term energy usage include conservation efforts, appliance efficiency and other technology.

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 (WSCC). Energy trading includes short-term sales and purchases, such as next hour, next day and monthly blocks of energy. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Generation and Resources manages the Company's electric energy resource portfolio, which is used to serve Energy Delivery's retail electric customers and Generation and Resources' wholesale electric customers. In managing the electric energy resource portfolio, Generation and Resources seeks to optimize the availability and operations of generation resources. Revenues and the cost of electric power purchases vary from year to year depending on the electric wholesale power market, which is affected by several factors, including the availability of water for hydroelectric generation, the availability of base load plants in the region, marginal fuel prices and the demand for power in other areas of the country. Other factors affecting the wholesale power market include an increasing number of power brokers and marketers, lower unit margins on new sales contracts than were realized in the past, fewer long-term power contracts being entered into, resulting in a heavier reliance on short-term power contracts, typically with lower margins, deregulation of the electric utility industry and competition from low cost generation being developed by independent power producers.

Avista Corp. owns the Company's National Energy Trading and Marketing and Non-energy businesses. As a result of reorganizing the Company to proactively respond to deregulation, the Company added a new line of business - National Energy Trading and Marketing. 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, which includes conducting business within the WSCC. Avista Energy's business is affected by several factors, including the demand for and availability of power throughout the United States, an increasing number of power brokers and marketers, lower unit margins on new sales contracts, fewer long-term power contracts being entered into, resulting in a heavier reliance on short-term power contracts with lower margins, marginal fuel prices and deregulation of the electric utility industry. Avista Advantage provides a variety of energy-related products and services to commercial and industrial customers on a national basis. Its primary product lines include consolidated billing and resource accounting.

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. Pentzer's business strategy is such that its earnings result from both transactional and non-transactional earnings. Transactional gains arise from a one-time event or a specific transaction, such as the sale of an investment or individual company from Pentzer's portfolio of investments. Non-transactional earnings arise out of the ongoing operations of the individual portfolio companies.

RESULTS OF OPERATIONS

OVERALL OPERATIONS

Overall earnings per share for 1997 were \$1.96, compared to \$1.35 in 1996 and \$1.41 in 1995. The 1997 results include the receipt of \$41.4 million, after-tax, in an income tax recovery from the Internal Revenue Service, which was partially offset by environmental reserves and non-recurring adjustments (see below and Note 9 of Notes to Financial Statements for additional information about the income tax recovery). The 1996 results reflect \$11.1 million in after-tax operating expenses related to storm damage on the electric distribution system and the expensing of \$10.3 million in after-tax non-operating costs related to the terminated proposed merger between the Company and Sierra Pacific Resources (see Note 19 of Notes to Financial Statements for additional information about the merger termination). The 1996 results also reflect improved utility

earnings, primarily from Generation and Resources' wholesale electric activities, and transactional gains totaling \$15.1 million recorded by Pentzer primarily as a result of the sale of property by one of its subsidiary companies and the sale of stock in Itron, Inc. (Itron). The 1995

results include improved earnings from Generation and Resources' wholesale electric operations and \$6.1 million in transactional gains from Pentzer, primarily due to the sale of Itron stock.

Net income available for common stock increased \$33.9 million, or 45%, in 1997 after decreasing \$2.5 million in 1996. Utility (Energy Delivery and Generation and Resources) income available for common stock increased \$41.0 million, or 75%, in 1997 after decreasing \$8.8 million, or 14%, in 1996. Utility income contributed \$1.71 to earnings per share in 1997, compared to \$0.97 in 1996 and \$1.14 in 1995. The income tax recovery resulted in an increase of \$0.74 in earnings per share for 1997, which was offset by \$0.25 per share in environmental reserves and other miscellaneous non-recurring adjustments. The ice storm (see below) and merger-related expenses resulted in decreases of \$0.20 and \$0.18, respectively, in earnings per share for 1996. National Energy Trading and Marketing income available for common stock increased \$3.6 million in 1997 and realized a loss of \$1.2 million in 1996, contributing \$0.04 to earnings per share in 1997 compared to a loss of \$0.02 in 1996. These companies did not exist in 1995. Non-energy operating income available for common stock decreased \$10.7 million, or 48%, in 1997 and increased \$7.4 million, or 50%, in 1996 and contributed \$0.21 to earnings per share in 1997, compared to \$0.40 in 1996 and \$0.27 in 1995. The 1996 non-energy results reflect \$0.27 per share from transactional gains.

Income from Energy Delivery operations increased \$24.3 million, or 27%, in 1997 over 1996 and decreased \$18.8 million, or 17%, in 1996 from 1995, with both changes primarily due to the \$17.1 million in pre-tax expenses in 1996 associated with storm damage on the electric distribution system. Income from Generation and Resources operations decreased \$19.6 million, or 23%, in 1997 from 1996 and increased \$16.1 million, or 24%, in 1996 over 1995. The decrease in 1997 was primarily the result of expiration of older sales contracts with higher margins, lower unit margins on new sales contracts, lower hydroelectric generation and higher transmission expenses. The increase in 1996 was primarily due to increased wholesale electric revenues, resulting from both new power contracts and improved streamflow conditions.

On November 19, 1996, the eastern Washington and northern Idaho region experienced an ice storm that resulted in damage to the Company's electric transmission and distribution system. The Company's service area was affected by continuing snow and rain, which hampered the Company's efforts to restore electric service to some customers until December 1, 1996. Initially, over one-third, or 100,000, of the Company's retail electric customers were without electric service. Repairing the damage to the Company's system cost approximately \$21.8 million, of which \$17.1 million (pre-tax) was attributable to operations and maintenance expenses, including labor and materials, for the repair of damaged lines, transformers and other equipment. The remainder of the cost represents capital expenditures to replace poles and other equipment damaged beyond repair.

Interest expense increased \$3.0 million in 1997, as compared to 1996, and \$4.2 million in 1996, as compared to 1995, with both increases primarily due to higher levels of outstanding debt during the year. In 1997 and 1996, \$70 million and \$20 million, respectively, in preferred stock was redeemed, which increased short-term borrowings. In addition, a total of \$110 million in Preferred Trust Securities were issued in January and June 1997, distributions on which are included in interest expense. (See Note 15 of Notes to Financial Statements and Liquidity and Capital Resources for additional information.) During 1997, 1996 and 1995, \$51.5 million, \$38.0 million and \$45.0 million, respectively, of long-term debt matured or was redeemed, while \$20.0 million and \$78.0 million in long-term debt was issued in 1997 and 1995, respectively. At December 31, 1997, long-term debt outstanding was \$2.3 million lower than at December 31, 1996. Long-term debt outstanding at December 31, 1996 was \$26.2 million higher than at the end of 1995 due to increased borrowings from banks.

In June 1997, the Company received \$81 million from the Internal Revenue Service (IRS) to settle an income tax claim relating to its investment in the terminated nuclear project 3 of the Washington Public Power Supply System (WNP3). The \$81 million recovery included \$34 million in income taxes the Company overpaid in prior years plus \$47 million in accrued interest, which in total contributed \$41.4 million, or \$0.74 per share, to net income. (See Note 9 of Notes to Financial Statements for additional information about the income tax recovery.)

Income taxes increased \$11.6 million, or 23%, in 1997 over 1996 primarily due to the taxes on the interest income received as a part of the income tax recovery, partially offset by an \$11.4 million income tax benefit associated with the income tax recovery and adjustments related to revised estimates on certain tax issues. Income taxes decreased \$2.9 million in 1996 from 1995 primarily due to the effects of the expenses associated with the storm damage on the Company's electric distribution system and the merger-related expenses written off during the year, partially offset by increased income from operations.

Preferred stock dividend requirements decreased \$2.6 million in 1997 over 1996 due to the redemption of \$20 million in Preferred Stock, Series I in June 1997 and the redemption of the entire \$50 million Flexible Auction Preferred Stock, Series J in August 1997. These securities were redeemed with a portion of the proceeds of the Preferred Trust Securities which were issued in January and June 1997. However, as described above, distributions on the Preferred Trust Securities are accounted for in interest expense, not preferred dividends. Preferred stock dividend requirements decreased \$1.1 million, or 13%, in 1996 from 1995 due to the redemption of \$20 million of Preferred Stock, Series I in June 1996.

THE WASHINGTON WATER POWER COMPANY

ENERGY DELIVERY

1997 COMPARED TO 1996

Energy Delivery's income from operations increased \$24.3 million, or 27%, in 1997 over 1996 primarily due to \$17.1 million in pre-tax expenses associated with the storm damage on the Company's electric distribution system in 1996. Energy Delivery's operating revenues increased \$0.1 million, while expenses decreased \$24.2 million during 1997 as compared to 1996.

Total electric retail revenues increased \$5.6 million in 1997 as compared to 1996, primarily as a result of increased transmission revenues, partially offset by decreased revenues from retail electric customers. Transmission revenues increased \$7.6 million in 1997 over 1996 due to increased wholesale electric sales. Electric retail revenues decreased \$3.4 million, primarily due to decreased industrial sales as a result of the DADS tariff and other adjustments, partially offset by a 1.6% growth in retail customers during 1997. Total natural gas revenues decreased \$5.5 million in 1997 from 1996, primarily due to decreased therm sales as a result of weather 5% warmer than normal in 1997 as compared to 9% colder than normal in 1996, and decreased natural gas prices, partially offset by an increase in non-retail sales and 5.7% customer growth.

Operating and maintenance expenses decreased \$21.4 million in 1997 from 1996 primarily due to the \$17.1 million in expenses recorded in 1996 related to the storm damage on the Company's electric distribution system. Natural gas purchased expense decreased \$2.7 million in 1997 from 1996 primarily due to lower therm sales as a result of warmer weather.

1996 COMPARED TO 1995

Energy Delivery's income from operations decreased \$18.8 million, or 17%, in 1996 from 1995. The decrease was due to increased operating costs associated with the storm damage on the Company's distribution system, partially offset by increased revenues due to colder weather than in 1995. Energy Delivery's operating revenues and expenses increased \$5.8 million and \$24.6 million, respectively, during 1996 as compared to 1995.

Electric revenues increased \$8.7 million in 1996 as compared to 1995. Electric residential and commercial revenues increased by a combined \$8.1 million, primarily as a result of weather 9% colder than normal in 1996, as compared to 7% warmer than normal in 1995, and a 2.4% growth in these two classes of customers during 1996. Transmission revenues increased \$3.6 million in 1996 over 1995 due to increased wholesale electric sales. Total natural gas revenues decreased \$2.9 million in 1996 from 1995. Natural gas therm sales to residential and commercial customers increased 13% during 1996, primarily as a result of 6% customer growth in those sectors, due in large part to population growth and new construction, and as a result of colder than normal weather. However, in spite of the increased sales volumes, residential and commercial revenues decreased slightly due to decreases in natural gas prices. Purchased gas cost adjustments effective in Washington, Idaho and Oregon during December 1995 decreased the rates paid by customers in 1996 by 13.58%, 16.68% and 5.82%, respectively.

Operating and maintenance expenses increased \$12.6 million in 1996 over 1995 primarily due to the \$17.1 million in expenses related to the storm damage on the Company's electric distribution system, partially offset by a \$5.8 million decrease in the cost of natural gas purchased.

Administrative and general expenses increased by \$8.4 million in 1996, compared to 1995, primarily due to accruals related to postretirement and pension benefits, a write-off of regulatory deferrals of pension expenses, development of a financial information system, and increases in labor and benefits costs.

GENERATION AND RESOURCES

1997 COMPARED TO 1996

Generation and Resources' income from operations decreased \$19.6 million, or 23%, in 1997 from 1996. The decrease was due to an \$11.8 million decrease from the expiration of older sales contracts with higher margins, lower unit margins on new sales contracts and higher transmission expenses due to increased sales. Generation and Resources' operating revenues and expenses increased \$92.6 million and \$112.2 million, respectively, during 1997 as compared to 1996. Results from this business segment include activities for the first seven months of 1997 that as of August 1997 are being conducted by Avista Energy.

Generation and Resources' revenues increased 22% in 1997 over 1996, primarily due to increased short-term sales. During 1997 there was a significant shift in product mix between short- and long-term sales. Revenues from short-term sales, typically with smaller margins, increased \$99.8 million, while long-term revenues, typically with higher margins, decreased \$0.4 million in 1997 as compared to 1996. Total sales volumes during 1997 increased 47% over 1996. Short-term sales volumes in 1997 increased 5.4 million mwths, or 82%, while long-term sales decreased 0.2 million mwths.

THE WASHINGTON WATER POWER COMPANY

Increased short-term sales resulted in a \$119.4 million, or 63%, increase in electric purchased power expense in 1997 over 1996, which accounts for the majority of the increase in Generation and Resources' operating expenses. Fuel costs decreased \$6.1 million in 1997 compared to 1996 as a result of economic dispatch of the thermal generating plants.

1996 COMPARED TO 1995

Generation and Resources' income from operations increased \$16.1 million, or 24%, in 1996 over 1995. The increase was primarily the result of increased wholesale sales. Generation and Resources' operating revenues and expenses increased \$132.0 million and \$115.9 million, respectively, during 1996 as compared to 1995.

Generation and Resources' revenues increased 46% in 1996 over 1995, primarily due to new power contracts for firm wholesale electric service and increased spot market sales as a result of improved streamflow conditions which led to increased availability of hydroelectric generation in the region. Long-term revenues increased \$54.9 million in 1996 over 1995, while revenues from short-term sales increased \$66.4 million during the same period. Streamflows were 145% of normal for 1996. Wholesale kWh sales were nearly three times greater in 1996 than 1995, which offset a 26% decline in average prices.

Commitments under new firm wholesale contracts and increased spot market sales resulted in a \$92.4 million, or 95%, increase in electric purchased power expense in 1996 over 1995, which accounts for the majority of the increase in Generation and Resources' operating expenses. Fuel costs increased \$8.3 million in 1996 compared to 1995 as a result of higher generation at thermal plants during the year due to increased wholesale sales during 1996.

Other operating and maintenance expenses increased \$11.2 million in 1996 over 1995 primarily due to increased transmission expenses associated with increased wholesale sales, increased Idaho Power Cost Adjustment (PCA) expenses, resulting from improved streamflow conditions, the costs of excess fuel purchased for thermal generation, which was subsequently sold so there is a revenue offset, and higher labor costs associated with increased wholesale sales.

Administrative and general expenses increased by \$3.1 million in 1996, compared to 1995, primarily due to accruals related to postretirement and pension benefits, a write-off of regulatory deferrals of pension expenses, development of a financial information system, increased FERC fees due to higher levels of generation and increases in labor and benefits costs.

NATIONAL ENERGY TRADING AND MARKETING

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 and began trading operations in August 1997. Avista Energy maintains a trading portfolio so it marks its portfolio to fair market value on a daily basis (mark-to-market accounting), which may cause earnings variability in the future.

1997 COMPARED TO 1996

National Energy Trading and Marketing's income from operations increased \$4.0 million in 1997 over 1996. This increase was primarily due to Avista Energy becoming operational, partially offset by continued start-up costs at both companies and, for the energy services business, expected customers and revenue streams that did not materialize and a longer than anticipated sales cycle. National Energy Trading and Marketing's operating revenues and expenses increased \$247.5 million and \$243.5 million, respectively, during 1997 as compared to 1996.

In 1997, the revenues and income from operations were derived primarily from Avista Energy's trading operations, rather than marketing operations, in part due to the absence of a fully deregulated marketplace. As Avista Energy's marketing operations develop, and more opportunities are presented by an increasing number of states permitting customer choice, the company expects that a greater percentage of Avista Energy's revenues and income will be derived from marketing operations.

1996 COMPARED TO 1995

National Energy Trading and Marketing's income from operations was a loss of \$1.8 million in 1996. Its operating revenues and expenses were \$0.1 million and \$1.9 million, respectively, during 1996. Expenses incurred during 1996 were primarily start-up costs. The companies did not exist in 1995.

NON-ENERGY

1997 COMPARED TO 1996

Non-energy operating revenues and expenses increased \$18.2 million and \$24.2 million, respectively, in 1997 as compared to 1996 primarily as a result of acquisitions. Operating income decreased \$6.1 million in 1997 from 1996 primarily as a result of lower earnings contributions from Pentzer portfolio companies. Non-energy net income for 1997 was \$11.5 million, which represents a \$10.7 million, or 48%, decrease from 1996. The decrease in 1997 earnings primarily resulted from transactional gains recorded by Pentzer in 1997 totaling \$7.3 million, primarily from the sale of Itron stock and the sale of a portfolio company, compared to transactional gains during 1996 totaling \$15.1 million, net of taxes and other adjustments, as a result of the sale of property by one of its subsidiary companies and the sale of stock in Itron.

1996 COMPARED TO 1995

Non-energy operating revenues and expenses increased \$52.1 million and \$50.5 million, respectively, in 1996 as compared to 1995 primarily as a result of acquisitions. Operating income increased \$1.6 million primarily due to increased earnings contributions from Pentzer portfolio companies. Non-energy net income for 1996 was \$22.2 million, which represents a \$7.4 million, or 50%, increase over 1995 earnings. The increase in 1996 earnings primarily resulted from transactional gains totaling \$10.8 million, net of taxes and other adjustments, recorded by Pentzer as a result of the sale of property by one of its subsidiary companies. Transactional gains in 1996 also included \$4.7 million from the sale of stock in Itron, a decrease of \$1.3 million from the amount recorded in 1995 from the sale of Itron stock.

LIQUIDITY AND CAPITAL RESOURCES

OVERALL OPERATIONS

Operating Activities Cash from operating activities less cash dividends paid provided 100% of energy operations capital expenditures in 1997 and 1996 as compared to 83% in 1995. Net cash provided by operating activities in 1997 increased over 1996 due in large part to the \$31.3 million increase in net income primarily from the income tax recovery. Cash from the income tax recovery was used to fund new business investment, including growth opportunities in national energy markets, and reduced the need for issuance of long-term debt during 1997. In addition, changes in various working capital components caused cashflows to increase by \$6.0 million over 1996. When the effects of non-cash items, such as the increased provision for deferred income taxes from the income tax recovery and adjustments for depreciation and the FAS 109 regulatory asset are removed from net income, there is an additional increase in cash provided by operating activities. Power and natural gas cost deferrals had a negative effect on cashflows for 1997 as a result of PCA rebates in effect in 1997 as compared to surcharges in effect during 1996, increased natural gas prices during the first part of 1997 and reduced prices paid by natural gas customers during 1997. Deferred revenues and other-net 1997 cashflows decreased due to a contract buyout by Generation and Resources and price risk management activities at Avista Energy.

Investing Activities Net cash used in investing activities increased in 1997 over 1996 primarily due to the Company's investment in subsidiaries, and Pentzer's and Avista Energy's subsequent investments in, and acquisitions of, other companies. Utility operations capital expenditures, excluding Allowance for Funds Used During Construction (AFUDC) and Allowance for Funds Used to Conserve Energy (AFUCE, a carrying charge similar to AFUDC for conservation-related capital expenditures), were \$256 million for the 1995-1997 period.

Financing Activities Net cash used in financing activities totaled \$66.2 million in 1997 compared to \$71.2 million in 1996. Bank borrowings increased \$23.5 million and long-term debt increased \$20.0 million during 1997. In January and June 1997, \$110 million of preferred trust securities were issued. (See Note 15 of Notes to Financial Statements for additional information.) Proceeds of the issuances were used for the maturity and redemption of \$70.0 million of preferred stock and \$51.5 million of long-term debt and to fund a portion of the Company's capital expenditures. During the 1995-1997 period, \$224.5 million of long-term debt and preferred stock matured, was mandatorily redeemed or was optionally redeemed and refinanced at a lower cost.

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.

Capital expenditures are financed on an interim basis with notes payable (due within one year). The Company has \$120 million in committed lines of credit. In addition, the Company may currently borrow up to \$60 million through other borrowing arrangements with banks. As of December 31, 1997, \$48.5 million was outstanding under the committed lines of credit and \$60.0 million was outstanding under other short-term borrowing arrangements.

From time to time the Company enters into sale/leaseback arrangements for various long-term assets which provide additional sources of funds. See Note 13 to Financial Statements for additional information.

The Company is restricted under various agreements as to the additional securities it can issue. Under the most restrictive test of the Company's Mortgage, an additional \$584 million of First Mortgage Bonds could be issued as of December 31, 1997. As of December 31, 1997, under its Restated Articles of Incorporation, approximately \$1.0 billion of additional preferred stock could be issued at an assumed dividend rate of 7.14%.

During the 1998-2000 period, utility capital expenditures are expected to be \$276 million, and \$135 million will be required for long-term debt maturities and preferred stock sinking fund requirements. During this three-year period, the Company estimates that internally-generated funds will provide approximately 80% of the funds needed for its capital expenditure program. External financing will be required to fund a portion of capital expenditures, maturing long-term debt and preferred stock sinking fund requirements. These estimates of capital expenditures are subject to continuing review and adjustment. Actual capital expenditures may vary from these estimates due to factors such as changes in business conditions, construction schedules and environmental requirements.

See Notes 2, 11, 12, 13, 14, 15 and 16 of Notes to Financial Statements for additional details related to financing activities.

THE WASHINGTON WATER POWER COMPANY

NATIONAL ENERGY TRADING AND MARKETING OPERATIONS

During 1997, the Company invested \$50 million in the common equity of Avista Corp. Avista Corp. utilized the majority of the proceeds from this investment to increase its total investment in the common equity of Avista Energy to \$50 million. Avista Energy funds its ongoing operations with a combination of internally-generated cash and external financing. The Company expects continued significant growth in Avista Energy's national energy trading and marketing business activities. This rapid growth will require increased capital investment, as well as an increased need for credit and financial support.

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, entered into a one-year credit agreement effective December 30, 1997, with a commercial bank. The facility expires November 30, 1998 and is guaranteed by Avista Corp. The agreement is uncommitted with a demand feature exercisable by the bank at the bank's sole discretion. At year-end there were no cash advances (demand notes payable) and letters of credit outstanding under the facility totaled \$2.75 million. See Note 12 of Notes to Financial Statements for additional information.

At December 31, 1997, the National Energy Trading and Marketing operations had \$11.4 million in cash and cash equivalents and \$2.0 million in long-term debt outstanding.

The 1998-2000 National Energy Trading and Marketing capital expenditures are expected to be \$2.4 million.

NON-ENERGY OPERATIONS

Capital expenditures for the non-energy operations were \$12.8 million for the 1995-1997 period. During this period, \$31.7 million of debt was repaid and capital expenditures were partially financed by the \$36.6 million in proceeds from new long-term debt.

The non-energy operations have \$80 million in short-term borrowing arrangements (\$18.6 million outstanding as of December 31, 1997) to fund corporate requirements on an interim basis. At December 31, 1997, the non-energy operations had \$39.9 million in cash and marketable securities with \$45.9 million in long-term debt outstanding.

The 1998-2000 non-energy capital expenditures are expected to be \$8.8 million, and \$34.0 million in debt maturities will also occur. During the next three years, internally-generated cash and other debt obligations are expected to provide the majority of the funds for the non-energy capital expenditure requirements.

TOTAL COMPANY CASH REQUIREMENTS
(Millions of Dollars)

	Actual			Projected		
	1995	1996	1997	1998	1999	2000
Utility operations:						
Energy Delivery capital expenditures (1)	\$ 61	\$ 80	\$ 75	\$ 67	\$ 67	\$ 65
Generation and Resources capital expenditures (1)	19	9	12	23	26	28
Debt and preferred stock maturities (2)	37	63	121	20	48	55
Total Utility	117	152	208	110	141	148
Avista Corp. operations:						
Capital expenditures	5	2	12	4	3	4
Investments	-	4	59	16	25	25
Debt maturities	8	10	12	12	11	10
Total Avista Corp.	13	16	83	32	39	39
Total Company	\$130	\$168	\$291	\$142	\$180	\$187

(1) Capital expenditures exclude AFUDC and AFUCE.

(2) Excludes notes payable (due within one year).

The Company's total common equity increased \$38.1 million to \$748.8 million at the end of 1997. The 1997 increase was primarily due to the \$41.4 million after-tax effect of the income tax recovery (see Note 9 of Notes to Financial Statements for additional information). The Company's consolidated capital structure at December 31, 1997, was 46% debt, 9% preferred securities (including the Preferred Trust Securities) and 45% common equity as compared to 48% debt, 7% preferred securities and 45% common equity at year-end 1996.

FUTURE OUTLOOK

Competition and Business Risk

The electric and natural gas businesses continue to undergo transformation and have become increasingly competitive as a result of economic, regulatory and technological changes. The Company believes that it is well positioned to meet future challenges due to its low production costs, close proximity to major transmission lines and natural gas pipelines, active participation in the wholesale electric market and its commitment to customer satisfaction, customer choice, cost reduction and continuous improvement of work processes. In addition, the Company evaluates business opportunities that will allow it to expand its economies of scale and diversify its risk posed by weather and economic conditions.

The Company continues to compete for new retail electric customers with various rural electric cooperatives and public utility districts in and adjacent to its service territories. Challenges facing the retail electric business include evolving technologies which provide alternate energy supplies, the cost of the energy supplied, the potential for retail wheeling, self-generation and fuel switching by commercial and industrial customers, increasingly stringent environmental laws and the potential for stranded or nonrecoverable utility assets. When electric utility companies are required to provide retail wheeling service, which is the transmission of electric power from another supplier to a customer located within such utility's service area, the Company believes it will be in a position to benefit since it is committed to remaining one of the country's lowest-cost providers of electric energy. Consequently, the Company believes it faces minimal risk for stranded generation, transmission or distribution assets due to its low cost structure.

Natural gas remains priced competitively compared to other alternative fuel sources for residential, commercial and industrial customers and is projected to remain so into the future due to abundant supplies and competition. Challenges facing the Company's retail natural gas business include the potential for customers to by-pass the Company's natural gas system. To reduce the potential for such by-pass, the Company prices its natural gas services, including transportation contracts, competitively and has varying degrees of flexibility to price its transportation and delivery rates by means of special contracts. The Company has also signed long-term transportation contracts with two of its largest industrial customers which reduces the risks of these customers by-passing the Company's system in the foreseeable future.

In 1996, the FERC issued Order No. 888 which requires public utilities operating under the Federal Power Act to provide access to their transmission systems to third parties. The Company filed its Open Access tariff with the FERC in July 1996, and subsequently began providing transmission service under the tariff. In the FERC's Order No. 889, the companion rule to Order No. 888, the FERC requires public utilities to establish an Open Access Same-time Information System (OASIS) to provide transmission customers with information about transmission capacity, prices and other information, by electronic means. These FERC orders have not had a material effect on the Company's operating results and are not expected to in the future.

Generation and Resources and Avista Energy continue to compete in the wholesale electric market with other utilities, federal marketing agencies and power marketers. It is expected that competition to sell capacity will remain vigorous, and that prices will remain depressed for at least the next several years, due to increased competition and surplus capacity in the western United States. Competition related to the sale of capacity and energy is influenced by many factors, including the availability of capacity in the western United States, the availability and prices of natural gas and oil, spot energy prices and transmission access. Business challenges affecting the Generation and Resources and National Energy Trading and Marketing lines of business include an increasing number of power brokers and marketers, competition from low-cost generation being developed by independent power producers and declining margins due to a greater reliance on short-term sales, typically with lower margins than long-term sales. Other challenges facing these line of business include evolving technologies which provide alternate energy supplies and deregulation of electric and natural gas markets.

Resource planning for both the electric and natural gas businesses has been integrated so that the Company's customers are provided the most efficient and cost-effective products possible for all their energy requirements. The Company's need for new future electric resources to serve retail loads is expected to remain very minimal. The switching of electric heating customers to natural gas requires increased efforts on the Company's part in negotiating and securing competitively priced natural gas supplies for the future.

The Company's energy-related businesses are exposed to risks relating to changes in certain commodity prices and counterparty performance. In order to manage the various risks relating to these exposures, the Company utilizes electric, natural gas and related commodity derivatives, and has established risk management oversight for these risks for each area of the Company's energy-related business. The Company has implemented or is in the process of implementing procedures to manage such risk and has established a comprehensive risk management committee, separate from the units that create such risk exposure and overseen by the Audit Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures.

Economic and Load Growth

The Company expects economic growth to continue in its eastern Washington and northern Idaho service area. The Company, along with others in the service area, is continuing its efforts to facilitate expansion of existing businesses and attract new businesses to the Inland Northwest. Agriculture, mining and lumber were the primary industries for many years, but health care, education, electronic and other manufacturing, tourism and the service sectors have become increasingly important industries that operate in the Company's service area. The Company also anticipates strong economic growth to continue in its Oregon service area.

The Company anticipates residential and commercial electric load growth to average approximately 2.1% annually for the next five years primarily due to increases in both population and the number of businesses in its service territory. The number of electric customers is expected to increase and the average annual usage by residential customers is expected to remain steady on a weather-adjusted basis. A Public Utility Regulatory Policies Act of 1978 (PURPA) contract with the Company's largest customer expires in 2002. The customer is expected to self-generate at that time, which will reduce the load to this customer by the amount the Company has been purchasing and then reselling to them. Although it will have no material impact on loads, it will reduce the Company's costs since the PURPA contract is at above-market prices. The resulting impact on the Company's total load for retail customers is zero load growth because the loss of this customer is expected to approximately equal the load growth from all other retail customers. Overall, the load growth, adjusted for this situation, remains at 2.0% annually.

The Company anticipates natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 2.9% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 2.1% growth annually during that same period.

The forward-looking projections set forth above regarding retail sales growth are based, in part, upon publicly available population and demographic studies conducted independently. The Company's expectations regarding retail sales growth are also based upon various assumptions including, without limitation, assumptions relating to weather and economic and competitive conditions and an assumption that the Company will incur no material loss of retail customers due to self-generation or retail wheeling. Changes in the underlying assumptions can cause actual experience to vary significantly from forward-looking projections.

Environmental Issues

Since December 1991, a number of species of fish in the Northwest, including the Snake River sockeye salmon and chinook salmon, the Kootenai River white sturgeon and the bull trout have either been added to the endangered species list under the Federal Endangered Species Act (ESA), listed as "threatened" under the ESA or been petitioned for listing under the ESA. Thus far, measures which have been adopted and implemented to save both the Snake River sockeye salmon and chinook salmon have not directly impacted generation levels at any of the Company's hydroelectric dams. The Company does, however, purchase power from four projects on the Columbia River that are being directly impacted by these ongoing mitigation measures. The reduction in generation at these projects is relatively minor, resulting in minimal economic impact on the Company at this time. Future actions to save these, and other as yet unidentified fish or wildlife species, could further impact the Company's operations or the operations of some of its major customers or suppliers. It is currently not possible to predict the likely economic costs to the Company resulting from these actions.

The Company is currently in the process of relicensing the Cabinet Gorge and Noxon Rapids hydroelectric projects on the Clark Fork River in northern Idaho and western Montana. The restoration of native salmonic fish, in particular bull trout, is a principal focus for the members of the collaborative hydroelectric relicensing project. Bull trout are native to this area and a "threatened" listing for bull trout may occur in 1998 under the ESA. The Company is working closely with the U.S. Fish and Wildlife Service, Native American tribes and the states of Idaho and Montana to institute coordinated recovery measures on the lower Clark Fork River. It is currently not possible to predict the likely economic costs to the Company resulting from bull trout recovery.

Relicensing studies in 1997 indicated very high levels of atmospheric gas supersaturation below Cabinet Gorge Dam during periods of heavy spill. Future studies are expected to identify what, if any, effects there are to aqueous resources and whether abatement measures will be required at Cabinet Gorge.

See Note 17 of Notes to Financial Statements for additional information.

Year 2000

The Company has and will continue to review, test and make modifications to its computer systems and applications to ensure that its generation, transmission and distribution facilities, as well as its corporate functions, will provide uninterrupted service and that year 2000 transactions can be processed. This review process includes its information systems, the control and embedded systems of the Company's utility plant, as well as the status of major vendors. The Company will review and, if necessary, test the compliance plans of the operators of utility plants in which the Company has an ownership interest but does not have operating control. The Company has identified the major

vendors with which it has major alliances or is dependent upon for products or services and is in the process of contacting such vendors to ascertain what plans they have to correct any problems they may face with year 2000 compliance. The Company is also involved in discussions with other electric service providers in the Western Systems Coordinating Council to evaluate potential risks associated with this issue resulting from interconnected electric and informational systems.

At this time, it is the Company's assessment that all identified modifications to systems within the Company's operating control will be made within the required time frames. Preliminary estimates of the incremental costs to be incurred in the 1997-1999 period are approximately \$4-6 million. Maintenance and modification costs will be expensed as incurred, while the costs of new software, approximately \$1.4 million of the total estimate, will be capitalized and amortized over the software's useful life. The Company can make no assurances regarding the year 2000 compliance status of systems or parties outside of the Company's direct control and the Company cannot assess the effect on the Company of non-compliance by systems or parties outside of the Company's direct control.

Other

The Board of Directors considers the level of dividends on the Company's common stock on a continuing basis, taking into account numerous factors including, without limitation, the Company's results of operations and financial condition, as well as general economic and competitive conditions. The Company's net income available for dividends is derived from its retail electric and natural gas utility operations, its non-energy operations (primarily Pentzer) and its National Energy Trading and Marketing operations.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

The Company is including the following cautionary statement in this Form 10-K 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 include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions (many of which are based, in turn, upon further assumptions) and other statements which are other than statements of historical facts. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements.

Forward-looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that the Company's expectations, beliefs or projections will be achieved or accomplished. Furthermore, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the Company's business or the extent to which any such factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Energy Delivery and Generation and Resources Operations -

In addition to other factors and matters discussed elsewhere herein, some important factors that could cause actual results or outcomes for the Company and its Energy Delivery and Generation and Resources operations to differ materially from those discussed in forward-looking statements include prevailing legislative developments, governmental policies and regulatory actions with respect to allowed rates of return, financings, or industry and rate structures, weather conditions, wholesale and retail competition (including but not limited to electric retail wheeling and transmission cost), availability of economic supplies of natural gas, present or prospective natural gas distribution or transmission competition (including but not limited to prices of alternative fuels and system deliverability costs), recovery of purchased power and purchased gas costs, present or prospective generation, operations and construction of plant facilities, and acquisition and disposal of assets or facilities.

National Energy Trading and Marketing Operations -

In addition to other factors and matters discussed elsewhere herein, some important factors that could cause actual results or outcomes for the National Energy Trading and Marketing operations to differ materially from those discussed in forward-looking statements include further industry restructuring evolving from federal and/or state legislation, regulatory actions by state utility commissions, demand for and availability of energy throughout the country, wholesale competition, availability of economic supplies of natural gas, margins on purchased power, and the formation of additional alliances or entities.

Non-Energy Operations -

Certain important factors which could cause actual results or outcomes for the Company's non-energy operations to differ materially from those discussed in forward-looking statements include competition from other companies, the ability to obtain new customers and retain old ones, reliability of customer orders, business acquisitions, disposal of assets, the ability to obtain funds from operations, debt or equity, research and development findings and the availability of economic expansion or development opportunities.

Factors Common to All Operations -

The business and profitability of the Company are also influenced by economic risks, changes in and compliance with environmental and safety laws and policies, weather conditions, population growth rates and demographic patterns, market demand for energy from plants or facilities, changes in tax rates or policies, unanticipated project delays or changes in project costs, unanticipated changes in operating expenses or capital expenditures, labor negotiation or disputes, changes in credit ratings or capital market conditions, inflation rates, inability of the various counterparties to meet their obligations with respect to the Company's financial instruments, changes in accounting principles and/or the application of such principles to the Company, changes in technology and legal proceedings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Independent Auditor's Report and Financial Statements begin on the next page.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

INDEPENDENT AUDITORS' REPORT

The Washington Water Power Company
Spokane, Washington

We have audited the accompanying consolidated balance sheets and statements of capitalization of The Washington Water Power Company and subsidiaries (the Company) as of December 31, 1997 and 1996, and the related consolidated statements of income and retained earnings, cash flows, and the schedules of information by business segments for each of the three years in the period ended December 31, 1997. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements and schedules present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. In addition, the schedules referred to above present fairly, in all material respects, the segment information of the Company and its subsidiaries in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Seattle, Washington
January 30, 1998

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
The Washington Water Power Company

For the Years Ended December 31
Thousands of Dollars

	1997	1996	1995
OPERATING REVENUES	\$ 1,302,172	\$ 944,957	\$ 755,009
OPERATING EXPENSES:			
Resource costs	719,905	378,664	272,462
Operations and maintenance	176,354	181,298	115,657
Administrative and general	96,611	76,972	62,486
Depreciation and amortization	69,893	72,097	67,572
Taxes other than income taxes	49,945	49,005	46,992
Total operating expenses	1,112,708	758,036	565,169
INCOME FROM OPERATIONS	189,464	186,921	189,840
OTHER INCOME (EXPENSE):			
Interest expense	(66,275)	(63,255)	(59,022)
Interest on income tax recovery	47,338	--	--
Net gain on subsidiary transactions	11,218	23,953	9,328
Merger-related expenses	--	(15,848)	--
Other income (deductions)-net	(5,873)	1,191	(609)
Total other income (expense)-net	(13,592)	(53,959)	(50,303)
INCOME BEFORE INCOME TAXES	175,872	132,962	139,537
INCOME TAXES	61,075	49,509	52,416
NET INCOME	114,797	83,453	87,121
DEDUCT-Preferred stock dividend requirements	5,392	7,978	9,123
INCOME AVAILABLE FOR COMMON STOCK	\$ 109,405	\$ 75,475	\$ 77,998
Average common shares outstanding (thousands)	55,960	55,960	55,173
EARNINGS PER SHARE OF COMMON STOCK, BASIC AND DILUTED	\$ 1.96	\$ 1.35	\$ 1.41
Dividends paid per common share	\$ 1.24	\$ 1.24	\$ 1.24
RETAINED EARNINGS, JANUARY 1	\$ 131,301	\$ 125,031	\$ 114,848
NET INCOME	114,797	83,453	87,121
DIVIDENDS DECLARED:			
Preferred stock	(5,339)	(8,213)	(8,971)
Common stock	(69,390)	(69,390)	(68,392)
ESOP dividend tax savings	407	420	425
RETAINED EARNINGS, DECEMBER 31	\$ 171,776	\$ 131,301	\$ 125,031

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED BALANCE SHEETS
The Washington Water Power Company

At December 31
Thousands of Dollars

	1997	1996
	-----	-----
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 30,593	\$ 8,211
Temporary cash investments	22,641	19,709
Accounts and notes receivable-net	176,882	148,742
Energy commodity assets	76,449	--
Materials and supplies, fuel stock and natural gas stored .	42,148	31,729
Prepayments and other	28,130	19,998
	-----	-----
Total current assets	376,843	228,389
	-----	-----
UTILITY PROPERTY:		
Utility plant in service-net	2,031,026	1,951,604
Construction work in progress	37,446	38,696
	-----	-----
Total	2,068,472	1,990,300
Less: Accumulated depreciation and amortization	635,349	592,424
	-----	-----
Net utility plant	1,433,123	1,397,876
	-----	-----
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net	69,013	75,312
Non-utility properties and investments-net	208,149	149,747
Other-net	20,065	22,670
	-----	-----
Total other property and investments	297,227	247,729
	-----	-----
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	176,682	164,753
Conservation programs	53,338	57,703
Unamortized debt expense	23,978	23,148
Prepaid power purchases	18,134	30,935
Other-net	32,460	26,765
	-----	-----
Total deferred charges	304,592	303,304
	-----	-----
TOTAL	\$2,411,785	\$2,177,298
	=====	=====
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable	\$ 154,312	\$ 95,268
Energy commodity liabilities	70,135	--
Taxes and interest accrued	35,705	37,344
Other	79,586	70,873
	-----	-----
Total current liabilities	339,738	203,485
	-----	-----
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities	36,071	27,855
Deferred income taxes	352,749	312,529
Other deferred credits	17,230	43,167
	-----	-----
Total non-current liabilities and deferred credits	406,050	383,551
	-----	-----
CAPITALIZATION (See Consolidated Statements of Capitalization)	1,665,997	1,590,262
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 10, 13 and 17)		
TOTAL	\$2,411,785	\$2,177,298
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CAPITALIZATION
The Washington Water Power Company

At December 31
Thousands of Dollars

	1997	1996
	-----	-----
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 - 595% to 806% due 2000 through 2023	211,500	227,000
Series B - 620% to 825% due 1999 through 2010	150,000	141,000
	-----	-----
Total first mortgage bonds	445,200	451,700
	-----	-----
Pollution Control Bonds:		
6% Series due 2023	4,100	4,100
Unsecured Medium-Term Notes:		
Series A - 794% to 958% due 1998 through 2007	52,500	72,500
Series B - 675% to 823% due 1999 through 2023	115,000	120,000
	-----	-----
Total unsecured medium-term notes	167,500	192,500
	-----	-----
Notes payable (due within one year) to be refinanced	108,500	85,000
Other	36,885	31,226
	-----	-----
Total long-term debt	762,185	764,526
	-----	-----
COMPANY-OBLIGATED MANDATORILY REDEEMABLE		
PREFERRED TRUST SECURITIES:		
7 7/8%, Series A, due 2037	50,000	--
Floating Rate, Series B, due 2037	60,000	--
	-----	-----
Total company-obligated mandatorily redeemable preferred trust securities	110,000	--
	-----	-----
PREFERRED STOCK-CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
\$8.625 Series I; 100,000 and 300,000 shares outstanding (\$100 stated value)	10,000	30,000
\$6.95 Series K; 350,000 shares outstanding (\$100 stated value)	35,000	35,000
	-----	-----
Total subject to mandatory redemption	45,000	65,000
	-----	-----
Not subject to mandatory redemption:		
Flexible Auction Series J; 500 shares outstanding - 1996 (\$100,000 stated value)	--	50,000
	-----	-----
Total not subject to mandatory redemption	--	50,000
	-----	-----
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	(9,750)	(11,009)
Capital stock expense and other paid in capital	(10,143)	(10,112)
Unrealized investment gain-net	2,077	5,704
Retained earnings	171,776	131,301
	-----	-----
Total common equity	748,812	710,736
	-----	-----
TOTAL CAPITALIZATION	\$ 1,665,997	\$ 1,590,262
	=====	=====

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 Years Ended December 31
 Thousands of Dollars

	1997	1996	1995
OPERATING ACTIVITIES:			
Net income	\$ 114,797	\$ 83,453	\$ 87,121
NON-CASH ITEMS INCLUDED IN NET INCOME:			
Depreciation and amortization	69,893	72,097	67,572
Provision for deferred income taxes	37,122	12,505	(5,487)
Allowance for equity funds used during construction	(1,323)	(1,072)	(589)
Power and natural gas cost deferrals and amortizations ..	(16,470)	666	16,156
Deferred revenues and other-net	(17,758)	(215)	9,600
(Increase) decrease in working capital components:			
Receivables and prepaid expense	(39,733)	(26,333)	(22,279)
Materials & supplies, fuel stock and natural gas stored	(8,050)	7,741	(11,733)
Payables and other accrued liabilities	55,163	21,618	21,532
Other	8,758	7,103	(29,661)
NET CASH PROVIDED BY OPERATING ACTIVITIES	202,399	177,563	132,232
INVESTING ACTIVITIES:			
Construction expenditures (excluding AFUDC-equity funds) ..	(89,016)	(91,279)	(83,494)
Other capital requirements	(11,696)	(1,399)	550
Decrease in other noncurrent balance sheet items-net	18,620	18,565	8,893
Assets acquired and investments in subsidiaries	(31,702)	(29,225)	(13,864)
NET CASH USED IN INVESTING ACTIVITIES	(113,794)	(103,338)	(87,915)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	23,500	55,500	(28,500)
Proceeds from issuance of preferred trust securities	110,000	--	--
Proceeds from issuance of long-term debt	20,000	--	78,000
Redemption and maturity of long-term debt	(51,500)	(38,000)	(45,000)
Redemption of preferred stock	(70,000)	(20,000)	--
Sale of common stock	--	216	12,518
Cash dividends paid	(75,329)	(77,318)	(65,499)
Other-net	(22,894)	8,424	4,150
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(66,223)	(71,178)	(44,331)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	22,382	3,047	(14)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,211	5,164	5,178
CASH & CASH EQUIVALENTS AT END OF PERIOD	\$ 30,593	\$ 8,211	\$ 5,164
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period:			
Interest	\$ 63,608	\$ 56,893	\$ 53,415
Income taxes	29,132	49,447	50,004
Noncash financing and investing activities:			
Property purchased under capitalized leases	4,521	4,356	2,628
Fair value of assets acquired in acquisitions	--	--	38,187
Liabilities assumed in connection with acquisitions	--	--	28,695
Notes receivable in exchange for land	--	29,913	5,837
Net unrealized holding gains (losses)	(5,050)	(13,680)	5,043
Dividend reinvestment plan reinvested dividends	--	216	11,516

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
The Washington Water Power Company

For the Years Ended December 31
Thousands of Dollars

	1997	1996	1995
	-----	-----	-----
OPERATING REVENUES:			
Energy Delivery	\$ 380,532	\$ 380,428	\$ 374,604
Generation and Resources	511,133	418,566	286,612
National Energy Trading and Marketing	247,646	116	--
Non-energy	164,010	145,847	93,793
Intersegment eliminations	(1,149)	--	--
	-----	-----	-----
Total operating revenues	\$ 1,302,172	\$ 944,957	\$ 755,009
	=====	=====	=====
RESOURCE COSTS:			
Energy Delivery:			
Natural gas purchased for resale	\$ 93,880	\$ 96,585	\$ 102,375
Other	(2,050)	1,151	1,055
Generation and Resources:			
Power purchased	309,439	190,040	97,669
Fuel for generation	34,461	40,578	32,298
Other	50,694	50,237	39,065
National Energy Trading and Marketing:			
Cost of sales	232,389	--	--
Other	2,173	73	--
Intersegment eliminations	(1,081)	--	--
	-----	-----	-----
Total resource costs (excluding Non-energy)	\$ 719,905	\$ 378,664	\$ 272,462
	=====	=====	=====
GROSS MARGINS:			
Energy Delivery	\$ 288,702	\$ 282,692	\$ 271,174
Generation and Resources	116,539	137,711	117,580
National Energy Trading and Marketing	13,084	43	--
	-----	-----	-----
Total gross margins (excluding Non-energy) .	\$ 418,325	\$ 420,446	\$ 388,754
	=====	=====	=====
ADMINISTRATIVE AND GENERAL EXPENSES:			
Energy Delivery	\$ 46,688	\$ 47,664	\$ 39,240
Generation and Resources	16,312	15,339	12,198
National Energy Trading and Marketing	10,442	1,844	--
Non-energy	23,169	12,125	11,048
	-----	-----	-----
Total administrative and general expenses ..	\$ 96,611	\$ 76,972	\$ 62,486
	=====	=====	=====
DEPRECIATION AND AMORTIZATION EXPENSES:			
Energy Delivery	\$ 32,483	\$ 33,875	\$ 31,764
Generation and Resources	25,432	27,899	27,405
National Energy Trading and Marketing	442	--	--
Non-energy	11,536	10,323	8,403
	-----	-----	-----
Total depreciation and amortization expenses	\$ 69,893	\$ 72,097	\$ 67,572
	=====	=====	=====
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):			
Energy Delivery	\$ 113,745	\$ 89,447	\$ 108,212
Generation and Resources	64,613	84,211	68,132
National Energy Trading and Marketing	2,191	(1,801)	--
Non-energy	8,984	15,064	13,496
Intersegment eliminations	(69)	--	--
	-----	-----	-----
Total income from operations	\$ 189,464	\$ 186,921	\$ 189,840
	=====	=====	=====
INCOME AVAILABLE FOR COMMON STOCK:			
Energy Delivery and Generation and Resources .	\$ 95,385	\$ 54,426	\$ 63,187
National Energy Trading and Marketing	2,488	(1,161)	--
Non-energy	11,532	22,210	14,811
	-----	-----	-----
Total income available for common stock	\$ 109,405	\$ 75,475	\$ 77,998
	=====	=====	=====

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
 The Washington Water Power Company

 For the Years Ended December 31
 Thousands of Dollars

	1997	1996	1995
	-----	-----	-----
ASSETS:			
Energy Delivery	\$1,051,585	\$1,014,451	\$ 917,011
Generation and Resources	620,142	683,599	656,628
Other utility	255,012	223,379	295,541
National Energy Trading and Marketing	214,630	899	--
Non-energy	270,416	254,970	229,722
	-----	-----	-----
Total assets	\$2,411,785	\$2,177,298	\$2,098,902
	=====	=====	=====
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):			
Energy Delivery	\$ 75,499	\$ 80,095	\$ 61,047
Generation and Resources	11,676	8,726	18,897
National Energy Trading and Marketing	4,056	--	--
Non-energy	7,951	2,339	4,934
	-----	-----	-----
Total capital expenditures	\$ 99,182	\$ 91,160	\$ 84,878
	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

THE WASHINGTON WATER POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Washington Water Power Company (Company) was incorporated in the State of Washington in 1889, and 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. Usage by retail customers varies from year to year primarily as a result of weather conditions, customer growth, the economy in the Company's service area, conservation efforts, appliance efficiency and other technology.

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 United States. Energy trading includes short-term sales and purchases, such as next hour, next day and monthly blocks of energy. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Generation and Resources manages the Company's electric energy resource portfolio, which is used to serve Energy Delivery's retail electric customers and Generation and Resources' wholesale electric customers. In managing the electric energy resource portfolio, Generation and Resources seeks to optimize the availability and operations of generation resources. Revenues and the cost of electric power purchases vary from year to year depending on the electric wholesale power market, which is affected by several factors, including the availability of water for hydroelectric generation, the availability of base load plants in the region, marginal fuel prices and the demand for power in other areas of the country. Other factors affecting the wholesale power market include an increasing number of power brokers and marketers, lower unit margins on new sales contracts than were realized in the past, fewer long-term power contracts being entered into, resulting in a heavier reliance on short-term power contracts, typically with lower margins, deregulation of the electric utility industry and competition from low cost generation being developed by independent power producers.

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 Energy's business is affected by several factors, including the demand for and availability of power throughout the United States, an increasing number of power brokers and marketers, lower unit margins on new sales contracts, fewer long-term power contracts being entered into, resulting in a heavier reliance on short-term power contracts with lower margins, marginal fuel prices and deregulation of the electric utility industry. Avista Advantage provides a variety of energy-related products and services to commercial and industrial customers on a national basis. Its primary product lines include consolidated billing and resource accounting.

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. Pentzer's business strategy is such that its earnings result from both transactional and non-transactional earnings. Transactional gains arise from a one-time event or a specific transaction, such as the sale of an investment or individual company from Pentzer's portfolio of investments. Non-transactional earnings arise out of the ongoing operations of the individual portfolio companies.

BASIS OF REPORTING

The financial statements are presented on a consolidated basis and, as such, include the assets, liabilities, revenues and expenses of the Company and its wholly owned subsidiaries. All material intercompany transactions have been eliminated in the consolidation. The accompanying financial statements include the Company's proportionate share of utility plant and related operations resulting from its interests in jointly owned plants (See Note 6). The financial activity of each of the Company's lines of business is reported in the "Schedule of Information by Business Segments." Such information is an integral part of these financial statements.

The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenues and expenses.

ALLOCATION OF REVENUES AND EXPENSES FOR REPORTING BUSINESS SEGMENTS

A portion of the utility's revenues and expenses have been allocated between the 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

THE WASHINGTON WATER POWER COMPANY

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.

SYSTEM OF ACCOUNTS

The accounting records of the Company's utility operations are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the appropriate state regulatory commissions.

REGULATION

The Company is subject to state regulation in Washington, Idaho and Montana for its electric operations. Natural gas operations are regulated in Washington, Idaho, Oregon and California. The Company is subject to regulation by the FERC with respect to its wholesale electric transmission rates and the natural gas rates charged for the release of capacity from the Jackson Prairie Storage Project.

OPERATING REVENUES

The Company accrues estimated unbilled revenues for electric and natural gas services provided through month-end.

OTHER INCOME (DEDUCTIONS) -- NET

Other income (deductions)-net is composed of the following items:

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	(Thousands of Dollars)		
Interest income	\$ 6,392	\$ 5,760	\$ 3,645
Capitalized interest (debt)	1,550	1,290	1,042
Gain (loss) on property dispositions	(1,222)	(152)	1,272
Minority interest	(574)	(1,193)	(314)
Capitalized interest (equity)	1,323	1,072	589
Other	(13,342)	(5,586)	(6,843)
Total	\$ (5,873)	\$ 1,191	\$ (609)

EARNINGS PER SHARE

Earnings per share have been computed based on the weighted average number of common shares outstanding during the period. Basic and diluted earnings per share, computations prescribed per FAS No. 128, are the same since the Company does not have any common stock equivalents to dilute basic earnings per share.

UTILITY PLANT

The cost of additions to utility plant, including an allowance for funds used during construction and replacements of units of property and betterments, is capitalized. Costs of depreciable units of property retired plus costs of removal less salvage are charged to accumulated depreciation.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

The Allowance for Funds Used During Construction (AFUDC) represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period. In accordance with the uniform system of accounts prescribed by regulatory authorities, AFUDC is capitalized as a part of the cost of utility plant and is credited currently as a noncash item to Other Income (see Other Income above). The Company generally is permitted, under established regulatory rate practices, to recover the capitalized AFUDC, and a fair return thereon, through its inclusion in rate base and the provision for depreciation after the related utility plant has been placed in service. Cash inflow related to AFUDC does not occur until the related utility plant investment is placed in service.

The effective AFUDC rate was 10.67% in 1997, 1996 and 1995. The Company's AFUDC rates do not exceed the maximum allowable rates as determined in accordance with the requirements of regulatory authorities.

DEPRECIATION

For utility operations, depreciation provisions are estimated by a method of depreciation accounting utilizing unit rates for hydroelectric plants and composite rates for other properties. Such rates are designed to provide for retirements of properties at the expiration of their service lives. The rates for hydroelectric plants include annuity and interest components, in which the interest component is 6%. For utility operations, the ratio of depreciation provisions to average depreciable property was 2.59% in 1997, 2.58% in 1996 and 2.57% in 1995.

The average service lives and remaining average service lives, respectively, for the following broad categories of property are: electric thermal production - 35 and 19 years; hydroelectric production - 100 and 81 years; electric transmission - 60 and 30 years; electric distribution - 40 and 33 years; and natural gas distribution property - 44 and 32 years.

CASH AND CASH EQUIVALENTS

For the purposes of the Consolidated Statements of Cash Flows, the Company considers all temporary investments with an initial maturity of three months or less to be cash equivalents.

TEMPORARY INVESTMENTS

Investments in debt and marketable equity securities are classified as "available for sale" and are recorded at fair value. Investments totaling \$28.2 million and \$22.6 million are included on the Consolidated Balance Sheets at December 31, 1997 as other property and investments and current assets, respectively. Investments totaling \$14.2 million and \$19.7 million are included on the Consolidated Balance Sheets at December 31, 1996 as other property and investments and current assets, respectively. Unrealized investment gains, as of December 31, 1997 and 1996, of \$2.1 million and \$5.7 million, respectively, net of taxes, are reflected as a separate component of shareholders' equity in the Consolidated Statements of Capitalization.

DEFERRED CHARGES AND CREDITS

The Company prepares its financial statements in accordance with the provisions of FAS No. 71, "Accounting for the Effects of Certain Types of Regulation." A regulated enterprise can prepare its financial statements in accordance with FAS No. 71 only if (i) the enterprise's rates for regulated services are established by or subject to approval by an independent third-party regulator, (ii) the regulated rates are designed to recover the enterprise's cost of providing the regulated services and (iii) in view of demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. FAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements. In certain circumstances, FAS No. 71 requires that certain costs and/or obligations (such as incurred costs not currently recovered through rates, but expected to be so recovered in the future) be reflected in a deferral account in the balance sheet and not be reflected in the statement of income or loss until matching revenues are recognized. If at some point in the future the Company determines that it no longer meets the criteria for continued application of FAS No. 71 to all or a portion of the Company's regulated operations, the Company could be required to write off its regulatory assets and could be precluded from the future deferral in the Consolidated Balance Sheet of costs not recovered through rates at the time such costs were incurred, even if such costs were expected to be recovered in the future.

The Company's primary regulatory assets include Investment in Exchange Power, conservation programs, deferred income taxes, the provision for postretirement benefits and debt issuance and redemption costs. Those items without a specific line on the Consolidated Balance Sheets are included in Deferred Charges - Other-net. Deferred credits include natural gas deferrals, unrecovered purchased gas costs and the gain on the general office building sale/leaseback which is being amortized over the life of the lease, and are included on the Consolidated Balance Sheets as Non-current Liabilities and Deferred Credits - Other Deferred Credits.

POWER AND NATURAL GAS COST ADJUSTMENT PROVISIONS

The Company has a power cost adjustment mechanism (PCA) in Idaho which allows the Company to modify electric rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. The PCA tracks changes in hydroelectric generation, secondary prices, related changes in thermal generation and PURPA contracts. Rate changes are triggered when the deferred balance reaches \$2.2 million. The deferred balance was \$4.2 million at December 31, 1997, but a tariff change was not filed since there are currently two rebates in effect and the PCA rules do not allow more than two consecutive surcharges/rebates during any 12-month period. The following surcharges and rebates were in effect during the past three years: a \$2.6 million (2.3%) rebate effective September 1, 1997, which will expire August 31, 1998; a \$2.6 million (2.4%) rebate effective June 1, 1997, which will expire May 31, 1998; a \$2.5 million (2.3%) rebate effective September 1, 1996, which expired August 31, 1997; \$2.3 million (2.4%) surcharge effective September 1, 1995, which expired August 31, 1996; and a \$2.2 million (2.5%) surcharge effective January 1, 1995, which expired December 31, 1995. The rebates balance and the deferred balance are included in the Current Liabilities - Other and Non-Current Liabilities and Deferred Credits - Other Deferred Credits lines, respectively, on the Consolidated Balance Sheets.

Under established regulatory practices, the Company is also allowed to adjust its natural gas rates from time to time to reflect increases or decreases in the cost of natural gas purchased. Differences between actual natural gas costs

THE WASHINGTON WATER POWER COMPANY

and the natural gas costs allowed in rates are deferred and charged or credited to expense when regulators approve inclusion of the cost changes in rates. In Oregon, regulatory provisions include a sharing of benefits and risks associated with changes in natural gas prices. The balance is included on the Consolidated Balance Sheets as Non-current Liabilities and Deferred Credits - Other Deferred Credits.

INCOME TAXES

The Company and its eligible subsidiaries file consolidated federal income tax returns. Subsidiaries are charged or credited with the tax effects of their operations on a stand-alone basis. The Company's federal income tax returns have been examined with all issues resolved, and all payments made, through the 1994 return.

NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued FAS No. 128, entitled "Earnings per Share" which is effective for fiscal years ending December 31, 1997. FAS No. 128 establishes standards for computing and presenting earnings per share. The Company adopted this standard effective December 31, 1997. Basic and diluted earnings per share are the same since the Company does not have any common stock equivalents to dilute basic earnings per share. Earnings per share for prior years were not restated.

FAS No. 129, entitled "Disclosure of Information about Capital Structure," effective for fiscal years ending December 31, 1997, requires certain disclosures related to the Company's capital structure. The Company adopted this standard effective December 31, 1997. The required information is provided in Notes 11, 14, 15 and 16.

FAS No. 130, entitled "Reporting Comprehensive Income," is effective for fiscal years beginning after December 15, 1997. It requires companies to (a) classify items of other comprehensive income by their nature in a financial statement and (b) 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. The Company does not expect this standard to have a material effect on the Company's financial statement presentation.

FAS No. 131, entitled "Disclosure about Segments of an Enterprise and Related Information," which is effective for financial statements for periods beginning after December 15, 1997, requires public enterprises to report financial and descriptive information on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. The Company adopted this standard effective December 31, 1997. The required disclosures are provided in the Schedule of Information by Business Segment and in Note 1.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to current statement format. These reclassifications were made for comparative purposes and have not affected previously reported total net income or common shareholders' equity.

NOTE 2. ACCOUNTS RECEIVABLE SALE

In July 1997, WWP Receivables Corp. (WWPRC) was incorporated as a wholly owned, bankruptcy-remote subsidiary of the Company for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. Subsequently, WWPRC and the Company have entered into an agreement whereby WWPRC can sell without recourse, on a revolving basis, up to \$40.0 million in those receivables. WWPRC is obligated to pay fees which approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. On a consolidated basis, the amount of such fees is included in operating expenses of the Company. At December 31, 1997, \$40.0 million in receivables had been sold pursuant to the agreement, which qualifies as a sale of assets under FAS No. 125.

NOTE 3. ENERGY COMMODITY TRADING

The Company's energy-related businesses are exposed to risks relating to changes in certain commodity prices and counterparty performance. In order to manage the various risks relating to these exposures, the Company utilizes electric, natural gas and related commodity derivatives, and has established risk management oversight for these risks for each area of the Company's energy-related business. The Company has implemented or is in the process of implementing procedures to manage such risk and has established a comprehensive risk management committee, separate from the units that create such risk exposure and overseen by the Audit Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures.

GENERATION AND RESOURCES

The Company protects itself against price fluctuations on electric energy and natural gas by limiting the aggregate level of net open positions which are exposed to market price changes and through the use of electric, natural gas and related commodity derivative instruments for hedging purposes. The net open position is actively managed

THE WASHINGTON WATER POWER COMPANY

with strict policies designed to limit the exposure to market risk and which require daily and weekly reporting to management of potential financial exposure. The risk management committee has limited the types of financial instruments the Company may trade to those related to electricity and natural gas commodities and those instruments are to be used for hedging price fluctuations associated with the management of resources. Financial instruments are not held for speculative trading purposes. Gains and losses related to derivative commodity instruments which qualify as hedges are recognized in the Consolidated Statements of Income when the underlying hedged physical transaction closes (the deferral method) and are included in the same category as the hedged item (natural gas purchased or purchased power expense, as the case may be). At December 31, 1997, the commodity derivative hedge agreements outstanding were immaterial.

NATIONAL ENERGY TRADING AND MARKETING

Avista Energy markets power and energy services to other utilities and wholesale power marketers by entering into contracts to purchase or supply natural gas and electric energy at specified delivery points and at specified future dates. Avista Energy engages in the trading of electric, natural gas and related commodity derivatives, such as forwards, futures, swaps and options, and therefore experiences net open positions in terms of price, volume and specified delivery point. The open positions expose Avista Energy to the risk that fluctuating market prices may adversely impact its financial position or results of operations. However, the net open position is actively managed with strict policies designed to limit the exposure to market risk and which require daily reporting to management of potential financial exposure. The risk management committee has limited the types of electric, natural gas and related commodity derivative instruments Avista Energy may trade to those related to electricity and natural gas commodities.

Avista Energy's trading activities are subject to mark-to-market accounting, under which changes in the market value of outstanding electric, natural gas and related commodity derivative instruments are recognized as gains or losses in the period of change. Gains and losses on electric, natural gas and related commodity derivative instruments utilized for trading are recognized in income on a current basis (the mark-to-market method) and are included on the Consolidated Statements of Income in operating revenues or expenses (cost of sales), as appropriate, and on the Consolidated Balance Sheets as energy commodity assets or liabilities or as non-utility properties and investments-net (a non-current asset) or non-current liabilities. Because of underlying price fluctuations, the mark-to-market totals may fluctuate throughout the month.

Notional Amounts and Terms The notional amounts and terms of the outstanding financial instruments at December 31, 1997 are set forth below (volumes in thousands of mmbTUs and MWhs):

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
	-----	-----	-----
Energy commodities			
Natural gas	250,293	269,658	13
Electric	17,848	14,925	9

Avista Energy also has sales and purchase commitments associated with contracts based on market prices totaling 108,464,859 mmbTUs, with terms extending up to 3 years. At year-end, there were no fixed index electric transactions.

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 the financial instruments as of December 31, 1997, and the average fair value of those instruments held during the year are set forth below (dollars in thousands):

	Fair Value as of December 31, 1997				Average Fair Value for the year ended December 31, 1997			
	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities
	-----	-----	-----	-----	-----	-----	-----	-----
Natural gas	54,235	3,517	51,753	3,105	31,104	2,017	29,680	1,781
Electric	22,214	9,586	18,382	7,451	12,740	5,498	10,542	4,273

The weighted average term of Avista Energy's natural gas and related commodity derivative instruments as of December 31, 1997 was approximately three months. The weighted average term of Avista Energy's electric

THE WASHINGTON WATER POWER COMPANY

commodity derivatives at year-end was approximately twelve months. The fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk was \$8.9 million and is included on the Consolidated Statements of Income in operating revenues.

MARKET RISK

The Company manages, on a portfolio basis, the market risks inherent in its activities subject to parameters established by its Board of Directors. Market risks are monitored by the risk management committee to ensure compliance with the Company's stated risk management policies. The Company measures the risk in its portfolio on a daily basis in accordance with value-at-risk and other risk methodologies established by the risk management committee. The quantification of market risk using value-at-risk provides a consistent measure of risk across diverse energy markets and products.

CREDIT RISK

The Company is exposed to credit risk in the event of nonperformance by customers or counterparties of their contractual obligations. The concentration of customers and/or counterparties may impact overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. However, the Company maintains credit policies with regard to their customers and counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition and credit rating, collateral requirements or other credit enhancements such as letters of credit or parent company guarantees, and the use of standardized agreements which allow for the netting or offsetting of positive and negative exposures associated with a single counterparty. The Company maintains credit reserves which are based on management's evaluation of the credit risk of the overall portfolio. Based on these policies, exposures and the credit reserves, the Company does not anticipate a materially adverse effect on financial position or results of operations as a result of customer or counterparty nonperformance. New York Mercantile Exchange traded futures and option contracts are financially guaranteed by the Exchange and have nominal credit risk.

NOTE 4. 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 in which Avista Energy has a 50% ownership. Avista Energy's initial equity investment in Howard/Avista was \$25 million. 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 accompanying Consolidated Statements of Income for the year ended December 31, 1997. The net investment in the net assets of Howard/Avista is included in Non-utility Properties and Investments-net on the accompanying Consolidated Balance Sheets at December 31, 1997.

The following selected financial information for Howard/Avista reflects that company's total financial position and operating results as of and for the five months ended December 31, 1997:

RESULTS OF OPERATIONS (thousands of dollars)

	Five months ended December 31, 1997 -----
Revenues	\$1,041,622
Operating Expenses	(1,038,087)
Other Income-net	8

Net Income (pre-tax)	\$ 3,543
	=====
Avista Energy's equity in earnings of Howard/Avista Energy LLC (pre-tax)	\$ 1,772

THE WASHINGTON WATER POWER COMPANY

FINANCIAL POSITION (thousands of dollars)

	December 31, 1997
Current Assets	\$ 400,150
Other Assets	1,960
Total Assets	\$ 402,110
Current Liabilities	\$ 348,339
Other Liabilities	228
Total Liabilities	348,567
Equity	53,543
Total Liabilities and Equity	\$ 402,110
Avista Energy's equity investment in Howard/Avista Energy LLC (pre-tax)	\$ 26,772

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

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

	AT DECEMBER 31,	
	1997	1996
Energy Delivery:		
Electric distribution	\$ 567,552	\$ 539,467
Electric transmission	262,393	251,559
Natural gas underground storage	18,646	18,275
Natural gas distribution	329,232	302,853
Natural gas transmission	3,059	3,059
Construction work in progress (CWIP) and other	163,949	156,012
Energy Delivery total	1,344,831	1,271,225
Generation and Resources:		
Electric production	702,092	695,273
CWIP and other	21,549	23,802
Generation and Resources total	723,641	719,075
Total utility	2,068,472	1,990,300
National Energy Trading and Marketing	4,345	294
Non-energy	44,831	35,533
Total	\$2,117,648	\$2,026,127

NOTE 6. JOINTLY OWNED ELECTRIC FACILITIES

The Company has investments in jointly owned generating plants. Financing for the Company's ownership in the projects is provided by the Company. The Company's share of related operating and maintenance expenses for plants in service is included in corresponding accounts in the Consolidated Statements of Income. See Note 17 for additional information related to potential impacts of Clean Air Act Amendments on these plants. The following table indicates the Company's percentage ownership and the extent of the Company's investment in such plants at December 31, 1997:

Project	COMPANY'S CURRENT SHARE OF						
	KW of Installed Capacity	Fuel Source	Ownership (%)	Plant in Service	Accumulated Depreciation	Net Plant In Service	Construction Work in Progress
					(Thousands of Dollars)		
Centralia.....	1,330,000	Coal	15%	\$ 56,825	\$ 36,317	\$ 20,508	\$ 137
Colstrip 3 & 4....	1,556,000	Coal	15	273,597	104,811	168,786	-

NOTE 7. PENSION PLANS

The Company has a pension plan covering substantially all of its regular full-time employees. Certain of the Company's subsidiaries also participate in this plan. Individual benefits under this plan are based upon years of service and the employee's average compensation as specified in the Plan. The Company's funding policy is to contribute annually an amount equal to the net periodic pension cost, provided that such contributions are not less than the minimum amounts required to be funded under the Employee Retirement Income Security Act, nor more than the maximum amounts which are currently deductible for tax purposes. Pension fund assets are invested primarily in marketable debt and equity securities. The Company also has another plan which covers the executive officers.

Net pension cost (income) for 1997, 1996 and 1995 is summarized as follows:

	1997	1996	1995
	-----	-----	-----
	(Thousands of Dollars)		
Service cost-benefits earned during the period	\$ 4,762	\$ 4,629	\$ 3,464
Interest cost on projected benefit obligation	10,601	9,954	9,142
Actual return on plan assets	(21,042)	(16,897)	(27,910)
Net amortization and deferral	7,904	4,682	17,272
	-----	-----	-----
Net periodic pension cost	\$ 2,225	\$ 2,368	\$ 1,968
	=====	=====	=====

The funded status of the Plans and the pension liability at December 31, 1997, 1996 and 1995, are as follows:

	1997	1996	1995
	-----	-----	-----
	(Thousands of dollars)		
Actuarial present value of benefit obligation:			
Accumulated benefit obligation (including vested benefits of \$(127,109,000), \$(123,601,000) and \$(114,964,000), respectively)	\$(127,777)	\$(125,658)	\$(116,877)
	=====	=====	=====
Projected benefit obligation for service rendered to date	\$155,565	\$143,242	\$133,233
Plan assets at fair value	166,242	149,846	140,528
	-----	-----	-----
Plan assets in excess of projected benefit obligation	10,677	6,604	7,295
Unrecognized net gain from returns different than assumed	(23,802)	(21,101)	(19,704)
Prior service costs not yet recognized	15,655	17,020	18,385
Unrecognized net transition asset at year-end (being amortized over 19 years)	(8,101)	(9,187)	(10,273)
	-----	-----	-----
Pension liability	\$ (5,571)	\$ (6,664)	\$ (4,297)
	=====	=====	=====
Assumptions used in calculations were:			
Discount rate at year-end	7.25%	7.5%	7.5%
Rate of increase in future compensation level	4.0%	4.0%	4.0%
Expected long-term rate of return on assets	9.0%	9.0%	9.0%

NOTE 8. OTHER POSTRETIREMENT BENEFITS

FAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires the Company to accrue the estimated cost of postretirement benefit payments during the years that employees provide services and allows recognition of the unrecognized transition obligation in the year of adoption or the amortization of such obligation over a period of up to twenty years. The Company elected to amortize this obligation of approximately \$34,500,000 over a period of twenty years, beginning in 1993.

The Company received accounting orders from the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC) allowing the deferral of expense accruals under this Statement as a regulatory asset for future recovery. After further agreements with the WUTC, the Company discontinued deferring expenses, began amortizing prior deferrals already recorded and began recognition of current expenses in 1996.

The Company provides certain health care and life insurance benefits for substantially all of its retired employees. In 1997, 1996 and 1995, the Company recognized \$1.2 million, \$1.3 million and \$1.8 million, respectively, as an expense for postretirement health care and life insurance benefits. The following table sets forth the health care plan's funded status at December 31, 1997, 1996 and 1995.

	1997	1996	1995
	-----	-----	-----
Retirees	584	574	617
Active plan participants	1,272	1,345	1,328
	-----	-----	-----
Total participants	1,856	1,919	1,945

Accumulated postretirement benefit obligation (thousands of dollars):

Non-fully eligible plan participants	\$ (7,949)	\$ (8,103)	\$ (8,813)
Fully eligible plan participants	(5,029)	(5,008)	(4,427)
Retirees and beneficiaries	(18,824)	(17,866)	(20,189)
	-----	-----	-----
Total	(31,802)	(30,977)	(33,429)
Fair value of plan assets	11,098	5,388	4,711
	-----	-----	-----
Unfunded accumulated postretirement benefit obligation	(20,704)	(25,589)	(28,718)
Unrecognized (gain)/loss	(5,639)	(6,621)	(3,396)
Unrecognized transition obligation	23,000	25,683	27,288
	-----	-----	-----
Accrued postretirement benefit cost	\$ (3,343)	\$ (6,527)	\$ (4,826)
	=====	=====	=====

Net postretirement benefit cost for 1997, 1996 and 1995 (thousands of dollars):

	1997	1996	1995
	-----	-----	-----
Service cost - benefits earned during the period	\$ 637	\$ 634	\$ 573
Return on the plan assets (if any)	(637)	(568)	(226)
Interest cost on accumulated postretirement benefit obligation	2,247	2,234	2,452
Amortization of transition obligation	1,335	1,375	1,414
	-----	-----	-----
Total net periodic cost	\$ 3,582	\$ 3,675	\$ 4,213
	=====	=====	=====

The currently assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation is 5% for all years shown. The assumed rate of future medical cost increases has been gradually decreased since the adoption of FAS No. 106 in response to the actual leveling off of cost increases in the plan. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 1996 and net postretirement health care cost by approximately \$224,000. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7.25%.

NOTE 9. ACCOUNTING FOR INCOME TAXES

In June 1997, the Company received \$81 million from the Internal Revenue Service (IRS) to settle an income tax claim relating to its investment in the terminated nuclear project 3 of the Washington Public Power Supply System (WNP3). The \$81 million recovery included \$34 million in income taxes the Company overpaid in prior years plus \$47 million in accrued interest, which in total contributed \$41.4 million, or \$0.74 per share, to net income.

The Company had claimed that it realized a loss in 1985 relating to its \$195 million investment in WNP3 entitling it to current tax deductions. The IRS, however, originally denied the Company's claim and ruled that the investment should be written off over 32.5 years, the term of a settlement agreement between the Company and the Bonneville Power Administration relating to WNP3. The Company disagreed with this ruling and had been pursuing a reversal for several years. The IRS has now agreed with the Company's position.

The Company entered into settlement agreements with the WUTC and the IPUC in 1987 and 1988 providing for the recovery through retail prices of approximately 60% of the Company's \$195 million investment in WNP3. As a result of these agreements, customers have been and will continue to receive the tax benefits relating to the recoverable portion of WNP3 over the recovery periods specified in the settlement agreements. The settlement agreements resulted in a write-off of approximately \$75 million of the Company's WNP3 investment, with the entire write-off charged to shareholders. The tax recovery and related accrued interest from the IRS will flow through to the benefit of shareholders. The cash was used to fund new business investment, including growth opportunities in national energy markets, and reduced the need for issuance of long-term debt during 1997.

As of December 31, 1997 and 1996, the Company had recorded net regulatory assets of \$176.7 million and \$164.8 million, respectively, related to the probable recovery of FAS No. 109, "Accounting for Income Taxes," deferred tax liabilities from customers through future rates. Such regulatory assets will be adjusted by amounts recovered through rates.

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) tax credit carryforwards. The net deferred federal income tax liability consists of the following (thousands of dollars):

	1997	1996	1995
	-----	-----	-----
Deferred tax liabilities:			
Differences between book and tax bases of utility plant	\$368,137	\$333,017	\$320,502
Loss on reacquired debt	5,504	6,283	7,173
Other	5,825	8,271	10,013
	-----	-----	-----
Total deferred tax liabilities	379,466	347,571	337,688
	-----	-----	-----
Deferred tax assets:			
Reserves not currently deductible	12,630	14,942	15,742
Contributions in aid of construction	6,277	5,425	4,634
Deferred natural gas credits	1,138	4,157	3,894
Centralia Trust	2,515	2,185	--
Gain on sale of office building	1,279	1,371	1,463
Other	2,878	6,962	4,426
	-----	-----	-----
Total deferred tax assets	26,717	35,042	30,159
	-----	-----	-----
Net deferred tax liability	\$352,749	\$312,529	\$307,529
	=====	=====	=====

A reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations and federal income tax as set forth in the accompanying Consolidated Statements of Income and Retained Earnings is as follows (the current and deferred effective tax rates are approximately the same during all periods):

	FOR THE YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	-----	-----	-----
	(Thousands of Dollars)		
Computed federal income taxes at statutory rate	\$ 60,552	\$ 46,103	\$ 47,875
Increase (decrease) in tax resulting from:			
Accelerated tax depreciation	5,014	23	(909)
Prior year audit adjustments	(31,458)	(3,491)	5,418
Reserve for WNP3	10,402	-	-
Other	12,500	3,955	(4,121)
	-----	-----	-----
Total federal income tax expense*	\$ 57,010	\$ 46,590	\$ 48,263
	=====	=====	=====
INCOME TAX EXPENSE CONSISTS OF THE FOLLOWING:			
Federal taxes currently provided	\$ 51,104	\$ 37,456	\$ 48,318
Deferred income taxes	5,906	9,134	(55)
	-----	-----	-----
Total federal income tax expense	57,010	46,590	48,263
State income tax expense	4,065	2,919	4,153
	-----	-----	-----
Federal and state income taxes	\$ 61,075	\$ 49,509	\$ 52,416
	=====	=====	=====
*Federal Income Tax Expense:			
Utility	\$ 50,409	\$ 34,866	\$ 41,203
National Energy Trading and Marketing	1,415	(625)	--
Non-energy	5,186	12,349	7,060
	-----	-----	-----
Total Federal Income Tax Expense	\$ 57,010	\$ 46,590	\$ 48,263
	=====	=====	=====
Federal statutory rate	35%	35%	35%

NOTE 10. LONG-TERM PURCHASED POWER CONTRACTS WITH REQUIRED MINIMUM PAYMENTS

Under fixed contracts with Public Utility Districts (PUD), the Company has agreed to purchase portions of the output of certain generating facilities. Although the Company has no investment in such facilities, these contracts provide that the Company pay certain minimum amounts (which are based at least in part on the debt service requirements of the supplier) whether or not the facility is operating. The cost of power obtained under the contracts, including payments made when a facility is not operating, is included in operations and maintenance expense in the Consolidated Statements of Income. Information as of December 31, 1997, pertaining to these contracts is summarized in the following table:

	COMPANY'S CURRENT SHARE OF					Contract Expira- tion Date
	Output	Kilowatt Capability	Debt Annual Costs(1)	Service Costs(2)	Revenue Bonds Outstanding	
(Thousands of Dollars)						
PUD CONTRACTS:						
Chelan County PUD:						
Rocky Reach Project	2.9%	37,000	1,652	573	6,822	2011
Grant County PUD:						
Priest Rapids Project	6.1	55,000	1,524	883	10,627	2005
Wanapum Project	8.2	75,000	1,947	1,178	16,950	2009
Douglas County PUD:						
Wells Project	3.7	30,000	828	577	6,593	2018
Totals		197,000	\$ 5,951	\$ 3,211	\$ 40,992	

(1) The annual costs will change in proportion to the percentage of output allocated to the Company in a particular year. Amounts represent the operating costs for the year 1997.

(2) Included in annual costs.

Actual expenses for payments made under the above contracts for the years 1997, 1996 and 1995, were \$5.9 million, \$5.4 million and \$8.1 million, respectively. The estimated aggregate amounts of required minimum payments (the Company's share of debt service costs) under the above contracts for the next five years are \$5.4 million in 1998, \$5.3 million in 1999, \$6.3 million in 2000, \$6.2 million in 2001 and \$6.6 million in 2002 (minimum payments thereafter are dependent on then market conditions). In addition, the Company will be required to pay its proportionate share of the variable operating expenses of these projects.

NOTE 11. LONG-TERM DEBT

The annual sinking fund requirements and maturities for the next five years for long-term debt outstanding at December 31, 1997 are as follows:

YEAR ENDED DECEMBER 31	MATURITIES	SINKING FUND REQUIREMENTS	TOTAL
(thousands of Dollars)			
1998.....	10,000	4,407	14,407
1999.....	47,500	4,407	51,907
2000.....	55,000	4,197	59,197
2001.....	44,000	3,647	47,647
2002.....	50,000	3,497	53,497

The sinking fund requirements may be met by certification of property additions at the rate of 167% of requirements. All of the utility plant is subject to the lien of the Mortgage and Deed of Trust securing outstanding First Mortgage Bonds.

In 1997, \$20.0 million of First Mortgage Bonds in the form of Secured Medium-Term Notes were issued, while \$26.5 million of Secured Medium-Term Notes and \$25.0 million of Unsecured Medium-Term Notes matured or were repurchased. As of December 31, 1997, the Company had remaining authorization to issue up to \$89.0 million of Secured Medium-Term Notes.

In November 1997, the Company filed a Registration Statement with the SEC for up to and including \$250 million of Debt Securities of the Company.

At December 31, 1997, the Company had \$108.5 million outstanding under borrowing arrangements which are expected to be refinanced in 1998. See Note 12 for details of credit agreements.

Included in other long-term debt are the following items related to non-energy operations (thousands of dollars):

	OUTSTANDING AT DECEMBER 31,	
	1997	1996
Notes payable - variable rates through 1999	\$40,480	\$34,633
Capital lease obligations	7,601	7,046
Total non-energy	48,081	41,679
Less: current portion	12,177	11,180
Net non-utility long-term debt	\$35,904	\$30,499

The fair value of the Company's long-term debt at December 31, 1997 and 1996 is estimated to be \$647.3 million, or 105% of the carrying value and \$658.7 million, or 102% of the carrying value, respectively. These estimates are based on available market information.

NOTE 12. BANK BORROWINGS

At December 31, 1997, the Company maintained lines of credit with various banks under two separate credit agreements amounting to \$120.0 million. The Company has one revolving line of credit, expiring December 10, 1999, which provides a total credit commitment of \$70.0 million. The second revolving credit agreement, which expires on July 22, 2000, provides a total credit commitment of \$50.0 million. The Company pays commitment fees of up to 0.09% per annum on the average daily unused portion of each credit agreement.

In addition, under various agreements with banks, the Company can have up to \$60.0 million in loans outstanding at any one time, with the loans available at the banks' discretion. These arrangements provide, if funds are made available, for fixed-term loans for up to 180 days at a fixed rate of interest.

Balances and interest rates of bank borrowings under these arrangements were as follows:

	YEARS ENDED DECEMBER 31,	
	1997	1996
	(Thousands of Dollars)	
BALANCE OUTSTANDING AT END OF PERIOD:		
Fixed-term loans	\$ 60,000	\$ 50,000
Revolving credit agreement	48,500	35,000
MAXIMUM BALANCE DURING PERIOD:		
Fixed-term loans	\$ 60,000	\$ 50,000
Revolving credit agreement	48,500	35,500
AVERAGE DAILY BALANCE DURING PERIOD:		
Fixed-term loans	\$ 23,737	\$ 15,482
Revolving credit agreement	8,981	12,280
AVERAGE ANNUAL INTEREST RATE DURING PERIOD:		
Fixed-term loans	5.81%	5.67%
Revolving credit agreement	5.66	5.34
AVERAGE ANNUAL INTEREST RATE AT END OF PERIOD:		
Fixed-term loans	6.20%	5.88%
Revolving credit agreement	6.39	6.02

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, entered into a one-year credit agreement effective December 30, 1997, with a commercial bank. The facility expires November 30, 1998 and is guaranteed by Avista Corp. The agreement is uncommitted with a demand feature exercisable by the bank at the bank's sole discretion. All amounts advanced are done so on a demand loan basis. The agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure suppliers of products purchased by the co-borrowers. The credit facility is collateralized by substantially all of Avista Energy's inventory and receivables. The bank may extend credit, subject to the adequacy of collateral, up to \$50 million. 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. The credit facility includes a number of covenants (both affirmative and negative) and default events. At year-end, Avista Energy is in compliance with all such covenants. At year-end there were no cash advances (demand notes payable) and letters of credit outstanding under the facility totaled \$2.75 million.

Non-energy operations have \$80 million in short-term borrowing arrangements available. At December 31, 1997 and 1996, \$18.6 million and \$29.6 million, respectively, were outstanding.

NOTE 13. LEASES

The Company has entered into several lease arrangements involving various assets, with minimum terms ranging from one to fourteen years and expiration dates from 1998 to 2011. Certain of the lease arrangements require the Company, upon the occurrence of specified events, to purchase the leased assets for varying amounts over the term of the lease. The Company's management believes that the likelihood of the occurrence of the specified events under which the Company could be required to purchase the property is remote. Rent expense for the years ended December 31, 1997, 1996 and 1995 was \$16.9 million, \$15.2 million and \$13.0 million, respectively. Future minimum lease payments (in thousands of dollars) required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1997 are estimated as follows:

Year ending December 31:

1998	\$ 7,030
1999	7,059
2000	6,146
2001	5,957
2002	5,840
Later years	31,845
Total minimum payments required	\$ 63,877

The Company also has various other cancellable operating leases, which are charged to operating expense, consisting of the Rathdrum combustion turbines, the Company airplane and a large number of small, relatively short-term, renewable agreements for various items, such as office equipment and office space.

NOTE 14. PREFERRED STOCK

CUMULATIVE PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION:

The Company redeemed its \$50 million of Flexible Auction Preferred Stock, Series J in August 1997. The dividend rate on this preferred stock was reset every 49 days based on an auction. During the time it was outstanding in 1997, the dividend rate varied from 4.06% to 4.60%.

CUMULATIVE PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

Redemption requirements:

\$8.625, Series I - On June 15, 1998, the Company must redeem the remaining 100,000 shares at \$100 per share plus accumulated dividends.

\$6.95, Series K - On September 15, 2002, 2003, 2004, 2005 and 2006, the Company must redeem 17,500 shares at \$100 per share plus accumulated dividends through a mandatory sinking fund. Remaining shares must be redeemed on September 15, 2007. The Company has the right to redeem an additional 17,500 shares on each September 15 redemption date.

There are \$11.75 million in mandatory redemption requirements during the 1998-2002 period.

In June 1997, the Company had a mandatory redemption of \$10 million, or 100,000 shares, and also completed an optional redemption of an additional 100,000 shares, or \$10 million, of its \$8.625 Series I.

The fair value of the Company's preferred stock at December 31, 1997 and 1996 is estimated to be \$49.8 million, or 111% of the carrying value and \$118.3 million, or 103% of the carrying value, respectively. These estimates are based on available market information.

NOTE 15. COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES

On January 23, 1997, Washington Water Power Capital I, a business trust, issued to the public \$60,000,000 of Preferred Trust Securities having a distribution rate of 7 7/8%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued \$1,855,675 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's 7 7/8% Junior Subordinated Deferrable Interest Debentures, Series A, with a principal amount of \$61,855,675. Accordingly, no financial statements have been presented. These debt securities may be redeemed at the Company's option on or after January 15, 2002 and mature January 15, 2037.

On June 3, 1997, Washington Water Power Capital II, a business trust, issued to the public \$50,000,000 of Preferred Trust Securities having a floating distribution rate of LIBOR plus 0.875%, calculated and reset quarterly (initially 6.6875%). The distribution rate at December 31, 1997 was 6.77734%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued \$1,547,000 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's Floating Rate Junior Subordinated Deferrable Interest Debentures, Series B, with a principal amount of \$51,547,000. Accordingly, no financial statements have been presented. These debt securities may be redeemed at the Company's option on or after June 1, 2007 and mature June 1, 2037.

The Company has guaranteed the payment of distributions on, and redemption price and liquidation amount in respect of, the Preferred Trust Securities to the extent that the Trust has funds available for such payment from the debt securities. Upon maturity or prior redemption of such debt securities, the Trust Securities will be mandatorily redeemed. The Company's Consolidated Statements of Capitalization reflect only the \$60 million and \$50 million of Preferred Trust Securities, accordingly all intercompany transactions have been eliminated.

The fair value of the Company's preferred trust securities at December 31, 1997 is estimated to be \$109.4 million, or 99% of the carrying value. These estimates are based on available market information.

NOTE 16. COMMON STOCK

In April 1990, the Company sold 1,000,000 shares of its common stock to the Trustee of the Investment and Employee Stock Ownership Plan for Employees of the Company (Plan) for the benefit of the participants and beneficiaries of the Plan. In payment for the shares of Common Stock, the Trustee issued a promissory note payable to the Company in the amount of \$14,125,000. Dividends paid on the stock held by the Trustee, plus Company contributions to the Plan, if any, are used by the Trustee to make interest and principal payments on the promissory note. The balance of the promissory note receivable from the Trustee (\$9.75 million at December 31, 1997) is reflected as a reduction to common equity. The shares of Common Stock are allocated to the accounts of participants in the Plan as the note is repaid. During 1997, the cost recorded for the Plan was \$3.4 million. Interest on the note payable to the Company, cash and stock contributions to the Plan and dividends on the shares held by the Trustee were \$1.0 million, \$2.6 million and \$1.2 million, respectively.

In February 1990, the Company adopted a shareholder rights plan, which was subsequently amended, pursuant to which holders of Common Stock outstanding on March 2, 1990, or issued thereafter, have been granted one preferred share purchase right (Right) on each outstanding share of Common Stock. Each Right, initially evidenced by and traded with the shares of Common Stock, entitles the registered holder to purchase one two-hundredth of a share of Preferred Stock of the Company, without par value, at an exercise price of \$40, subject to certain adjustments, regulatory approval and other specified conditions. The Rights will be exercisable only if a person or group acquires 10% or more of the Common Stock or announces a tender offer, the consummation of which would result in the beneficial ownership by a person or group of 10% or more of the Common Stock. The Rights may be redeemed, at a redemption price of \$0.005 per Right, by the Board of Directors of the Company at any time until any person or group has acquired 10% or more of the Common Stock. The Rights will expire on February 16, 2000.

During 1992, the Company received authorization to issue 1.5 million shares of Common Stock under a second Periodic Offering Program (POP). No shares were issued under the POP during 1995, 1996 or 1997. At December 31, 1997, 572,400 shares remained authorized but unissued.

The Company has a Dividend Reinvestment and Stock Purchase Plan under which the Company's stockholders may automatically reinvest their dividends and make optional cash payments for the purchase of the Company's Common Stock at current market value.

Beginning in early 1996, shares were purchased on the open market to fulfill obligations of the 401(K) and Dividend Reinvestment Plans. Sales of Common Stock for 1997, 1996 and 1995 are summarized below (thousands of dollars):

	1997		1996		1995	
	Shares	Amount	Shares	Amount	Amount	Shares
Balance at January 1	55,960,360	\$ 594,852	55,947,967	\$ 594,636	54,420,696	\$ 570,603
Employee Investment Plan (401-K)	--	--	--	--	304,353	4,718
Dividend Reinvestment Plan	--	--	12,393	216	1,222,918	19,315
Total Issues	--	--	12,393	216	1,527,271	24,033
Balance at December 31	55,960,360	\$ 594,852	55,960,360	\$ 594,852	55,947,967	\$ 594,636

NOTE 17. 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.

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 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.

FIRESTORM

On October 16, 1991, gale-force winds struck a five-county area in eastern Washington and a seven-county area in northern Idaho. These winds were responsible for causing 92 separate wildland fires, resulting in two deaths and the loss of 114 homes and other structures, some of which were located in the Company's service territory. Five separate class action lawsuits have been filed against the Company by private individuals in the Superior Court for Spokane County. All of these suits were certified as class actions on September 16, 1994, and bifurcated for trial of liability and damage issues by order of the same date.

THE WASHINGTON WATER POWER COMPANY

The Company was also served with two suits in Spokane County Superior Court filed on April 20, 1994 and on September 15, 1994, both of which sought individual damages from separate and for alleged wrongful death of two persons. Five additional and separate suits were brought by Grange Insurance Company, and were filed in Spokane County Superior Court on October 10, 1994, for approximately \$2.2 million paid to Grange insureds for the same fire areas.

A settlement agreement was reached with all parties to the Firestorm litigation and was approved following hearing in the Superior Court of Spokane County on December 4, 1997, and a final order of dismissal with prejudice was entered on December 5, 1997. No appeal resulted from that order. This action resolved all claims pending against the Company relating to the above-mentioned occurrences. The Company's contribution toward the settlement is \$10.3 million, with all but \$1.2 million being covered by insurance proceeds.

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. This action has been temporarily stayed pending the determination of certain legal issues in a similar case filed in the U.S. District Court for the Eastern District of Washington, involving similar facts and circumstances, but which did not otherwise name the Company as a defendant.

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.

OTHER CONTINGENCIES

The Company routinely assesses, based on in-depth studies, expert analyses and legal reviews, its contingencies, obligations and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties who have and have not agreed to a settlement and recoveries from insurance carriers. The Company's policy is to immediately accrue and charge to current expense identified exposures related to environmental remediation sites based on estimates of investigation, cleanup and monitoring costs to be incurred.

The Company must be in compliance with requirements under the Clean Air Act Amendments (CAAA) by the year 2000 at both the Colstrip and Centralia thermal generating plants, in which the Company maintains an ownership interest. The anticipated share of costs at Colstrip are not expected to have a major economic impact on the Company, but estimates at Centralia are expected to be approximately \$35 million, which have been included in the Company's future projected capital expenditures.

The Company has potential liabilities under the Federal Endangered Species Act (ESA) for species of fish that have either already been added to the endangered species list, been listed as "threatened" or been petitioned for listing. Thus far, measures which have been adopted and implemented have had minimal impact of the Company. Future actions to save these, and other as yet unidentified fish or wildlife species, particularly as the Company is relicensing several of its hydroelectric facilities, could impact the Company's operations. It is currently not possible to determine the likely financial impact of any further actions.

The Company has long-term contracts related to the purchase of fuel for thermal generation, natural gas and hydroelectric power. Terms of the natural gas purchase contracts range from one month to five years and the majority provide for minimum purchases at the then effective market rate. The Company also has various agreements for the purchase, sale or exchange of electric energy with other utilities, cogenerators, small power producers and government agencies.

As of December 31, 1997, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers represented approximately 46% of employees. The current agreement with the union local representing the majority of the bargaining unit employees expires on March 25, 1999. A local agreement in the South Lake Tahoe area, which represents 7 employees, also expires on March 25, 1999.

NOTE 18. ACQUISITIONS AND DISPOSITIONS

During 1997, Pentzer acquired three new companies: Target Woodworks, Inc., a Florida-based company; White Plus, a California-based company; and Proco Wood Products, a Minnesota-based company. All three companies provide point-of-purchase and in-store merchandising services. During 1996, Pentzer acquired one company that provides point-of-purchase and in-store merchandising services. In 1995, Pentzer acquired two companies.

In May 1997, Pentzer sold its interest in a portfolio company, Safety Speed Cut, resulting in a gain of approximately \$2.0 million, net of taxes. In 1996, Pentzer Development Corporation, a subsidiary of Pentzer, sold the Spokane Industrial Park, resulting in a gain of approximately \$10.8 million, net of taxes and other adjustments. In February 1998, Pentzer sold its interest in Systran, resulting in a gain of approximately \$5.8 million, net of taxes, which will be included in income in the first quarter of 1998.

NOTE 19. MERGER TERMINATION

On June 28, 1996, the Board of Directors of the Company terminated the Agreement and Plan of Reorganization and Merger, dated as of June 27, 1994 by and among the Company, Sierra Pacific Resources (SPR), Sierra Pacific Power Company, a subsidiary of SPR (SPPC), and Altus Corporation, a wholly owned subsidiary of the Company (Altus, formerly named Resources West Energy Corporation), which would have provided for the merger of the Company, SPR and SPPC with and into Altus. The Company had approximately \$15.8 million, or \$10.3 million after-tax, in merger-related transaction and transition costs that were expensed in 1996. No increase in rates will occur as a result of these costs being expensed.

THE WASHINGTON WATER POWER COMPANY

NOTE 20. SELECTED QUARTERLY INFORMATION (UNAUDITED)

The Company's energy operations are significantly affected by weather conditions. Consequently, there can be large variances in revenues, expenses and net income between quarters based on seasonal factors such as temperatures and streamflow conditions. A summary of quarterly operations (in thousands of dollars except per share amounts) for 1997 and 1996 follows:

	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
1997				
Operating revenues	\$ 284,046	\$ 236,274	\$ 295,076	\$ 486,776
Operating income	64,060	34,669	29,707	61,028
Net income	29,848	48,475	13,237	23,237
Income available for common stock	28,070	46,663	12,258	22,414
Outstanding common stock (000s):				
Weighted average	55,960	55,960	55,960	55,960
Actual	55,960	55,960	55,960	55,960
Earnings per share:				
Energy Delivery and				
Generation and Resources	\$ 0.49	\$ 0.81	\$ 0.12	\$ 0.29
National Energy Trading and Marketing	(0.01)	(0.03)	(0.02)	0.10
Non-energy	0.02	0.05	0.12	0.02
Total, Basic and Diluted	\$ 0.50	\$ 0.83	\$ 0.22	\$ 0.41
Dividends paid per common share	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.31
Trading price range per share:				
High	\$ 19	\$ 19 7/8	\$ 21 1/4	\$ 24 13/16
Low	\$ 17 3/8	\$ 17 3/8	\$ 18 7/8	\$ 18 15/16
1996				
Operating revenues	\$ 248,004	\$ 195,900	\$ 219,751	\$ 281,302
Operating income	66,446	45,888*	35,627	38,960
Net income	41,909	8,968	18,364	14,212
Income available for common stock	39,643	6,827	16,572	12,433
Outstanding common stock (000s):				
Weighted average	55,958	55,960	55,960	55,960
Actual	55,960	55,960	55,960	55,960
Earnings per share:				
Energy Delivery and				
Generation and Resources	\$ 0.50	\$ 0.10	\$ 0.19	\$ 0.18
National Energy Trading and Marketing	--	(0.01)	--	(0.01)
Non-energy	0.21	0.03	0.11	0.05
Total, Basic and Diluted	\$ 0.71	\$ 0.12	\$ 0.30	\$ 0.22
Dividends paid per common share	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.31
Trading price range per share:				
High	\$ 19 1/8	\$ 19 7/8	\$ 19 3/4	\$ 19 3/4
Low	\$ 17 1/4	\$ 17 3/4	\$ 17 7/8	\$ 18

* The amount reported above for Operating Income in the second quarter of 1996 differs from the amount reported in the second quarter Form 10-Q because the merger expenses were retroactively reclassified from operating expenses to non-operating expenses during the third quarter of 1996.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the directors of the Registrant has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 14, 1998.

Executive Officers of the Registrant

Name	Age	Business Experience During Past 5 Years
Paul A. Redmond	61	Chairman of the Board and Chief Executive Officer since August 1996; Chairman of the Board, President and Chief Executive Officer February 1994 - August 1996; Chairman of the Board and Chief Executive Officer May 1988 - February 1994.
W. Lester Bryan	57	President & Chief Operating Officer since August 1996; Senior Vice President - Rates & Resources May 1992 - August 1996.
Jon E. Eliassen	51	Senior Vice President, Chief Financial Officer & Treasurer since November 1997; Senior Vice President & Chief Financial Officer August 1996 - November 1997; Vice President - Finance & Chief Financial Officer February 1986 - August 1996.
Gary G. Ely	50	Senior Vice President & General Manager since August 1996; Vice President - Natural Gas February 1991- August 1996.
Robert D. Fukai	48	Vice President - External Relations since August 1996; Vice President - Human Resources, Corporate Services & Marketing January 1993 - August 1996.
JoAnn G. Matthiesen	57	Vice President - Human Resources since August 1996; Vice President - Organization Effectiveness, Public Relations & Assistant to the Chairman January 1993 - August 1996.
Lawrence J. Pierce	45	Vice President since November 1997; Vice President & Treasurer August 1996 - November 1997; Vice President - Business Analysis August 1994 - August 1996; Director - Business Analysis February 1992 - August 1994.
Ronald R. Peterson	45	Vice President and Controller since February 1998; Controller August 1996 - February 1998; Treasurer February 1992 - August 1996.
Terry L. Syms	49	Vice President and Corporate Secretary since February 1998; Corporate Secretary March 1988 - February 1998.

All of the Company's executive officers, with the exception of Messr. Fukai, were officers or directors of one or more of the Company's subsidiaries in 1997.

Executive officers are elected annually by the Board of Directors.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 14, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

- (a) Security ownership of certain beneficial owners (owning 5% or more of Registrant's voting securities):

None.

- (b) Security ownership of management:

Information regarding security ownership of management has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 14, 1998.

- (c) Changes in control:

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 14, 1998.

PART IV

ITEM 14. FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES, EXHIBITS AND REPORTS ON FORM 8-K

(a) 1. Financial Statements (Included in Part II of this report):

Independent Auditors' Report

Consolidated Statements of Income and Retained Earnings for the
Years Ended December 31, 1997, 1996 and 1995

Consolidated Balance Sheets, December 31, 1997 and 1996

Consolidated Statements of Capitalization, December 31, 1997 and
1996

Consolidated Statements of Cash Flows for the Years Ended
December 31, 1997, 1996 and 1995

Schedule of Information by Business Segments for the Years Ended
December 31, 1997, 1996 and 1995

Notes to Financial Statements

(a) 2. Financial Statement Schedules:

None

(a) 3. Exhibits:

Reference is made to the Exhibit Index commencing on page 62. The Exhibits include the management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K:

Dated June 28, 1997, regarding the Company's receipt of an \$81 million income tax recovery from the Internal Revenue Service.

EXHIBIT INDEX

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
3(a)	1-3701 (with 1994 2nd Quarter 10-Q)	4(a)	Restated Articles of Incorporation of the Company as filed August 4, 1994.
3(b)	1-3701 (with 1996 2nd Quarter 10-Q)	4(a)	Bylaws of the Company, as amended, May 13, 1996.
4(a)-1	2-4077	B-3	Mortgage and Deed of Trust, dated as of June 1, 1939
4(a)-2	2-9812	4(c)	First Supplemental Indenture, dated as of October 1, 1952.
4(a)-3	2-60728	2(b)-2	Second Supplemental Indenture, dated as of May 1, 1953.
4(a)-4	2-13421	4(b)-3	Third Supplemental Indenture, dated as of December 1, 1955.
4(a)-5	2-13421	4(b)-4	Fourth Supplemental Indenture, dated as of March 15, 1967.
4(a)-6	2-60728	2(b)-5	Fifth Supplemental Indenture, dated as of July 1, 1957.
4(a)-7	2-60728	2(b)-6	Sixth Supplemental Indenture, dated as of January 1, 1958.
4(a)-8	2-60728	2(b)-7	Seventh Supplemental Indenture, dated as of August 1, 1958.
4(a)-9	2-60728	2(b)-8	Eighth Supplemental Indenture, dated as of January 1, 1959.
4(a)-10	2-60728	2(b)-9	Ninth Supplemental Indenture, dated as of January 1, 1960.
4(a)-11	2-60728	2(b)-10	Tenth Supplemental Indenture, dated as of April 1, 1964.
4(a)-12	2-60728	2(b)-11	Eleventh Supplemental Indenture, dated as of March 1, 1965.
4(a)-13	2-60728	2(b)-12	Twelfth Supplemental Indenture, dated as of May 1, 1966.
4(a)-14	2-60728	2(b)-13	Thirteenth Supplemental Indenture, dated as of August 1, 1966.
4(a)-15	2-60728	2(b)-14	Fourteenth Supplemental Indenture, dated as of April 1, 1970.
4(a)-16	2-60728	2(b)-15	Fifteenth Supplemental Indenture, dated as of May 1, 1973.
4(a)-17	2-60728	2(b)-16	Sixteenth Supplemental Indenture, dated as of February 1, 1975.
4(a)-18	2-60728	2(b)-17	Seventeenth Supplemental Indenture, dated as of November 1, 1976.
4(a)-19	2-69080	2(b)-18	Eighteenth Supplemental Indenture, dated as of June 1, 1980.
4(a)-20	1-3701 (with 1980 Form 10-K)	4(a)-20	Nineteenth Supplemental Indenture, dated as of January 1, 1981.
4(a)-21	2-79571	4(a)-21	Twentieth Supplemental Indenture, dated as of August 1, 1982.
4(a)-22	1-3701 (with Form 8-K dated September 20, 1983)	4(a)-22	Twenty-First Supplemental Indenture, dated as of September 1, 1983.
4(a)-23	2-94816	4(a)-23	Twenty-Second Supplemental Indenture, dated as of March 1, 1984.

*Incorporated herein by reference.

**Filed herewith.

THE WASHINGTON WATER POWER COMPANY

EXHIBIT INDEX (continued)

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
4(a)-24	1-3701 (with 1986 Form 10-K)	4(a)-24	Twenty-Third Supplemental Indenture, dated as of December 1, 1986.
4(a)-25	1-3701 (with 1987 Form 10-K)	4(a)-25	Twenty-Fourth Supplemental Indenture, dated as of January 1, 1988.
4(a)-26	1-3701 (with 1989 Form 10-K)	4(a)-26	Twenty-Fifth Supplemental Indenture, dated as of October 1, 1989.
4(a)-27	33-51669	4(a)-27	Twenty-Sixth Supplemental Indenture, dated as of April 1, 1993.
4(a)-28	1-3701 (with 1993 Form 10-K)	4(a)-28	Twenty-Seventh Supplemental Indenture, dated as of January 1, 1994.
4(b)-1	1-3701 (with 1989 Form 10-K)	4(e)-1	Loan Agreement between City of Forsyth, Rosebud County, and the Company, dated as of November 1, 1989 (Series 1989 A and 1989 B). Replaces Exhibit 4(e)-1 (agreement between the Company and City of Forsyth, Rosebud County, Montana, dated as of October 1, 1986) filed with Form 10-K for 1986 and Exhibit 4(g)-1 (agreement between the Company and City of Forsyth, Rosebud County, Montana, dated as of April 1, 1987) filed with Form 10-K for 1987.
4(b)-2	1-3701 (with 1989 Form 10-K)	4(e)-2	Indenture of Trust, Pollution Control Revenue Refunding Bonds (Series 1989 A and 1989 B) between City of Forsyth, Rosebud County, Montana and Chemical Bank, dated as of November 1, 1989. Replaces Exhibit 4(e)-2 (Indenture of Trust between City of Forsyth, Rosebud County, Montana and Chemical Bank dated as of October 1, 1986) filed with Form 10-K for 1986 and Exhibit 4(g)-2 (Indenture of Trust between City of Forsyth, Rosebud County, Montana and Chemical Bank, dated as of April 1, 1987) filed with Form 10-K for 1987.
4(c)-1	1-3701 (with 1988 Form 10-K)	4(h)-1	Indenture between the Company and Chemical Bank dated as of July 1, 1988 (Series A and B Medium-Term Notes).
4(d)-1	1-3701 (with 1992 Form 10-K)	4(k)-1	Credit Agreements between the Company and Seattle-First National Bank, West One Bank Idaho, N.A., First Interstate Bank of Washington, N.A., First Security Bank of Idaho, N.A., U.S. Bank of Washington, N.A., and Washington Trust Bank with Seattle-First National Bank as agent, dated as of December 10, 1992.
4(d)-2	1-3701 (with 1995 Form 10-K)	4(k)-2	Third Amendment to Credit Agreements between the Company and Seattle-First National Bank, West One Bank Idaho, N.A., First Interstate Bank of Washington, N.A., First Security Bank of Idaho, N.A., U.S. Bank of Washington, N.A., and Washington Trust Bank with Seattle-First National Bank as agent, dated as of November 21, 1994.

*Incorporated herein by reference.

**Filed herewith.

THE WASHINGTON WATER POWER COMPANY

EXHIBIT INDEX (continued)

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
4(d)-3	**		Fourth Amendment to Credit Agreements between the Company and Bank of America NW, N.A. doing business as Seafirst Bank and formerly known as Seattle-First National Bank, Wells Fargo Bank, N.A. successor by merger with First Interstate Bank of Washington, N.A., First Security Bank of Idaho, N.A., U.S. Bank of Washington, N.A. for itself and as successor by merger with West One Bank, N.A., and Washington Trust Bank; and Seafirst Bank as Agent for the Banks, dated as of September 3, 1996.
4(e)-1	1-3701 (with Form 8-K dated February 16, 1990)	4(n)	Rights Agreement, dated as of February 16, 1990, between the Company and the Bank of New York as successor Rights Agent.
4(e)-2	1-3701 (with 1994 First Quarter Form 10-Q)	4(b)	Amendment No. 1 to Rights Agreement, dated as of May 10, 1994.
4(e)-3	1-3701 (with 1994 Third Quarter Form 10-Q)	4(b)	Amendment No. 2 to Rights Agreement, dated as of June 27, 1994.
4(f)-1	**		Amended and Restated Credit Agreement between the Company and The Toronto-Dominion Bank, The Bank of New York and NationsBank of Texas, N.A. with Toronto Dominion Bank as agent for the Banks, dated as of July 22, 1997.
10(a)-1	2-13788	13(e)	Power Sales Contract (Rocky Reach Project) with Public Utility District No. 1 of Chelan County, Washington, dated as of November 14, 1957.
10(a)-2	2-60728	10(b)-1	Amendment to Power Sales Contract (Rocky Reach Project) with Public Utility District No. 1 of Chelan County, Washington, dated as of June 1, 1968.
10(b)-1	2-13421	13(d)	Power Sales Contract (Priest Rapids Project) with Public Utility District No. 2 of Grant County, Washington, dated as of May 22, 1956.
10(b)-2	2-60728	5(d)-1	Second Amendment to Power Sales Contract (Priest Rapids Project) with Public Utility District No. 2 of Grant County, Washington, dated as of December 19, 1977.
10(c)-1	2-60728	5(e)	Power Sales Contract (Wanapum Project) with Public Utility District No. 2 of Grant County, Washington, dated as of June 22, 1959.
10(c)-2	2-60728	5(e)-1	First Amendment to Power Sales Contract (Wanapum Project) with Public Utility District No. 2 of Grant County, Washington, dated as of December 19, 1977.
10(d)-1	2-60728	5(g)	Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of September 18, 1963.
10(d)-2	2-60728	5(g)-1	Amendment to Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of February 9, 1965.

* Incorporated herein by reference.

** Filed herewith.

EXHIBIT INDEX (continued)

Previously Filed*

Exhibit	With Registration Number	As Exhibit	
10(d)-3	2-60728	5(h)	Reserved Share Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of September 18, 1963.
10(d)-4	2-60728	5(h)-1	Amendment to Reserved Share Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of February 9, 1965.
10(e)	2-60728	5(i)	Canadian Entitlement Exchange Agreement executed by Bonneville Power Administration Columbia Storage Power Exchange and the Company, dated as of August 13, 1964.
10(f)	2-60728	5(j)	Pacific Northwest Coordination Agreement, dated as of September 15, 1964.
10(g)-1	2-60728	5(k)	Ownership Agreement between the Company, Pacific Power & Light Company, Puget Sound Power & Light Company, Portland General Electric Company, Seattle City Light, Tacoma City Light and Grays Harbor and Snohomish County Public Utility Districts as owners of the Centralia Steam Electric Generating Plant, dated as of May 15, 1969.
10(g)-3	1-3701 (with Form 10-K for 1991)	10(h)-3	Centralia Fuel Supply Agreement between PacifiCorp Electric Operations, as the Seller, and the Company, Puget Sound Power & Light Company, Portland General Electric Company, Seattle City Light, Tacoma City Light and Grays Harbor and Snohomish County Public Utility Districts, as the Buyers of coal for the Centralia Steam Electric Generating Plant, dated as of January 1, 1991.
10(h)-1	2-47373	13(y)	Agreement between the Company, Bonneville Power Administration and Washington Public Power Supply System for purchase and exchange of power from the Nuclear Project No. 1 (Hanford), dated as of January 6, 1973.
10(h)-2	2-60728	5(m)-1	Amendment No. 1 to the Agreement between the Company between the Company, Bonneville Power Administration and Washington Public Power Supply System for purchase and exchange of power from the Nuclear Project No. 1 (Hanford), dated as of May 8, 1974.
10(h)-3	1-3701 (with Form 10-K for 1986)	10(i)-3	Agreement between Bonneville Power Administration, the Montana Power Company, Pacific Power & Light, Portland General Electric, Puget Sound Power & Light, the Company and the Supply System for relocation costs of Nuclear Project No. 1 (Hanford) dated as of July 9, 1986.
10(i)-1	2-60728	5(n)	Ownership Agreement of Nuclear Project No. 3, sponsored by Washington Public Power Supply System, dated as of September 17, 1973.
10(i)-2	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	1	Settlement Agreement and Covenant Not to Sue executed by the United States Department of Energy acting by and through the Bonneville Power Administration and the Company, dated as of September 17, 1985, describing the settlement of Project 3 litigation.

* Incorporated herein by reference.

** Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
10(i)-3	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	2	Agreement to Dismiss Claims and Covenant Not to Sue between the Washington Public Power Supply System and the Company, dated as of September 17, 1985, describing the settlement of Project 3 litigation with the Supply System.
10(i)-4	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	3	Agreement among Puget Sound Power & Light Company, the Company, Portland General Electric Company and PacifiCorp, dba Pacific Power & Light Company, agreeing to execute contemporaneously an irrevocable offer, to and for the benefit of the Bonneville Power Administration, dated as of September 17, 1985.
10(j)-2	2-66184	5(r)	Service Agreement (Natural Gas Storage Service), dated as of August 27, 1979, between the Company and Northwest Pipeline Corporation.
10(j)-3	2-60728	5(s)	Service Agreement (Liquefaction-Storage Natural Gas Service), dated as of December 7, 1977, between the Company and Northwest Pipeline Corporation.
10(j)-4	1-3701 (with 1989 Form 10-K)	10(k)-4	Amendment dated as of January 1, 1990, to Firm Transportation Agreement, dated as of June 15, 1988, between the Company and Northwest Pipeline Corporation.
10(j)-6	1-3701 (with 1992 Form 10-K)	10(k)-6	Firm Transportation Service Agreement, dated as of April 25, 1991, between the Company and Pacific Gas Transmission Company.
10(j)-7	1-3701 (with 1992 Form 10-K)	10(k)-7	Service Agreement Applicable to Firm Transportation Service, dated June 12, 1991, between the Company and Alberta Natural Gas Company Ltd.
10(k)-1	1-3701 (with Form 8-K for August 1976)	13(b)	Letter of Intent for the Construction and Ownership of Colstrip Units No. 3 and 4, sponsored by The Montana Power Company, dated as of April 16, 1974.
10(k)-2	1-3701 (with 1981 Form 10-K)	10(s)-7	Ownership and Operation Agreement for Colstrip Units No. 3 and 4, sponsored by The Montana Power Company, dated as of May 6, 1981.
10(k)-3	1-3701 (with 1981 Form 10-K)	10(s)-2	Coal Supply Agreement for Colstrip Units No. 3 and 4 between The Montana Power Company, Puget Sound Power & Light Company, Portland General Electric Company, Pacific Power & Light Company, Western Energy Company and the Company, dated as of July 2, 1980.
10(k)-4	1-3701 (with 1981 Form 10-K)	10(s)-3	Amendment No. 1 to Coal Supply Agreement for Colstrip Units No. 3 and 4, dated as of July 10, 1981.
10(k)-5	1-3701 (with 1988 Form 10-K)	10(l)-5	Amendment No. 4 to Coal Supply Agreement for Colstrip Units No. 3 and 4, dated as of January 1, 1988.
10(l)-1	1-3701 (with 1986 Form 10-K)	10(n)-2	Lease Agreement between the Company and IRE-4 New York, Inc., dated as of December 15, 1986, relating to the Company's central operating facility.

* Incorporated herein by reference.

** Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
10(m)	1-3701 (with 1983 Form 10-K)	10(v)	Supplemental Agreement No. 2, Skagit/Hanford Project, dated as of December 27, 1983, relating to the termination of the Skagit/Hanford Project.
10(n)	1-3701 (with 1986 Form 10-K)	10(p)-1	Agreement for Purchase and Sale of Firm Capacity and Energy between Puget Sound Power & Light Company and the Company, dated as of August 1, 1986.
10(o)	1-3701 (with 1991 Form 10-K)	10(q)-1	Electric Service and Purchase Agreement between Potlatch Corporation and the Company, dated as of January 3, 1991.
10(p)	1-3701 (with 1992 Form 10-K)	10(r)-1	Power Sale Agreement between the Company and the Northern California Power Agency dated October 11, 1991.
10(q)	1-3701 (with 1992 Form 10-K)	10(s)-1	Agreements for Purchase and Sale of Firm Capacity between the Company and Portland General Electric Company dated March and June 1992.
10(r)-1	1-3701 (with 1992 Form 10-K)	10(t)-8	Executive Deferral Plan of the Company. (***)
10(r)-2	1-3701 (with 1992 Form 10-K)	10(t)-9	The Company's Unfunded Outside Director Retirement Plan. (***)
10(r)-3	1-3701 (with 1992 Form 10-K)	10(t)-10	The Company's Unfunded Supplemental Executive Retirement Plan. (***)
10(r)-4	1-3701 (with 1992 Form 10-K)	10(t)-11	The Company's Unfunded Supplemental Executive Disability Plan. (***)
10(r)-5	1-3701 (with 1992 Form 10-K)	10(t)-12	Income Continuation Plan of the Company. (***)
12	**		Statement re computation of ratio of earnings to fixed charges and preferred dividend requirements.
21	**		Subsidiaries of Registrant.
27	**		Financial Data Schedule.

* Incorporated herein by reference.

** Filed herewith.

*** Management contracts or compensatory plans filed as exhibits by reference
per Item 601(10)(iii) of Regulation S-K.

FOURTH AMENDMENT
TO
REVOLVING CREDIT AGREEMENT

THIS AGREEMENT dated as of September 3, 1996 AMENDS that certain Revolving Credit Agreement between The Washington Water Power Company ("Borrower") and the following Banks or their predecessors: Bank of America NW, N.A. doing business as Seafirst Bank and formerly known as Seattle-First National Bank, Wells Fargo Bank, N.A. successor by merger with First Interstate Bank of Washington, N.A., First Security Bank of Idaho, N.A., U.S. Bank of Washington, N.A. for itself and as successor by merger with West One Bank Idaho, N.A., and Washington Trust Bank (the "Banks"); and Seafirst Bank, as Agent for the Banks (the "Agent"), dated as of December 10, 1992 (the "Credit Agreement"), as previously amended on March 1, 1993, January 21, 1994 and November 21, 1994.

WHEREAS, pursuant to Section 2.10 of Credit Agreement, the Borrower requested the extension of the Expiration Date: and

WHEREAS, the Banks would agree to the requested extension only if the Borrower agreed to the following amendment;

THEREFORE, in consideration of the mutual covenants it is HEREBY AGREED as follows:

1. The definition of "Applicable Margin" contained in Section 1 is hereby amended to read as follows:

"Applicable Margin" shall mean on any date, with respect to Eurodollar Loans or ABR Loans, as the case may be, the applicable spreads set forth on the attached Exhibit A based upon the Rating Level on that date.

Each change in the Applicable Margin shall apply to all Eurodollar Loans that are outstanding at any time during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change.

2. The definition of "Commitment Fee" contained in Section 1 is hereby amended to read as follows:

"Commitment Fee" shall mean with respect to each Bank that per annum fee equal to the applicable rate set forth on the attached Exhibit A based upon the Borrower's Rating Level on that date as applied in accordance with Section 2.6(a).

3. The definition of "Rating Level" is hereby amended to read as follows:

"Rating Level" shall mean on any date the following classification of the Borrower's Ratings:

- Rating Level 1 A- or higher by S&P or A3 or higher by Moody's.
- Rating Level 2 Below A- by S&P and below A3 by Moody's, but higher than or equal to BBB by S&P or higher than or equal to Baa2 by Moody's.
- Rating Level 3 Below BBB by S&P or below Baa2 by Moody's.

For purposes of the foregoing, (i) if either Moody's or S&P shall not have in effect a Rating (other than because such rating agency shall no longer be in the business of rating corporate debt obligations), then such rating agency will be deemed to have established a Rating in Level 3: and (ii) if any rating established or deemed to have been established by Moody's or S&P shall be changed (other than as a result of a change in the rating system of either Moody's or S&P), such change shall be effective as of the day after the date on which such change is first announced by the rating agency making such change. If the rating system of either Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Banks shall negotiate in good faith to amend the references to specific ratings in this definition to reflect such changed rating system or the non-availability of ratings from such rating agency.

4. The Expiration Date is extended to December 10, 1999, pursuant to Section 2.10 of the Credit Agreement in the same manner and to the same extent as if there had been no amendment of the Credit Agreement.

5. Except as expressly amended by this Agreement, the Credit Agreement shall continue in full force and effect.

6. This Agreement may be executed in multiple counterparts, including signed facsimile copies followed by delivery to the Agent of the original signed counterpart.

Dated and signed as of this 3rd day of September, 1996.

BORROWER:

THE WASHINGTON WATER POWER COMPANY

By /s/ LAWRENCE J. PIERCE

Its Vice President & Treasurer

EXHIBIT A

	COMMITMENT ----- FEE ---	EURODOLLAR ----- LOAN SPREAD -----	AB -- LOAN SPREAD -----
Rating Level 1	0.09%	0.25%	0
Rating Level 2	0.125%	0.35%	0
Rating Level 3	0.175%	0.475%	0

Agent:

SEAFIRST BANK, as agent
for the Banks

By /s/ DORA A. BROWN

Its Assistant Vice President

Banks:

SEAFIRST BANK

By /s/ DAVID A DEHLENDORF

Its Vice President

WELLS FARGO BANK, N.A. successor by
merger with FIRST INTERSTATE BANK
OF WASHINGTON, N.A.

By -----
Its

FIRST SECURITY BANK OF IDAHO, N.A.

By -----
Its

U.S. BANK OF WASHINGTON, N.A. for
itself and as successor by Merger
with West One Bank of Idaho, N.A.

By -----
Its

WASHINGTON TRUST BANK

By -----
Its

=====
\$50,000,000

AMENDED AND RESTATED
REVOLVING CREDIT AGREEMENT

among

THE WASHINGTON WATER POWER COMPANY,

THE BANKS NAMED HEREIN

and

TORONTO DOMINION (TEXAS), INC.

Dated as of July 22, 1997
=====

TABLE OF CONTENTS

Article	Section	Page
-----		-----
I. DEFINITIONS		
	SECTION 1.01. Defined Terms.....	4
	SECTION 1.02. Terms Generally.....	19
II. THE CREDITS		
	SECTION 2.01. Commitments.....	19
	SECTION 2.02. Loans.....	19
	SECTION 2.03. Notice of Borrowings.....	21
	SECTION 2.04. Notes; Repayment of Loans.....	22
	SECTION 2.05. Fees.....	22
	SECTION 2.06. Interest on Loans.....	23
	SECTION 2.07. Default Interest.....	24
	SECTION 2.08. Alternate Rate of Interest.....	24
	SECTION 2.09. Termination and Reduction of Commitments.....	24
	SECTION 2.10. Prepayment.....	25
	SECTION 2.11. Reserve Requirements; Change in Circumstances.....	25
	SECTION 2.12. Change in Legality.....	27
	SECTION 2.13. Indemnity.....	28
	SECTION 2.14. Pro Rata Treatment.....	29
	SECTION 2.15. Sharing of Setoffs.....	29
	SECTION 2.16. Payments.....	30
	SECTION 2.17. Taxes.....	30
	SECTION 2.18. Termination or Assignment of Commitments Under Certain Circumstances.....	33
III. REPRESENTATIONS AND WARRANTIES		
	SECTION 3.01. Organization; Powers.....	34
	SECTION 3.02. Authorization.....	34
	SECTION 3.03. Enforceability.....	35
	SECTION 3.04. Governmental Approvals.....	35
	SECTION 3.05. Financial Statements.....	35
	SECTION 3.06. No Material Adverse Change.....	36
	SECTION 3.07. Litigation; Compliance with Laws.....	36

Article	Section	Page
-----		-----
	SECTION 3.08. Federal Reserve Regulations.....	36
	SECTION 3.09. Investment Company Act; Public Utility Holding Company Act.....	37
	SECTION 3.10. Use of Proceeds.....	37
	SECTION 3.11. No Material Misstatements.....	37
	SECTION 3.12. Employee Benefit Plans.....	37
	SECTION 3.13. Environmental and Safety Matters.....	38
	SECTION 3.14. Significant Subsidiaries.....	39
IV. CONDITIONS OF LENDING		
	SECTION 4.01. All Borrowings.....	39
	SECTION 4.02. First Borrowing.....	40
V. AFFIRMATIVE COVENANTS		
	SECTION 5.01. Existence; Businesses and Properties.....	41
	SECTION 5.02. Insurance.....	42
	SECTION 5.03. Taxes and Obligations.....	43
	SECTION 5.04. Financial Statements, Reports, etc.....	43
	SECTION 5.05. Litigation and Other Notices.....	44
	SECTION 5.06. ERISA.....	45
	SECTION 5.07. Maintaining Records; Access to Properties and Inspections.....	45
	SECTION 5.08. Use of Proceeds.....	46
VI. NEGATIVE COVENANTS		
	SECTION 6.01. Liens.....	46
	SECTION 6.02. Mergers, Consolidations and Acquisitions.....	50
	SECTION 6.03. Disposition of Assets.....	51
VII. EVENTS OF DEFAULT		
VIII. THE AGENT		

Article Section	Page
-----	----
IX. MISCELLANEOUS	
SECTION 9.01. Notices.....	58
SECTION 9.02. Survival of Agreement.....	59
SECTION 9.03. Binding Effect.....	60
SECTION 9.04. Successors and Assigns.....	60
SECTION 9.05. Expenses; Indemnity.....	64
SECTION 9.06. Right of Setoff.....	65
SECTION 9.07. Applicable Law.....	65
SECTION 9.08. Waivers; Amendment.....	65
SECTION 9.09. Interest Rate Limitation.....	66
SECTION 9.10. Entire Agreement.....	67
SECTION 9.11. Waiver of Jury Trial.....	67
SECTION 9.12. Severability.....	67
SECTION 9.13. Counterparts.....	68
SECTION 9.14. Headings.....	68
SECTION 9.15. Jurisdiction; Consent to Service of Process.....	68

References

Exhibit A	Note
Exhibit B	Assignment and Acceptance
Exhibit C	Administrative Questionnaire
Exhibit D-1	Opinion of General Counsel for the Borrower
Exhibit D-2	Opinion of Special Counsel for the Borrower
Schedule 2.01	Banks
Schedule 3.14	Significant Subsidiaries
Schedule 4.02(c)	Orders of Governmental Authorities

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT dated as of July 22, 1997, among THE WASHINGTON WATER POWER COMPANY, a Washington corporation (herein called the "Borrower"), the banks listed in Schedule 2.01 (the "Banks") and TORONTO DOMINION (TEXAS), INC., as agent for the Banks (in such capacity, the "Agent").

The Borrower has requested that the Banks extend credit to the Borrower in order to enable the Borrower to borrow on a standby revolving credit basis on and after the date hereof, at any time prior to the Expiration Date (as herein defined) a principal amount not in excess of \$50,000,000 at any time outstanding. The proceeds of such borrowings are to be used for general corporate purposes. In consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

ARTICLE I. DEFINITIONS

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"Administrative Questionnaire" shall mean an Administrative Questionnaire in the form of Exhibit C.

"Affiliate" shall mean, when used with respect to a specified person, another person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified.

"Agency Fee" shall have the meaning assigned to such term in Section 2.05(b).

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the

nearest 1/16 of 1%) equal to the greater of (a) the Prime Rate (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) in effect on such day and (b) the sum of (i) the Federal Funds Effective Rate in effect for such day plus (ii) 1/2 of 1%. If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, the Alternate Base Rate shall be determined without regard to clause (b) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist.

"Applicable Fee Percentage" shall mean on any date the applicable percentage set forth below based upon the Ratings:

	Applicable Fee Percentage -----
Level 1	
A- or higher by S&P; and A3 or higher by Moody's Level 2	.09%
BBB+ or higher by S&P; and Baa1 or higher by Moody's Level 3	.125%
BBB or higher by S&P; and Baa2 or higher by Moody's Level 4	.15%
BBB- or higher by S&P; and Baa3 or higher by Moody's Level 5	.1875%
Lower than BBB- by S&P; and Lower than Baa3 by Moody's	.30%

For purposes of the foregoing, (i) if the Ratings in effect on any date fall in different Levels, the Applicable Fee

Percentage shall be determined on such date by reference to the superior (numerically lower) Level, unless the Ratings differ by more than one Level, in which case the applicable Level shall be the Level next below the superior (numerically lower) of the two; (ii) if either Moody's or S&P shall not have in effect a Rating (other than because such rating agency shall no longer be in the business of rating corporate debt obligations), then such rating agency will be deemed to have established a Rating in Level 5; and (iii) if any rating established or deemed to have been established by Moody's or S&P shall be changed (other than as a result of a change in the rating system of either Moody's or S&P), such change shall be effective as of the day after the date on which such change is first announced by the rating agency making such change. Each change in the Applicable Fee Percentage shall apply to the daily unused amount of the relevant Commitment in accordance with Section 2.05 herein during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of either Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Banks shall negotiate in good faith to amend the references to specific ratings in this definition to reflect such changed rating system or the non-availability of ratings from such rating agency.

"Applicable Margin" shall mean on any date, with respect to Eurodollar Loans or ABR Loans, as the case may be, the applicable percentage set forth below based upon the Ratings:

	Eurodollar Loan Spread -----	ABR Loan Spread -----
Level 1		
A- or higher by S&P; and A3 or higher by Moody's	.25%	0%
Level 2		
BBB+ by S&P; and Baa1 by Moody's	.375%	0%

	Eurodollar Loan Spread -----	ABR Loan Spread -----
Level 3		
BBB by S&P; and Baa2 by Moody's Level 4	.45%	0%
BBB- by S&P; and Baa3 by Moody's Level 5	.625%	.50%
Lower than BBB- by S&P; and Lower than Baa3 by Moody's	1.00%	.50%

For purposes of the foregoing, (i) if the Ratings in effect on any date fall in different Levels, the Applicable Margin shall be determined on such date by reference to the superior (numerically lower) Level, unless the Ratings differ by more than one Level, in which case the applicable Level shall be the Level next below the superior (numerically lower) of the two; (ii) if either Moody's or S&P shall not have in effect a Rating (other than because such rating agency shall no longer be in the business of rating corporate debt obligations), then such rating agency will be deemed to have established a Rating in Level 5; and (iii) if any rating established or deemed to have been established by Moody's or S&P shall be changed (other than as a result of a change in the rating system of either Moody's or S&P), such change shall be effective as of the day after the date on which such change is first announced by the rating agency making such change. Each change in the Applicable Margin shall apply to all Eurodollar Loans that are outstanding at any time during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of either Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Banks shall negotiate in good faith to amend the references to specific ratings in this definition to reflect such changed rating system or the non-availability of ratings from such rating agency.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Bank and an assignee, and accepted by the Agent and the Borrower, in the form of Exhibit B or such other form as shall be approved by the Agent.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States.

"Borrowing" shall mean a group of Loans of a single Type made by the Banks on a single date and as to which a single Interest Period is in effect.

"Business Day" shall mean any day (other than a day which is a Saturday, Sunday or legal holiday in the State of New York) on which banks are open for business in New York City; provided, however, that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Lease Obligations" of any person shall mean the obligations of such person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such person under GAAP and, for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"Closing Date" shall mean the date of this Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.

"Commitment" shall mean, with respect to each Bank, the commitment of such Bank to make Loans hereunder as set forth in Section 2.01, as the same may be reduced from time to time pursuant to Section 2.09.

"Commitment Fee" shall have the meaning assigned to such term in Section 2.05(a).

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract or otherwise, and "Controlling" and "Controlled" shall have meanings correlative thereto.

"Default" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"dollars" or "\$" shall mean lawful money of the United States of America.

"Environmental Law" shall mean any and all applicable present and future treaties, laws, regulations, enforceable requirements, binding determinations, orders, decrees, judgments, injunctions, permits, approvals, authorizations, licenses, permissions, notices or binding agreements issued, promulgated or entered by any Governmental Authority, relating to the environment, preservation or reclamation of natural resources, or to the management, release or threatened release of contaminants or noxious odor, including the Hazardous Materials Transportation Act, Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, Clean Air Act of 1970, as amended, Toxic Substances Control Act of 1976, Occupational Safety and Health Act of 1970, as amended, Emergency Planning and Community Right-to-Know Act of 1986, Safe Drinking Water Act of 1974, as amended, and any similar or implementing state law, and all amendments or regulations promulgated there under.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) that is a member of a group of which the Borrower is a member and which is treated as a single employer under Section 414 of the Code.

"Eurodollar Borrowing" shall mean a Borrowing comprised of Eurodollar Loans.

"Eurodollar Loan" shall mean any Loan bearing interest at a rate determined by reference to the Eurodollar Rate in accordance with the provisions of Article II.

"Eurodollar Rate" shall mean, with respect to any Eurodollar Loan for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the product of (i) the LIBO Rate in effect for such Interest Period and (ii) Statutory Reserves. For purposes hereof, the term "LIBO Rate" shall mean an interest rate per annum equal to the arithmetic average (rounded upwards, if necessary, to the next 1/100 of 1%) of rates at which dollar deposits approximately equal to the principal amount of the portion of such Eurodollar Loan to be made by The Toronto-Dominion Bank, and for a maturity equal to the applicable Interest Period, are offered to the London branch of The Toronto-Dominion Bank in the London interbank market for Eurodollars at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Event of Default" shall have the meaning assigned to such term in Article VII.

"Expiration Date" shall mean the third anniversary of the date of this Agreement.

"Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Fees" shall mean the Commitment Fee and the Agency Fee.

"Financial Officer" of any corporation shall mean the chief financial officer or Treasurer of such corporation.

"First Mortgage" shall mean the Mortgage and Deed of Trust dated as of June 1, 1939, made by the Borrower in favor of Citibank, N.A., as successor Trustee, as the same has been amended, modified or supplemented to date and as the same may be further amended, modified or supplemented from time to time hereafter.

"GAAP" shall mean generally accepted accounting principles, applied on a consistent basis.

"Governmental Authority" shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Guarantee" of or by any person shall mean any obligation, contingent or otherwise, of such person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (b) to purchase property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness or (c) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness; provided, however, that the term Guarantee shall not include endorsements for collection or deposit, in either case in the ordinary course of business.

"Indebtedness" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such person upon which interest charges are customarily paid, (d) all obligations of such person under conditional sale or other title retention agreements relating to property or assets purchased by such person, (e) all obligations of such person issued or assumed as the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contin-

gent or otherwise, to be secured by) any Lien on property owned or acquired by such person, whether or not the obligations secured thereby have been assumed, but limited, if such obligations are without recourse to such person, to the lesser of the principal amount of such Indebtedness or the fair market value of such property, (g) all Guarantees by such person of Indebtedness of others, (h) all Capital Lease Obligations of such person, (i) all obligations of such person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the amount that would be payable upon the acceleration, termination or liquidation thereof) and (j) all obligations of such person as an account party in respect of letters of credit and bankers' acceptances. The Indebtedness of any person shall include the Indebtedness of any partnership in which such person is a general partner.

"Interest Payment Date" shall mean, with respect to any Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day that would have been an Interest Payment Date had successive Interest Periods of three months' duration been applicable to such Borrowing, and, in addition, the date of any refinancing or conversion of such Borrowing with or to a Borrowing of a different Type.

"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter, as the Borrower may elect and (b) as to any ABR Borrowing, the period commencing on the date of such Borrowing and ending on the earliest of (i) the next succeeding March 31, June 30, September 30 or December 31, (ii) the Expiration Date, and (iii) the date such Borrowing shall be repaid or prepaid in accordance with Section 2.10; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next

preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Lien" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loans" shall mean the revolving loans made by the Banks to the Borrower pursuant to Section 2.01. Each Loan shall be a Eurodollar Loan or an ABR Loan.

"Loan Documents" shall mean this Agreement and the Notes.

"Margin Stock" shall have the meaning given such term under Regulation U.

"Material Adverse Effect" shall mean an effect on the business, assets, operations or financial condition of the Borrower and the Subsidiaries taken as a whole which could reasonably be expected to have a material adverse effect on the creditworthiness of the Borrower.

"Moody's" shall mean Moody's Investors Service, Inc.

"Notes" shall mean promissory notes of the Borrower, substantially in the form of Exhibit A, evidencing Loans.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"person" shall mean a corporation, association, partnership, trust, organization, business, individual or government or governmental agency or political subdivision thereof.

"Plan" shall mean any pension plan subject to the provisions of Title IV of ERISA or Section 412 of the Code

which is maintained for employees of the Borrower or any ERISA Affiliate.

"Prime Rate" shall mean the rate of interest per annum adopted from time to time by The Toronto-Dominion Bank at its principal office in New York City as its prime rate. For purposes of this Agreement, any change in the Alternate Base Rate due to a change in the Prime Rate shall be effective on the date such change in the Prime Rate is adopted.

"Ratings" shall refer to the ratings of Moody's and S&P applicable to the Borrower's senior secured long-term debt obligations.

"Register" shall have the meaning given to such term in Section 9.04(d).

"Regulation D" shall mean Regulation D of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof and shall include any successor or other regulation or official interpretation of the Board relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Regulation G" shall mean Regulation G of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Reportable Event" shall mean any reportable event as defined in Section 4043(b) of ERISA or the regulations issued thereunder with respect to a Plan (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code).

"Required Banks" shall mean, at any time, Banks holding Loans representing at least 66-2/3% of the aggregate principal amount of the Loans outstanding or, if no Loans

are outstanding, Banks having Commitments representing at least 66-2/3% of the aggregate Commitments.

"Responsible Officer" of any corporation shall mean any executive officer or Financial Officer of such corporation and any other officer or similar official thereof responsible for the administration of the obligations of such corporation in respect of this Agreement.

"S&P" shall mean Standard & Poor's Ratings Services.

"Significant Subsidiary" shall mean a Subsidiary meeting any one of the following conditions: (a) the investments in and advances to such Subsidiary by the Borrower and the other Subsidiaries, if any, as at the end of the Borrower's latest fiscal quarter exceeded 10% of the total assets of the Borrower and its Subsidiaries at such date, computed and consolidated in accordance with GAAP; or (b) the Borrower's and the other Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of such Subsidiary as at the end of the Borrower's latest fiscal quarter exceeded 10% of the total assets of the Borrower and its Subsidiaries at such date, computed and consolidated in accordance with GAAP; or (c) the equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of such Subsidiary for the period of four consecutive fiscal quarters ending at the end of the Borrower's latest fiscal quarter exceeded 10% of such income of the Borrower and its Subsidiaries for such period, computed and consolidated in accordance with GAAP; or (d) such Subsidiary is the parent of one or more Subsidiaries and, together with such Subsidiaries would, if considered in the aggregate, constitute a Significant Subsidiary.

"Statutory Reserves" shall mean a fraction (expressed as a decimal) the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including, without limitation, any marginal, special, emergency or supplemental reserves) with respect to Eurodollar funding (including with respect to Eurocurrency Liabilities as defined in Regulation D) in an amount approximately equal to the respective Eurodollar Loan and with a term approximately equal to the Interest Period for such Eurodollar Loan

expressed as a decimal established by the Board or by any other United States banking authority to which the Agent is subject. Such reserve percentages shall include, without limitation, those imposed under Regulation D. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"subsidiary" shall mean, for any person (the "Parent"), any corporation, partnership or other entity of which securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) are at the time directly or indirectly owned or controlled by the Parent or one or more of its subsidiaries or by the Parent and one or more of its subsidiaries.

"Subsidiary" shall mean a subsidiary of the Borrower.

A "Subsidiary Event" shall mean the following; provided, however, that a Subsidiary Event shall not be deemed to have occurred if the Banks have previously consented thereto:

(a) any Significant Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in Section 5.01(a) as if such section applied to such Significant Subsidiary, with all references therein to the Borrower being deemed references to such Significant Subsidiary;

(b) any Significant Subsidiary shall fail to observe or perform any covenant, condition or agreement in Sections 5.01(b), 5.02, 5.03 or 5.07 as if such sections applied to such Significant Subsidiary, with all references therein to the Borrower being deemed references to such Significant Subsidiary, and such default shall continue unremedied for a period of 30 days after notice thereof from the Agent or any Bank to the Borrower;

(c) any Significant Subsidiary shall:

(i) merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of such Significant Subsidiary's business, except that if, at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing, then (A) such Significant Subsidiary may (i) merge with or into, or consolidate with, any Subsidiary or (ii) merge with or into, or consolidate with, the Borrower in a transaction in which the Borrower is the surviving corporation, (B) such Significant Subsidiary may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary, (C) such Significant Subsidiary may merge with or into, or consolidate with, any other person so long as the assets of such person at the time of such consolidation or merger, do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (D) such Significant Subsidiary may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as the assets being purchased, leased or acquired (or the Significant Subsidiary's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied, or

(ii) sell, lease, transfer, assign or otherwise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or dispositions by the Borrower permitted under Section 6.03 (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (i) through (iv) of such Section), are in excess of 10% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, except (A) a Significant Subsidiary may sell, lease, transfer, assign or otherwise dispose of, in any fiscal year, assets in the ordinary course of business which, together with the amount of all sales, leases, transfers, assignments or dispositions in the ordinary course permitted under Section 6.03(i), do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (B) to the extent permitted in clause (c)(i) above and (C) any Significant Subsidiary may sell, lease, transfer, assign or otherwise dispose of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein;

provided, however, that, notwithstanding anything in this clause (c) to the contrary, a Subsidiary Event shall not be deemed to have occurred and shall not constitute an Event of Default under paragraph (k) of Article VII if, after giving effect to the consummation of any transaction contemplated by clause (c)(i) or (c)(ii) hereof, such Significant Subsidiary shall have or shall be deemed to have a ratio of total long-term Indebtedness to total stockholders' equity equal to or less than 1.5 to 1.0.

"Transactions" shall have the meaning assigned to such term in Section 3.02.

"Type", when used in respect of any Loan or Borrowing, shall refer to the Rate by reference to which interest on such Loan or on the Loans comprising such

Borrowing is determined. For purposes hereof, "Rate" shall include the Eurodollar Rate and the Alternate Base Rate.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that, for purposes of determining compliance with any covenant set forth in Article VI, such terms shall be construed in accordance with GAAP as in effect on the date of this Agreement applied on a basis consistent with the application used in preparing the Borrower's audited financial statements referred to in Section 3.05.

ARTICLE II. THE CREDITS

SECTION 2.01. Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank agrees, severally and not jointly, to make Loans to the Borrower, at any time and from time to time on or after the date of this Agreement, and until the earlier of the Expiration Date and the termination of the Commitment of such Bank in accordance with the terms hereof, in an aggregate principal amount at any time outstanding not to exceed the Commitment set forth opposite its name in Schedule 2.01 hereto, as the same may be reduced from time to time pursuant to Section 2.09.

Within the limits set forth in the preceding sentence, the Borrower may borrow, pay or prepay and reborrow Loans on or after the date of this Agreement and prior to the Expiration Date, subject to the terms, conditions and limitations set forth herein.

SECTION 2.02. Loans. (a) Each Loan shall be made as part of a Borrowing consisting of Loans made by the

Banks ratably in accordance with their Commitments; provided, however, that the failure of any Bank to make any Loan shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure of any other Bank to make any Loan required to be made by such other Bank). The Loans comprising each Borrowing shall be in an aggregate principal amount which is an integral multiple of \$1,000,000.

(b) Each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans, as the Borrower may request pursuant to Section 2.03. Each Bank may at its option fulfill its Commitment with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Bank to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement and the applicable Note. Borrowings of more than one Type may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing which, if made, would result in an aggregate of more than five separate Eurodollar Loans of any Bank being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Subject to paragraph (e) below, each Bank shall make a Loan in the amount of its pro rata portion, as determined under Section 2.14, of each Borrowing hereunder on the proposed date thereof by wire transfer of immediately available funds to the Agent in Houston, Texas, not later than 2:00 p.m., New York City time, and the Agent shall by 3:00 p.m., New York City time, make available to the Borrower in immediately available funds the amounts so received (i) by wire transfer for credit to the account of the Borrower with Seattle First National Bank, Account Number 13972-203; ABA # 12500002-4, or (ii) as otherwise specified by the Borrower in its notice of Borrowing or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Unless the Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Agent such Bank's portion of such Borrowing, the Agent may assume that such Bank has made such

portion available to the Agent on the date of such Borrowing in accordance with this paragraph (c) and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such portion available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Agent such corresponding amount, such amount shall constitute such Bank's Loan as part of such Borrowing for purposes of this Agreement.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Borrowing if the Interest Period requested with respect thereto would end after the Expiration Date.

(e) The Borrower may refinance all or any part of any Borrowing with a Borrowing of the same or a different Type, subject to the conditions and limitations set forth in this Agreement. Any Borrowing or part thereof so refinanced shall be deemed to be repaid or prepaid in accordance with Section 2.04 or 2.10, as applicable, with the proceeds of a new Borrowing, and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Banks to the Agent or by the Agent to the Borrower pursuant to paragraph (c) above.

SECTION 2.03. Notice of Borrowings. The Borrower shall give the Agent written or telecopy notice (or telephone notice promptly confirmed in writing or by telecopy) (a) in the case of a Eurodollar Borrowing, not later than 10:00 a.m., New York City time, three Business Days before a proposed borrowing and (b) in the case of an ABR Borrowing, not later than 12:00 (noon), New York City time, the day of a proposed borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (i) whether the Borrowing then being requested is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (iii) if such Borrowing is to be a

Eurodollar Borrowing, the Interest Period with respect thereto. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If the Borrower shall not have given notice in accordance with this Section 2.03 of its election to refinance a Borrowing prior to the end of the Interest Period in effect for such Borrowing, then the Borrower shall (unless such Borrowing is repaid at the end of such Interest Period) be deemed to have given notice of an election to refinance such Borrowing with an ABR Borrowing. The Agent shall promptly advise the Banks of any notice given pursuant to this Section 2.03 and of each Bank's portion of the requested Borrowing.

SECTION 2.04. Notes; Repayment of Loans. The Loans made by each Bank shall be evidenced by a Note, duly executed on behalf of the Borrower, dated the date of this Agreement, in substantially the form attached hereto as Exhibit A, with the blanks appropriately filled, payable to the order of such Bank in a principal amount equal to such Bank's Commitment. The outstanding principal balance of each Loan, as evidenced by such a Note, shall be payable on the last day of the Interest Period applicable to such Loan and on the Expiration Date. Each Note shall bear interest from the date of the first borrowing hereunder on the outstanding principal balance thereof as set forth in Section 2.06. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to each Note delivered to such Bank (or on a continuation of such schedule attached to such Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of each Loan from such Bank, each payment and prepayment of principal of any such Loan, each payment of interest on any such Loan and the other information provided for on such schedule; provided, however, that any such recordation shall be conclusive absent manifest error and the failure of any Bank to make such a notation or any error therein shall not affect the obligation of the Borrower to repay the Loans made by such Bank in accordance with the terms of this Agreement and the applicable Notes.

SECTION 2.05. Fees. (a) The Borrower agrees to pay to each Bank, through the Agent, on the first day of

January, April, July and October, in each year, and on the date on which the Commitment of such Bank shall be terminated as provided herein, a commitment fee (a "Commitment Fee") on the average daily unused amount of the Commitment of such Bank during the preceding quarter (or shorter period commencing with the date hereof or ending with the Expiration Date or the date on which the Commitment of such Bank shall be terminated). The Commitment Fees shall accrue on each day at a rate per annum equal to the Applicable Fee Percentage in effect on such day. All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 365 or 366 days, as appropriate. The Commitment Fee due to each Bank shall commence to accrue on the date of this Agreement and shall cease to accrue on the date on which the Commitment of such Bank shall be terminated as provided herein.

(b) The Borrower agrees to pay to the Agent, for its own account, the fee set forth in the fee letter dated July 22, 1997, between the Agent and the Borrower, at the times set forth therein (the "Agency Fee").

(c) All Fees shall be paid on the dates due, in immediately available funds, to the Agent for distribution, if and as appropriate, among the Banks. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.06. Interest on Loans. (a) Subject to the provisions of Section 2.07, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) at a rate per annum equal to the Alternate Base Rate plus the Applicable Margin.

(b) Subject to the provisions of Section 2.07, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Applicable Margin.

(c) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate or Eurodollar Rate for each Interest Period or day within an Interest Period, as the case may be,

shall be determined by the Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.07. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, the Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the Alternate Base Rate plus the Applicable Margin plus 2%.

SECTION 2.08. Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Agent shall have in good faith determined that dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the majority in interest of the Banks of making or maintaining their Eurodollar Loans during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Agent shall, as soon as practicable thereafter, give written or telecopy notice of such determination to the Borrower and the Banks. In the event of any such determination, any request by the Borrower for a Eurodollar Borrowing pursuant to Section 2.03 shall, until the Agent shall have advised the Borrower and the Banks that the circumstances giving rise to such notice no longer exist, be deemed to be a request for an ABR Borrowing. Each determination by the Agent hereunder shall be conclusive absent manifest error.

SECTION 2.09. Termination and Reduction of Commitments. (a) The Commitments shall be automatically terminated on the Expiration Date.

(b) Upon at least three Business Days' prior irrevocable written or telecopy notice to the Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the unused portion of the Commitments; provided, however, that each partial reduction of the Commitments shall be in an integral multiple of \$1,000,000.

(c) Each reduction in the Commitments hereunder shall be made ratably among the Banks in accordance with their respective applicable Commitments. The Borrower shall pay to the Agent for the account of the Banks, on the date of each termination or reduction, the Commitment Fees on the amount of the Commitments so terminated or reduced accrued through the date of such termination or reduction.

SECTION 2.10. Prepayment. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least three Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Agent; provided, however, that each partial prepayment shall be in an amount which is an integral multiple of \$1,000,000.

(b) On the date of any termination or reduction of the Commitments pursuant to Section 2.09, the Borrower shall pay or prepay so much of the Borrowings as shall be necessary in order that the aggregate principal amount of the Loans outstanding will not exceed the aggregate Commitments after giving effect to such termination or reduction.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.10 shall be subject to Section 2.13 but otherwise without premium or penalty. All prepayments under this Section 2.10 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

SECTION 2.11. Reserve Requirements; Change in Circumstances. (a) Notwithstanding any other provision herein, if after the date of this Agreement there is adopted any new law, rule or regulation or any change in applicable law or regulation or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) which shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by such Bank (except any such reserve requirement which is reflected in the Eurodollar

Rate) or shall impose on such Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Bank, and the result of any of the foregoing shall be to increase the cost to such Bank of making or maintaining any Eurodollar Loan or to reduce the amount of any sum received or receivable by such Bank hereunder or under the Notes (whether of principal, interest or otherwise) in respect of Eurodollar Loans by an amount deemed by such Bank to be material, then the Borrower will pay to such Bank upon demand such additional amount or amounts as will compensate such Bank for such additional costs incurred or reduction suffered.

(b) If any Bank shall have determined that the applicability of any law, rule, regulation, agreement or guideline adopted after the date hereof regarding capital adequacy, or any change in any of the foregoing or the adoption after the date hereof of any change in any law, rule, regulation, agreement or guideline existing on the date hereof or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or any lending office of such Bank) or any Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of this Agreement or the Loans made by such Bank pursuant hereto to a level below that which such Bank or such Bank's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered.

(c) A certificate of each Bank setting forth in reasonable detail such amount or amounts as shall be necessary to compensate such Bank or its holding company as specified in paragraph (a) or (b) above, as the case may be, and the manner in which such Bank has determined the same, shall be delivered to the Borrower and shall be conclusive

absent manifest error. The Borrower shall pay each Bank the amount shown as due on any such certificate delivered by it within 10 days after its receipt of the same.

(d) Failure on the part of any Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any period shall not constitute a waiver of such Bank's right to demand compensation with respect to such period or any other period. The protection of this Section shall be available to each Bank regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed.

SECTION 2.12. Change in Legality. (a) Notwithstanding any other provision herein, if any change in, or adoption of, any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for any Bank to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Agent, such Bank may:

(i) declare that Eurodollar Loans will not there after be made by such Bank hereunder, whereupon any request by the Borrower for a Eurodollar Borrowing shall, as to such Bank only, be deemed a request for an ABR Loan unless such declaration shall be subsequently withdrawn; and

(ii) require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below.

In the event any Bank shall exercise its rights under (i) or (ii) above, all payments and prepayments of principal which would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Bank or the converted Eurodollar Loans of such Bank shall instead be applied to repay the ABR Loans made by such Bank in lieu of, or resulting from the conversion of, such Eurodollar Loans.

(b) For purposes of this Section 2.12, a notice to the Borrower by any Bank shall be effective as to each Eurodollar Loan, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan.

SECTION 2.13. Indemnity. The Borrower shall indemnify each Bank against any loss or expense which such Bank may sustain or incur as a consequence of (a) any failure by the Borrower to fulfill on the date of any Eurodollar Borrowing hereunder the applicable conditions set forth in Article IV, (b) any failure by the Borrower to borrow or to refinance any Eurodollar Loan hereunder after irrevocable notice of such borrowing or refinancing has been given pursuant to Section 2.03, (c) any payment or prepayment of a Eurodollar Loan required by any other provision of this Agreement or otherwise made or deemed made on a date other than the last day of the Interest Period applicable thereto or (d) any default in payment or prepayment of the principal amount of any Eurodollar Loan or any part thereof or interest accrued thereon, as and when due and payable (at the due date thereof, whether by scheduled maturity, acceleration, irrevocable notice of prepayment or otherwise) including, in each such case, any loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan. Such loss or reasonable expense shall include an amount equal to the excess, if any, as reasonably determined by such Bank, of (i) its cost of obtaining the funds for the Eurodollar Loan being paid, prepaid, converted or not borrowed (assumed to be the Eurodollar Rate applicable thereto) for the period from the date of such payment, prepayment, conversion or failure to borrow to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for such Eurodollar Loan which would have commenced on the date of such failure) over (ii) the amount of interest (as reasonably determined by such Bank) that would be realized by such Bank in reemploying the funds so paid, prepaid or not borrowed for such period or Interest Period, as the case may be. A certificate of any Bank setting forth any amount or amounts which such Bank is entitled to receive pursuant to this Section, and the manner in which such Bank has determined the same, shall be delivered to the Borrower and shall be conclusive absent manifest error.

SECTION 2.14. Pro Rata Treatment. Except as required under Section 2.12, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each reduction of the Commitments and each refinancing of any Borrowing with a Borrowing of any Type shall be allocated pro rata among the Banks in accordance with their respective applicable Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans). Each Bank agrees that in computing such Bank's portion of any Borrowing to be made hereunder, the Agent may, in its discretion, round each Bank's percentage of such Borrowing, computed in accordance with Section 2.01, to the next higher or lower whole dollar amount.

SECTION 2.15. Sharing of Setoffs. Each Bank agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Bank under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Loan or Loans as a result of which the unpaid principal portion of its Loans shall be proportionately less than the unpaid principal portion of the Loans of any other Bank, it shall be deemed simultaneously to have purchased from such other Bank at face value, and shall promptly pay to such other Bank the purchase price for, a participation in the Loans of such other Bank, so that the aggregate unpaid principal amount of the Loans and participations in Loans held by each Bank shall be in the same proportion to the aggregate unpaid principal amount of all Loans then outstanding as the principal amount of its Loans prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Loans outstanding prior to such exercise of banker's lien, setoff or counterclaim or other event; provided, however, that, if any such purchase or purchases or adjustments shall be made pursuant to this Section and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Bank holding a

participation in a Loan deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Bank by reason thereof as fully as if such Bank had made a Loan directly to the Borrower in the amount of such participation.

SECTION 2.16. Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder and under any other Loan Document not later than 12:00 (noon), New York City time, on the date when due in dollars to the Agent at its offices at 909 Fannin, Suite 1700, Houston, Texas, in immediately available funds.

(b) Whenever any payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder or under any other Loan Document shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

SECTION 2.17. Taxes. (a) Any and all payments by the Borrower hereunder shall be made, in accordance with Section 2.16, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the net income of the Agent or any Bank (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and franchise taxes imposed on the Agent or any Bank (or Transferee) by the United States or any jurisdiction under the laws of which the Agent or any such Bank (or Transferee) or the applicable lending office is organized or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Banks (or any Transferee) or the Agent, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.17) such Bank (or Transferee) or the Agent (as the case may be) shall receive an amount

equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law; provided, however, that no Transferee of any Bank shall be entitled to receive any greater payment under this paragraph (a) than such Bank would have been entitled to receive with respect to the rights assigned, participated or otherwise transferred unless such assignment, participation or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) The Borrower will indemnify each Bank (or Transferee) and the Agent for the full amount of Taxes and Other Taxes paid by such Bank (or Transferee) or the Agent, as the case may be, and any liability (including penalties, interest and reasonable expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Bank (or Transferee) or the Agent, as the case may be, makes written demand therefor. If a Bank (or Transferee) or the Agent shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.17, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Bank (or Transferee) or the Agent receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.17, it shall promptly notify the Borrower of such refund and shall repay such refund to the Borrower (to the extent of amounts that have been paid by the Borrower under this Section 2.17 with respect to such refund) within 30 days (or promptly upon receipt, if the Borrower has requested application for such refund pursuant

hereto), net of all out-of-pocket expenses of such Bank and without interest; provided that the Borrower, upon the request of such Bank (or Transferee) or the Agent, agrees to return such refund (plus penalties, interest or other charges) to such Bank (or Transferee) or the Agent in the event such Bank (or Transferee) or the Agent is required to repay such refund. Nothing contained in this paragraph (c) shall require any Bank (or Transferee) or the Agent to make available any of its tax returns (or any other information relating to its taxes which it deems to be confidential); provided that Borrower, at its expense, shall have the right to receive an opinion from a firm of independent public accountants of recognized national standing acceptable to the Borrower that the amount due hereunder is correctly calculated.

(d) Within 30 days after the date of any payment of Taxes or Other Taxes withheld by the Borrower in respect of any payment to any Bank (or Transferee) or the Agent, the Borrower will furnish to the Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.17 shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(f) On or prior to the execution of this Agreement and on or before the transfer to a Transferee, the Agent shall notify the Borrower of each Bank's (or Transferee's) address. On or prior to the Banks' (or Transferee's) first Interest Payment Date, and from time to time as required by law, each Bank (or Transferee) that is organized under the laws of a jurisdiction outside the United States shall, if legally able to do so, deliver to the Borrower and the Agent such certificates, documents or other evidence, as required by the Code or Treasury Regulations issued pursuant thereto, including Internal Revenue Service Form 1001 or Form 4224 and any other certificate or statement of exemption required by Treasury Regulation Section 1.1441-1, 1.1441-4 or 1.1441-6(c) or any subsequent version thereof or successors thereto, properly completed and duly executed by such Bank (or Transferee) establishing that such payment is (i) not subject to United States Federal withholding tax under the Code because such payment

is effectively connected with the conduct by such Bank (or Transferee) of a trade or business in the United States or (ii) totally exempt from United States Federal withholding tax, or subject to a reduced rate of such tax under a provision of an applicable tax treaty. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that such payments hereunder or under the Notes are not subject to United States Federal withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower shall withhold taxes from such payments at the applicable statutory rate.

(g) The Borrower shall not be required to pay any additional amounts to any Bank (or Transferee) in respect of United States Federal withholding tax pursuant to paragraph (a) above if the obligation to pay such additional amounts would not have arisen but for a failure by such Bank (or Transferee) to comply with the provisions of paragraph (f) above; provided, however, that the Borrower shall be required to pay those amounts to any Bank (or Transferee) that it was required to pay hereunder prior to the failure of such Bank (or Transferee) to comply with the provisions of such paragraph (f).

SECTION 2.18. Termination or Assignment of Commitments Under Certain Circumstances. (a) Any Bank (or Transferee) claiming any additional amounts payable pursuant to Section 2.11 or Section 2.17 or exercising its rights under Section 2.12 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the sole determination of such Bank, be otherwise disadvantageous to such Bank (or Transferee).

(b) In the event that any Bank shall have delivered a notice or certificate pursuant to Section 2.11 or 2.12, or the Borrower shall be required to make additional payments under Section 2.17 to any Bank (or Transferee) or to the Agent with respect to any Bank (or Transferee), the Borrower shall have the right, at its own expense, upon notice to such Bank (or Transferee) and the Agent, (a) to terminate the Commitment of such Bank (or Transferee) or

(b) to require such Bank (or Transferee) to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.04) all its interests, rights and obligations under this Agreement to another financial institution which shall assume such obligations; provided that (i) no such termination or assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the Borrower or the assignee, as the case may be, shall pay to the affected Bank (or Transferee) in immediately available funds on the date of such termination or assignment the principal of and interest accrued to the date of payment on the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to each of the Banks that:

SECTION 3.01. Organization; Powers. Each of the Borrower and the Significant Subsidiaries (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, (c) is qualified to do business in every jurisdiction where such qualification is required, except where the failure so to qualify would not result in a Material Adverse Effect, and (d) in the case of the Borrower, has the corporate power and authority to execute, deliver and perform its obligations under each of the Loan Documents and each other agreement or instrument contemplated thereby to which it is or will be a party and to borrow hereunder.

SECTION 3.02. Authorization. The execution, delivery and performance by the Borrower of each of the Loan Documents and the borrowings hereunder (collectively, the "Transactions") (a) have been duly authorized by all requisite corporate and, if required, stockholder action and (b) will not (i) violate (A) any provision of law, statute, rule or regulation the violation of which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks

under the Loan Documents, or of the certificate or articles of incorporation or other constitutive documents or by-laws of the Borrower or any Significant Subsidiary, (B) any order of any Governmental Authority the violation of which could reasonably be expected to impair the validity or enforce ability of this Agreement or any other Loan Document, or materially impair the rights of or benefits available to the Banks under the Loan Documents, or (C) any provision of any indenture or other material agreement or instrument evidencing or relating to borrowed money to which the Borrower or any Significant Subsidiary is a party or by which any of them or any of their property is or may be bound in a manner which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks under the Loan Documents, (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under any such indenture, agreement or other instrument in a manner which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks under the Loan Documents or (iii) result in the creation or imposition under any such indenture, agreement or other instrument of any Lien upon or with respect to any property or assets now owned or hereafter acquired by the Borrower.

SECTION 3.03. Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and delivered by the Borrower will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.

SECTION 3.04. Governmental Approvals. No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or will be required in connection with the Transactions, except such as have been made or obtained and are in full force and effect.

SECTION 3.05. Financial Statements. The Borrower has heretofore furnished to the Banks its consolidated balance sheets and statements of income and statements of cash flow as of and for the fiscal year ended December 31, 1996, audited by and accompanied by the opinion of Deloitte & Touche, independent public accountants. Such financial

statements present fairly the financial condition and results of operations of the Borrower and its consolidated subsidiaries as of such dates and for such periods. Such balance sheets and the notes thereto, together with the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, reflect all liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the dates thereof which are material on a consolidated basis. Such financial statements were prepared in accordance with GAAP applied (except as noted therein) on a consistent basis.

SECTION 3.06. No Material Adverse Change. Except as disclosed in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1997, there has been no change in the business, assets, operations or financial condition of the Borrower and the Subsidiaries, taken as a whole, since December 31, 1996, which could reasonably be expected to have a material adverse effect on the creditworthiness of the Borrower.

SECTION 3.07. Litigation; Compliance with Laws. (a) Except as set forth in the Annual Report of the Borrower on Form 10-K for the year ended December 31, 1996, or in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property or rights of any such person (i) which involve any Loan Document or the Transactions or (ii) which could reasonably be anticipated, individually or in the aggregate, to result in a Material Adverse Effect.

(b) Neither the Borrower nor any of the Subsidiaries is in violation of any law, rule or regulation, or in default with respect to any judgment, writ, injunction or decree of any Governmental Authority, where such violation or default would be reasonably likely to result in a Material Adverse Effect.

SECTION 3.08. Federal Reserve Regulations. (a) Neither the Borrower nor any of the Subsidiaries is engaged principally, or as one of its important activities,

in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

(b) No part of the proceeds of any Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, (i) to purchase or carry Margin Stock or to extend credit to others for the purpose of purchasing or carrying Margin Stock or to refund indebtedness originally incurred for such purpose, or (ii) for any purpose which entails a violation of, or which is inconsistent with, the provisions of the Regulations of the Board, including Regulation G, U or X.

SECTION 3.09. Investment Company Act; Public Utility Holding Company Act. The Borrower is not (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) subject to regulation as a "holding company" under the Public Utility Holding Company Act of 1935.

SECTION 3.10. Use of Proceeds. The Borrower will use the proceeds of the Loans only for the purposes specified in the preamble to this Agreement.

SECTION 3.11. No Material Misstatements. No information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Agent or any Bank in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or, when considered together with all reports theretofore filed with the Securities and Exchange Commission, omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading.

SECTION 3.12. Employee Benefit Plans. Each of the Borrower and its ERISA Affiliates is in compliance in all material respects with the applicable provisions of ERISA and the regulations and published interpretations thereunder. No Reportable Event has occurred as to which the Borrower or any ERISA Affiliate was required to file a report with the PBGC, and the present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation

date applicable thereto, exceed by more than \$10,000,000 the value of the assets of such Plan.

SECTION 3.13. Environmental and Safety Matters. Each of the Borrower and each Subsidiary has complied with all Federal, state, local and other statutes, ordinances, orders, judgments, rulings and regulations relating to environmental pollution or to environmental or nuclear regulation or control or to employee health or safety, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received notice of any failure so to comply, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. The Borrower's and the Subsidiaries' plants do not manage any hazardous wastes, hazardous substances, hazardous materials, toxic substances, toxic pollutants or substances similarly denominated, as those terms or similar terms are used in the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act, the Clean Water Act or any other applicable law relating to environmental pollution or employee health and safety, or any nuclear fuel or other radioactive materials, in violation of any law or any regulations promulgated pursuant thereto, where such violation would be reasonably likely to result in a Material Adverse Effect. The Borrower is aware of no events, conditions or circumstances involving environmental pollution or contamination or employee health or safety that could reasonably be expected to result in a Material Adverse Effect. The representations and warranties set forth in this Section 3.13 are, however, subject to any matters, circumstances or events set forth in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1997; provided, however, that the inclusion of such matters, circumstances or events as exceptions (or any other exceptions contained in the representations and warranties which refer to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 or the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1997) shall not be construed to mean that the Borrower has concluded that any such matter, circumstance or effect is likely to result in a Material Adverse Effect.

SECTION 3.14. Significant Subsidiaries. Schedule 3.14 sets forth as of the date hereof a list of all Significant Subsidiaries of the Borrower and the percentage ownership interest of the Borrower therein.

ARTICLE IV. CONDITIONS OF LENDING

The obligations of the Banks to make Loans here under are subject to the satisfaction of the following conditions:

SECTION 4.01. All Borrowings. On the date of each Borrowing, including each Borrowing in which Loans are refinanced with new Loans as contemplated by Section 2.02(e):

(a) The Agent shall have received a notice of such Borrowing as required by Section 2.03.

(b) The representations and warranties set forth in Article III hereof (except, in the case of a refinancing that does not increase the aggregate principal amount of Loans outstanding, the representations set forth in Sections 3.06 and 3.07) shall be true and correct in all material respects on and as of the date of such Borrowing with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

(c) The Borrower shall be in compliance with all the terms and provisions set forth herein and in each other Loan Document on its part to be observed or performed, and at the time of and immediately after such Borrowing no Event of Default or Default shall have occurred and be continuing.

Each Borrowing shall be deemed to constitute a representation and warranty by the Borrower on the date of such Borrowing as to the matters specified in paragraphs (b) and (c) of this Section 4.01.

SECTION 4.02. First Borrowing. On the date of this Agreement:

(a) Each Bank shall have received a duly executed Note complying with the provisions of Section 2.04.

(b) The Agent shall have received favorable written opinions of (i) Paine, Hamblen, Coffin, Brooke & Miller, general counsel for the Borrower, and (ii) Reid & Priest, special counsel to the Borrower, each dated the date of this Agreement and addressed to the Banks, to the effect set forth in Exhibits D-1 and D-2 hereto, and the Borrower hereby instructs such counsel to deliver such opinions to the Agent.

(c) The Agent shall have received evidence satisfactory to it and set forth on Schedule 4.02(c) that the Borrower shall have obtained all consents and approvals of, and shall have made all filings and registrations with, any Governmental Authority required in order to consummate the Transactions, in each case without the imposition of any condition which, in the judgment of the Banks, could adversely affect their rights or interests hereunder.

(d) All legal matters incident to this Agreement and the borrowings hereunder shall be satisfactory to the Banks and their counsel and to Cravath, Swaine & Moore, counsel for the Agent.

(e) The Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of the Borrower as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of the Borrower as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents and the borrowings hereunder, and

that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of the Borrower have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of the Borrower; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Banks or their counsel or Cravath, Swaine & Moore, counsel for the Agent, may reasonably request.

(f) The Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(g) The Agent shall have received all Fees and other amounts due and payable on or prior to the date of this Agreement.

ARTICLE V. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with each Bank that so long as this Agreement shall remain in effect or the principal of or interest on any Loan, any Fees or any other expenses or amounts payable under any Loan Document shall be unpaid, unless the Required Banks shall otherwise consent in writing, the Borrower will:

SECTION 5.01. Existence; Businesses and Properties. (a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.02.

(b) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names utilized in the conduct of the Borrower's business

except where the failure so to obtain, preserve, renew, extend or maintain any of the foregoing would not result in a Material Adverse Effect; maintain and operate such business in substantially the manner in which it is presently conducted and operated, except as otherwise expressly permitted under this Agreement; comply in all material respects with all applicable laws, rules, regulations and orders of any Governmental Authority, whether now in effect or hereafter enacted if failure to comply with such requirements would result in a Material Adverse Effect; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times; provided, however, that the Borrower may cause the discontinuance of the operation or a reduction in the capacity of any of its facilities, or any element or unit thereof including, without limitation, real and personal properties, facilities, machinery and equipment, (i) if, in the judgment of the Borrower, it is no longer advisable to operate the same, or to operate the same at its former capacity, and such discontinuance or reduction would not result in a Material Adverse Effect, or (ii) if the Borrower intends to sell and dispose of its interest in the same in accordance with the terms of this Agreement and within a reasonable time shall endeavor to effectuate the same.

SECTION 5.02. Insurance. (a) Maintain insurance, to such extent and against such risks, as is customary with companies in the same or similar businesses and owning similar properties in the same general area in which the Borrower operates and (b) maintain such other insurance as may be required by law. All insurance required by this Section 5.02 shall be maintained with financially sound and reputable insurers or through self-insurance; provided, however, that the portion of such insurance constituting self-insurance shall be comparable to that usually maintained by companies engaged in the same or similar businesses and owning similar properties in the same general area in which the Borrower operates and the reserves maintained with respect to such self-insured amounts are deemed adequate by the officer or officers of the Borrower responsible for insurance matters.

SECTION 5.03. Taxes and Obligations. Pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise which, if unpaid, might give rise to a Lien upon such properties or any part thereof; provided, however, that (i) such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the Borrower shall, to the extent required by GAAP, have set aside on its books adequate reserves with respect thereto and (ii) the Borrower shall be permitted to fail to pay any amounts secured by the non-consensual equitable Lien of The Chase Manhattan Bank, successor by merger to Chemical Bank, as bond trustee for Washington Public Power Supply Systems Projects 4 and 5 permitted under Section 6.01(y), which Lien shall not exceed \$25 million, excluding interest, and may permit the foreclosure of such Lien by The Chase Manhattan Bank.

SECTION 5.04. Financial Statements, Reports, etc.
Furnish to the Agent and each Bank:

(a) within 105 days after the end of each fiscal year, its consolidated and consolidating balance sheets and related statements of income and statements of cash flow, showing the financial condition of the Borrower and its consolidated Subsidiaries as of the close of such fiscal year and the results of its operations and the operations of such Subsidiaries during such year, all audited by Deloitte & Touche or other independent public accountants of recognized national standing acceptable to the Required Banks and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of the Borrower on a consolidated basis (except as noted therein) in accordance with GAAP consistently applied;

(b) within 50 days after the end of each of the first three fiscal quarters of each fiscal year, its consolidated and, to the extent otherwise available, consolidating balance sheets and related statements of

income and statements of cash flow, showing the financial condition of the Borrower and its consolidated subsidiaries as of the close of such fiscal quarter and the results of its operations and the operations of such subsidiaries during such fiscal quarter and the then elapsed portion of the fiscal year, all certified by one of its Financial Officers as fairly presenting the financial condition and results of operations of the Borrower on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments;

(c) concurrently with any delivery of financial statements under (a) or (b) above, a certificate of the relevant accounting firm opining on or certifying such statements or Financial Officer (which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) certifying that to the knowledge of the accounting firm or the Financial Officer, as the case may be, no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto;

(d) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by it with the Securities and Exchange Commission, or any governmental authority succeeding to any of or all the functions of said Commission, or with any national securities exchange, or distributed to its share holders, as the case may be; and

(e) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Borrower or any Significant Subsidiary, or compliance with the terms of any Loan Document, as the Agent or any Bank may reasonably request.

SECTION 5.05. Litigation and Other Notices. Furnish to the Agent and each Bank prompt written notice of the following:

(a) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) proposed to be taken with respect thereto;

(b) the filing or commencement of, or any written threat or notice of intention of any person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against the Borrower or any Subsidiary thereof which could reasonably be anticipated to result in a Material Adverse Effect; and

(c) any development that has resulted in, or could reasonably be anticipated to result in, a Material Adverse Effect.

SECTION 5.06. ERISA. (a) Comply in all material respects with the applicable provisions of ERISA and (b) furnish to the Agent and each Bank (i) as soon as possible, and in any event within 30 days after any Responsible Officer of the Borrower or any ERISA Affiliate either knows or has reason to know that any Reportable Event has occurred that alone or together with any other Reportable Event could reasonably be expected to result in liability of the Borrower to the PBGC in an aggregate amount exceeding \$10,000,000, a statement of a Financial Officer setting forth details as to such Reportable Event and the action proposed to be taken with respect thereto, together with a copy of the notice, if any, of such Reportable Event given to the PBGC, (ii) promptly after receipt thereof, a copy of any notice the Borrower or any ERISA Affiliate may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or Plans (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code) or to appoint a trustee to administer any Plan or Plans and (iii) within 10 days after the due date for filing with the PBGC pursuant to Section 412(n) of the Code of a notice of failure to make a required installment or other payment with respect to a Plan, a statement of a Financial Officer setting forth details as to such failure and the action proposed to be taken with respect thereto, together with a copy of such notice given to the PBGC.

SECTION 5.07. Maintaining Records; Access to Properties and Inspections. Maintain all financial records in accordance with GAAP and permit any representatives

designated by any Bank to visit and inspect the financial records and the properties of the Borrower at reasonable times and as often as requested and to make extracts from and copies of such financial records, and permit any representatives designated by any Bank to discuss the affairs, finances and condition of the Borrower with the chief financial officer of the Borrower, or other person designated by the chief financial officer, and independent accountants therefor.

SECTION 5.08. Use of Proceeds. Use the proceeds of the Loans only for the purposes set forth in the preamble to this Agreement.

ARTICLE VI. NEGATIVE COVENANTS

The Borrower covenants and agrees with each Bank that, so long as this Agreement shall remain in effect or the principal of or interest on any Loan, any Fees or any other expenses or amounts payable under any Loan Document shall be unpaid, unless the Required Banks shall otherwise consent in writing, the Borrower will not:

SECTION 6.01. Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Borrower created by the documents, instruments or agreements existing on the date hereof and which are listed as exhibits to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, to the extent that such Liens secure only obligations arising under such existing documents, agreements or instruments;

(b) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition and (ii) such Lien does not apply to any other property or assets of the Borrower;

(c) the Lien of the First Mortgage;

(d) Liens permitted under the First Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the First Mortgage) and any other Liens to which the Lien of the First Mortgage is expressly made subject;

(e) the Lien of any collateral trust mortgage or similar instrument which would be intended to eventually replace (in one transaction or a series of transactions) the First Mortgage (as amended, modified or supplemented from time to time, "Collateral Trust Mortgage") on properties or assets of the Borrower to secure bonds, notes and other obligations of the Borrower; provided that, so long as the First Mortgage shall constitute a Lien on properties or assets of the Borrower, the bonds, notes or other obligations issued under the Collateral Trust Mortgage (i) shall also be secured by an equal principal amount of bonds issued under the First Mortgage or (ii) shall be issued against property additions not subject to the Lien of the First Mortgage;

(f) Liens permitted under the Collateral Trust Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the Collateral Trust Mortgage) and any other Liens to which the Lien of the Collateral Trust Mortgage is subject;

(g) Liens for taxes, assessments or governmental charges not yet due or which are being contested in compliance with Section 5.03;

(h) carriers', warehousemen's, mechanic's, materialmen's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not due or which are being contested in compliance with Section 5.03;

(i) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;

(j) Liens incurred or created in connection with or to secure the performance of bids, tenders, trade

contracts (other than for Indebtedness), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(k) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(l) Liens (i) which secure obligations not assumed by the Borrower, (ii) on account of which the Borrower has not and does not expect to pay interest directly or indirectly and (iii) which exist upon real estate or rights in or relating to real estate in respect of which the Borrower has a right-of-way or other easement for purposes of substations or transmission or distribution facilities;

(m) rights reserved to or vested in any federal, state or local governmental body or agency by the terms of any right, power, franchise, grant, license, contract or permit, or by any provision of law, to recapture or to purchase, or designate a purchase of or order the sale of, any property of the Borrower or to terminate any such right, power, franchise, grant, license, contract or permit before the expiration thereof;

(n) Liens of judgments covered by insurance, or upon appeal and covered by bond, or to the extent not so covered not exceeding at one time \$10,000,000 in aggregate amount;

(o) any Liens, moneys sufficient for the discharge of which shall have been deposited in trust with the trustee or mortgagee under the instrument evidencing such Lien, with irrevocable authority of such trustee or mortgagee to apply such moneys to the discharge of such Lien to the extent required for such purpose;

(p) rights reserved to or vested in any federal, state or local governmental body or agency or other

public authority to control or regulate the business or property of the Borrower;

(q) any obligations or duties, affecting the property of the Borrower to any federal, state or local governmental body or agency or other public authority with respect to any authorization, permit, consent or license of such body, agency or authority, given in connection with the purchase, construction, equipping, testing and operation of the Borrower's utility property;

(r) with respect to any property which the Borrower may hereafter acquire, any exceptions or reservations therefrom existing at the time of such acquisition or any terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in the deeds of other instruments, respectively, under and by virtue of which the Borrower shall hereafter acquire the same, none of which materially impairs the use of such property for the purposes for which it is acquired by the Borrower;

(s) leases and subleases entered into in the ordinary course of business;

(t) banker's Liens and other Liens in the nature of a right of set-off;

(u) Liens resulting from any transaction permitted under Section 6.03(iv);

(v) renewals, replacements, amendments, modifications, supplements, refinancings or extensions of Liens set forth above to the extent that the principal amount of Indebtedness secured by such Lien immediately prior thereto is not increased and such Lien is not extended to other property (it being understood that such limitation does not apply to the Liens described in subsection (c), (e) or (u) above);

(w) security deposits or amounts paid into trust funds for the reclamation of mining properties;

(x) restrictions on transfer or use of properties and assets, first rights of refusal, and rights to acquire properties and assets granted to others;

(y) non-consensual equitable Liens on the Borrower's tenant-in-common or other interest in joint projects;

(z) Liens on the Borrower's tenant-in-common or other interest in joint projects incurred by the project sponsor without the express consent of the Borrower to such incurrence; and

(aa) Liens not expressly permitted in clauses (a) through (z) of this Section 6.01 to secure Indebtedness of the Borrower, provided that the aggregate outstanding principal amount of the Indebtedness so secured does not at any one time exceed \$100,000,000.

SECTION 6.02. Mergers, Consolidations and Acquisitions. Merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of the Borrower's business, except that if (A) at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing and (B) in the case of any merger or consolidation involving the Borrower in which the Borrower is not the surviving corporation, the surviving corporation shall assume in writing the obligations of the Borrower under this Agreement and any other Loan Documents, then (a) the Borrower may merge or consolidate with any Subsidiary in a transaction in which the Borrower is the surviving corporation, (b) the Borrower may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary, (c) the Borrower may merge with or into, or consolidate with, any other person so long as (i) in the case where the business of such other person, or an Affiliate of such other person, entirely or primarily consists of an electric or gas utility business, the senior secured long-term debt rating of the Borrower shall be at least BBB or higher by S&P and Baa2 or higher by Moody's immediately after such merger or

consolidation, or in the case of a merger or consolidation in which the Borrower is not the surviving entity, the senior secured long-term debt rating of the surviving entity or an Affiliate thereof shall be at least BBB+ or higher by S&P and Baa1 or higher by Moody's immediately after such merger or consolidation, or (ii) in the case where such other person's business does not entirely or primarily consist of an electric or gas utility business, the assets of such person at the time of such consolidation or merger do not exceed 10% of the total assets of the Borrower and its Subsidiaries after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (d) the Borrower may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as (i) the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) entirely or primarily consist of electric or gas utility assets or (ii) in the case where the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) do not entirely or primarily consist of electric or gas utility assets, the assets being acquired (or the Borrower's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.03. Disposition of Assets. Sell, lease, transfer, assign or otherwise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or other dispositions permitted under clause (c)(ii) of the definition of Subsidiary Event in Article I (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (c)(ii) (A) through (C) in such definition), exceed 10% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, except (i) the Borrower may, in any fiscal year, sell, lease, transfer, assign or otherwise dispose of assets in the ordinary course of business which, together with the amount of all sales, leases, transfers, assignments or other dispositions in the

ordinary course permitted under clause (c)(ii)(A) of the definition of Subsidiary Event in Article I, do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (ii) to the extent permitted under Section 5.03, 6.01 or Section 6.02, (iii) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interest in the Washington Public Power Supply System Nuclear Project No. 3 in accordance with the settlement agreement among the Borrower, the Washington Public Power Supply System and Bonneville Power Administration, as the same may be amended, modified or supplemented from time to time and (iv) the Borrower may sell, lease, transfer, assign or otherwise dispose (including by way of capital contribution) of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein.

ARTICLE VII. EVENTS OF DEFAULT

In case of the happening (and during the continuance) of any of the following events ("Events of Default"):

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the borrowings hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Loan or any Fee or any other amount (other than an amount referred to in (b) above) due under any Loan Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of five Business Days;

(d) default shall be made in the due observance or performance by the Borrower of any covenant, condition or agreement contained in Section 5.01(a) or 5.05 or in Article VI;

(e) default shall be made in the due observance or performance by the Borrower of any covenant, condition or agreement contained in any Loan Document (other than those specified in (b), (c) or (d) above) and such default shall continue unremedied for a period of 30 days after notice thereof from the Agent or any Bank to the Borrower;

(f) the Borrower or any Significant Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness when the aggregate unpaid principal amount is in excess of \$10,000,000, when and as the same shall become due and payable (after expiration of any applicable grace period), or (ii) fail to observe or perform any other term, covenant, condition or agreement (after expiration of any applicable grace period) contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf (with or without the giving of notice, the lapse of time or both) to cause, such Indebtedness to become due prior to its stated maturity, except as otherwise permitted under Section 5.03(ii);

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or any Significant Subsidiary, or of a substantial part of the property or assets of the Borrower or a Significant Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or a Significant Subsidiary or (iii) the winding-up or liquidation of the Borrower or any Significant Subsidiary;

itary; and such proceeding or petition shall continue undismissed, or an order or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days;

(h) the Borrower or any Significant Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or any Significant Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(i) a final judgment or judgments shall be rendered against the Borrower, any Significant Subsidiary or any combination thereof for the payment of money with respect to which an aggregate amount in excess of \$10,000,000 is not covered by insurance and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of the Borrower or any Significant Subsidiary to enforce any such judgment;

(j) a Reportable Event or Reportable Events, or a failure to make a required installment or other payment (within the meaning of Section 412(n)(1) of the Code), shall have occurred with respect to any Plan or Plans that reasonably could be expected to result in liability of the Borrower to the PBGC or to a Plan in an aggregate amount exceeding \$10,000,000 and, within 30

days after the reporting of any such Reportable Event to the Agent or after the receipt by the Agent of the statement required pursuant to Section 5.06, the Agent shall have notified the Borrower in writing that (i) the Required Banks have made a determination that, on the basis of such Reportable Event or Reportable Events or the failure to make a required payment, there are reasonable grounds (A) for the termination of such Plan or Plans by the PBGC, (B) for the appointment by the appropriate United States District Court of a trustee to administer such Plan or Plans or (C) for the imposition of a lien in favor of a Plan and (ii) as a result thereof an Event of Default exists hereunder; or a trustee shall be appointed by a United States District Court to administer any such Plan or Plans; or the PBGC shall institute proceedings to terminate any Plan or Plans; or

(k) there shall occur a Subsidiary Event;

then, and in every such event (other than an event with respect to the Borrower described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Agent, at the request of the Required Banks, shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding; and in any event with respect to the Borrower described in paragraph (g) or (h) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding.

ARTICLE VIII. THE AGENT

In order to expedite the various transactions contemplated by this Agreement, Toronto Dominion (Texas), Inc. is hereby appointed to act as Agent on behalf of the Banks. Each of the Banks hereby irrevocably authorizes and directs the Agent to take such action on behalf of such Bank under the terms and provisions of this Agreement, and to exercise such powers hereunder as are specifically delegated to or required of the Agent by the terms and provisions hereof, together with such powers as are reasonably incidental thereto. The Agent is hereby expressly authorized on behalf of the Banks, without hereby limiting any implied authority, (a) to receive on behalf of each of the Banks any payment of principal of or interest on the Loans outstanding hereunder and all other amounts accrued hereunder paid to the Agent, and to distribute to each Bank its proper share of all payments so received as soon as practicable; (b) to give notice promptly on behalf of each of the Banks to the Borrower of any event of default specified in this Agreement of which the Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute promptly to each Bank copies of all notices, agreements and other material as provided for in this Agreement as received by such Agent.

Neither the Agent nor any of its directors, officers, employees or agents shall be liable to any Bank as such for any action taken or omitted by any of them hereunder except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants or agreements of this Agreement. The Agent shall not be responsible to the Banks for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other instrument to which reference is made herein. The Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Banks, and, except as otherwise specifically provided herein, such instructions and any action taken or failure to act pursuant thereto shall be binding on all the Banks. The Agent shall, in the absence of knowledge to the contrary, be entitled to

rely on any paper or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agent nor any of its directors, officers, employees or agents shall have any responsibility to the Borrower on account of the failure or delay in performance or breach by any Bank of any of its obligations hereunder or to any Bank on account of the failure of or delay in performance or breach by any other Bank or the Borrower of any of their respective obligations hereunder or in connection herewith. The Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Agent and its affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or other affiliate thereof as if it were not the Agent.

Each Bank recognizes that applicable laws, rules, regulations or guidelines of governmental authorities may require the Agent to determine whether the transactions contemplated hereby should be classified as "highly lever aged" or assigned any similar or successor classification, and that such determination may be binding upon the other Banks. Each Bank understands that any such determination shall be made solely by the Agent based upon such factors (which may include, without limitation, the Agent's internal policies and prevailing market practices) as the Agent shall deem relevant and agrees that the Agent shall have no liability for the consequences of any such determination.

Each Bank agrees (i) to reimburse the Agent in the amount of such Bank's pro rata share (based on its Commitment hereunder) of any expenses incurred for the benefit of the Banks by the Agent, including reasonable counsel fees and compensation of agents and employees paid for services rendered on behalf of the Banks, not reimbursed by the Borrower and (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees or agents, on demand, in the amount of its pro rata share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever

which may be imposed on, incurred by or asserted against it in its capacity as the Agent or any of them in any way relating to or arising out of this Agreement or any action taken or omitted by it or any of them under this Agreement, to the extent not reimbursed by the Borrower; provided, however, that no Bank shall be liable to the Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of the Agent or any of its directors, officers, employees or agents.

Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank based on such documents and information as it shall deem appropriate at the time, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder.

The Agent may execute any of its duties under this Agreement by or through agents or attorneys selected by them using reasonable care and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys selected and authorized to act by it with reasonable care unless the damage complained of directly results from an act or failure to act on part of the Agent which constitutes gross negligence or wilful misconduct. Delegation to an attorney or agent shall not release the Agent from its obligation to perform or cause to be performed the delegated duty.

ARTICLE IX. MISCELLANEOUS

SECTION 9.01. Notices. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed or

sent by telecopy, graphic scanning or other telegraphic communications equipment of the sending party, as follows:

(a) if to the Borrower, to it at East 1411 Mission Avenue (99202), P.O. Box 3727, Spokane, Washington 99220, Attention of the Vice President and Treasurer (Telecopy No. 509-482-4879);

(b) if to the Agent, to it at 909 Fannin, Suite 1700, Houston, Texas 77010, Attention of Kimberly Burelson (Telecopy No. 713-951-9921); and

(c) if to a Bank, to it at its address (or telecopy number) set forth in Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Bank shall have become a party hereto.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy or other telegraphic communications equipment of the sender, or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 9.01 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 9.01.

SECTION 9.02. Survival of Agreement. All covenants, agreements, representations and warranties, including, without limitation, any indemnities and reimbursement obligations, made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Banks and shall survive the making by the Banks of the Loans, and the execution and delivery to the Banks of the Notes evidencing such Loans, regardless of any investigation made by the Banks or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid and so long as the Commitments have not been terminated.

SECTION 9.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have received copies hereof which, when taken together, bear the signatures of each Bank, and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Bank and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior consent of all the Banks.

SECTION 9.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Agent or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and permitted assigns.

(b) Each Bank may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it and the Notes held by it); provided, however, that (i) except in the case of an assignment to a Bank or an Affiliate of such Bank, the Borrower and the Agent must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) that no assignee of any Bank shall be entitled to receive any greater payment or protection under Sections 2.11, 2.12(a), 2.13 or 2.17 than such Bank would have been entitled to receive with respect to the rights assigned or otherwise transferred unless such assignment or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist, (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement, (iv) the amount of the Commitment of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than \$5,000,000, (v) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with the Note or Notes subject to such assignment and a processing and recordation fee of \$5,000 and (vi) the assignee, if it shall not be a Bank, shall deliver to the Agent an Adminis-

trative Questionnaire. Upon acceptance and recording pursuant to paragraph (e) of this Section 9.04, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.11, 2.13, 2.17 and 9.05, as well as to any Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Commitment, and the outstanding balances of its Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance; (ii) except as set forth in (i) above, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such

Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(d) The Agent shall maintain a copy of each Assignment and Acceptance delivered to it including the recordation of the names and addresses of the Banks, and the Commitment of, and principal amount of the Loans owing to, each Bank pursuant to the terms hereof from time to time (the "Register"). The Agent and the Banks may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee together with the Note or Notes subject to such assignment, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Bank hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower and the Agent to such assignment, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Within five Business Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for the surrendered Note or Notes, a new Note or Notes to the order of such assignee in a principal amount equal to the applicable Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained a Commitment, a new Note to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it. Such new Note or

Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Note; such new Notes shall be dated the date of the surrendered Notes which they replace and shall otherwise be in substantially the form of Exhibit A hereto. Canceled Notes shall be returned to the Borrower.

(f) Each Bank may without the consent of the Borrower or the Agent sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it and the Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.11, 2.13 and 2.17 to the same extent as if they were Banks (provided, that the amount of such benefit shall be limited to the amount in respect of the interest sold to which the seller of such participation would have been entitled had it not sold such interest) and (iv) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and such Bank shall retain the sole right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable here under or the amount of principal or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans or changing or extending the Commitments).

(g) Any Bank or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.04, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Bank by or on behalf of the Borrower; provided that, prior to any such disclosure of information designated by the Borrower as confidential, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree

(subject to customary exceptions) to preserve the confidentiality of such confidential information.

(h) Any Bank may at any time assign for security purposes all or any portion of its rights under this Agreement and the Notes issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations hereunder.

(i) Subject to Section 6.02, the Borrower shall not assign or delegate any of its rights or duties here under.

SECTION 9.05. Expenses; Indemnity. (a) The Borrower agrees to pay all out-of-pocket expenses incurred by the Agent in connection with the preparation of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby contemplated shall be consummated) or incurred by the Agent or any Bank in connection with the enforcement or protection of their rights in connection with this Agreement and the other Loan Documents or in connection with the Loans made or the Notes issued hereunder, including the fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Agent, and, in connection with any such amendment, modification or waiver or any such enforcement or protection, the fees, charges and disbursements of any other internal or external counsel for the Agent or any Bank. The Borrower further agrees that it shall indemnify the Banks from and hold them harmless against any documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or any of the other Loan Documents.

(b) The Borrower agrees to indemnify the Agent, each Bank and each of their respective directors, officers, employees and agents (each such person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consumma-

tion of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the Loans or (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnatee is a party thereto; provided that such indemnity shall not, as to any Indemnatee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Indemnatee.

(c) The provisions of this Section 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Agent or any Bank. All amounts due under this Section 9.05 shall be payable on written demand therefor.

SECTION 9.06. Right of Setoff. If an Event of Default shall have occurred and be continuing and the Loans shall have been accelerated as set forth in Article VII, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank (or bank Controlling such Bank) to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Bank. The rights of each Bank under this Section are in addition to other rights and remedies (including other rights of setoff) which such Bank may have. Any Bank shall provide the Borrower with written notice promptly after exercising its rights under this Section.

SECTION 9.07. Applicable Law. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

SECTION 9.08. Waivers; Amendment. (a) No failure or delay of the Agent or any Bank in exercising any power or right hereunder shall operate as a waiver thereof,

nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Agent and the Banks hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies which they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Banks; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each holder of a Note affected thereby, (ii) change or extend the Commitment or decrease the Commitment Fees of any Bank without the prior written consent of such Bank, or (iii) amend or modify the provisions of Section 2.14, the provisions of this Section or the definition of "Required Banks", without the prior written consent of each Bank; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Agent hereunder without the prior written consent of the Agent. Each Bank and each holder of a Note shall be bound by any waiver, amendment or modification authorized by this Section regardless of whether its Note shall have been marked to make reference thereto, and any consent by any Bank or holder of a Note pursuant to this Section shall bind any person subsequently acquiring a Note from it, whether or not such Note shall have been so marked.

SECTION 9.09. Interest Rate Limitation. Notwithstanding anything herein or in the Notes to the contrary, if at any time the applicable interest rate, together with all fees and charges which are treated as interest under appli-

cable law (collectively the "Charges"), as provided for herein or in any other document executed in connection herewith, or otherwise contracted for, charged, received, taken or reserved by any Bank, shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by such Bank in accordance with applicable law, the rate of interest payable under the Note held by such Bank, together with all Charges payable to such Bank, shall be limited to the Maximum Rate.

SECTION 9.10. Entire Agreement. This Agreement and the other Loan Documents constitute the entire contract between the parties relative to the subject matter hereof. Any previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement and the other Loan Documents. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

SECTION 9.11. Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Agreement or any of the other Loan Documents. Each party hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the other Loan Documents, as applicable, by, among other things, the mutual waivers and certifications in this Section 9.11.

SECTION 9.12. Severability. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of

which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9.13. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract, and shall become effective as provided in Section 9.03.

SECTION 9.14. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 9.15. Jurisdiction; Consent to Service of Process. (a) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any Bank may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Borrower or its proper ties in the courts of any jurisdiction.

(b) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or here after have to the laying of venue of any suit, action or proceeding arising out of or relating to this agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

WITNESS the due execution hereof as of the date first above written.

THE WASHINGTON WATER POWER COMPANY,

by /s/ JON E. ELIASSEN

Name: Jon E. Eliassen
Title: Senior VP & CFO

TORONTO DOMINION (TEXAS), INC., as Agent,

by

Name:
Title:

THE TORONTO-DOMINION BANK, HOUSTON AGENCY,

by

Name:
Title:

THE BANK OF NEW YORK,

by

Name:
Title:

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

WITNESS the due execution hereof as of the date first above written.

THE WASHINGTON WATER POWER
COMPANY,

by

Name:
Title:

TORONTO DOMINION (TEXAS),
INC., as Agent,

by /s/ KIMBERLY BURLESON

Name: KIMBERLY BURLESON
Title: VICE PRESIDENT

THE TORONTO-DOMINION BANK,
HOUSTON AGENCY,

by /s/ KIMBERLY BURLESON

Name: KIMBERLY BURLESON
Title:MGR. CR ADMIN.

THE BANK OF NEW YORK,

by

Name:
Title:

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

WITNESS the due execution hereof as of the date first above written.

THE WASHINGTON WATER POWER
COMPANY,

by

Name:
Title:

TORONTO DOMINION (TEXAS),
INC., as Agent,

by

Name:
Title:

THE TORONTO-DOMINION BANK,
HOUSTON AGENCY,

by

Name:
Title:

THE BANK OF NEW YORK,

by /s/ JOHN W. HALL

Name: JOHN W. HALL
Title: Vice President

NATIONSBANK OF TEXAS, N.A.,

by /s/ CURTIS L. ANDERSON

Name: Curtis L. Anderson
Title: Senior Vice President

[FORM OF]

NOTE

\$ _____ [_____], 1997
 New York, New York

FOR VALUE RECEIVED, the undersigned, THE WASHINGTON WATER POWER COMPANY, a Washington corporation (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), at the office of Toronto Dominion (Texas), Inc., (the "Agent"), at 909 Fannin, Suite 1700, Houston, Texas 77010, (i) on the last day of each Interest Period, as defined in the \$50,000,000 Amended and Restated Revolving Credit Agreement dated as of July 22, 1997 (the "Credit Agreement"), among the Borrower, the Banks named therein and the Agent, the aggregate unpaid principal amount of all Loans (as defined in the Credit Agreement) made to the Borrower by the Bank pursuant to the Credit Agreement to which such Interest Period applies and (ii) on the Expiration Date (as defined in the Credit Agreement) the lesser of the principal sum of _____ Dollars (\$ _____) and the aggregate unpaid principal amount of all Loans made to the Borrower by the Bank pursuant to the Credit Agreement, in lawful money of the United States of America in immediately available funds, and to pay interest from the date hereof on the principal amount hereof from time to time outstanding, in like funds, at said office, at the rate or rates per annum and payable on the dates provided in the Credit Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates provided in the Credit Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates and maturity dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not affect the obligations of the Borrower under this Note.

This Note is one of the Notes referred to in the Credit Agreement, which, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayment of the principal hereof prior to the maturity hereof and for the amendment or waiver of certain provisions of the Credit Agreement, all upon the terms and conditions therein specified. This Note shall be construed in accordance with and governed by the laws of the State of New York and any applicable laws of the United States of America.

THE WASHINGTON WATER
POWER COMPANY

by

Name:
Title:

[FORM OF]

ASSIGNMENT AND ACCEPTANCE

Reference is made to the \$50,000,00 Amended and Restated Credit Agreement dated as of July 22, 1997 (the "Credit Agreement"), among The Washington Water Power Company, a Washington corporation (the "Borrower"), the banks listed on Schedule 2.01 thereto (the "Banks") and Toronto Dominion (Texas), Inc., as agent for the Banks (in such capacity, the "Agent"). Terms defined in the Credit Agreement are used herein with the same meanings.

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Effective Date set forth on the reverse hereof, the interests set forth on the reverse hereof (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the Commitment of the Assignor on the Effective Date and the Loans owing to the Assignor which are outstanding on the Effective Date, together with unpaid interest accrued on the assigned Loans to the Effective Date and the amount, if any, set forth on the reverse hereof of the Fees accrued to the Effective Date for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 9.04(c) of the Credit Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the Loan Documents and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

2. This Assignment and Acceptance is being delivered to the Agent together with (i) the Notes evidencing the Loans included in the Assigned Interest, (ii) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms specified in Section 2.17(f) of the Credit Agreement, duly completed and executed by such Assignee, (iii) if the Assignee is not already a Bank under the Credit Agreement, an Administrative

Questionnaire in the form of Exhibit C to the Credit Agreement and (iv) a processing and recordation fee of \$5,000.

3. This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment
(may not be fewer than 5 Business
Days after the Date of Assignment):

Facility -----	Principal Assigned -----	Assigned Percentage of Facility and Commitment Thereunder (set forth, to at least 8 decimals, as a percentage of the Facility and the aggregate Commitments of all Banks thereunder) -----
Commitment Assigned:	\$	%
Loans:	\$	%
Fees Assigned (if any):	\$	%

The terms set forth above and on the reverse side hereof are hereby agreed to:

Accepted:

_____, as Assignor

TORONTO DOMINION (TEXAS),
INC., as Agent

By:

By:

Name:
Title:

Name:
Title:

_____, as Assignee

THE WASHINGTON POWER COMPANY

By:

By:

Name:
Title:

Name:
Title:

Administrative Questionnaire

Opinion of General Counsel for the Borrower

Opinion of Special Counsel for the Borrower

SCHEDULE 2.01

Banks

Bank - - - - -	Commitment -----
<p>The Toronto-Dominion Bank, Houston Agency 909 Fannin Suite 1700 Houston, TX 77010 Attention: Ms. Kimberly Burleson</p> <p>Telecopy: (713)951-9921</p> <p>With copies to:</p> <p>Toronto-Dominion Bank U.S.A. Division 31 West 52nd Street New York, NY 10019-6101</p> <p>Attention: David W. Silverstein Telecopy: (212) 262-1929</p>	<p>\$20,000,000</p>
<p>The Bank of New York One Wall Street New York, NY 10286</p> <p>Attention: Felicia LaForgia Telecopy: (212) 635-7923</p>	<p>\$15,000,000</p>
<p>NationsBank of Texas, N.A. 901 Main Street 64th Floor Dallas, TX 75202</p> <p>Attention: Mr. Curtis Anderson Telecopy: (214) 508-3943</p>	<p>\$15,000,000</p>

SCHEDULE 3.14

Significant Subsidiaries

Name -----	Percent Ownership -----
Avista Corp.	100%
Pentzer Corporation	100%

SCHEDULE 4.02(c)

Orders of Governmental Authorities

1. Order(s) of the Washington Utilities and Transportation Commission.
2. Order(s) of the Oregon Public Utility Commission.
3. Order(s) of the Idaho Public Utilities Commission.
4. Order(s) of the California Public Utilities Commission.

THE WASHINGTON WATER POWER COMPANY

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

	Years Ended December 31				
	1997	1996	1995	1994	1993
Fixed charges, as defined:					
Interest on long-term debt	\$ 63,413	\$ 60,256	\$ 55,580	\$ 49,566	\$ 47,129
Amortization of debt expense and premium - net	2,862	2,998	3,441	3,511	3,004
Interest portion of rentals	4,354	4,311	3,962	1,282	924
Total fixed charges	\$ 70,629	\$ 67,565	\$ 62,983	\$ 54,359	\$ 51,057
Earnings, as defined:					
Net income from continuing ops.	\$114,797	\$ 83,453	\$ 87,121	\$ 77,197	\$ 82,776
Add (deduct):					
Income tax expense	61,075	49,509	52,416	44,696	42,503
Total fixed charges above	70,629	67,565	62,983	54,359	51,057
Total earnings	\$246,501	\$200,527	\$202,520	\$176,252	\$176,336
Ratio of earnings to fixed charges	3.49	2.97	3.22	3.24	3.45
Fixed charges and preferred dividend requirements:					
Fixed charges above	\$ 70,629	\$ 67,565	\$ 62,983	\$ 54,359	\$ 51,057
Preferred dividend requirements (2)	8,261	12,711	14,612	13,668	12,615
Total	\$ 78,890	\$ 80,276	\$ 77,595	\$ 68,027	\$ 63,672
Ratio of earnings to fixed charges and preferred dividend requirements	3.12	2.50	2.61	2.59	2.77

- (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.

THE WASHINGTON WATER POWER COMPANY
SUBSIDIARIES OF REGISTRANT

Subsidiary	State of Incorporation
Pentzer Corporation	Washington
Washington Irrigation & Development Company	Washington
WP Finance Co.	Washington
Avista Corp.	Washington
Avista Advantage, Inc.	Washington
Avista Energy, Inc.	Washington
Avista Laboratories, Inc.	Washington
WP International, Inc.	Washington
WWP Fiber, Inc.	Washington
WWP Receivables Corp.	Washington
Altus Corporation	Nevada

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 2-81697 on Form S-8, in Registration Statement No. 2-94816 on Form S-8, in Registration Statement No. 33-49662 on Form S-3, in Registration Statement No. 33-51669 on Form S-3, in Registration Statement No. 33-53655 on Form S-3, in Registration Statement No. 33-54791 on Form S-8, in Registration Statement No. 333-16353, in Registration Statement No. 333-16353-01, in Registration Statement No. 333-16353-02, and in Registration Statement No. 333-16353-03 of our report dated January 30, 1998, appearing in this Annual Report on Form 10-K of The Washington Water Power Company for the year ended December 31, 1997.

Deloitte & Touche LLP

Seattle, Washington
March 17, 1998

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF THE WASHINGTON WATER POWER COMPANY, INCLUDED IN THE ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS		
	DEC-31-1997	
	DEC-31-1997	
	PER-BOOK	
1,433,123		
297,227		
376,843		
304,592		
	0	
	2,411,785	
	585,102	
(8,066)		
	171,776	
748,812		
	155,000	
	0	
	607,803	
	127,118	
	30,057	
	0	
20,440		
	0	
5,825		
	1,779	
714,951		
2,411,785		
1,302,172		
	61,075	
1,112,708		
1,112,708		
	189,464	
	52,683	
242,147		
	66,275	
	114,797	
	5,392	
109,405		
	69,390	
	32,841	
	202,399	
	1.96	
	1.96	

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 STATEMENTS 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.