UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1997

OR

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

For the transition period from __________ to __________

Commission file number 1-3701

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

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

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

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

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

Yes [X] No [ ]

At October 31, 1997, 55,960,360 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

THE WASHINGTON WATER POWER COMPANY

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CONSOLIDATED STATEMENTS OF INCOME
The Washington Water Power Company

For the Three Months Ended September 30
Thousands of Dollars

	1997	1996
OPERATING REVENUES	$ 295,076	$ 219,751
OPERATING EXPENSES:		
Operations and maintenance	211,947	135,804
Administrative and general	24,606	19,322
Depreciation and amortization	16,764	18,070
Taxes other than income taxes	12,052	10,928
Total operating expenses	265,369	184,124
INCOME FROM OPERATIONS	29,707	35,627
OTHER INCOME (EXPENSE):		
Interest expense	(16,545)	(16,895)
Net gain on subsidiary transactions	7,756	6,850
Merger-related expenses	--	(303)
Other income (deductions)-net	572	57
Total other income (expense)-net	(8,217)	(10,291)
INCOME BEFORE INCOME TAXES	21,490	25,336
INCOME TAXES	8,253	6,972
NET INCOME	13,237	18,364
DEDUCT-Preferred stock dividend requirements	979	1,792
INCOME AVAILABLE FOR COMMON STOCK	$ 12,258	$ 16,572
Average common shares outstanding (thousands)	55,960	55,960
EARNINGS PER SHARE OF COMMON STOCK	$ 0.22	$ 0.30
Dividends paid per common share	$ 0.31	$ 0.31

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME
The Washington Water Power Company

For the Nine Months Ended September 30
Thousands of Dollars

	1997	1996
OPERATING REVENUES	$ 815,361	$ 663,655
OPERATING EXPENSES:		
Operations and maintenance	526,589	367,438
Administrative and general	70,673	57,268
Depreciation and amortization	51,684	53,345
Taxes other than income taxes	38,049	37,643
Total operating expenses	686,995	515,694
INCOME FROM OPERATIONS	128,366	147,961
OTHER INCOME (EXPENSE):		
Interest expense	(49,061)	(47,461)
Interest on income tax recovery	47,338	--
Net gain on subsidiary transactions	11,152	23,914
Merger-related expenses	--	(15,848)
Other income (deductions)-net	1,056	179
Total other income (expense)-net	10,485	(39,216)
INCOME BEFORE INCOME TAXES	138,851	108,745
INCOME TAXES	47,292	39,503
NET INCOME	91,559	69,242
DEDUCT-Preferred stock dividend requirements	4,568	6,199
INCOME AVAILABLE FOR COMMON STOCK	$ 86,991	$ 63,043
Average common shares outstanding (thousands)	55,960	55,960
EARNINGS PER SHARE OF COMMON STOCK	$ 1.55	$ 1.13
Dividends paid per common share	$ 0.93	$ 0.93

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED BALANCE SHEETS
The Washington Water Power Company

Thousands of Dollars

	September 30, 1997	December 31, 1996
ASSETS:		
PROPERTY:		
Utility plant in service-net	$2,008,844	$1,951,604
Construction work in progress	42,466	38,696
Total	2,051,310	1,990,300
Less: Accumulated depreciation and amortization	630,455	592,424
Net utility plant	1,420,855	1,397,876
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net	70,577	75,312
Non-utility properties and investments-net	191,898	149,747
Other-net	24,709	22,670
Total other property and investments	287,184	247,729
CURRENT ASSETS:		
Cash and cash equivalents	23,019	8,211
Temporary cash investments	21,039	19,709
Accounts and notes receivable-net	80,177	148,742
Materials and supplies, fuel stock and natural gas stored	43,408	31,729
Prepayments and other	26,712	19,998
Total current assets	194,355	228,389
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	170,954	164,753
Conservation programs	54,419	57,703
Prepaid power purchases	21,836	30,935
Unamortized debt expense	24,309	23,148
Other-net	32,238	26,765
Total deferred charges	303,756	303,304
TOTAL	$2,206,150	$2,177,298
CAPITALIZATION AND LIABILITIES:		
CAPITALIZATION (See Consolidated Statements of Capitalization)	$1,630,019	$1,590,262
CURRENT LIABILITIES:		
Accounts payable	85,024	95,268
Taxes and interest accrued	36,195	37,344
Other	60,902	70,873
Total current liabilities	182,121	203,485
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities	29,536	27,855
Deferred income taxes	346,999	312,529
Other	17,475	43,167
Total non-current liabilities and deferred credits	394,010	383,551
COMMITMENTS AND CONTINGENCIES (Note 3)		
Total	$2,206,150	$2,177,298

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CAPITALIZATION
The Washington Water Power Company

Thousands of Dollars

	September 30, 1997	December 31, 1996
COMMON EQUITY:		
Common stock, no par value: 200,000,000 shares authorized; 55,960,360 shares outstanding	$ 594,853	$ 594,853
Note receivable from employee stock ownership plan	(10,203)	(11,009)
Capital stock expense and other paid in capital	(10,135)	(10,112)
Unrealized investment gain-net	3,536	5,703
Retained earnings	166,609	131,301
Total common equity	744,660	710,736
PREFERRED STOCK-CUMULATIVE:		
10,000,000 shares authorized:		
Not subject to mandatory redemption:		
Flexible Auction Series J; 500 shares outstanding ($100,000 stated value)	--	50,000
Total not subject to mandatory redemption	--	50,000
Subject to mandatory redemption:		
$8.625, Series I; 100,000 and 300,000 shares outstanding ($100 stated value)	10,000	30,000
$6.95, Series K; 350,000 shares outstanding ($100 stated value)	35,000	35,000
Total subject to mandatory redemption	45,000	65,000
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES:		
7 7/8%, Series A, due 2037	60,000	--
Floating Rate, Series B, due 2037	50,000	--
Total company-obligated mandatorily redeemable preferred trust securities	110,000	--
LONG-TERM DEBT:		
First Mortgage Bonds:		
7 1/8% due December 1, 2013	66,700	66,700
7 2/5% due December 1, 2016	17,000	17,000
Secured Medium-Term Notes:		
Series A - 5.95% to 8.06% due 2000 through 2023	212,000	227,000
Series B - 6.24% to 8.25% due 1997 through 2010	151,000	141,000
Total first mortgage bonds	446,700	451,700
Pollution Control Bonds:		
6% Series due 2023	4,100	4,100
Unsecured Medium-Term Notes:		
Series A - 7.94% to 9.58% due 1998 through 2007	52,500	72,500
Series B - 6.75% to 8.23% due 1999 through 2023	115,000	120,000
Total unsecured medium-term notes	167,500	192,500
Notes payable (due within one year) to be refinanced	74,000	85,000
Other	38,059	31,226
Total long-term debt	730,359	764,526

TOTAL CAPITALIZATION	$1,630,019	$1,590,262
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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 Nine Months Ended September 30
Thousands of Dollars

	1997	1996
OPERATING ACTIVITIES:		
Net income	$ 91,559	$ 69,241
NON-CASH REVENUES AND EXPENSES INCLUDED IN NET INCOME:		
Depreciation and amortization	51,684	53,345
Provision for deferred income taxes	36,128	6,140
Allowance for equity funds used during construction	(960)	(567)
Power and natural gas cost deferrals and amortization	(14,626)	5,510
Deferred revenues and other-net	(12,885)	7,560
(Increase) decrease in working capital components:		
Receivables and prepaid expenses-net	45,909	6,139
Materials & supplies, fuel stock and natural gas stored	(9,401)	6,275
Payables and other accrued liabilities	(7,485)	1,890
Other-net	13,743	8,365
NET CASH PROVIDED BY OPERATING ACTIVITIES	193,666	163,898
INVESTING ACTIVITIES:		
Construction expenditures (excluding AFUDC-equity funds)	(62,489)	(60,804)
Other capital requirements	(7,392)	(590)
(Increase) decrease in other noncurrent balance sheet items-net	14,590	15,244
Assets acquired and investments in subsidiaries	(35,478)	(29,016)
NET CASH USED IN INVESTING ACTIVITIES	(90,769)	(75,166)
FINANCING ACTIVITIES:		
Increase (decrease) in short-term borrowings	(11,000)	12,000
Proceeds from issuance of preferred trust securities	110,000	--
Proceeds from issuance of long-term debt	15,000	--
Repurchase and maturity of long-term debt	(45,000)	(35,000)
Redemption of preferred stock	(70,000)	(20,000)
Sale of common stock-net	805	720
Other-net	(30,737)	15,539
NET FINANCING ACTIVITIES BEFORE CASH DIVIDENDS	(30,932)	(26,741)
Less cash dividends paid	(57,157)	(58,152)
NET CASH USED IN FINANCING ACTIVITIES	(88,089)	(84,893)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	14,808	3,839
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,211	5,164
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 23,019	$ 9,003
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period:		
Interest	$ 45,397	$ 39,898
Income taxes	$ 51,393	$ 32,668
Non-cash financing and investing activities	$ 2,519	$ 42,762

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
The Washington Water Power Company

For the Three Months Ended September 30
Thousands of Dollars

	1997	1996
OPERATING REVENUES:		
Energy Delivery	$ 69,980	$ 71,487
Generation and Resources	135,141	106,692
National Energy Trading and Marketing	49,535	102
Non-energy	41,298	41,470
Intersegment eliminations	(878)	--
Total operating revenues	$ 295,076	$ 219,751
OPERATIONS AND MAINTENANCE EXPENSES:		
Energy Delivery:		
Natural gas purchased for resale	$ 13,633	$ 13,388
Other	14,459	15,815
Generation and Resources:		
Purchased power	86,278	49,740
Fuel for generation	9,851	13,902
Other	12,025	11,216
National Energy Trading and Marketing:		
Cost of sales	46,633	--
Other	663	152
Non-energy	29,283	31,591
Intersegment eliminations	(878)	--
Total operations and maintenance expenses	$ 211,947	$ 135,804
ADMINISTRATIVE AND GENERAL EXPENSES:		
Energy Delivery	$ 10,774	$ 11,551
Generation and Resources	4,115	4,021
National Energy Trading and Marketing	3,458	405
Non-energy	6,259	3,345
Total administrative and general expenses	$ 24,606	$ 19,322
DEPRECIATION AND AMORTIZATION:		
Energy Delivery	$ 8,095	$ 8,427
Generation and Resources	6,106	7,027
National Energy Trading and Marketing	122	--
Non-energy	2,441	2,616
Total administrative and general expenses	$ 16,764	$ 18,070
INCOME/(LOSS) FROM OPERATIONS:		
Energy Delivery	$ 14,537	$ 14,099
Generation and Resources	13,932	18,307
National Energy Trading and Marketing	(1,292)	(455)
Non-energy	2,530	3,676
Total income from operations	$ 29,707	$ 35,627
INCOME AVAILABLE FOR COMMON STOCK:		
Energy Delivery and Generation and Resources	$ 6,821	$ 10,492
National Energy Trading and Marketing	(1,097)	(296)
Non-energy	6,534	6,376
Total income available for common stock	$ 12,258	$ 16,572
ASSETS: (1996 amounts at December 31)		
Energy Delivery	$ 1,015,318	$ 1,014,451
Generation and Resources	631,621	683,599
Other utility	256,298	223,379
National Energy Trading and Marketing	42,157	899
Non-energy	260,756	254,970

Total assets	$ 2,206,150	$ 2,177,298
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE)		
Energy Delivery	$ 21,562	$ 21,262
Generation and Resources	3,187	2,115
National Energy Trading and Marketing	2,306	--
Non-energy	3,802	454
Total capital expenditures	$ 30,857	$ 23,831

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
The Washington Water Power Company

For the Nine Months Ended September 30
Thousands of Dollars

	1997	1996
OPERATING REVENUES:		
Energy Delivery	$ 267,010	$ 266,171
Generation and Resources	381,334	290,436
National Energy Trading and Marketing	51,610	102
Non-energy	116,353	106,946
Intersegment eliminations	(946)	--
Total operating revenues	$ 815,361	$ 663,655
OPERATIONS AND MAINTENANCE EXPENSES:		
Energy Delivery:		
Natural gas purchased for resale	$ 63,566	$ 63,457
Other	43,160	45,381
Generation and Resources:		
Purchased power	223,042	115,837
Fuel for generation	25,494	27,610
Other	39,121	34,733
National Energy Trading and Marketing:		
Cost of sales	48,136	--
Other	1,634	371
Non-energy	83,314	80,049
Intersegment eliminations	(878)	--
Total operations and maintenance expenses	$ 526,589	$ 367,438
ADMINISTRATIVE AND GENERAL EXPENSES:		
Energy Delivery	$ 36,457	$ 35,334
Generation and Resources	13,137	11,605
National Energy Trading and Marketing	6,052	712
Non-energy	15,027	9,617
Total administrative and general expenses	$ 70,673	$ 57,268
DEPRECIATION AND AMORTIZATION:		
Energy Delivery	$ 24,311	$ 25,359
Generation and Resources	19,167	20,944
National Energy Trading and Marketing	181	--
Non-energy	8,025	7,042
Total administrative and general expenses	$ 51,684	$ 53,345
INCOME/(LOSS) FROM OPERATIONS:		
Energy Delivery	$ 71,528	$ 68,169
Generation and Resources	53,356	71,234
National Energy Trading and Marketing	(4,398)	(982)
Non-energy	7,948	9,540
Intersegment eliminations	(68)	--
Total income from operations	$ 128,366	$ 147,961
INCOME AVAILABLE FOR COMMON STOCK:		
Energy Delivery and Generation and Resources	$ 79,037	$ 44,153
National Energy Trading and Marketing	(3,092)	(638)
Non-energy	11,046	19,528
Total income available for common stock	$ 86,991	$ 63,043
ASSETS: (1996 amounts at December 31)		
Energy Delivery	$ 1,015,318	$ 1,014,451
Generation and Resources	631,621	683,599
Other utility	256,298	223,379
National Energy Trading and Marketing	42,157	899

Non-energy	260,756	254,970
Total assets	$ 2,206,150	$ 2,177,298
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):		
Energy Delivery	$ 53,751	$ 53,873
Generation and Resources	7,228	4,925
National Energy Trading and Marketing	2,666	--
Non-energy	5,093	1,603
Total assets	$ 68,738	$ 60,401

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

THE WASHINGTON WATER POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying financial statements of The Washington Water Power Company (Company) for the interim periods ended September 30, 1997 and 1996 are unaudited but, in the opinion of management, reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results of operations for those interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters which would be included in full fiscal year financial statements; therefore, they should be read in conjunction with the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (1996 Form 10-K).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ALLOCATION OF REVENUES AND EXPENSES FOR REPORTING BUSINESS SEGMENTS

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

The business segment information from prior periods has been reclassified to conform to the current period presentation. The reporting of business segment results has been reclassified to reflect the way the Company is now doing business, as was discussed in the 1996 Form 10-K.

NOTE 2. FINANCINGS

COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES

On January 23, 1997, Washington Water Power Capital I, a business trust, issued to the public $60,000,000 of Preferred Trust Securities having a distribution rate of 7 7/8%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued $1,855,675 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's 7 7/8% Junior Subordinated Deferrable Interest Debentures, Series A, with a principal amount of $61,855,675. These debt securities may be redeemed at the Company's option on or after January 15, 2002 and mature January 15, 2037.

On June 3, 1997, Washington Water Power Capital II, a business trust, issued to the public $50,000,000 of Preferred Trust Securities having a floating distribution rate of LIBOR plus 0.875%, calculated and reset quarterly (initially 6.6875%). Concurrent with the issuance of the Preferred Trust Securities, the Trust issued $1,547,000 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's Floating Rate Junior Subordinated Deferrable Interest Debentures, Series B, with a principal amount of $51,547,000. These debt securities may be redeemed at the Company's option on or after June 1, 2007 and mature June 1, 2037.

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

In November 1997, the Company filed a Registration Statement with the Securities and Exchange Commission for authorization to issue up to and including $250 million of debt securities.

NOTE 3. COMMITMENTS AND CONTINGENCIES

The Company and certain of its subsidiaries are parties to various legal claims, actions and complaints. Although the Company cannot predict with certainty whether or not it will ultimately be successful in these legal proceedings, management believes that as of this time, it has adequately reserved for any potential liabilities and that the ultimate outcome of all the claims and actions should not have a material adverse effect on the Company's consolidated operations, financial condition or liquidity. For information about specific legal proceedings involving the Company or its subsidiaries, reference is made to the Company's 1996 Form 10-K. To-date, there have been no material developments since that report was issued, with the exception of the following matters.

A proposed settlement agreement was reached related to Firestorm litigation as discussed in the 1996 10-K. The settlement agreement is subject to court approval, which is likely to occur in 1997. If approved in Spokane Superior Court, the settlement agreement would resolve all claims pending against the Company. The Company's portion of the proposed settlement is $10.3 million, with all but $1.2 million being covered by insurance proceeds. The Company recorded the $1.2 million liability during the third quarter of 1997.

The Oil Spill Clean-up Action Plan discussed in the 1996 Form 10-K is underway. The Company has reached settlement with one of the two insurance carriers, and has commenced a declaratory judgment against the other in Spokane Superior Court in order to receive a judicial determination of the scope and extent of coverage by the remaining carrier.

On August 19, 1997, a class action lawsuit was filed in the Superior Court of Spokane County against Itron, Inc. (Itron), and certain named individuals, as well as the Company, alleging violation of the Washington State Securities Act, the Washington Consumer Protection Act, and negligent misrepresentation. It is alleged that the Company was a controlling person of Itron by virtue of its ownership, at one time, of approximately 12% of the outstanding shares of Itron, and knew or should have known of the alleged false or misleading statements relating to the development of Itron's fixed network meter reading systems and the market therefor. This action has been temporarily stayed pending the determination of certain legal issues in a similar case filed in the U.S. District Court for the Eastern District of Washington, involving similar facts and circumstances, but which did not otherwise name the Company as a defendant.

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

NOTE 4. INCOME TAX RECOVERY

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

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

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

NOTE 5. ACQUISITIONS AND DISPOSITIONS

In May 1997, Pentzer Corporation (Pentzer) sold its interest in Safety Speed Cut, resulting in a gain of approximately $2.0 million, net of taxes. In July 1997, Pentzer acquired two new companies - Target Woodworks, Inc., a Florida-based company, and White Plus, a California-based company. In September 1997, Pentzer acquired Proco Wood Products, a Minnesota-based company. All three companies provide point-of-purchase and in-store merchandising services. For information related to acquisitions and affiliations by the Company's subsidiary, Avista Energy, see Note 6 below.

NOTE 6. NATIONAL ENERGY TRADING AND MARKETING

Avista Energy, Inc. (Avista Energy), the Company's national energy trading and marketing company, began trading in the third quarter of 1997. Avista Energy has and intends to continue to develop alliances and partnerships in various areas of the country in order to market electric and natural gas commodities and services as states provide open access to their retail markets. Avista Energy has formed an alliance with Mock Energy Services, California's largest natural gas marketer. Avista Energy has also formed a joint venture with Energy West Incorporated, a diversified energy and retail propane company in Montana.

In addition, Avista Energy formed an alliance with Chelan County Public Utility District (Chelan PUD), located in Washington state, under which Avista Energy and Chelan PUD are jointly marketing a significant portion of Chelan PUD's hydroelectric resources to other utilities throughout the Western United States and began assisting with the real-time scheduling of such output beginning in August 1997. On October 20, 1997, a complaint for declaratory and injunctive relief was filed in Chelan County Superior Court in order to determine whether the joint marketing and real-time scheduling efforts of Chelan PUD and Avista Energy are within Chelan PUD's lawful authority to undertake.

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

The following selected financial information for Howard/Avista reflects that company's total financial position and operating results as of and for the two months ended September 30, 1997:

RESULTS OF OPERATIONS (thousands of dollars)

	Two months ended September 30, 1997
Revenues	$ 268,998
Expenses	267,488
Net Income	$ 1,510
Avista Energy's equity in earnings of Howard/Avista Energy LLC	$755

FINANCIAL POSITION (thousands of dollars)

	September 30, 1997
Current Assets	$ 250,068
Other Assets	1,351
Total Assets	$ 251,419
Current Liabilities	$ 199,753
Other Liabilities	154
Equity	51,512
Total Liabilities	$ 251,419
Avista Energy's equity investment in Howard/Avista Energy LLC	$ 25,000

NOTE 7. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

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

GENERATION AND RESOURCES

The Company protects itself against price fluctuations on electric energy and natural gas by back-to-back purchases and sales, and the use of derivatives and other financial instruments for hedging purposes. Most transactions are "at market", either through short-term spot purchases and sales or through longer term contracts with month-to-month index pricing. The Company also enters into term contracts requiring fixed price purchases or sales during future periods. These contracts are either offset with physical purchases or sales or with derivatives accounted for as hedges. The derivatives are not held for trading purposes. Hedge accounting is utilized in non-trading activities when there is a high degree of correlation between price movements in the derivative and the item designated as being hedged. In instances where the anticipated correlation of price movements does not occur, hedge accounting is terminated and future changes in the value of the derivative are recognized as gains or losses. If the hedged item is sold, the value of the derivative is recognized in income. Gains and losses related to derivative financial instruments which qualify as hedges are recognized in the Consolidated Statements of Income when the underlying hedged physical transaction closes (the deferral method) and are included in the same category as the hedged item (natural gas purchased and purchased power expense). At September 30, 1997, the commodity hedge agreements outstanding were immaterial.

NATIONAL ENERGY TRADING AND MARKETING

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

Because Avista Energy engages in the trading of such financial instruments, it is subject to mark-to-market accounting, under which changes in the market value of outstanding financial instruments are recognized as gains or losses in the period of change. Under the mark-to-market method, an allowance is recorded currently for net aggregate gains or losses of the entire portfolio resulting from the effect of market changes on the net open positions. The net mark-to-market allowance was immaterial to Avista Energy's results of operations and financial position as of September 30, 1997. Gains and losses on derivatives utilized for trading are recognized in income on a current basis (the mark-to-market method) and are included on the Consolidated Statements of Income in operating revenues or expenses (cost of sales), as appropriate, and on the Consolidated Balance Sheets as other assets or liabilities for the National Energy Trading and Marketing business segment.

MARKET RISK

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

CREDIT RISK

Credit risk relates to the risk of loss that would occur as a result of nonperformance by customers or counterparties pursuant to the terms of their contractual obligations. New York Mercantile Exchange (NYMEX, or the Exchange) traded futures and option contracts are guaranteed by the Exchange and have nominal credit risk. On all other transactions, the Company and Avista Energy are exposed to credit risk in the event of nonperformance by customers or counterparties. The concentration of counterparties may impact overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. However, the Company and Avista Energy maintain credit policies with regard to its customers and counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition and credit rating, collateral requirements, such as letters of credit or parent company guarantees, under certain circumstances and the use of standardized agreements which allow for the netting of positive and negative exposures associated with a single counterparty. The Company and Avista Energy maintain credit reserves based on management's evaluation of the credit risk of the overall portfolio.

THE WASHINGTON WATER POWER COMPANY

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

The Company operates as a regional utility providing electric and natural gas sales and services and as a national entity providing both energy and non-energy products and services. The regional utility portion of the Company consists of two lines of business which are subject to state and federal price regulation -- (1) Energy Delivery and (2) Generation and Resources (which was reported in the 1996 Form 10-K and subsequent interim reports as the Energy Trading line of business). The national businesses are conducted under Avista Corp., which is the parent company to the Company's subsidiaries. The business segment information from prior periods has been reclassified to conform to the current period presentation. The reporting of business segment results has been reclassified to reflect the way the Company is now doing business, as was discussed in the 1996 Form 10-K.

The Energy Delivery line of business includes transmission and distribution services for retail electric operations, all natural gas operations, and other energy products and services. Usage by retail customers varies from year to year primarily as a result of weather conditions, customer growth, the economy in the Company's service area, conservation efforts, appliance efficiency and other technology.

The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas commodity trading and wholesale marketing primarily to other utilities and power brokers in the western United States. Commodity trading involves short-term sales and purchases of energy, 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. Revenues and the cost of electric power purchases vary from year to year depending on the electric wholesale power market, which is affected by several factors, including the availability of water for hydroelectric generation, the availability of base load plants in the region, marginal fuel prices and the demand for power in other areas of the country. Other factors affecting the wholesale power market include an increasing number of power brokers and marketers, lower unit margins on new sales contracts than were realized in the past, fewer long-term power contracts being entered into, resulting in a heavier reliance on short-term power contracts, and competition from low cost generation being developed by independent power producers.

Avista Corp. owns the Company's National Energy Trading and Marketing and Non-energy businesses. The National Energy Trading and Marketing businesses are conducted by Avista Energy and Avista Advantage. Previously the results of these two companies, which were primarily start-up costs, were included in the utility's Energy Trading line of business. Avista Energy focuses on commodity trading, energy marketing and other related businesses on a national basis. Avista Energy's business is affected by several factors, including the demand for and availability of power throughout the United States, an increasing number of power brokers and marketers, lower unit margins on new sales contracts than were realized in the past, fewer long-term power contracts being entered into, resulting in a heavier reliance on short-term power contracts, marginal fuel prices and competition from low cost generation being developed by independent power producers. Avista Advantage provides a variety of energy-related products and services to commercial and industrial customers on a national basis. Its primary product lines include consolidated billing and resource accounting. The Non-energy business is conducted primarily by Pentzer, which is the parent company to the majority of the Company's Non-energy businesses.

RESULTS OF OPERATIONS

OVERALL OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1996

Third quarter 1997 net income available for common stock was $12.3 million, a $4.3 million decrease from 1996 third quarter net income of $16.6 million. The decrease in earnings was primarily the result of reduced margins from Generation and Resources wholesale operations and start-up costs associated with the

Company's national energy businesses.

Overall earnings per share for the third quarter of 1997 decreased to $0.22 from $0.30 in 1996. Utility operations (Energy Delivery and Generation and Resources) contributed $0.12 to earnings per share for the third quarter of 1997 compared to $0.19 in the third quarter of 1996. National Energy Trading and Marketing, which began operations in July 1997, realized a loss of $0.02 per share for the third quarter of 1997, primarily due to start-up costs, compared to zero contribution in the third quarter of 1996. Non-energy operations contributed $0.12 to earnings per share for the third quarter of 1997 compared to $0.11 in the same period in 1996.

During the third quarter of 1996, the Company recorded a $2.6 million tax benefit as a result of resolution of prior years' tax audit issues. The preferred stock dividend decreased by $0.8 million in the third quarter of 1997, respectively, from 1996 due to the redemption of $20 million in Preferred Stock, Series I in June 1997 and the redemption of the entire $50 million Flexible Auction Preferred Stock, Series J in August 1997. These securities were redeemed with a portion of the proceeds of the Preferred Trust Securities which were issued in January and June 1997. Distributions for the Preferred Trust Securities are included in Interest Expense on the Consolidated

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Statements of Income. (See Note 2. of Notes to Financial Statements and Liquidity and Capital Resources for additional information.)

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1996

Net income available for common stock for the first nine months of 1997 was $87.0 million, a $24.0 million increase from net income of $63.0 million during the first nine months of 1996. The increase in earnings was primarily the result of an income tax recovery which resulted in a $41.4 million, or $0.74 per share, increase in after-tax income during the second quarter of 1997 (see Note 4 of Notes to Financial Statements for additional information) and the expensing of $10.3 million after-tax, or $0.18 per share, in merger costs in the 1996 period. The 1996 results also included a $10.8 million transactional gain, net of tax and other adjustments, from the sale of property held for sale by one of Pentzer's subsidiaries.

Overall earnings per share for the first nine months of 1997 increased to $1.55 from $1.13 in 1996. Utility operations (Energy Delivery and Generation and Resources) contributed $1.41 to earnings per share for the first nine months of 1997 compared to $0.79 in the first nine months of 1996. The increase in earnings per share from the income tax recovery was partially offset by several non-operating and operating accruals and accounting adjustments, as well as decreased operating income from the Generation and Resources line of business. National Energy Trading and Marketing operations realized a loss of $0.06 per share for the first nine months of 1997 compared to a loss of $0.01 per share in the same period in 1996, primarily as a result of start-up costs in both periods. Non-energy operations contributed $0.20 to earnings per share for the first nine months of 1997 compared to $0.35 in the same period in 1996. The decrease in non-energy earnings was primarily the result of a $10.8 million transactional gain ($0.19 per share), net of tax and other adjustments, from the sale of property in the first quarter of 1996.

Other income (deductions) for the first nine months of 1997 included $47 million in interest income on the income tax recovery, which was partially offset by several non-operating accruals and accounting adjustments. Income taxes increased $7.8 million in the first nine months of 1997 over 1996 primarily due to the taxes on the interest income received as a part of the income tax recovery, partially offset by an $11.4 million income tax benefit associated with the income tax recovery. During the third quarter of 1996, the Company recorded a $2.6 million tax benefit as a result of resolution of prior years' tax audit issues. The year-to-date 1997 income taxes were also partially offset by first quarter 1997 adjustments related to revised estimates on certain tax issues. The preferred stock dividend decreased $1.6 million in the first nine months of 1997 from 1996 due to the redemption of $20 million in Preferred Stock, Series I in June 1997 and the redemption of the entire $50 million Flexible Auction Preferred Stock, Series J in August 1997. These securities were redeemed with a portion of the proceeds of the Preferred Trust Securities which were issued in January and June 1997. (See Note 2. of Notes to Financial Statements and Liquidity and Capital Resources for additional information.)

ENERGY DELIVERY

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1996

Energy Delivery income from operations increased $0.4 million, or 3%, in the third quarter of 1997 over the same period in 1996. The increase was due to lower operating costs, partially offset by decreased retail electric and natural gas revenues. Energy Delivery's operating revenues and expenses decreased $1.5 million and $1.9 million, respectively, during the third quarter of 1997 as compared to 1996.

Retail electric revenues decreased $1.3 million in the third quarter of 1997 compared to the same period in 1996, primarily as a result of decreased customer usage due to weather, particularly during the month of September. In September 1996, temperatures were 26% colder than normal, which increased the heating load. In September 1997, the weather was 48% warmer than normal, resulting in very little heating load. There was no material change in total natural gas revenues between the two periods.

Other operating and maintenance costs decreased $1.4 million in the third quarter of 1997 from 1996, primarily as a result of a $1.1 million reduction in expenses associated with the Idaho Power Cost Adjustment (PCA), which allows the

Company to change prices to recover or rebate a portion of the difference between actual and allowed net power supply costs.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1996

Energy Delivery income from operations increased $3.4 million, or 5%, in the first nine months of 1997 over the same period in 1996. The increase was due to increased transmission revenues, a rate settlement, customer growth and lower operating expenses. Energy Delivery's operating revenues increased $0.8 million and expenses decreased $2.5 million, respectively, during the first nine months of 1997 compared to 1996.

Retail electric revenues increased $1.5 million in the first nine months of 1997 compared to 1996, due to a $3.3 million increase in transmission revenues as a result of increased wholesale electric sales, partially offset by decreased retail sales due to weather which was 4% warmer year-to-date in 1997, compared to 11% colder than normal in the same period in 1996. There was no material change in total natural gas revenues between the two periods.

Other operating and maintenance expenses decreased $2.2 million, primarily due to a $2.3 million reduction in expenses associated with the PCA. Administrative and general expenses increased $1.1 million in the first nine months of 1997 compared to 1996, due primarily to accruals related to employee compensation and higher regulatory fees, partially offset by non-recurring expenses in 1996.

GENERATION AND RESOURCES

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1996

Generation and Resources income from operations decreased $4.4 million, or 24%, in the third quarter of 1997 from the same period in 1996. The decrease was due to the expiration of older sales contracts with higher margins, lower unit margins on new sales contracts and higher transmission expenses due to increased sales. Generation and Resources operating revenues and expenses increased $28.4 million and $32.8 million, respectively, during the third quarter of 1997 as compared to 1996.

Generation and Resources revenues increased primarily as a result of increased short-term sales. During the third quarter of 1997, there was a significant shift in product mix between short- and long-term sales. Revenues from long-term sales, typically with higher margins, decreased $7.0 million in the third quarter of 1997 as compared to 1996, while revenues from short-term sales, typically with smaller margins, increased $36.9 million during the same period. Total sales volumes during the third quarter of 1997 increased 41% from the same period in 1996. Long-term sales volumes decreased 0.2 million mwhs, or 19%, while short-term sales increased 1.6 million mwhs, or 76%.

Commitments under new long-term wholesale sales contracts and increased short-term sales, combined with increased costs under some long-term purchased power contracts, resulted in a $36.5 million increase in electric purchased power expense in the third quarter of 1997 over 1996, which accounts for the majority of the increase in Generation and Resources' operating expenses. Fuel expense decreased $4.1 million in the third quarter of 1997 from 1996, due to economic dispatch as hydroelectric generation was 16% higher than in the same period of 1996.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1996

Generation and Resources income from operations decreased $17.9 million, or 25%, in the first nine months of 1997 from the same period in 1996. The decrease was due to the expiration of older sales contracts with higher margins, lower unit margins on new sales contracts, lower hydroelectric generation and higher transmission expenses. Generation and Resources operating revenues and expenses increased $90.9 million and $108.8 million, respectively, during the first nine months of 1997 compared to 1996.

Generation and Resources revenues increased due to new power contracts for long-term wholesale electric service and increased short-term sales. Over the first nine months of 1997, there was a significant shift in product mix between short- and long-term sales as compared to the first nine months of 1996. Revenues from long-term sales increased $9.2 million in the first nine months of 1997 over 1996, while revenues from short-term sales increased $82.5 million during the same period. Total sales volumes during the first nine months of 1997 increased 62% over the same period in 1996. Long-term sales volumes increased 0.1 million mwhs, or 1%, while short-term sales increased by 4.8 million mwhs, or 106%.

Purchased power expense increased $107.2 million, or 93%, in the first nine months of 1997 over 1996, which accounts for the majority of the year-to-date increase in Generation and Resources operating expenses. During the first nine months of 1997, hydroelectric generation was 7% below that of the same period of 1996. Fuel costs decreased $2.1 million in the first nine months of 1997 compared to 1996 due to decreased generation at thermal plants in the third quarter of 1997. Other operating and maintenance expenses increased $4.4 million in the first nine months of 1997 from the same period in 1996. Transmission expenses increased $1.3 million in the nine-month period of 1997 over 1996 due to a second quarter $1.1 million accrual related to prior periods and increased wholesale sales. Administrative and general expenses increased $1.5 million in the first nine months of 1997, compared to 1996, due primarily to accruals related to employee compensation and higher regulatory fees, partially offset by non-recurring expenses in 1996.

NATIONAL ENERGY TRADING AND MARKETING

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1996

National Energy Trading and Marketing includes the results of Avista Energy, the national energy marketing subsidiary, and Avista Advantage, the energy services subsidiary. Although both companies began incurring start-up costs during 1996, Avista Energy only became operational in July 1997. National Energy Trading and Marketing income available for common stock for the third quarter of 1997 was a loss of $1.0 million, which is a $0.7 million decrease from third quarter 1996 earnings. The decrease in 1997 earnings primarily resulted from continued start-up costs, expected customers and revenue streams that did not materialize and a longer than anticipated sales cycle for energy services. National Energy Trading and Marketing operating revenues and expenses increased $49.4 million and $50.3 million, respectively, during the third quarter of 1997 as compared to 1996 primarily as a result of Avista Energy beginning operations in July 1997.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1996

National Energy Trading and Marketing income available for common stock for the first nine months of 1997 was a loss of $3.1 million, which is a $2.5 million decrease from year-to-date 1996 earnings. The 1997 earnings decrease was primarily due to the same reasons discussed in the quarterly discussion above. National Energy Trading and Marketing operating revenues and expenses increased $51.5 million and $54.9 million, respectively, during the first nine months of 1997 as compared to 1996 primarily as a result of Avista Energy beginning operations in July 1997.

NON-ENERGY

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1996

Non-energy operations primarily reflect the results of Pentzer. Non-energy income available for common stock for the third quarter of 1997 was $6.5 million, compared to third quarter 1996 earnings of $6.4 million. Transactional earnings in the third quarter of 1997 exceeded 1996 by $0.6 million. Non-transactional income from portfolio companies in the third quarter of 1997 was lower than 1996 by $0.5 million. Non-energy operating revenues decreased $0.2 million and expenses increased $1.0 million during the third quarter of 1997, as compared to 1996, primarily as a result of acquisitions and increased business activity from Pentzer's portfolio companies. Income from operations totaled $2.5 million, which was a $1.1 million decrease in 1997 from 1996. This decrease in earnings primarily reflects the sale of a portfolio company by Pentzer and decreased business activities at several companies.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1996

Non-energy income available for common stock for the first nine months of 1997 was $11.0 million, which is an $8.5 million decrease from earnings in the same period in 1996. The 1996 earnings primarily resulted from a transactional gain 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. The 1997 earnings include a transactional gain of $2.0 million, net of taxes, from the sale of a portfolio company. Non-transactional earnings from portfolio companies in 1997 were down slightly from 1996. Non-energy operating revenues and expenses increased $9.4 million and $11.0 million, respectively, during the first nine months of 1997 as compared to 1996, primarily as a result of acquisitions and increased business activity from Pentzer's portfolio companies. Income from operations totaled $7.9 million, which was a $1.6 million decrease in 1997 from 1996, primarily due to the sale of a portfolio company by Pentzer and decreased business activities at several companies.

LIQUIDITY AND CAPITAL RESOURCES

OVERALL OPERATIONS

Operating Activities Net cash provided by operating activities in the first nine months of 1997 increased by $29.8 million from the same period in 1996 due in large part to the $27.4 million increase in net income from the income tax recovery. Cash from the income tax recovery has been used to fund new business investment, including growth opportunities in national energy markets, and will reduce the need for issuance of long-term debt during 1997. In addition, changes in various working capital components, such as increased payables and decreased receivables, caused cashflows to increase by $20.1 million over the same period of last year. When the effects of non-cash items, such as the increased provision for deferred income taxes from the income tax recovery and adjustments for depreciation and the FAS 109 regulatory asset are removed from net income, there is an additional increase in cash provided by operating activities. Power and natural gas cost deferrals had a negative effect on cashflows for the first nine months of 1997 as a result of PCA rebates in effect in 1997 as compared to surcharges in effect during the first nine months of 1996, increased natural gas prices during the first part of 1997 and reduced prices paid by natural gas customers in the current year. Deferred revenues and other-net caused year-to-date cashflows in 1997 to decrease due to a contract buyout which occurred as a result of a power transaction.

Investing Activities Net cash used in investing activities totaled $90.8 million in the first nine months of 1997 compared to $75.2 million in the same period in 1996. Cash used in investing activities was higher during 1997 than 1996 due primarily to the Company's investment in subsidiaries, and Pentzer's and other subsidiaries' subsequent investments in, and acquisitions of, other companies. Cash used in investing activities during the first nine months of 1996 resulted from the establishment of trusts totaling $10.8 million for postretirement medical benefits and coal mining reclamation costs and the $8.2 million 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 an industrial park in the first quarter of 1996.

Financing Activities Net cash used in financing activities totaled $88.1 million in the first nine months of 1997 compared to $84.9 million in 1996. Bank borrowings decreased by $11.0 million, preferred stock totaling $70.0 million was redeemed and $45.0 million of long-term debt was repurchased in the first nine months of 1997 with the proceeds of $110 million of Preferred Trust Securities which were issued in January and June of 1997. See Note 2 of Notes to Financial Statements for additional information about these securities. The reduction of $30.7 million in Other-net reflects the repayment of short-term borrowings and long-term debt by Pentzer during 1997, as compared to increasing its borrowings in the first nine months of 1996.

ENERGY DELIVERY AND GENERATION AND RESOURCES

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

Capital expenditures are financed on an interim basis with short-term debt. The Company has $120 million in committed lines of credit, a reduction of $40 million from previous levels. In addition, the Company may borrow up to $60 million through other borrowing arrangements with banks. As of September 30, 1997, $44.0 million was outstanding under the committed lines of credit and $30.0 million was outstanding under the other borrowing arrangements with banks.

In November 1997, the Company filed a Registration Statement with the Securities and Exchange Commission for authorization to issue up to and including $250 million of debt securities.

During the 1997-1999 period, capital expenditures are expected to be $239 million, and, in addition, $138.5 million will be required for long-term debt maturities and repurchases and preferred stock sinking fund requirements. During this three-year period, the Company estimates that internally-generated funds will provide over 100% of the funds needed for its capital expenditure program. External financing will be required to fund a portion of the 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.

NATIONAL ENERGY TRADING AND MARKETING

At September 30, 1997, the National Energy Trading and Marketing operations had $4.3 million in cash and cash equivalents with $1.4 million in long-term debt outstanding.

NON-ENERGY

The non-energy operations have $79.0 million in short-term borrowing arrangements available ($10.9 million outstanding as of September 30, 1997) to fund corporate requirements on an interim basis. At September 30, 1997, the non-energy operations had $32.7 million in cash and marketable securities with $47.8 million in long-term debt outstanding.

The 1997-1999 non-energy capital expenditures are expected to be $12 million, and $30 million in debt will mature in this period. During the next three years, internally-generated cash and debt obligations are expected to provide the majority of the funds for the non-energy capital expenditure 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, acquisitions or sales of businesses and other transactions.

TOTAL COMPANY

The Company's total common equity increased by $33.9 million during the first nine months of 1997 to $744.7 million, primarily due to a $35.3 million increase in retained earnings. The Company's consolidated capital structure at September 30, 1997, was 45% debt, 9% preferred stock (including the new Preferred Trust Securities) and 46% common equity as compared to 48% debt, 7% preferred stock and 45% common equity at year-end 1996.

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS.

The Company is including the following cautionary statement in this Form 10-Q to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements are all statements other than statements of historical fact, including without limitation those that are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," and similar expressions. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those expressed. Such risks and uncertainties include, among others, changes in the utility regulatory environment, wholesale and retail competition, weather conditions and various other matters, many of which are beyond the Company's control. These forward-looking statements speak only as of the date of the report. The Company expressly undertakes no obligation to update or revise any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based. See "Safe Harbor for Forward Looking Statements" in the Company's 1996 Form 10-K under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Future Outlook.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION.

REGULATORY PROCEEDINGS.

Natural Gas General Rate Case The Company filed a natural gas general rate case with the Washington Utilities and Transportation Commission (WUTC) in June 1997 seeking an overall natural gas price increase of $7.9 million to offset increases in the cost of maintaining and operating the Company's natural gas distribution system. The WUTC has until May 1988 to issue a final order. The proposed price increases are not likely to go into effect until mid-1998.

Natural Gas Tracker Filings The Company filed natural gas trackers in Idaho in November and in Oregon in October requesting overall increases of 15.6% and 8.9%, respectively, due to increases in natural gas commodity prices.

THE WASHINGTON WATER POWER COMPANY

Power Cost Adjustment The Company filed a proposal with the Idaho Public Utilities Commission (IPUC) to extend an existing 2.344% power cost adjustment rebate for 12 months. The rebate, which was originally intended to expire on August 31, 1997, will instead expire on August 31, 1998. The proposal was approved in August.

More Options for Power Services In February, the Company filed with the WUTC and the IPUC an experimental More Options for Power Services (MOPS) tariff to allow residents and businesses in the towns of Odessa and Harrington, Washington and approximately 2,800 other randomly selected residential and commercial customers in Washington and Idaho direct access to alternative energy providers. The WUTC and IPUC approved the two-year program, to begin in mid-1997. However, the Company deferred implementation of the random selection portion of the program until some later date due to lack of supplier participation. Only one alternative energy supplier marketed its services to the customers in Odessa and Harrington and approximately 20% of the eligible customers signed up for this alternative supplier. The program costs and margin losses associated with this program are not expected to have a material impact on the Company's financial condition or results of operations.

ADDITIONAL FINANCIAL DATA.

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

	12 Months Ended	
	September 30, 1997	December 31, 1996
Ratio of Earnings to Fixed Charges	3.36(x)	2.97(x)
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements	2.94(x)	2.50(x)

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

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

(a) Exhibits.

12 Computation of ratio of earnings to fixed charges and preferred dividend requirements.
27 Financial Data Schedule.

(b) Reports on Form 8-K.

Dated June 25, 1997, regarding the income tax recovery the Company received from the Internal Revenue Service.

SIGNATURE

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

THE WASHINGTON WATER POWER COMPANY
(Registrant)

Date: November 14, 1997

/s/ J. E. Eliassen

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

EXHIBIT INDEX

EXHIBIT 12

THE WASHINGTON WATER POWER COMPANY

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

	12 Mos. Ended September 30, 1997	Years Ended December 31 1996	1995	1994	1993
Fixed charges, as defined:					
Interest on long-term debt	$ 62,045	$ 60,256	$ 55,580	$ 49,566	$ 47,129
Amortization of debt expense and premium - net	2,810	2,998	3,441	3,511	3,004
Interest portion of rentals	4,328	4,311	3,962	1,282	924
Total fixed charges	$ 69,183	$ 67,565	$ 62,983	$ 54,359	$ 51,057
Earnings, as defined:					
Net income from continuing ops	$105,772	$ 83,453	$ 87,121	$ 77,197	$ 82,776
Add (deduct):					
Income tax expense	57,287	49,509	52,416	44,696	42,503
Total fixed charges above	69,183	67,565	62,983	54,359	51,057
Total earnings	$232,242	$200,527	$202,520	$176,252	$176,336
Ratio of earnings to fixed charges	3.36	2.97	3.22	3.24	3.45
Fixed charges and preferred dividend requirements:					
Fixed charges above	$ 69,183	$ 67,565	$ 62,983	$ 54,359	$ 51,057
Preferred dividend requirements (2)	9,786	12,711	14,612	13,668	12,615
Total	$ 78,969	$ 80,276	$ 77,595	$ 68,027	$ 63,672
Ratio of earnings to fixed charges and preferred dividend requirements	2.94	2.50	2.61	2.59	2.77

(1) Calculations have been restated to reflect the results from continuing operations (i.e., excluding discontinued coal mining operations).
(2) Preferred dividend requirements have been grossed up to their pre-tax level.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF THE WASHINGTON WATER POWER COMPANY, INCLUDED IN THE QUARTERLY REPORT ON FORM 10-Q FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
DEC-31-1997
SEP-30-1997
PER-BOOK
1,420,855
287,184
194,355
303,756
0
2,206,150
584,650
(6,599)
166,609
744,660
155,000
0
612,869
85,260
31,405
0
15,786
0
6,085
1,943
553,142
2,206,150
815,361
47,292
686,995
686,995
128,366
59,546
187,912
49,061
91,559
4,568
86,991
52,043
0
193,666
1.55
1.55

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