

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, 1996 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.wwpc.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 \$1,028,271,615.00, based on the last reported sale price thereof on the consolidated tape on February 28, 1997.

At February 28, 1997, 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 20, 1997	Part III, Items 10, 11, 12 and 13

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\* = not an applicable item in the 1996 calendar year for the 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
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, 1996, the Company's employees included 1,453 people in its energy operations and approximately 1,850 people in its majority-owned non-energy businesses. 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.

In August 1996, the Company reorganized its energy 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. The Company organized its energy operations into two lines of business. The Energy Delivery business includes retail electric and natural gas distribution and transmission services. The Energy Trading and Market Services (Energy Trading) business includes generation and production, electric and natural gas commodity trading and energy services.

Both the Energy Delivery and Energy Trading lines of business are currently conducted by separate business divisions within the Company. The Company intends eventually to conduct some or all of the Energy Trading line of business through one or more of the subsidiaries as discussed below.

In addition to its energy businesses, the Company owns Pentzer Corporation (Pentzer), parent company to the majority of the Company's non-energy businesses.

## [1996 ORGANIZATIONAL STRUCTURE]

1996 Organizational Structure is a chart that depicts the Company's organizational structure during 1996. The top of the organizational chart shows "Washington Water Power". Under this are the three Lines of Business -- "Energy Delivery", "Energy Trading and Market Services", and "Non-Energy Business". Under Energy Delivery are the two business units -- "Electric and Natural Gas" and "Transmission Services". Under Energy Trading and Market Services are three business units -- "Generation and Production", "Commodity Trading" and "Energy Services". Under Non-Energy Business are two business units -- "Pentzer Corporation" and "Other".

For the twelve months ended December 31, 1996, 1995 and 1994, respectively, the Company derived operating revenues and income from operations in the following proportions:

	Operating Revenues			Income from Operations (pre-tax)		
	1996	1995	1994	1996	1995	1994
Energy Delivery	40%	50%	52%	47%	57%	73%
Energy Trading	45%	38%	39%	45%	36%	23%
Non-Energy	15%	12%	9%	8%	7%	4%

As previously reported, 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, which would have provided for the merger of the Company, SPR and SPPC with and into Altus.

In February 1997, the Company's Board of Directors approved creation of a new subsidiary, Avista Corp. (Avista), which will own all of the Company's non-regulated businesses (energy and non-energy). The non-regulated energy businesses include Avista Advantage, Inc. (formerly WWP Energy Solutions, Inc.) and Avista Energy, Inc. (formerly WWP Resource Services, Inc.). (See Item 1. Business - Energy Trading for additional information about these businesses). The non-energy business primarily consists of Pentzer which is the parent company to the majority of the Company's non-energy businesses. See Item 1. Business - Non-Energy Business and Note 15 to Financial Statements for additional information. Avista was formed to segregate the Company's non-regulated businesses from regulated businesses and support financing of the non-regulated businesses as they develop and expand. The Company will operate under this corporate structure prospectively; the remainder of these 10-K discussions focus on the corporate structure in place during 1996.

## ENERGY DELIVERY

## GENERAL BUSINESS MATTERS

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 1996, retail electric service was supplied to approximately 297,000 customers in eastern Washington and northern Idaho; retail natural gas service was supplied to approximately 238,000 customers in parts of Washington, Idaho, Oregon and California.

## ELECTRIC OPERATIONS

Regulatory, economic and technological changes have brought about the accelerating transformation of the electric utility industry from a vertically integrated monopoly to a market driven business. The Company is well-positioned to meet the challenges of increased competition due to its low production costs and close proximity to major transmission lines. To assess impacts of competition and customer choice, the Company has proposed and/or implemented experimental programs which include a Direct Access and Delivery Service Tariff (DADS) and a More Options for Power Services (MOPS) tariff. See Regulatory Issues below for additional information.

Challenges facing the retail electric business include reduced energy consumption and the cost of the energy supplied, 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. See Energy Trading - Regulatory Issues for additional information.

Bills have recently been introduced in the Washington State Legislature to move toward retail competition in the electric business. The major features of the proposed bills would allow consumers to choose a market-based rate alternative, allow for recovery of some stranded costs, and require electric utility companies to unbundle their services and rates; prices for local distribution and ancillary services would continue to be regulated. The Company cannot predict the timing or ultimate impact of these proposals if passed. However, the Company believes it is clear that competition will ultimately be introduced into the retail electric business.

IndeGO (Northwest Grid Operator) The Company signed a Memorandum of Understanding (MOU) on July 11, 1996 with various Northwest utilities for the purposes of jointly investigating the feasibility of transferring certain operating responsibilities associated with a regional transmission grid to an independent grid operator. It is conceivable that operation of the regional transmission grid by an independent grid operator may facilitate evolution to a competitive electric power market and potentially increase the efficiency of the Northwest transmission system, as well as provide non-discriminatory open access to the regional transmission grid consistent with FERC requirements. The Company is participating in various IndeGO committees addressing a number of issues (system operations, transmission pricing, regional planning, etc.) associated with the development of an independent grid operator. IndeGO parties are working cooperatively with all anticipated stakeholders during this initial development stage. The MOU is essentially non-binding in that any party to the MOU may withdraw at any time by providing written notice to each other party to the MOU. At such time as IndeGO may be formally proposed, the Company, pursuant to its ongoing internal evaluation of IndeGO, will determine whether it will participate in the formation of the Northwest independent grid operator.

## 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 continued to be a significant component of the Company's total system deliveries in 1996. 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 237.9 million therms in 1996. This volume represented approximately 40% of the Company's total system deliveries in 1996.

While rate design changes have increased the costs of firm transportation to low load-factor pipeline customers such as the Company, flexible receipt and delivery points and capacity releases allow temporarily under-utilized transportation to be released to others when not needed to serve the Company's customers.

Challenges facing the Company's natural gas business include the continuing potential for customers to by-pass the Company's natural gas system. Since 1988, two of the Company's large industrial customers have built their own pipeline interconnections. However, these customers continue to purchase natural gas services from the Company. 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 chances of these customers by-passing the Company's system in the foreseeable future.

#### REGULATORY ISSUES

The Company, as a public utility, is currently subject to regulation by state utility commissions with respect to rates, 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 natural gas operations are subject to the jurisdiction of the WUTC, the IPUC, the Public Utility Commission of Oregon (OPUC) and the California Public Utilities Commission (CPUC).

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) 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 to Financial Statements for additional information about depreciation and deferred taxes). Over time, rate base is increased by additions to utility plant in service and reduced by depreciation and retirements of utility plant from service. As the energy business is restructured, traditional "cost of service" rate setting may be modified through performance-based (or "incentive") ratemaking. Rates for transmission services are based on the same principles and are set forth in tariffs on file with the FERC.

**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%. The Company's last general natural gas rate cases were effective: in August 1990 for the State of Washington and allowed a return on equity of 12.90%; in October 1989 for the State of Idaho and allowed a return on equity of 12.75%.

**Notice of Inquiry (NOI)** The WUTC, after a notice of inquiry process, has examined potential structural changes in the electric utility industry with a focus on the implications of industry changes for Washington utility regulation and recommendations concerning specific rules and regulations currently used by the WUTC. The NOI process concluded in December 1995 with the issuance by the WUTC of eight guiding principles stating basically that future WUTC regulatory oversight will balance issues such as reliability, pricing responsive to customers needs and selected public policy concerns. Washington utilities were ordered to follow the eight guiding principles while the WUTC reviews other states' experience with restructuring to determine potential benefits for Washington customers. In January 1996, the IPUC initiated a similar NOI entitled, "Investigation into Changes Occurring in the Electric Industry." The IPUC issued an order in September 1996 indicating that, given the low electric rates provided by Idaho utilities, the IPUC will review other states' experience with restructuring to determine potential benefits for Idaho customers.

In August 1995, the WUTC initiated an NOI entitled, "Examining Regulation of Local Distribution Companies in the Face of Change in the Natural Gas Industry." The WUTC sought comments on the potential structural change in the natural gas industry, the implications of industry changes for utility regulation and recommendations concerning specific rules and regulations currently used by the WUTC. As a result of comments received, the WUTC is reviewing regulatory procedures and rules concerning such matters as least-cost planning, purchased gas adjustment (PGA) mechanisms and demand side management (DSM) incentives. The Company provided initial comments in September 1995 and reply comments in early February 1996, and has participated in a series of meetings pertaining to natural gas procurement incentives, DSM and unbundling issues.

**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 a 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 only eligible customers are 30 of the Company's largest customers in Washington and Idaho. The WUTC and the IPUC approved the tariff effective in September 1996. This trial tariff is effective through August 31, 1998. As of January 1, 1997, 13 of the eligible customers were taking service under the tariff (eight Washington customers and five Idaho customers), representing 60% 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 is absorbing any margin losses associated with



loads served on the DADS tariff and the losses incurred are not having a material impact on the Company's financial condition or results of operation.

More Options for Power Services (MOPS) A MOPS experimental tariff was filed on February 10, 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. The MOPS filing proposes a two-year pilot program that would allow approximately 2,500 residential and 300 commercial customers direct access to alternative energy providers. This pilot is proposed to begin in mid-1997 and end in mid-1999, assuming regulatory approval. The Company has proposed to recover one-half of the lost margins associated with the pilot through the energy delivery rate and absorb one-half of the margin losses. The program costs and margin losses are not expected to have a material impact on the Company's financial condition or results of operation.

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 DSM programs focus on both the continuation of selected existing programs available to broad customer classes and the participation in the Northwest Energy Efficiency Alliance, a partnership of regional utilities offering specifically structured programs to influence market demand. 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. The revenues will be used to fund the Company's 1997 through 1999 DSM program surcharge expenditures.

The avoided cost of natural gas has decreased to a level which significantly reduces the cost-effectiveness of natural gas DSM programs. The WUTC and IPUC each approved the Company's reduction of the natural gas DSM tariff rider from a surcharge of 0.52% to zero effective January 1, 1997. The Company will continue to monitor the cost of natural gas to determine if there are any substantive changes in the natural gas commodity that would improve the cost-effectiveness of natural gas 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 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. See Note 1 to Financial Statements for additional details.

Purchased Gas Adjustment (Natural Gas Trackers) Natural gas trackers 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 September 1996, the Company filed a natural gas tracker with the IPUC requesting a \$2.34 million, or 8.5%, decrease which was approved, effective November 1, 1996. In October 1996, the Company filed a natural gas tracker with the OPUC requesting a \$3.67 million, or 8.59%, decrease which was approved, effective December 1, 1996. The Oregon gas tracker includes a provision that specifies a sharing of benefits and risks associated with changes in gas prices. In November 1996, the Company filed a natural gas tracker with the WUTC requesting a \$3.39 million, or 4.4%, decrease which was approved, effective January 1, 1997.

## ENERGY DELIVERY OPERATING STATISTICS

	Years Ended December 31,		
	1996	1995	1994
<b>RETAIL ELECTRIC OPERATIONS</b>			
<b>ELECTRIC OPERATING REVENUES (Thousands of Dollars):</b>			
Residential .....	\$ 160,345	\$ 156,755	\$ 146,894
Commercial .....	144,717	140,221	131,254
Industrial .....	62,067	60,979	57,438
Public street and highway lighting .....	3,359	3,345	3,108
<b>Total retail electric revenue .....</b>	<b>370,488</b>	<b>361,300</b>	<b>338,694</b>
Transmission revenues .....	11,931	8,362	12,636
Other revenues .....	6,747	6,050	6,960
Transfer to Energy Trading (1) .....	(181,708)	(176,528)	(168,503)
<b>Total electric energy delivery revenues .....</b>	<b>\$ 207,458</b>	<b>\$ 199,184</b>	<b>\$ 189,787</b>
<b>ELECTRIC ENERGY SALES (Thousands of MWhs):</b>			
Residential .....	3,220	3,150	3,035
Commercial .....	2,674	2,592	2,477
Industrial .....	1,863	1,803	1,705
Public street and highway lighting .....	24	23	22
<b>Total retail energy sales .....</b>	<b>7,781</b>	<b>7,568</b>	<b>7,239</b>
<b>ELECTRIC AVERAGE HOURLY LOAD (aMW): .....</b>	<b>973</b>	<b>924</b>	<b>886</b>
<b>NUMBER OF ELECTRIC CUSTOMERS (Average for Period):</b>			
Residential .....	257,726	253,364	239,733
Commercial .....	33,043	32,236	29,402
Industrial .....	1,133	1,107	999
Public street and highway lighting .....	363	349	325
<b>Total retail electric customers .....</b>	<b>292,265</b>	<b>287,056</b>	<b>270,459</b>
<b>ELECTRIC RESIDENTIAL SERVICE AVERAGES:</b>			
Annual use per customer (Kwh) .....	12,493	12,434	12,661
Revenue per Kwh (in cents) .....	4.98	4.98	4.84
Annual revenue per customer .....	\$ 622.15	\$ 618.69	\$ 612.74
<b>NATURAL GAS OPERATIONS</b>			
<b>NATURAL GAS OPERATING REVENUES (Thousands of Dollars):</b>			
Residential .....	\$ 85,904	\$ 84,358	\$ 76,597
Commercial .....	51,006	52,671	50,981
Industrial - firm .....	3,949	5,470	5,642
Industrial - interruptible .....	1,131	1,967	3,570
<b>Total retail natural gas revenues .....</b>	<b>141,990</b>	<b>144,466</b>	<b>136,790</b>
Non-retail sales .....	9,862	10,530	5,098
Transportation .....	12,154	12,340	11,140
Other revenues .....	7,305	6,891	3,748
<b>Total natural gas energy delivery revenues .....</b>	<b>\$ 171,311</b>	<b>\$ 174,227</b>	<b>\$ 156,776</b>
<b>THERMS DELIVERED (Thousands of Therms):</b>			
Residential .....	183,927	159,919	150,106
Commercial .....	132,744	120,838	120,901
Industrial - firm .....	12,757	14,658	15,614
Industrial - interruptible .....	4,174	10,621	12,801
<b>Total retail sales .....</b>	<b>333,602</b>	<b>306,036</b>	<b>299,422</b>
Non-retail sales .....	67,656	104,831	36,107
Transportation .....	237,894	221,261	195,543
Interdepartmental sales and Company use .....	22,215	25,043	257
<b>Total therms - sales and transportation .....</b>	<b>661,367</b>	<b>657,171</b>	<b>531,329</b>

(1) The transfer to Energy Trading represents the portion of revenues collected by Energy Delivery for the generation and resource costs to meet retail loads.

## ENERGY DELIVERY OPERATING STATISTICS

	Years Ended December 31,		
	1996	1995	1994
<b>SOURCES OF NATURAL GAS SUPPLY (Thousands of Therms):</b>			
Purchases .....	422,194	429,903	335,780
Storage - injections .....	(26,260)	(31,248)	(20,518)
Storage - withdrawals .....	24,572	32,332	19,053
Natural gas for transportation .....	237,894	221,261	195,543
Distribution system gains (losses) .....	2,967	4,923	1,471
<b>Total supply .....</b>	<b>661,367</b>	<b>657,171</b>	<b>531,329</b>
<b>NET SYSTEM MAXIMUM CAPABILITY (Thousands of Therms):</b>			
Net system maximum demand (winter) .....	3,273	2,758	2,605
Net system maximum firm contractual capacity (winter) .....	3,523	3,523	3,523
<b>NUMBER OF NATURAL GAS CUSTOMERS (Average for Period):</b>			
Residential .....	203,245	192,252	179,176
Commercial .....	25,747	24,606	23,466
Industrial - firm .....	300	281	264
Industrial - interruptible .....	28	31	33
<b>Total retail customers .....</b>	<b>229,320</b>	<b>217,170</b>	<b>202,939</b>
Non-retail sales .....	7	5	1
Transportation .....	93	75	60
<b>Total natural gas customers .....</b>	<b>229,420</b>	<b>217,250</b>	<b>203,000</b>
<b>NATURAL GAS RESIDENTIAL SERVICE AVERAGES:</b>			
<b>Washington and Idaho</b>			
Annual use per customer (therms) .....	1,007	919	899
Revenue per therm (in cents) .....	41.90	48.98	47.46
Annual revenue per customer .....	\$ 421.91	\$ 450.07	\$ 426.83
<b>Oregon and California</b>			
Annual use per customer (therms) .....	724	678	731
Revenue per therm (in cents) .....	58.55	61.78	58.62
Annual revenue per customer .....	\$ 424.00	\$ 418.88	\$ 428.64
<b>HEATING DEGREE DAYS:(1) .....</b>			
<b>Spokane, WA</b>			
Actual .....	7,477	6,363	6,225
30 year average .....	6,842	6,842	6,842
% of average .....	109.3	93.0	91.0
<b>Medford, OR</b>			
Actual .....	4,088	3,751	4,348
30 year average .....	4,611	4,611	4,611
% of average .....	88.7	81.3	94.3
<b>INCOME FROM ENERGY DELIVERY OPERATIONS (After income tax) .....</b>	<b>\$ 63,205</b>	<b>\$ 75,623</b>	<b>\$ 82,728</b>

(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 average indicate warmer than average temperatures).

## ENERGY TRADING

## GENERAL BUSINESS MATTERS

Energy Trading manages the Company's electric energy resource portfolio, which is used to serve Energy Delivery's retail electric customers and Energy Trading's wholesale electric customers. Energy Trading is also in the electric and natural gas commodity trading business where it is involved in both short-term trading and long-term contracts at the wholesale level. Other energy services are provided through Avista Advantage, a subsidiary of the Company.

In managing the electric energy resource portfolio, Energy Trading seeks to maximize availability and minimize cost of production 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. 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 commodity trading business consists of energy trading and wholesale marketing. 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.

The Company's wholesale marketing and commodity trading businesses are a growing and 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 business and the Company is continuing to actively pursue electric wholesale business opportunities. Wholesale sales are affected by weather and streamflow conditions and may eventually be affected by the restructuring of the electric utility industry.

Challenges facing Energy Trading include evolving technologies which provide alternate energy supplies and deregulation of electric and natural gas markets. Energy Trading 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 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 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 prices of natural gas and oil, spot energy prices and transmission access. Business challenges affecting the energy trading business include new entrants in the wholesale market, such as power brokers and marketers, competition from low-cost generation being developed by independent power producers and declining margins. In addition, the 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 to provide these services.

To meet the challenges of a changing marketplace, the Company formed two new non-regulated subsidiaries, Avista Advantage, Inc. and Avista Energy, Inc. Avista Advantage provides a variety of energy-related products and services to commercial and industrial customers on a national basis. The Avista Advantage product line includes real-time metering, consolidated billing, lighting and security systems, energy technology services and energy commodity management. Avista Energy will focus on commodity trading, energy marketing and other related businesses. In September 1996, the FERC approved Avista Energy's application for National Power Marketer certification. This will allow Avista Energy to buy electricity for resale to utilities and other customers throughout the United States. The national energy marketing effort will be operating from Spokane, WA.

In November 1996, an alliance was formed with Mock Energy Services, California's largest natural gas marketer, to provide integrated energy services to customers throughout the State of California. Under the terms of the agreement, the alliance will market natural gas and electric commodity service to industrial and large commercial customers throughout California. The alliance will also offer customers a wide variety of energy-related products and services through Avista Advantage.

## REGULATORY ISSUES

The Company is subject to the jurisdiction of the FERC for its accounting procedures, its wholesale electric rates and its (wholesale) natural gas rates charged for the release of capacity from the Jackson Prairie Storage Project. 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.

FERC Orders No. 888 and No. 889 As previously reported, the FERC issued its final rule in Order No. 888 on April 24, 1996. The final rule 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 on July 8, 1996 and subsequently began providing



the tariff. The FERC issued its initial order on the non-rate terms and conditions of the tariff on November 13, 1996, accepting the tariff for filing subject to the Company submitting three minor changes to the tariff.

In the FERC's Order No. 889, the companion rule to Order No. 888, the FERC required public utilities to establish an OASIS to provide transmission customers with information about available transmission capacity, prices and other information, by electronic means. This would enable such customers to obtain non-discriminatory transmission service. The final rule requires each public utility subject to the rule to functionally separate its transmission and wholesale power merchant functions and prescribed standards of conduct pursuant to which it is assured 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 on December 31, 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.

## ENERGY RESOURCES

## ELECTRIC REQUIREMENTS

The Company's 1996 annual peak requirements, including long-term and short-term contractual obligations, was 3,180 MW. This peak occurred on January 31, 1996, at which time the maximum capacity available from the Company's generating facilities, including long-term and short-term purchases, was 3,340 MW. The electric requirements are affected by both Energy Delivery's and Energy Trading's electric needs.

## 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, 1996, the Company's total owned resources available were 58% hydroelectric and 42% thermal. See Energy Trading Operating Statistics on page 12 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 normal operating conditions, the Company meets about 49% of its total energy requirements (both retail and wholesale), with its own hydroelectric generation and long-term hydroelectric contracts. The streamflows to Company-owned hydroelectric projects were 145%, 120% and 65% of normal in 1996, 1995 and 1994, respectively.

**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 leases two natural gas-fired CTs, both in northern Idaho, used for peaking needs.

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 1996, 1995 and 1994, Centralia provided approximately 46%, 30% and 42%, respectively, of the Company's thermal generation.

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 1996, 1995 and 1994, Colstrip provided approximately 34%, 47% and 48% of the Company's thermal generation, respectively.

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 1996, 1995 and 1994, Kettle Falls provided approximately 10%, 8% and 10% of the Company's thermal generation, respectively.

The CTs are natural gas-fired units, primarily used for peaking needs. The Rathdrum CTs have access to domestic and Canadian natural gas supplied through Pacific Gas Transmission (PGT). In 1996 and 1995, these units provided approximately 10% and 15%, respectively, of the Company's thermal generation primarily due to the low cost of natural gas during the two years. Thermal generation provided by the Spokane CT in prior years was immaterial.

**Purchases, Exchanges and Sales** In 1996, the Company had various purchase contracts equating to a non-coincident peak of 669 MW, with an average remaining life of 4.9 years. Additionally, long-term hydro purchase contracts of 197 MW were available with an average remaining contract life of 12.6 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 1996, 1995 and 1994 provided approximately 54%, 36% and 30%, respectively, of the Company's total electric energy requirements, including wholesale obligations.

Under the Public Utility Regulatory Policies Act of 1978 (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 574,000 MWH, or about 3% of the Company's total energy requirements, from these sources at a cost of approximately \$25 million in 1996.

## HYDROELECTRIC RELICENSING

The Company is a licensee under the Federal Power Act 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 a 30-50 year period. The Cabinet Gorge and Noxon Rapids plants are currently in the process of relicensing with an expiration date of February 2001. The Company filed a Notice of Intent to relicense in 1996 and has undertaken consultation with resource agencies, Native American tribes, special interest groups and the general public. The Company's goal in consultation is to develop settlement agreements with all parties, which will form the basis for the license application in February 1999. Natural resource and engineering studies as defined by the consultation process will be the focus in 1997 with the objective to obtain information necessary for decisions regarding future protection, mitigation and enhancement measures. An Environmental Impact Statement (EIS) will be written in the period between application filing and issuance of a new license.

The Company's approach to relicensing is unique because it 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 include all stakeholders. The Company signed an agreement inviting Trout Unlimited to become a partner at the onset of the process. See Item 2. Properties - Energy Trading for additional information. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional information.

#### 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 firm and short-term, or spot market, purchases. The Company has access to five pipelines and a natural gas storage facility which allows 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 eight years. During 1996, approximately one-third of the Company's purchases were in the short-term market, with contracts on a month-to-month basis. Approximately 30% of the natural gas supply was obtained from domestic sources, with the remaining 70% from Canadian sources.

The Company has access to five natural gas pipelines, Northwest Pipeline Company (NWP), Pacific Gas Transmission (PGT), Paiute Pipeline (Paiute), 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 1996, the Company obtained gas from over 15 different suppliers.

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

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 1998 and 2000, respectively, 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.



## ENERGY TRADING OPERATING STATISTICS

	Years Ended December 31,		
	1996	1995	1994
<b>ELECTRIC ENERGY RESOURCES (Thousands of Mwhs):</b>			
Hydro generation (from Company facilities).....	5,045	4,038	2,904
Thermal generation (from Company facilities).....	2,764	2,537	3,427
Purchased power - long-term hydro.....	1,170	1,159	1,177
Purchased power - other.....	10,640	4,113	3,146
Power exchanges.....	102	156	(24)
Total power resources.....	19,721	12,003	10,630
Energy losses and Company use.....	(765)	(525)	(504)
Total energy resources (net of losses).....	18,956	11,478	10,126
<b>ELECTRIC ENERGY REQUIREMENTS (Thousands of Mwhs):</b>			
Retail.....	7,781	7,568	7,239
Long-term wholesale.....	4,507	1,953	1,523
Short-term wholesale.....	6,668	1,957	1,364
Total energy requirements.....	18,956	11,478	10,126
<b>RESOURCE AVAILABILITY at time of system peak (MW):</b>			
Total requirements (winter) (1).....	3,180	2,545	2,233
Total resource availability (winter).....	3,340	2,855	2,468
Total requirements (summer) (2).....	2,978	2,037	1,793
Total resource availability (summer).....	3,357	2,660	2,392
<b>ELECTRIC OPERATING REVENUES (Thousands of Dollars):</b>			
Long-term wholesale.....	139,116	84,220	64,890
Short-term wholesale.....	91,443	25,013	26,496
Other revenues.....	8,108	2,044	1,615
Transfer from Energy Delivery (3).....	181,708	176,528	168,503
Total electric energy trading revenues.....	\$420,375	\$287,805	\$261,504
<b>NUMBER OF ELECTRIC CUSTOMERS (Average for Period):</b>			
Wholesale customers.....	60	33	27
<b>INCOME FROM ENERGY TRADING OPERATIONS (After income tax).....</b>	<b>\$ 64,421</b>	<b>\$ 53,138</b>	<b>\$ 28,685</b>

(1) Includes long-term contract obligations of 744 MW, 733 MW and 539 MW and 725 MW, 327 MW and 242 MW of short-term sales in 1996, 1995 and 1994, respectively.

(2) Includes long-term contract obligations of 839 MW, 691 MW and 509 MW in 1996, 1995 and 1994, respectively, and short-term sales of 739 MW, 25 MW and 1 MW in 1996, 1995 and 1994, respectively.

(3) Transfer from Energy Delivery represents the portion of revenues collected from retail customers for generation and resource costs to meet retail loads.

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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 (SO<sub>2</sub>) 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 is expected to be issued by SWAPCA (Southwest Washington Air Pollution Control Agency) which may require a reduction in SO<sub>2</sub> 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.

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 SO<sub>2</sub> mitigation in the foreseeable future in order to continue operations. Reduction in nitrogen oxides (NO<sub>x</sub>) will be required at both Centralia and Colstrip prior to the year 2000. The anticipated share of costs for NO<sub>x</sub> 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 CT was received in 1995. The permit for the Company's Kettle Falls plant was issued in August 1996. The operating permit application for the Rathdrum CTs in northern Idaho received approval, but will not be issued until later in 1997.

**Superfund Sites.** Since 1993, the Company and other responsible parties have been involved with remediation efforts at the Spokane Junkyard Site located in Spokane, Washington. Cleanup actions were completed during 1996. Ongoing monitoring of the site is required, but the costs associated with the monitoring are minimal. Refer to Item 3. Legal Proceedings for additional information.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook and Note 14 to Financial Statements for additional information.

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NON-ENERGY BUSINESS

The majority of the non-energy operations are controlled by Pentzer, a wholly owned subsidiary of the Company. As of December 31, 1996, the Company had an equity investment of approximately \$139 million in non-energy businesses, of which approximately \$130 million was invested in Pentzer. The remainder was invested in other subsidiaries, the largest of which is Washington Irrigation and Development Company (WIDCo), which maintains a small investment portfolio.

As of December 31, 1996, Pentzer had approximately \$242 million in total assets, or about 11% of the Company's consolidated assets. 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 energy operations. From time to time, a significant portion of Pentzer's earnings contributions may be the result of transactional gains. Accordingly, although the income stream is expected to be positive, it may be uneven from year to year.

Effective in March 1997, Pentzer is a wholly owned subsidiary of the Company's non-regulated subsidiary, Avista Corp.

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 15 to Financial Statements for additional information.

## ITEM 2. PROPERTIES

## ENERGY DELIVERY

## Electric Distribution and Transmission Plant

The Company operates approximately 12,110 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 1550 miles of 115 kV line. The Company also owns a 10% interest in 495 miles of a 500 kV line from Colstrip, Montana and a 15% interest in 3 miles of a 500 kV line from Centralia, Washington to the nearest Bonneville Power Administration (BPA) interconnections.

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. The 230 kV lines also transmit to points of interconnection with adjoining electric transmission systems for bulk power transfers. These lines interconnect with BPA at five locations and at one location each with PacifiCorp, Montana Power and Idaho Power Company. The BPA interconnections serve as points of delivery for power from the Colstrip and Centralia generating stations as well as for the interchange of power with the Southwest. The interconnection with PacifiCorp is the point of delivery for power purchased by the Company from Mid-Columbia projects' hydroelectric generating stations.

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 the BPA at nine locations, Grant County Public Utility District (PUD), Seattle City Light and Tacoma City Light at two locations and one interconnect location each with Chelan County PUD, PacifiCorp and Montana Power.

## Natural Gas Plant

The Company has natural gas distribution mains of approximately 3,420 miles in Washington and Idaho and 1,630 miles in Oregon and California, as of December 31, 1996.

The Company, NWP and Washington Natural Gas Company each own a one-third undivided interest in the Storage Project, which has a total peak day deliverability of 4.6 million therms, with a total working natural gas inventory of 155.2 million therms.

## ENERGY TRADING

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), (6)	2	166.5	176.0		
Montana:					
Colstrip (Units 3 and 4) (4)	2	233.4	216.0		
		-----	-----		
Total Thermal		711.3	710.0		
		-----	-----		
Total Generation Properties		1,569.1	1,682.1		
		=====	=====		

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.
- (4) Jointly owned; data above refers to Company's respective 15% interests.
- (5) Used primarily for peaking needs.
- (6) Construction completed in January 1995; see Note 9 to Financial Statements regarding long-term arrangement.

## ITEM 3. LEGAL PROCEEDINGS

The Company is pursuing recovery from insurers, including filing suit against Underwriters at Lloyds (Lloyds) for \$16 million in Spokane County Superior Court. The action is to recover the costs associated with the oil spill in downtown Spokane at the site of the Company's steam heat plant and other environmental remediation efforts. The Company's policies with Lloyds were in effect through 1979; thereafter, its policies were maintained with another underwriter, Aegis. Overlapping or unknown time periods when damages occurred necessitates seeking recovery from both insurers. Refer to Note 14 to Financial Statements.

## 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, 1997, there were approximately 31,566 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, 5 and 17 to Financial Statements for additional information.

## ITEM 6. SELECTED FINANCIAL DATA

On November 9, 1993, the Company distributed, to shareholders of record on October 25, 1993, shares of its common stock, without par value, under a two-for-one stock split effected in the form of a 100% stock dividend. All references to number of shares and per share information have been adjusted to reflect the common stock split on a retroactive basis.

On July 31, 1990, WIDCo sold its 50% interest in its coal mining properties. The consolidated financial statements, notes and selected financial data have been reclassified to reflect the continuing operations of the Company. The revenues, expenses, assets and liabilities of the discontinued operations have been reclassified from those categories and netted into single line items in the income statements and balance sheets.

	Years Ended December 31,				
	1996	1995	1994	1993	1992
	(Thousands of Dollars except Per Share Data and Ratios)				
Operating Revenues:					
Energy .....	\$ 799,144	\$ 661,216	\$ 608,067	\$ 601,722	\$ 524,983
Non-Energy .....	145,813	93,793	62,698	38,877	32,775
Total .....	944,957	755,009	670,765	640,599	557,758
AFUDC/AFUCE .....	2,361	1,631	4,949	4,964	3,751
Net Income:					
Energy .....	62,404	72,310	63,567	69,510	63,975
Non-Energy .....	21,049	14,811	13,630	13,266	8,292
Discontinued Operations .....	--	--	--	--	2,403
Total .....	83,453	87,121	77,197	82,776	74,670
Preferred Stock Dividend Requirements	7,978	9,123	8,656	8,335	6,817
Income Available for Common Stock .....	75,475	77,998	68,541	74,441	67,853
Outstanding Common Stock (000s):					
Weighted Average .....	55,960	55,173	53,538	51,616	49,550
Year-End .....	55,960	55,948	54,421	52,758	50,888
Book Value per Share .....	\$ 12.70	\$ 12.82	\$ 12.45	\$ 12.02	\$ 11.54
Earnings per Share:					
Energy .....	.97	1.14	1.03	1.19	1.15
Non-Energy .....	.38	.27	.25	.25	.17
Discontinued operations .....	--	--	--	--	.05
Total .....	1.35	1.41	1.28	1.44	1.37
Dividends Paid per Common Share .....	1.24	1.24	1.24	1.24	1.24
Total Assets at Year-End:					
Energy .....	1,921,429	1,869,180	1,817,815	1,701,652	1,424,812
Non-Energy .....	255,869	229,722	176,438	136,186	109,203
Total .....	2,177,298	2,098,902	1,994,253	1,837,838	1,534,015
Long-term Debt at Year-End .....	764,526	738,287	721,146	647,229	596,897
Preferred Stock Subject to Mandatory Redemption at Year-End .....	65,000	85,000	85,000	85,000	85,000
Ratio of Earnings to Fixed Charges ...	2.97	3.22	3.24	3.45	3.08
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements ....	2.50	2.61	2.59	2.77	2.57

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is primarily engaged as a utility providing electric and natural gas sales and services. The Energy Delivery business includes retail electric and natural gas distribution and transmission services. Usage by retail customers varies from year to year primarily as a result of weather conditions, the economy in the Company's service area, customer growth, conservation, appliance efficiency and other technology. The Energy Trading and Market Services (Energy Trading) business includes generation and production, electric and natural gas commodity trading and energy services. Revenues from the sale of energy to other utilities 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 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 and competition from low cost generation being developed by independent power producers.

RESULTS OF OPERATIONS

OVERALL OPERATIONS

Overall earnings per share for 1996 were \$1.35, compared to \$1.41 in 1995 and \$1.28 in 1994. 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 16 to the Financial Statements for additional information about the merger termination). The 1996 results also reflect improved energy earnings, primarily from wholesale electric activities, and transactional gains totaling \$15.1 million recorded by Pentzer Corporation (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 the Company's electric operations and \$6.1 million in transactional gains from Pentzer, primarily due to the sale of ITRON stock. The 1994 earnings include \$8.0 million of transactional gains recorded by Pentzer primarily as a result of the sale of ITRON stock.

Energy operating income available for common stock decreased \$8.8 million, or 14%, in 1996 after increasing \$8.3 million, or 15%, in 1995. Energy operating income contributed \$0.97 to earnings per share in 1996, compared to \$1.14 in 1995 and \$1.03 in 1994. 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. Non-energy operating income available for common stock increased \$6.2 million, or 42%, in 1996 and \$1.2 million in 1995 and contributed \$0.38 to earnings per share in 1996, compared to \$0.27 in 1995 and \$0.25 in 1994.

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. However, the Company estimates that approximately 75% of those customers had their electric service fully restored within 72 hours of the first storm. 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. No increase in rates will occur as a result of these costs.

Income from Energy Delivery operations decreased \$19.1 million, or 18%, in 1996 from 1995, primarily due to \$17.1 million in pre-tax expenses associated with the storm damage on the electric distribution system. Income from Energy Delivery operations decreased \$5.4 million, or 5%, in 1995 from 1994, primarily due to increased operating expenses. Income from Energy Trading operations increased \$14.6 million, or 21%, in 1996 over 1995, and \$32.7 million, or 90%, in 1995 over 1994, primarily due to increased wholesale electric revenues, resulting from both new power contracts and improved streamflow conditions. In 1995, purchased power and fuel expense decreased from 1994, both a result of the improved streamflows.

Interest expense increased \$4.2 million in 1996, as compared to 1995, and \$6.0 million in 1995, as compared to 1994, with both increases primarily due to higher levels of outstanding debt. In 1996, \$20 million in preferred stock was redeemed, which increased short-term borrowings. During 1996 and 1995, \$38.0 million and \$45.0 million, respectively, of long-term debt matured or was redeemed, while \$78.0 million in long-term debt was issued in 1995. At December 31, 1996, long-term debt outstanding was \$26.2 million higher than at December 31, 1995, due to increased borrowings from banks. Long-term debt outstanding at December 31, 1995, was \$17.1 million higher than at the end of 1994.

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. Preferred stock dividend requirements increased \$0.5 million in 1995 over 1994 due to higher interest rates in 1995.



## ENERGY OPERATIONS

## REVENUES

Total Energy Delivery revenues increased \$5.4 million in 1996 over 1995. Electric Energy Delivery revenues increased \$8.3 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.

Total Energy Delivery revenues increased \$26.8 million in 1995 over 1994. Electric Energy Delivery revenues increased \$9.4 million in 1995 as compared to 1994. Electric residential and commercial revenues increased by a combined \$18.8 million, primarily as a result of an increase of nearly 16,500 customers, or 6%, during 1995. Approximately 10,000 residential and commercial customers were added through the acquisition of PacifiCorp's electric properties in northern Idaho in late December 1994. Total natural gas revenues increased \$17.5 million, or 11%, in 1995 over 1994, as retail therm sales increased 24%. Residential and commercial natural gas revenues increased by a combined \$9.5 million in 1995 as compared to 1994, primarily as a result of 7% customer growth in those sectors, due to conversions from electric service to natural gas, population growth and new construction. Transportation sales increased by 13% in 1995 over 1994, leading to a \$1.2 million increase in revenues. Non-retail natural gas sales accounted for a \$5.4 million increase in revenues in 1995 over 1994. The revenues from these sales were offset by like increases in purchased gas expense. Margins from these transactions are credited back to retail customers through rate changes for the cost of gas.

Energy Trading revenues increased \$132.6 million, or 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. Firm wholesale (long-term) revenues increased \$54.9 million in 1996 over 1995, while revenues from short-term (spot market) 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.

Energy Trading revenues increased \$26.3 million, or 10%, in 1995 over 1994, 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 and generation from the Rathdrum combustion turbine, which went into service in January 1995. Firm wholesale (long-term) revenues increased \$19.3 million in 1995 over 1994, while revenues from short-term sales decreased \$1.5 million during the same period. Hydroelectric generation was 105% above normal, due to streamflows which were 120% of normal in 1995.

## OPERATING EXPENSES

Total operating expenses increased by \$24.5 million for Energy Delivery operations and \$117.9 million for Energy Trading operations during 1996 compared to 1995. Total operating expenses increased by \$32.2 million for Energy Delivery operations and decreased \$6.4 million for Energy Trading operations during 1995 compared to 1994.

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 Energy Trading's operating expenses. Improved streamflow conditions, which resulted in increased hydroelectric generation, caused purchased power expense for 1995 to decline by \$8.6 million from 1994.

Fuel costs increased \$8.3 million in 1996 compared to 1995 as a result of higher generation at thermal plants during the year. The increase in generation was primarily due to increased wholesale sales during 1996. Fuel costs decreased \$6.9 million in 1995 compared to 1994 as a result of the increased availability of hydroelectric generation during 1995.

Natural gas purchased expense decreased \$5.8 million, or 6%, in 1996 as compared to 1995, primarily due to lower natural gas prices, which offset an increase in therm sales volumes of 4.2 million, or 1%. Natural gas purchased expense increased \$11.1 million, or 12%, in 1995 as compared to 1994, primarily as the result of an increase in therm sales volumes of 125.8 million, or 24%. A large portion of purchased gas expense is variable costs, with the result that increases or decreases in revenues are generally offset by like changes in purchased gas expense.

Other operating and maintenance expenses increased \$29.6 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. Transmission expenses associated

with increased wholesale sales increased \$2.1 million in 1996 over 1995. The Idaho Power

Cost Adjustment (PCA), which allows the Company to change rates to recover or rebate a portion of the difference between actual and allowed net power supply costs, also increased during 1996. Net PCA adjustments, resulting from improved streamflow conditions, accounted for \$1.9 million of the increase in other operating and maintenance expenses for 1996 over 1995. Increased amortization of conservation programs and a higher accrual for uncollectible accounts were also partially responsible for the increase in other operating and maintenance expenses during 1996 over 1995. Other operating and maintenance expenses increased \$20.9 million in 1995 over 1994 due to net PCA adjustments, resulting from improved streamflow conditions, which accounted for \$5.8 million of the increase, as well as lease payments and operating expenses related to the Rathdrum combustion turbine, which went into service in 1995, increased amortization of conservation programs, a higher accrual for uncollectible accounts and environmental remediation reserves (see Note 14 to Financial Statements for additional information).

Administrative and general expenses increased by \$13.4 million in 1996, compared to 1995, primarily due to \$4.2 million in accruals related to postretirement and pension benefits, a \$1.6 million 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. Administrative and general expenses increased by \$5.3 million in 1995, compared to 1994, primarily due to lease payments for computer software systems, labor expenses resulting from merger activities and other labor-related costs.

Income taxes decreased \$3.3 million, or 7%, in 1996 over 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. Income taxes increased by \$9.9 million, or 26%, in 1995 over 1994, as a result of increased income from operations.

#### NON-ENERGY OPERATIONS

Non-energy operations primarily include the results of Pentzer. Pentzer's business strategy is to acquire controlling interests 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 those of the energy operations. From time to time, a significant portion of Pentzer's earnings contributions may be the result of transactional gains. Accordingly, although the income stream is expected to be positive, it may be uneven from year to year.

Non-energy operating revenues and expenses increased by \$52.0 million and \$50.5 million, respectively, in 1996 as compared to 1995 primarily as a result of acquisitions. Non-energy net income for 1996 was \$21.0 million, which represents a \$6.2 million, or 42%, 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.

Non-energy operating revenues and expenses increased by \$31.1 million and \$24.0 million, respectively, in 1995 as compared to 1994, also primarily as a result of acquisitions. Non-energy net income for 1995 was \$14.8 million, which represents a \$1.2 million, or 9%, increase over 1994 earnings. The increase in 1995 earnings primarily resulted from a \$2.2 million increase in non-transactional earnings over 1994 as a result of improved earnings from companies in Pentzer's investment portfolio, including earnings from two companies newly acquired in 1995, partially offset by a decline in transactional gains of \$1.1 million as compared to 1994. The 1995 and 1994 transactional gains were primarily the result of gains recorded 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 1996 as compared to 83% in 1995 and 66% in 1994. Cash available from operating activities in 1996 increased from 1995 primarily due to increases in the deferred income tax provision and changes in various working capital components, such as increased receivables, and decreased materials and supplies, fuel stock and natural gas stored and prepayments on power contracts, partially offset by the negative effect of power and purchased gas deferrals. However, construction expenditures have declined from 1994 levels so that cash from operating activities provided a higher percentage of the funds for construction than in previous years. See Note 1 to Financial Statements for additional information.

Investing Activities Cash used in investing activities increased in 1996 over 1995 primarily due to the acquisition of a new company by Pentzer and the Company's purchase of common stock in newly formed WWP subsidiaries. Cash used in investing activities also increased as a result of establishment of trusts for postretirement medical benefits and coal mining reclamation costs and the net effect on cash flows of transactions related to the sale of property by Pentzer. Pentzer received a promissory note for a portion of the sale price of Spokane Industrial Park. Energy 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 \$292 million for the 1994-1996 period.

Financing Activities During the 1994-1996 period, \$110.5 million of long-term debt and preferred stock matured, was mandatorily redeemed, or was optionally redeemed and refinanced at a lower cost. During 1996, \$38.0 million of long-term debt, with an average interest rate of 5.22%, matured or was repurchased.

In November 1996, the Company and three newly formed Trusts filed a Registration Statement with the SEC for up to and including \$150 million of Subordinated Debt Securities of the Company and Preferred Trust Securities of the Trusts (guaranteed by the Company), in one or more series and at prices and on terms to be determined at the time of the offering. In January 1997, Subordinated Debt Securities of the Company were issued to one of the Trusts, and that Trust, in turn, issued to the public \$60 million of Preferred Securities having a distribution rate of 7 7/8%. On the Company's consolidated balance sheet, this will appear as \$60 million of new preferred trust securities. Proceeds of the issuance were used to reimburse the Company's treasury for funds previously expended for the maturity and redemption of preferred stock and long-term debt and to fund a portion of the Company's capital expenditures.

## ENERGY 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 construction expenditures.

Capital expenditures are financed on an interim basis with notes payable (due within one year). The Company has \$160 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, 1996, \$35.0 million was outstanding under the committed lines of credit and \$50.0 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 9 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 \$543 million of First Mortgage Bonds could be issued as of December 31, 1996. As of December 31, 1996, under its Restated Articles of Incorporation, approximately \$788 million of additional preferred stock could be issued at an assumed dividend rate of 6.17%.

During the 1997-1999 period, energy capital expenditures are expected to be \$239 million, and \$132 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 103% of the funds needed for its capital expenditure program. Minimal amounts of external financing will be required to fund 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 4, 5, 6, 7, 8 and 9 to Financial Statements for additional details related to financing activities.

## THE WASHINGTON WATER POWER COMPANY

## NON-ENERGY OPERATIONS

Capital expenditures for the non-energy operations were \$16 million for the 1994-1996 period. During this period, \$18.9 million of debt was repaid and capital expenditures were partially financed by the \$28.2 million in proceeds from new long-term debt.

The non-energy operations have \$45.0 million in short-term borrowing arrangements (\$29.6 million outstanding as of December 31, 1996) to fund corporate requirements on an interim basis. At December 31, 1996, the non-energy operations had \$28.2 million in cash and marketable securities with \$44.0 million in long-term debt outstanding.

The 1997-1999 non-energy capital expenditures are expected to be \$11.6 million, and \$29.6 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 (1)			Projected		
	1994	1995	1996	1997	1998	1999
Capital Expenditures (2):						
Energy:						
Energy Delivery	\$100	\$ 61	\$ 80	\$ 62	\$ 65	\$ 66
Energy Trading	23	19	9	16	20	10
Total Energy	123	80	89	78	85	76
Non-Energy	9	5	2	5	3	4
Total Company	\$132	\$ 85	\$ 91	\$ 83	\$ 88	\$ 80
Debt and Preferred Stock Maturities, Redemptions & Sinking Fund Requirements (Consolidated) (3):	\$ 8	\$ 45	\$ 73	\$ 57	\$ 35	\$ 70

(1) Excludes \$62 million in 1994 for the combustion turbine project located in Rathdrum, Idaho for which the Company obtained separate long-term lease financing; see Note 9 to Financial Statements for additional information.

Also excludes \$33 million in 1994 for the acquisition of the northern Idaho electric properties of PacifiCorp.

(2) Excludes AFUDC and AFUCE.

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

The Company's total common equity decreased by \$6.4 million to \$710.7 million at the end of 1996. The 1996 decrease was primarily due to a \$13.5 million decrease in unrealized investment gains, due to sales of investments and decreased prices from the prior year, partially offset by a \$6.3 million increase in retained earnings. The Company's consolidated capital structure at December 31, 1996, was 48% debt, 7% preferred stock and 45% common equity as compared to 46% debt, 9% preferred stock and 45% common equity at year-end 1995.

## 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, reduced energy consumption, 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.

The Company continues 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 wholesale electric business include an increasing number of power brokers and marketers, competition from low-cost generation being developed by independent power producers and declining margins. Other challenges facing wholesale electric marketing include evolving technologies which provide alternate energy supplies and deregulation of electric and natural gas markets. In addition, the 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 to provide these services.

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.

#### 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 expand existing businesses and attract new businesses to the Inland Northwest. Agriculture, mining and lumber were the primary industries for many years, but health care, 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 retail electric load growth to average approximately 2.0% annually for the next five years primarily due to increases in both population and the number of businesses in its service territory. Although the number of electric customers is expected to increase, the average annual usage by residential customers is expected to decrease slightly 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 1.5% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 2.0% 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. 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. Bull trout are native to this area and are again being considered for listing under the ESA following a recent court decision. The relicensing process includes a cooperative program for recovery with the two states. It is currently not possible to predict the likely economic costs to the Company resulting from bull trout recovery whether or not a listing occurs.

See Note 14 to Financial Statements for additional information.

#### 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 are derived from its retail electric and natural gas energy operations and, increasingly, from its growing wholesale electric operations and Pentzer's non-energy investment operations.

In February 1997, the Company's Board of Directors approved creation of a new subsidiary, Avista Corp. (Avista), which will own all of the Company's non-regulated energy and non-energy businesses. The non-regulated energy businesses include Avista Advantage, Inc. (formerly WWP Energy Solutions, Inc.) and Avista Energy, Inc. (formerly WWP Resource Services, Inc.). The non-energy business primarily consists of Pentzer which is the parent company to the majority of the Company's non-energy businesses. Avista was formed to segregate the Company's non-regulated businesses from regulated businesses and support financing of the non-regulated businesses as they develop and expand. The Company will operate under this corporate structure prospectively.

#### 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 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 operations to differ materially from those discussed in forward-looking statements include prevailing 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.



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Non-Energy Operations -

Certain important factors which could cause actual results or outcomes for the Company and all or certain of its 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, and the availability of economic expansion or development opportunities.

## Factors Common to Energy and Non-Energy 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, 1996 and 1995, 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, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, 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.

As discussed in Note 1 to the financial statements, in 1996 the Company changed its method of grouping products and services into new industry segments to conform to a restructuring of the Company's business operations. The Company retroactively restated the 1995 and 1994 financial statements for the change.

Deloitte & Touche LLP

Seattle, Washington  
January 31, 1997

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

For the Years Ended December 31  
Thousands of Dollars

	1996	1995	1994
	-----	-----	-----
OPERATING REVENUES .....	\$ 944,957	\$ 755,009	\$ 670,765
OPERATING EXPENSES:			
Operations and maintenance .....	559,962	388,119	350,703
Administrative and general .....	76,972	62,486	59,645
Depreciation and amortization .....	72,097	67,572	59,479
Taxes other than income taxes .....	49,005	46,992	45,480
Total operating expenses .....	758,036	565,169	515,307
INCOME FROM OPERATIONS.....	186,921	189,840	155,458
OTHER INCOME (EXPENSE):			
Interest expense .....	(63,255)	(59,022)	(53,077)
Net gain on subsidiary transactions .....	23,953	9,328	11,519
Merger-related expenses .....	(15,848)	--	--
Other income (deductions)-net .....	1,191	(609)	7,993
Total other income (expense)-net .....	(53,959)	(50,303)	(33,565)
INCOME BEFORE INCOME TAXES.....	132,962	139,537	121,893
INCOME TAXES .....	49,509	52,416	44,696
NET INCOME.....	83,453	87,121	77,197
DEDUCT-Preferred stock dividend requirements .....	7,978	9,123	8,656
INCOME AVAILABLE FOR COMMON STOCK .....	\$ 75,475	\$ 77,998	\$ 68,541
Average common shares outstanding (thousands) .....	55,960	55,173	53,538
EARNINGS PER SHARE OF COMMON STOCK .....	\$ 1.35	\$ 1.41	\$ 1.28
Dividends paid per common share .....	\$ 1.24	\$ 1.24	\$ 1.24
RETAINED EARNINGS, JANUARY 1 .....	\$ 125,031	\$ 114,848	\$ 112,424
NET INCOME .....	83,453	87,121	77,197
DIVIDENDS DECLARED:			
Preferred stock .....	(8,213)	(8,971)	(8,823)
Common stock .....	(69,390)	(68,392)	(66,378)
ESOP dividend tax savings .....	420	425	428
RETAINED EARNINGS, DECEMBER 31 .....	\$ 131,301	\$ 125,031	\$ 114,848

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED BALANCE SHEETS  
The Washington Water Power Company

At December 31  
Thousands of Dollars

	1996	1995
	-----	-----
ASSETS:		
PROPERTY:		
Utility plant in service-net.....	\$1,951,604	\$1,880,620
Construction work in progress.....	38,696	23,046
	-----	-----
Total .....	1,990,300	1,903,666
Less: Accumulated depreciation and amortization.....	592,424	546,248
	-----	-----
Net utility plant.....	1,397,876	1,357,418
	-----	-----
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net .....	75,312	82,252
Non-energy properties and investments-net .....	149,747	135,612
Other-net .....	22,670	9,593
	-----	-----
Total other property and investments .....	247,729	227,457
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents.....	8,211	5,164
Temporary cash investments .....	19,709	27,395
Accounts and notes receivable-net .....	148,742	102,389
Materials and supplies, fuel stock and natural gas stored .....	31,729	38,004
Prepayments and other.....	19,998	11,020
	-----	-----
Total current assets.....	228,389	183,972
	-----	-----
DEFERRED CHARGES:		
Regulatory assets for deferred income tax .....	164,753	169,432
Conservation programs .....	57,703	62,793
Prepaid power purchases .....	30,935	32,605
Unamortized debt expense .....	23,148	25,684
Other-net .....	26,765	39,541
	-----	-----
Total deferred charges.....	303,304	330,055
	-----	-----
TOTAL.....	\$2,177,298	\$2,098,902
	=====	=====
CAPITALIZATION AND LIABILITIES:		
CAPITALIZATION (See Consolidated Statements of Capitalization) .....	\$1,590,262	\$1,590,412
	-----	-----
CURRENT LIABILITIES:		
Accounts payable.....	95,268	64,841
Taxes and interest accrued.....	37,344	39,415
Other.....	70,873	64,152
	-----	-----
Total current liabilities.....	203,485	168,408
	-----	-----
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities.....	27,855	9,787
Deferred income taxes.....	312,529	307,529
Other.....	43,167	22,766
	-----	-----
Total deferred credits.....	383,551	340,082
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 9, 13 and 14)		
TOTAL.....	\$2,177,298	\$2,098,902
	=====	=====

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

	1996	1995
	-----	-----
<b>COMMON EQUITY:</b>		
Common stock, no par value; 200,000,000 shares authorized:		
shares outstanding: 1996-55,960,360; 1995-55,947,967 .....	\$ 594,853	\$ 594,636
Note receivable from employee stock ownership plan .....	(11,009)	(11,690)
Capital stock expense and other paid in capital .....	(10,112)	(10,072)
Unrealized investment gain-net .....	5,703	19,220
Retained earnings .....	131,301	125,031
	-----	-----
Total common equity .....	710,736	717,125
	-----	-----
<b>PREFERRED STOCK-CUMULATIVE:</b>		
10,000,000 shares authorized:		
Not subject to mandatory redemption:		
Flexible Auction Series J; 500 shares outstanding (\$100,000 stated value) .....	50,000	50,000
	-----	-----
Total not subject to mandatory redemption .....	50,000	50,000
	-----	-----
Subject to mandatory redemption:		
\$8.625 Series I; 300,000 and 500,000 shares outstanding (\$100 stated value) .....	30,000	50,000
\$6.95 Series K; 350,000 shares outstanding (\$100 stated value) .....	35,000	35,000
	-----	-----
Total subject to mandatory redemption .....	65,000	85,000
	-----	-----
<b>LONG-TERM DEBT:</b>		
First Mortgage Bonds:		
7 1/8% due December 1, 2013 .....	66,700	66,700
7 2/5% due December 1, 2016 .....	17,000	17,000
Secured Medium-Term Notes:		
Series A - 5.95% to 8.06% due 2000 through 2023 .....	227,000	250,000
Series B - 6.50% to 8.25% due 1997 through 2010 .....	141,000	141,000
	-----	-----
Total first mortgage bonds .....	451,700	474,700
	-----	-----
Pollution Control Bonds:		
6% Series due 2023 .....	4,100	4,100
Unsecured Medium-Term Notes:		
Series A - 7.94% to 9.58% due 1997 through 2007 .....	72,500	72,500
Series B - 6.75% to 8.55% due 1999 through 2023 .....	120,000	135,000
	-----	-----
Total unsecured medium-term notes .....	192,500	207,500
	-----	-----
Notes payable (due within one year) to be refinanced .....	85,000	29,500
Other .....	31,226	22,487
	-----	-----
Total long-term debt .....	764,526	738,287
	-----	-----
<b>TOTAL CAPITALIZATION .....</b>	<b>\$ 1,590,262</b>	<b>\$ 1,590,412</b>
	=====	=====

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

	1996	1995	1994
	-----	-----	-----
<b>OPERATING ACTIVITIES:</b>			
Net income .....	\$ 83,453	\$ 87,121	\$ 77,197
<b>NON-CASH ITEMS INCLUDED IN NET INCOME:</b>			
Depreciation and amortization .....	72,097	67,572	59,479
Provision for deferred income taxes .....	12,505	(5,487)	15,380
Allowance for equity funds used during construction .....	(1,072)	(589)	(1,261)
Power and natural gas cost deferrals and amortizations .....	666	16,156	6,365
Deferred revenues and other-net .....	(215)	9,600	5,971
(Increase) decrease in working capital components:			
Receivables and prepaid expense .....	(26,333)	(22,279)	(12,458)
Materials & supplies, fuel stock and natural gas stored .....	7,741	(11,733)	(1,864)
Payables and other accrued liabilities .....	21,618	21,532	4,343
Other .....	7,103	(29,661)	(8,309)
	-----	-----	-----
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES .....</b>	<b>177,563</b>	<b>132,232</b>	<b>144,843</b>
	-----	-----	-----
<b>INVESTING ACTIVITIES:</b>			
Construction expenditures (excluding AFUDC-equity funds) .....	(91,279)	(83,494)	(95,815)
Other capital requirements .....	(1,399)	550	(21,603)
(Increase) decrease in other noncurrent balance sheet items-net .....	18,565	8,893	(21,686)
Assets acquired and investments in subsidiaries .....	(29,225)	(13,864)	(43,823)
	-----	-----	-----
<b>NET CASH USED IN INVESTING ACTIVITIES .....</b>	<b>(103,338)</b>	<b>(87,915)</b>	<b>(182,927)</b>
	-----	-----	-----
<b>FINANCING ACTIVITIES:</b>			
Increase (decrease) in short-term borrowings .....	55,500	(28,500)	(10,001)
Proceeds from issuance of long-term debt .....	--	78,000	88,000
Redemption and maturity of long-term debt .....	(38,000)	(45,000)	(7,500)
Redemption of preferred stock .....	(20,000)	--	--
Sale of common stock .....	897	12,518	14,934
Other-net .....	7,743	4,150	10,051
	-----	-----	-----
<b>NET FINANCING ACTIVITIES BEFORE CASH DIVIDENDS .....</b>	<b>6,140</b>	<b>21,168</b>	<b>95,484</b>
Less cash dividends paid .....	(77,318)	(65,499)	(63,423)
	-----	-----	-----
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES .....</b>	<b>(71,178)</b>	<b>(44,331)</b>	<b>32,061</b>
	-----	-----	-----
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS .....</b>	<b>3,047</b>	<b>(14)</b>	<b>(6,023)</b>
<b>CASH &amp; CASH EQUIVALENTS AT BEGINNING OF PERIOD .....</b>	<b>5,164</b>	<b>5,178</b>	<b>11,201</b>
	-----	-----	-----
<b>CASH &amp; CASH EQUIVALENTS AT END OF PERIOD .....</b>	<b>\$ 8,211</b>	<b>\$ 5,164</b>	<b>\$ 5,178</b>
	=====	=====	=====
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid during the period:			
Interest .....	\$ 56,893	\$ 53,415	\$ 46,861
Income taxes .....	\$ 49,447	\$ 50,004	\$ 34,094
Noncash financing and investing activities .....	\$ 46,403	\$ 87,763	\$ 25,891

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

	1996	1995	1994
	-----	-----	-----
<b>OPERATING REVENUES:</b>			
Energy Delivery .....	\$ 378,769	\$ 373,411	\$ 346,563
Energy Trading .....	420,375	287,805	261,504
Non-energy .....	145,813	93,793	62,698
	-----	-----	-----
Total operating revenues .....	\$ 944,957	\$ 755,009	\$ 670,765
	=====	=====	=====
<b>OPERATIONS AND MAINTENANCE EXPENSES:</b>			
Energy Delivery:			
Natural gas purchased for resale .....	\$ 96,585	\$ 102,375	\$ 91,277
Other energy delivery .....	75,826	57,423	45,996
Energy Trading:			
Power purchased .....	190,040	97,669	106,277
Fuel for generation .....	40,578	32,298	39,176
Other energy trading .....	50,310	39,066	29,569
Non-energy .....	106,623	59,288	38,408
	-----	-----	-----
Total operations and maintenance expenses .....	\$ 559,962	\$ 388,119	\$ 350,703
	=====	=====	=====
<b>ADMINISTRATIVE AND GENERAL EXPENSES:</b>			
Energy Delivery .....	\$ 47,371	\$ 39,026	\$ 33,252
Energy Trading .....	17,476	12,412	12,882
Non-energy .....	12,125	11,048	13,511
	-----	-----	-----
Total administrative and general expenses .....	\$ 76,972	\$ 62,486	\$ 59,645
	=====	=====	=====
<b>DEPRECIATION AND AMORTIZATION EXPENSES:</b>			
Energy Delivery .....	\$ 33,851	\$ 31,748	\$ 29,030
Energy Trading .....	27,923	27,421	27,402
Non-energy .....	10,323	8,403	3,047
	-----	-----	-----
Total depreciation and amortization expenses .....	\$ 72,097	\$ 67,572	\$ 59,479
	=====	=====	=====
<b>INCOME FROM OPERATIONS:</b>			
Energy Delivery .....	\$ 88,105	\$ 107,250	\$ 112,636
Energy Trading .....	83,786	69,094	36,415
Non-energy .....	15,030	13,496	6,407
	-----	-----	-----
Total income from operations .....	\$ 186,921	\$ 189,840	\$ 155,458
	=====	=====	=====
<b>INCOME AVAILABLE FOR COMMON STOCK:</b>			
Energy operations .....	\$ 54,426	\$ 63,187	\$ 54,911
Non-energy operations .....	21,049	14,811	13,630
	-----	-----	-----
Total income available for common stock .....	\$ 75,475	\$ 77,998	\$ 68,541
	=====	=====	=====
<b>ASSETS:</b>			
Energy Delivery .....	\$ 959,053	\$ 917,011	\$ 898,114
Energy Trading .....	671,062	656,628	642,089
Other energy .....	291,314	295,541	277,612
Non-energy .....	255,869	229,722	176,438
	-----	-----	-----
Total assets .....	\$2,177,298	\$2,098,902	\$1,994,253
	=====	=====	=====
<b>CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):</b>			
Energy Delivery .....	\$ 80,095	\$ 61,047	\$ 100,250
Energy Trading .....	8,726	18,897	22,485
Non-energy .....	2,339	4,934	8,701
	-----	-----	-----
Total capital expenditures .....	\$ 91,160	\$ 84,878	\$ 131,436
	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

## NOTES TO FINANCIAL STATEMENTS

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## NATURE OF OPERATIONS

The Company was incorporated in the State of Washington in 1889, and is primarily engaged as a utility providing electric and natural gas sales and services. The Energy Delivery business includes retail electric and natural gas distribution and transmission services. Usage by retail customers varies from year to year primarily as a result of weather conditions, the economy in the Company's service area, customer growth, conservation, appliance efficiency and other technology. The Energy Trading and Market Services (Energy Trading) business includes generation and production, electric and natural gas commodity trading and energy services. Revenues from the sale of energy to other utilities 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 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 and competition from low cost generation being developed by independent power producers.

## BASIS OF REPORTING

The financial statements are presented on a consolidated basis and, as such, include the assets, liabilities, revenues and expenses of The Washington Water Power Company (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 3). 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. In 1996, the Company changed its method of grouping products and services into new industry segments. Information that was previously reported as electric, natural gas and non-utility operations is now being reported by the new business lines of Energy Delivery, Energy Trading and Non-Energy operations. The Company retroactively restated the 1995 and 1994 financial statements for the change.

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.

## 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,		
	1996	1995	1994
	(Thousands of Dollars)		
Interest income .....	\$ 5,760	\$ 3,645	\$ 3,535
Capitalized interest (debt) .....	1,290	1,042	3,687
Gain (loss) on property dispositions ..	(152)	1,272	738
Equity earnings in subsidiary companies	--	--	1,774
Minority interest .....	(1,193)	(314)	(289)
Capitalized interest (equity) .....	1,072	589	1,261
Other .....	(5,586)	(6,843)	(2,713)
Total .....	\$ 1,191	\$ (609)	\$ 7,993

## EARNINGS PER SHARE

Earnings per share have been computed based on the weighted average number of common shares outstanding during the period.

**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 1996, 1995 and 1994. 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 energy operations, the ratio of depreciation provisions to average depreciable property was 2.58% in 1996, 2.57% in 1995 and 2.56% in 1994.

**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 \$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. Investments totaling \$37.1 million and \$27.4 million are included on the Consolidated Balance Sheets at December 31, 1995 as other property and investments and current assets, respectively. Unrealized investment gains, as of December 31, 1996 and 1995, of \$5.7 million and \$19.2 million, respectively, net of taxes, are reflected as a separate component of shareholders' equity in the Consolidated Statements of Capitalization.

**DERIVATIVE FINANCIAL INSTRUMENTS**

The Company has used derivative instruments, primarily commodity price swaps, to a limited extent as a means of hedging its costs and preserving margins in the wholesale power business. The differential to be paid or received on a commodity price swap agreement is recognized over the life of the agreement as an adjustment to operating costs. The market and credit risk were determined to be immaterial to the financial statements as of December 31, 1996, and over the term of the agreements in effect at year-end. The Company will continue to use derivative instruments for hedging and risk mitigation purposes, but has adopted a policy not to trade in derivatives for speculative reasons. The Company's policy established procedures for monitoring open positions and requires review and approval of derivative instrument transactions.

**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 would be required to write off its regulatory assets and would 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.

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The Company's primary regulatory assets include Investment in Exchange Power, conservation programs, deferred income taxes, the provision for postretirement benefits, unrecovered purchased gas costs and debt issuance and redemption costs. Deferred credits include natural gas deferrals and the gain on the general office building sale/leaseback being amortized over the life of the lease.

#### 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 following surcharges were in effect during the past three years: a \$2.5 million (2.3%) rebate effective September 1, 1996, which will expire 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.

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 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.

#### 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 1992 return.

#### NEW ACCOUNTING STANDARDS

FAS No. 121, entitled "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," was issued by the Financial Accounting Standards Board (FASB), and is effective for fiscal years beginning after December 15, 1995. FAS No. 121 requires the review of certain assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an asset is determined to be impaired, a loss is recognized. The Company will continue to periodically review its assets to determine whether any assets meet the requirements for impairment recognition under this standard. The Company adopted the standard on January 1, 1996, but does not expect any material impact on the Company's financial position or results of operations.

FAS No. 125, entitled "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which is effective after December 31, 1996, provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities which focuses on control of the assets. The statement provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. The Company has determined that its accounts receivable sale meets the qualifications to be accounted for as a sale of assets under this standard (see Note 4 to Financial Statements for additional information).

In October 1996, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 96-1, entitled "Environmental Remediation Liabilities," which provides authoritative guidance for the recognition, measurement, display and disclosure of environmental remediation liabilities in financial statements. The Company's policy is to immediately accrue and charge to current expense identified exposure related to environmental remediation sites based on estimates of investigations, cleanup and monitoring costs to be incurred. These accruals are then adjusted as further information develops or circumstances change. Cost of future expenditures for environmental remediation obligations are not discounted to their present value. The Company adopted SOP 96-1 on January 1, 1997, but it is not expected to have a material effect on the Company's financial position or results of operations.

#### 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. 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,	
	1996	1995
Energy Delivery:		
Electric distribution .....	\$ 539,467	\$ 510,489
Electric transmission .....	251,559	248,587
Natural gas underground storage .....	18,275	16,385
Natural gas distribution .....	302,853	276,295
Natural gas transmission .....	3,059	3,060
Construction work in progress (CWIP) and other .....	156,012	139,745
Energy Delivery total .....	1,271,225	1,194,561
Energy Trading:		
Electric production .....	695,273	691,192
CWIP and other .....	23,802	17,913
Energy Trading total .....	719,075	709,105
Total energy .....	1,990,300	1,903,666
Non-energy .....	35,827	60,498
Total .....	\$2,026,127	\$1,964,164

## NOTE 3. JOINTLY OWNED ELECTRIC FACILITIES

The Company has invested in several 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. The following table indicates the Company's percentage ownership and the extent of the Company's investment in such plants at December 31, 1996:

Project	KW of Installed Capacity	Fuel Source	Ownership (%)	Plant in Service	COMPANY'S CURRENT SHARE OF		
					Accumulated Depreciation	Net Plant In Service	Construction Work in Progress
(Thousands of Dollars)							
Centralia.....	1,330,000	Coal	15%	\$ 55,508	\$34,833	\$ 20,675	\$1,501
Colstrip 3 & 4.....	1,556,000	Coal	15	273,575	97,575	176,000	-

## NOTE 4. ACCOUNTS RECEIVABLE SALE

The Company has entered into an agreement whereby it can sell without recourse, on a revolving basis, up to \$40,000,000 of interests in certain accounts receivable, both billed and unbilled. The Company is obligated to pay fees which approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. The amount of such fees is included in operating expenses. At both December 31, 1996 and 1995, \$40,000,000 in receivables had been sold pursuant to the agreement. The agreement qualifies as a sale of assets under FAS No. 125 (see Note 1 to Financial Statements for additional information).

## NOTE 5. 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 (\$11,009,000 at December 31, 1996) 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 1996, the cost recorded for the Plan was \$3,139,000. 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 \$1,087,000, \$2,569,000 and \$1,198,000, 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 1994, 1995 or 1996. At December 31, 1996, 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 1996, shares were purchased on the open market to fulfill obligations of the 401(K) and Dividend Reinvestment Plans. Sales of Common Stock for 1996, 1995 and 1994 are summarized below (thousands of dollars):

	1996		1995		1994	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at January 1 .....	55,947,967	\$ 594,636	54,420,696	\$ 570,603	52,757,545	\$ 544,609
Employee Investment Plan (401-K) .....	--	--	304,353	4,718	272,278	4,302
Dividend Reinvestment Plan .....	12,393	216	1,222,918	19,315	1,390,873	21,692
Total Issues .....	12,393	216	1,527,271	24,033	1,663,151	25,994
Balance at December 31 .....	55,960,360	\$ 594,852	55,947,967	\$ 594,636	54,420,696	\$ 570,603

#### NOTE 6. PREFERRED STOCK

##### CUMULATIVE PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION:

The dividend rate on Flexible Auction Preferred Stock, Series J is reset every 49 days based on an auction. During 1996, the dividend rate varied from 4.03% to 4.24% and at December 31, 1996, was 4.20%. Series J is subject to redemption at the Company's option at a redemption price of 100% per share plus accrued dividends.

##### CUMULATIVE PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

###### Redemption requirements:

\$8.625, Series I - On June 15, 1997, 1998 and 1999, the Company must redeem 100,000 shares at \$100 per share plus accumulated dividends. The Company may, at its option, redeem up to 100,000 shares in addition to the required redemption on any redemption date.

\$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 \$30 million in mandatory redemption requirements during the 1997-2001 period.

In June 1996, 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, 1996 and 1995 is estimated to be \$118.3 million, or 103% of the carrying value and \$139.8 million, or 104% of the carrying value, respectively. These estimates are based on available market information.

## NOTE 7. LONG-TERM DEBT

The annual sinking fund requirements and maturities for the next five years for long-term debt outstanding at December 31, 1996 are as follows:

YEAR ENDED DECEMBER 31	MATURITIES	SINKING FUND REQUIREMENTS	TOTAL
-----	-----	-----	-----
(Thousands of Dollars)			
1997.....	31,000	4,517	35,517
1998.....	10,000	4,407	14,407
1999.....	47,500	4,407	51,907
2000.....	35,000	4,197	39,197
2001.....	44,000	3,847	47,847

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 1995 and 1994, \$78.0 million and \$88.0 million, respectively, of First Mortgage Bonds in the form of Secured Medium-Term Notes were issued. As of December 31, 1996, the Company had remaining authorization to issue up to \$109.0 million.

At December 31, 1996, the Company had \$85.0 million outstanding under borrowing arrangements which will be refinanced in 1997. See Note 8 for details of credit agreements.

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

	OUTSTANDING AT DECEMBER 31,	
	1996	1995
	-----	-----
Notes payable - variable rates through 1999.....	\$34,633	\$24,372
Capital lease obligations.....	7,046	4,715
	-----	-----
Total non-energy .....	41,679	29,087
Less: current portion.....	11,180	6,813
	-----	-----
Net non-energy long-term debt.....	\$30,499	\$22,274
	=====	=====

The fair value of the Company's long-term debt at December 31, 1996 and 1995 is estimated to be \$658.7 million, or 102% of the carrying value and \$733.2 million, or 107% of the carrying value, respectively. These estimates are based on available market information.

## NOTE 8. BANK BORROWINGS

At December 31, 1996, the Company maintained total lines of credit with various banks under two separate credit agreements amounting to \$160,000,000. The Company has one revolving line of credit, expiring December 10, 1999, which provides a total credit commitment of \$70,000,000. The second revolving credit agreement is composed of two tranches totaling \$90,000,000. One tranche provides for up to \$50,000,000 of notes to be outstanding at any one time, while the other provides for up to \$40,000,000 of notes to be outstanding at any one time. Both tranches of this agreement expire on July 23, 1997. The Company pays commitment fees of up to 0.10% 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 \$60,000,000 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,	
	1996	1995
	-----	
	(Thousands of Dollars)	
BALANCE OUTSTANDING AT END OF PERIOD:		
Fixed-term loans .....	\$50,000	\$10,000
Revolving credit agreement .....	35,000	19,500
MAXIMUM BALANCE DURING PERIOD:		
Fixed-term loans .....	\$50,000	\$10,000
Revolving credit agreement .....	35,500	28,500
AVERAGE DAILY BALANCE DURING PERIOD:		
Fixed-term loans .....	\$15,482	\$ 5,484
Revolving credit agreement .....	12,280	13,886
AVERAGE ANNUAL INTEREST RATE DURING PERIOD:		
Fixed-term loans .....	5.67%	6.15%
Revolving credit agreement .....	5.34	6.11
AVERAGE ANNUAL INTEREST RATE AT END OF PERIOD:		
Fixed-term loans .....	5.88%	6.06%
Revolving credit agreement .....	6.02	6.08

Non-energy operations have \$45.0 million in short-term borrowing arrangements available. At December 31, 1996 and 1995, \$29.6 million and \$26.6 million, respectively, were outstanding.

#### NOTE 9. LEASES

The Company has entered into several lease arrangements involving various assets, with minimum terms ranging from one to fifteen 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, 1996, 1995 and 1994 was \$11.8 million, \$10.7 million and \$2.3 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, 1996 are estimated as follows:

Year ending December 31:	
1997	\$ 7,635
1998	1,847
1999	2,257
2000	2,257
2001	2,257
Later years	22,572
	-----
Total minimum payments required	\$ 38,825
	=====

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

#### NOTE 10. 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 1996, 1995 and 1994 is summarized as follows:

	1996	1995	1994
	-----	-----	-----
	(Thousands of Dollars)		
Service cost-benefits earned during the period	\$ 4,629	\$ 3,464	\$ 4,323
Interest cost on projected benefit obligation	9,954	9,142	8,523
Actual return on plan assets .....	(16,897)	(27,910)	(248)
Net amortization and deferral .....	4,682	17,272	(11,553)
	-----	-----	-----
Net periodic pension cost (income) .....	\$ 2,368	\$ 1,968	\$ 1,045
	=====	=====	=====

The funded status of the Plans and the pension liability at December 31, 1996, 1995 and 1994, are as follows:

	1996	1995	1994
	-----	-----	-----
	(Thousands of dollars)		
Actuarial present value of benefit obligation:			
Accumulated benefit obligation (including vested benefits of \$(123,601,000), \$(114,964,000) and \$(88,596,000), respectively)	\$(125,658)	\$(116,877)	\$ (90,341)
	=====	=====	=====
Projected benefit obligation for service rendered to date .....	\$(143,242)	\$(133,233)	\$(107,540)
Plan assets at fair value .....	149,846	140,528	119,706
	-----	-----	-----
Plan assets in excess of projected benefit obligation .....	6,604	7,295	12,166
Unrecognized net gain from returns different than assumed .....	(21,101)	(19,704)	(17,939)
Prior service costs not yet recognized .....	17,020	18,385	14,803
Unrecognized net transition asset at year-end (being amortized over 19 years) .....	(9,187)	(10,273)	(11,359)
Regulatory deferrals .....	--	--	(1,841)
	-----	-----	-----
Pension liability .....	\$ (6,664)	\$ (4,297)	\$ (4,170)
	=====	=====	=====
Assumptions used in calculations were:			
Discount rate at year-end .....	7.5%	7.5%	8.5%
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 11. 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 IPUC allowing the deferral of expense accruals under this Statement as a regulatory asset for future recovery. 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 1996, 1995 and 1994, the Company recognized \$1,330,000, \$1,800,000 and \$1,270,000, 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, 1996, 1995 and 1994.

Accumulated postretirement benefit obligation (thousands of dollars):

	1996	1995	1994
	-----	-----	-----
Retirees	574	617	642
Active plan participants	1,345	1,328	1,319
Total participants	1,919	1,945	1,961
Unfunded accumulated postretirement benefit obligation	\$(25,589)	\$(28,718)	\$(31,072)
Unrecognized (gain)/loss	(6,621)	(3,396)	(4,897)
Unrecognized transition obligation	25,683	27,288	28,894
Accrued postretirement benefit cost	\$ (6,527)	\$ (4,826)	\$ (7,075)
	=====	=====	=====

Net postretirement benefit cost for 1996, 1995 and 1994 (thousands of dollars):

	1996	1995	1994
	-----	-----	-----
Service cost - benefits earned during the period	\$ 634	\$ 573	\$ 802
Return on the plan assets (if any)	(568)	(226)	--
Interest cost on accumulated postretirement benefit obligation	2,234	2,452	2,596
Amortization of transition obligation	1,375	1,414	1,606
Total net periodic cost	\$ 3,675	\$ 4,213	\$ 5,004
	=====	=====	=====

The currently assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation is 5% for 1996. The assumed rate of future medical cost increases has been gradually decreased since the adoption of FAS 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 \$211,000. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7.5%.

#### NOTE 12. ACCOUNTING FOR INCOME TAXES

As of December 31, 1996 and 1995, the Company had recorded net regulatory assets of \$164,753,000 and \$169,432,000, respectively, related to the probable recovery of FAS No. 109, "Accounting for Income Taxes," deferred tax liabilities from customers through future rates. Such net 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):

	1996	1995	1994
	-----	-----	-----
Deferred tax liabilities:			
Differences between book and tax bases of utility plant	\$333,017	\$320,502	\$317,991
Loss on reacquired debt	6,283	7,173	8,216
Deferred natural gas credits	--	--	1,095
Other	8,271	10,013	8,957
Total deferred tax liabilities	347,571	337,688	336,259
Deferred tax assets:			
Reserves not currently deductible	14,942	15,742	14,429
Contributions in aid of construction	5,425	4,634	3,830
Deferred natural gas credits	4,157	3,894	--
Centralia Trust	2,185	--	--
Gain on sale of office building	1,371	1,463	1,555
Other	6,962	4,426	6,278
Total deferred tax assets	35,042	30,159	26,092
Net deferred tax liability	\$312,529	\$307,529	\$310,167
	=====	=====	=====



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,		
	1996	1995	1994
	(Thousands of Dollars)		
Computed federal income taxes at statutory rate	\$ 46,103	\$ 47,875	\$ 41,983
Increase (decrease) in tax resulting from:			
Accelerated tax depreciation	23	(909)	1,725
Equity earnings in affiliates	--	--	(497)
Other	464	1,297	(1,320)
Total federal income tax expense*	\$ 46,590	\$ 48,263	\$ 41,891
INCOME TAX EXPENSE CONSISTS OF THE FOLLOWING:			
Federal taxes currently provided	\$ 37,456	\$ 48,318	\$ 32,334
Deferred income taxes	9,134	(55)	9,557
Total federal income tax expense	46,590	48,263	41,891
State income tax expense	2,919	4,153	2,805
Federal and state income taxes	\$ 49,509	\$ 52,416	\$ 44,696
*Federal Income Tax Expense:			
Energy	\$ 34,241	\$ 41,203	\$ 35,513
Non-energy	12,349	7,060	6,378
Total Federal Income Tax Expense	\$ 46,590	\$ 48,263	\$ 41,891
Federal statutory rate	35%	35%	35%

#### NOTE 13. 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, 1996, pertaining to these contracts is summarized in the following table:

	COMPANY'S CURRENT SHARE OF					Contract Expira- tion Date
	Output	Kilowatt Capability	Annual Costs (1)	Debt Service Costs (2)	Revenue Bonds Outstanding	
(Thousands of Dollars)						
PUD CONTRACTS:						
Chelan County PUD:						
Lake Chelan Project (3).....	-	-	\$ (491)	\$ -	\$ -	1995
Rocky Reach Project.....	2.9%	37,000	1,282	666	3,357	2011
Grant County PUD:						
Priest Rapids Project.....	6.1	55,000	1,620	1,203	11,394	2005
Wanapum Project.....	8.2	75,000	2,205	1,501	17,149	2009
Douglas County PUD:						
Wells Project.....	3.9	30,000	819	607	6,805	2018
Totals		197,000	\$5,435	\$3,977	\$38,705	

(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 1996.

(2) Included in annual costs.

(3) The Lake Chelan Project contract expired in 1995. The negative costs in 1996 represent final adjustments.

Actual expenses for payments made under the above contracts for the years 1996, 1995 and 1994, were \$5,435,000, \$8,080,000 and \$8,717,000, 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 \$4,041,000 in 1997, \$5,605,000 in 1998, \$5,574,000 in 1999, \$6,814,000 in 2000 and \$6,677,000 in 2001 (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 14. COMMITMENTS AND CONTINGENCIES

##### NEZ PERCE TRIBE

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

On November 21, 1994, the Company filed a Motion for Summary Judgment of Dismissal. On March 28, 1996, a U.S. District judge entered a summary judgment in favor of the Company dismissing the complaint. The Tribe filed a notice of appeal to the Ninth Circuit Court of Appeals on April 24, 1996. A mediation conference was held on October 11, 1996. Following the conclusion of that conference, briefing schedules were vacated indefinitely to accommodate a mediation process. The parties are in the process of selection of a mediator and a further status conference with the Ninth Circuit Mediator will be held on May 13, 1997. The Company is presently unable to assess the likelihood of an adverse outcome in this litigation, or estimate an amount or range of potential loss in the event of an adverse outcome.

##### 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. On December 6, 1993, the Company asked the Department of Ecology (DOE) to enter into negotiations for a Consent Decree. The Consent Decree, entered on November 8, 1994, provided for an extensive Remedial Investigation (RI) and Feasibility Study (FS) to determine the appropriate cleanup action. The RI and FS were completed in 1995 and an RI/FS report was approved by the DOE in 1996. A Cleanup Action Plan (CAP) was determined by DOE in 1996. The 1994 Consent Decree was amended to include the CAP with court approval on December 2, 1996. The Company is now implementing the CAP. The Company presently estimates that the total cleanup cost, including costs incurred to-date, will approximate \$10 million. As of December 31, 1996, an accrual of \$3.1 million is reflected on the Company's financial statements, which represents the Company's best estimate of its uninsured liability.

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 alleges that the oil released from the Company's Central Steamplant trespassed on property owned by the plaintiff. In addition, the plaintiff claims 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. If the settlement agreement fails or is terminated, the Company is presently unable to assess the likelihood of an adverse outcome in this litigation, or estimate an amount or range of potential loss in the event of an adverse outcome.

##### 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.

Complainants in all cases allege various theories of tortious conduct, including negligence, creation of a public nuisance, strict liability and trespass; in most cases, complainants allege that fires were caused by electric distribution and/or transmission lines downed by wind-downed trees. The lawsuits seek recovery for property damage, emotional and mental distress, lost income and punitive damages, but do not specify the amount of damages being sought. All cases are in a discovery phase. Plaintiffs' motion for consolidation of all liability trials was denied without prejudice. Plaintiffs also filed a Motion to Decertify all cases on damage issues, which motion was denied following a hearing held on January 27, 1997. Still pending is a WWP Motion for Discretionary Review before the Washington Court of Appeals (Div. III) on class certification issues, which was heard by the Court on February 4, 1997. Trial date(s) are anticipated in late 1997 or early 1998. The Company has received a settlement demand for settlement of class action litigation which is within the Company's insurance coverage limits. The Company 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.

## WILLIAMS LAKE LAWSUIT

On December 21, 1995, a lawsuit was commenced in Vancouver, British Columbia against the Company's subsidiary, Pentzer Corporation (Pentzer), by Tondu Energy Systems, Inc. and T.E.S. Williams Lake Partnership alleging contract violations, conspiracy, misrepresentation and breach of fiduciary duties in regard to the 1993 sale of assets of Pentzer Energy Services, Inc. to B.C. Gas, Inc. and a U.S. subsidiary of B.C. Gas. The claims involve an alleged first right to purchase interests in the Williams Lake, British Columbia wood-fired generating station. The suit seeks damages in excess of \$10 million, plus exemplary damages, prejudgment interest, costs and attorneys' fees. Also named as defendants are B.C. Gas, Inc., Inland Pacific Energy (Williams Lake) Corp., Pentzer Energy Services, Inc. and WP Energy Company. The Company 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.

At this time, management believes that the ultimate outcome of all the claims and actions discussed in this note should not have a material adverse effect on the Company's consolidated operations or financial position.

## 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 Centralia and Colstrip thermal generating plants, in which the Company maintains an ownership interest. The Company is presently unable to determine the financial impact of these requirements.

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, 1996, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers represented approximately 48% of employees. The current agreement with the union local representing the majority of the bargaining unit employees expires on March 25, 1997. Negotiations are taking place between bargaining unit employees and Company management. A local agreement in the South Lake Tahoe area, which represents 7 employees, expires on March 25, 1999.

## NOTE 15. ACQUISITIONS AND DISPOSITIONS

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. During 1996, Pentzer acquired a company that provides point-of-purchase and in-store merchandising services. In 1995 and 1994, Pentzer acquired two companies in each year.

## NOTE 16. 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.

## NOTE 17. COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES

In November 1996, the Company and three newly formed Trusts filed a Registration Statement with the SEC for up to and including \$150 million of Subordinated Debt Securities of the Company and Preferred Trust Securities of the Trusts (guaranteed by the Company). In January 1997, Subordinated Debt Securities of the Company were issued to one of the Trusts, and that Trust, in turn, issued to the public \$60 million of Preferred Securities having a distribution rate of 7 7/8%. On the Company's consolidated balance sheet, this will appear as \$60 million of new preferred trust securities.

## NOTE 18. 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 1996 and 1995 follows:

	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
<b>1996</b>				
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 operations .....	\$ 0.50	\$ 0.10	\$ 0.19	\$ 0.18
Non-energy operations .....	0.21	0.02	0.11	0.04
Total .....	\$ 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
<b>1995</b>				
Operating revenues .....	\$197,928	\$158,973	\$157,869	\$240,239
Operating income .....	58,474	40,103	31,565	59,698
Net income .....	28,453	15,163	10,885	32,620
Income available for common stock .....	26,156	12,865	8,618	30,359
Outstanding common stock (000s):				
Weighted average .....	54,582	54,986	55,363	55,745
Actual .....	54,847	55,237	55,617	55,948
Earnings per share:				
Energy operations .....	\$ 0.43	\$ 0.19	\$ 0.11	\$ 0.41
Non-energy operations .....	0.05	0.04	0.05	0.13
Total .....	\$ 0.48	\$ 0.23	\$ 0.16	\$ 0.54
Dividends paid per common share .....	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.31
Trading price range per share:				
High .....	\$ 16	\$ 16	\$ 16 3/8	\$ 18
Low .....	\$ 13 1/2	\$ 14 3/4	\$ 15	\$ 16

\* 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.



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 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 20, 1997.

## EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Business Experience During Past 5 Years
Paul A. Redmond	60	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	56	President & Chief Operating Officer since August 1996; Senior Vice President - Rates & Resources May 1992 - August 1996; Vice President - Power Supply August 1983 - May 1992.
Jon E. Eliassen	49	Senior Vice President & Chief Financial Officer since August 1996. Vice President - Finance & Chief Financial Officer February 1986 - August 1996.
Gary G. Ely	49	Senior Vice President & General Manager since August 1996; Vice President - Natural Gas February 1991 - August 1996.
Robert D. Fukai	47	Vice President - External Affairs since August 1996; Vice President - Human Resources, Corporate Services & Marketing January 1993 - August 1996; Vice President - Corporate Services & Human Resources October 1992 - December 1992; Vice President - Operations May 1986 - October 1992.
JoAnn G. Matthiesen	56	Vice President - Human Resources since August 1996; Vice President - Organization Effectiveness, Public Relations & Assistant to the Chairman January 1993 - August 1996; Vice President - Marketing, Public Relations & Assistant to the Chairman February 1991 - January 1993.
Lawrence J. Pierce	44	Vice President & Treasurer since August 1996; Vice President - Business Analysis August 1994 - August 1996; Director - Business Analysis February 1992 - August 1994; Treasurer February 1986 - February 1992.
Nancy R. Racicot	49	Senior Vice President & General Manager since August 1996; Vice President - Operations October 1992 - August 1996; Vice President - Corporate Services March 1990 - October 1992.
Ronald R. Peterson	44	Controller since August 1996; Treasurer February 1992 - August 1996; Manager - Customer Information Services March 1991 - February 1992.
Terry L. Syms	48	Corporate Secretary since March 1988.

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 1996.

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 20, 1997.

## 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 20, 1997.

(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 20, 1997.

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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 Auditor's Report

Consolidated Statements of Income and Retained Earnings for the Years  
Ended December 31, 1996, 1995 and 1994

Consolidated Balance Sheets, December 31, 1996 and 1995

Consolidated Statements of Capitalization, December 31, 1996 and 1995

Consolidated Statements of Cash Flows for the Years Ended December 31,  
1996, 1995, and 1994Schedule of Information by Business Segments for the Years Ended  
December 31, 1996, 1995 and 1994

Notes to Financial Statements

## (a) 2. Financial Statement Schedules:

None

## (a) 3. Exhibits:

Reference is made to the Exhibit Index commencing on page 52. 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, 1996, regarding the termination of the Merger Agreement between the Company, Sierra Pacific Resources, Sierra Pacific Power Company and Altus Corporation.

Dated December 1, 1996, regarding the storm damage to the Company's electric transmission and distribution system resulting from an ice storm.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE WASHINGTON WATER POWER COMPANY

March 20, 1997

By /s/ PAUL A. REDMOND

Date

Paul A. Redmond  
Chairman of the Board, President and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature

Title

Date

/s/ PAUL A. REDMOND

Principal Executive  
Officer and Director

March 20, 1997

Paul A. Redmond (Chairman of the Board,  
and Chief Executive Officer)

/s/ W. LESTER BRYAN

Officer  
and Director

March 20, 1997

W. Lester Bryan (President  
and Chief Operating Officer)

/s/ J. E. ELIASSEN

Principal Financial  
and Accounting Officer

March 20, 1997

J. E. Eliassen (Senior Vice President  
and Chief Financial Officer)

/s/ DAVID A. CLACK

Director

March 20, 1997

David A. Clack

/s/ DUANE B. HAGADONE

Director

March 20, 1997

Duane B. Hagadone

/s/ EUGENE W. MEYER

Director

March 20, 1997

Eugene W. Meyer

/s/ H. NORMAN SCHWARZKOPF

Director

March 20, 1997

General H. Norman Schwarzkopf

/s/ B. JEAN SILVER

Director

March 20, 1997

B. Jean Silver

/s/ LARRY A. STANLEY

Director

March 20, 1997

Larry A. Stanley

/s/ R. JOHN TAYLOR

Director

March 20, 1997

R. John Taylor

## 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 31, 1997, appearing in this Annual Report on Form 10-K of The Washington Water Power Company for the year ended December 31, 1996.

Deloitte & Touche LLP

Seattle, Washington  
March 20, 1997

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 EXHIBIT INDEX

Previously Filed*			
Exhibit	With Registration Number	As Exhibit	
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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.

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 EXHIBIT INDEX (continued)

Previously Filed*			
Exhibit	With Registration Number	As Exhibit	
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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(j)-1	Credit Agreements between the Company and Toronto- Dominion (Texas), Inc., The Toronto-Dominion Bank Houston Agency, The Bank of New York, CIBC, Inc. and Citicorp USA, Inc. with Toronto-Dominion (Texas), Inc. as agent, dated as of October 1, 1992.
4(d)-2	1-3701 (with 1995 Form 10-K)	4(j)-2	First Amendment to Credit Agreements between the Company and Toronto-Dominion (Texas), Inc., The Toronto- Dominion Bank Houston Agency, The Bank of New York, CIBC, Inc. and Citicorp USA, Inc. with Toronto-Dominion (Texas), Inc. as agent, dated as of July 26, 1995.
4(d)-3	1-3701 (with 1995 Form 10-K)	4(j)-3	Second Amendment to Credit Agreements between the Company and Toronto-Dominion (Texas), Inc., The Toronto- Dominion Bank Houston Agency, The Bank of New York, CIBC, Inc. and Citicorp USA, Inc. with Toronto-Dominion (Texas), Inc. as agent, dated as of July 26, 1995.

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 \*Incorporated herein by reference.  
 \*\*Filed herewith.

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 EXHIBIT INDEX (continued)

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
4(e)-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(e)-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.
4(f)-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(f)-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(f)-3	1-3701 (with 1994 Third Quarter Form 10-Q)	4(b)	Amendment No. 2 to Rights Agreement, dated as of June 27, 1994.
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.



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 EXHIBIT INDEX (continued)

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
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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.

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 EXHIBIT INDEX (continued)

Previously Filed*			
Exhibit	With Registration Number	As Exhibit	
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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(j)-8	1-3701 (with 1992 Form 10-K)	10(k)-8	Natural Gas Sale and Purchase Agreement, dated October 31, 1991, between the Company and AEC Oil and Gas Company.
10(j)-9	1-3701 (with 1992 Form 10-K)	10(k)-9	Natural Gas Purchase Contract, dated December 11, 1991, between the Company and Grand Valley Gas Company and Amerada Hess Canada Ltd.
10(j)-10	1-3701 (with 1992 Form 10-K)	10(k)-10	Natural Gas Purchase Contract, dated December 13, 1991, between the Company and Grand Valley Gas Company and PanCanadian Petroleum Limited.
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.

\*Incorporated herein by reference.  
 \*\*Filed herewith.

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 EXHIBIT INDEX (continued)

Previously Filed*			
Exhibit	With Registration Number	As Exhibit	
-----	-----	-----	
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.
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 1994 Form 10-K)	10(s)-1	Employment Agreement between the Company and Paul A. Redmond. (***)
10(r)-2	1-3701 (with 1994 Form 10-K)	10(s)-2	Employment Agreement between the Company and W. Lester Bryan. (***)
10(r)-3	1-3701 (with 1994 Form 10-K)	10(s)-3	Employment Agreement between the Company and Nancy Racicot. (***)
10(r)-4	1-3701 (with 1994 Form 10-K)	10(s)-4	Employment Agreement between the Company and Jon E. Eliassen. (***)
10(r)-5	1-3701 (with 1994 Form 10-K)	10(s)-5	Employment Agreement between the Company and Robert D. Fukai. (***)
10(r)-7	1-3701 (with 1992 Form 10-K)	10(t)-7	Executive Deferral Plan of the Company. (***)

\* 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.

## EXHIBIT INDEX (continued)

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
10(r)-8	1-3701 (with 1992 Form 10-K)	10(t)-8	The Company's Unfunded Outside Director Retirement Plan. (***)
10(r)-9	1-3701 (with 1992 Form 10-K)	10(t)-9	The Company's Unfunded Supplemental Executive Retirement Plan. (***)
10(r)-10	1-3701 (with 1992 Form 10-K)	10(t)-10	The Company's Unfunded Supplemental Executive Disability Plan. (***)
10(r)-11	1-3701 (with 1992 Form 10-K)	10(t)-11	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.

## 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				
	1996	1995	1994	1993	1992 (1)
Fixed charges, as defined:					
Interest on long-term debt	\$ 60,256	\$ 55,580	\$ 49,566	\$ 47,129	\$ 51,727
Amortization of debt expense and premium - net	2,998	3,441	3,511	3,004	1,814
Interest portion of rentals	4,311	3,962	1,282	924	1,105
	-----	-----	-----	-----	-----
Total fixed charges	\$ 67,565	\$ 62,983	\$ 54,359	\$ 51,057	\$ 54,646
	=====	=====	=====	=====	=====
Earnings, as defined:					
Net income from continuing ops.	\$ 83,453	\$ 87,121	\$ 77,197	\$ 82,776	\$ 72,267
Add (deduct):					
Income tax expense	49,509	52,416	44,696	42,503	41,330
Total fixed charges above	67,565	62,983	54,359	51,057	54,646
	-----	-----	-----	-----	-----
Total earnings	\$200,527	\$202,520	\$176,252	\$176,336	\$168,243
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges	2.97	3.22	3.24	3.45	3.08
Fixed charges and preferred dividend requirements:					
Fixed charges above	\$ 67,565	\$ 62,983	\$ 54,359	\$ 51,057	\$ 54,646
Preferred dividend requirements (2)	12,711	14,612	13,668	12,615	10,716
	-----	-----	-----	-----	-----
Total	\$ 80,276	\$ 77,595	\$ 68,027	\$ 63,672	\$ 65,362
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges and preferred dividend requirements	2.50	2.61	2.59	2.77	2.57

(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 and Development Company	Washington
WP Finance Company	Washington
Avista Corp.	Washington
Avista Advantage (formerly WWP Energy Solutions)	Washington
Avista Energy (formerly WWP Resource Services)	Washington
WP Laboratories	Washington
WP International	Washington
WWP Fiber, Inc.	Washington
Altus Corporation	Nevada

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF THE WASHINGTON WATER POWER COMPANY, INCLUDED IN THE ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS		
	DEC-31-1996	
	DEC-31-1996	
	PER-BOOK	
1,397,876		
247,729		
228,389		
303,304		
	0	
	2,177,298	
	583,844	
(4,409)		
	131,301	
710,736		
	65,000	
	50,000	
	617,972	
	85,000	
	25,239	
	0	
42,670		
	0	
	5,315	
	1,698	
573,668		
2,177,298		
	944,957	
	49,509	
	758,036	
	758,036	
	186,921	
	9,296	
196,217		
	63,255	
	83,453	
	7,978	
75,475		
	69,390	
	33,053	
	177,563	
	1.35	
	1.35	

(1) 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.

(2) OTHER ITEMS CAPITAL AND LIABILITIES INCLUDES THE CURRENT LIABILITIES, DEFERRED CREDITS AND MINORITY INTEREST, LESS CERTAIN AMOUNTS INCLUDED UNDER THE LONG-TERM DEBT-CURRENT PORTION AND LEASES-CURRENT, FROM THE COMPANY'S CONSOLIDATED BALANCE SHEET.

(3) 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.

(4) 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.