

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1994,  
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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  
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THE WASHINGTON WATER POWER COMPANY  
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(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  
-----

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  No

At November 1, 1994, 54,064,386 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

|  | 1994      | 1993      |
|--|-----------|-----------|
|  | -----     | -----     |
| OPERATING REVENUES . . . . .                               | \$142,334 | \$123,507 |
|  | -----     | -----     |
| OPERATING EXPENSES:  |           |           |
| Operations and maintenance . . . . .                       | 80,722    | 64,642    |
| Administrative and general . . . . .                       | 12,661    | 13,752    |
| Depreciation and amortization . . . . .                    | 15,040    | 15,017    |
| Taxes other than income taxes . . . . .                    | 10,938    | 9,693     |
|  | -----     | -----     |
| Total operating expenses . . . . .                         | 119,361   | 103,104   |
|  | -----     | -----     |
| INCOME FROM OPERATIONS . . . . .                           | 22,973    | 20,403    |
|  | -----     | -----     |
| INTEREST EXPENSE AND (OTHER INCOME):                       |           |           |
| Interest expense . . . . .                                 | 13,751    | 12,719    |
| Interest capitalized and AFUCE . . . . .                   | (435)     | (1,019)   |
| Other (income) deductions-net . . . . .                    | (3,100)   | (2,672)   |
|  | -----     | -----     |
| Total interest expense and other<br>income-net . . . . .   | 10,216    | 9,028     |
|  | -----     | -----     |
| INCOME BEFORE INCOME TAXES . . . . .                       | 12,757    | 11,375    |
| INCOME TAXES . . . . .                                     | 4,653     | 3,981     |
|  | -----     | -----     |
| NET INCOME . . . . .                                       | 8,104     | 7,394     |
| DEDUCT-Preferred stock dividend requirements . . . . .     | 2,186     | 2,082     |
|  | -----     | -----     |
| INCOME AVAILABLE FOR COMMON STOCK . . . . .                | \$ 5,918  | \$ 5,312  |
|  | =====     | =====     |
| Average common shares outstanding<br>(thousands) . . . . . | 53,751    | 51,997    |
| EARNINGS PER SHARE OF COMMON STOCK . . . . .               | \$0.11    | \$0.10    |
| 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

|  | 1994      | 1993      |
|--|-----------|-----------|
|  | -----     | -----     |
| OPERATING REVENUES . . . . .                               | \$480,404 | \$463,361 |
|  | -----     | -----     |
| OPERATING EXPENSES:  |           |           |
| Operations and maintenance . . . . .                       | 249,930   | 228,398   |
| Administrative and general . . . . .                       | 43,040    | 39,382    |
| Depreciation and amortization . . . . .                    | 44,534    | 43,776    |
| Taxes other than income taxes . . . . .                    | 34,223    | 33,761    |
|  | -----     | -----     |
| Total operating expenses . . . . .                         | 371,727   | 345,317   |
|  | -----     | -----     |
| INCOME FROM OPERATIONS . . . . .                           | 108,677   | 118,044   |
|  | -----     | -----     |
| INTEREST EXPENSE AND (OTHER INCOME):                       |           |           |
| Interest expense . . . . .                                 | 39,186    | 37,296    |
| Interest capitalized and AFUCE . . . . .                   | (3,242)   | (2,347)   |
| Other (income) deductions-net . . . . .                    | (8,410)   | (6,139)   |
|  | -----     | -----     |
| Total interest expense and other<br>income-net . . . . .   | 27,534    | 28,810    |
|  | -----     | -----     |
| INCOME BEFORE INCOME TAXES . . . . .                       | 81,143    | 89,234    |
| INCOME TAXES . . . . .                                     | 30,652    | 30,043    |
|  | -----     | -----     |
| NET INCOME . . . . .                                       | 50,491    | 59,191    |
| DEDUCT-Preferred stock dividend requirements . . . . .     | 6,405     | 6,260     |
|  | -----     | -----     |
| INCOME AVAILABLE FOR COMMON STOCK . . . . .                | \$44,086  | \$ 52,931 |
|  | =====     | =====     |
| Average common shares outstanding<br>(thousands) . . . . . | 53,329    | 51,523    |
| EARNINGS PER SHARE OF COMMON STOCK . . . . .               | \$0.83    | \$1.03    |
| 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,<br>1994 | December 31,<br>1993 |
|---|-----------------------|----------------------|
|   | -----                 | -----                |
| ASSETS:   |                       |                      |
| PROPERTY:   |                       |                      |
| Utility plant in service-net . . . . .                                      | \$1,748,952           | \$1,667,778          |
| Construction work in progress . . . . .                                     | 23,885                | 55,191               |
|   | -----                 | -----                |
| Total . . . . .   | 1,772,837             | 1,722,969            |
| Less: Accumulated depreciation and<br>amortization . . . . .                | 490,825               | 468,978              |
|   | -----                 | -----                |
| Net utility plant . . . . .   | 1,282,012             | 1,253,991            |
|   | -----                 | -----                |
| OTHER PROPERTY AND INVESTMENTS:   |                       |                      |
| Investment in exchange power-net . . . . .                                  | 90,094                | 94,383               |
| Other-net . . . . .   | 93,458                | 79,376               |
|   | -----                 | -----                |
| Total other property and investments . . . . .                              | 183,552               | 173,759              |
|   | -----                 | -----                |
| CURRENT ASSETS:   |                       |                      |
| Cash and equivalents . . . . .  | 5,858                 | 11,201               |
| Temporary investments . . . . .   | 21,946                | 22,517               |
| Accounts and notes receivable-net . . . . .                                 | 44,443                | 63,649               |
| Materials and supplies, fuel stock and<br>natural gas stored . . . . .      | 23,487                | 19,548               |
| Prepayments and other . . . . .   | 12,986                | 5,832                |
|   | -----                 | -----                |
| Total current assets . . . . .  | 108,720               | 122,747              |
|   | -----                 | -----                |
| DEFERRED CHARGES:   |                       |                      |
| Investment in terminated nuclear<br>project-net . . . . .                   | 2,811                 | 4,829                |
| Regulatory assets for deferred income tax . . . . .                         | 174,277               | 177,786              |
| Conservation programs . . . . .   | 64,188                | 47,612               |
| Other-net . . . . .   | 67,810                | 57,114               |
|   | -----                 | -----                |
| Total deferred charges . . . . .  | 309,086               | 287,341              |
|   | -----                 | -----                |
| TOTAL . . . . .   | \$1,883,370           | \$1,837,838          |
|   | =====                 | =====                |
| CAPITALIZATION AND LIABILITIES:   |                       |                      |
| CAPITALIZATION (See Consolidated Statements<br>of Capitalization) . . . . . |                       |                      |
|   | \$1,449,017           | \$1,416,608          |
|   | -----                 | -----                |
| CURRENT LIABILITIES:  |                       |                      |
| Accounts payable . . . . .  | 33,518                | 40,169               |
| Taxes accrued . . . . .   | 23,774                | 19,957               |
| Interest accrued . . . . .  | 14,995                | 10,046               |
| Other . . . . .   | 52,543                | 44,548               |
|   | -----                 | -----                |
| Total current liabilities . . . . .   | 124,830               | 114,720              |
|   | -----                 | -----                |
| DEFERRED CREDITS:   |                       |                      |
| Investment tax credits . . . . .  | 2,383                 | 2,456                |
| Deferred income taxes . . . . .   | 292,691               | 288,905              |
| Other . . . . .   | 13,268                | 14,126               |
|   | -----                 | -----                |
| Total deferred credits . . . . .  | 308,342               | 305,487              |
|   | -----                 | -----                |
| MINORITY INTEREST . . . . .   | 1,181                 | 1,023                |
|   | -----                 | -----                |
| COMMITMENTS AND CONTINGENCIES (Note 3)                                      |                       |                      |
| TOTAL . . . . .   | \$1,883,370           | \$1,837,838          |
|   | =====                 | =====                |

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF CAPITALIZATION  
The Washington Water Power Company  
Thousands of Dollars

|   | September 30,<br>1994 | December 31,<br>1993 |
|---|-----------------------|----------------------|
|   | -----                 | -----                |
| COMMON EQUITY: (Note 2)   |                       |                      |
| Common stock, no par value: 200,000,000<br>shares authorized: shares outstanding:<br>1994-54,017,315; 1993-52,757,545 . . . . . | \$ 564,907            | \$ 544,609           |
| Note receivable from employee stock<br>ownership plan . . . . .   | (12,392)              | (12,756)             |
| Capital stock expense and other paid<br>in capital . . . . .  | (10,013)              | (9,898)              |
| Retained Earnings . . . . .   | 107,130               | 112,424              |
|   | -----                 | -----                |
| Total common equity . . . . .   | 649,632               | 634,379              |
|   | -----                 | -----                |
| PREFERRED STOCK-CUMULATIVE: (Note 2)  |                       |                      |
| 10,000,000 shares authorized:   |                       |                      |
| Not subject to mandatory redemption:  |                       |                      |
| Flexible Auction Series J; 500 shares<br>outstanding (\$100,000 stated value) . . . . .   | 50,000                | 50,000               |
|   | -----                 | -----                |
| Total not subject to mandatory<br>redemption . . . . .  | 50,000                | 50,000               |
|   | -----                 | -----                |
| Subject to mandatory redemption:  |                       |                      |
| \$8.625, Series I; 500,000 shares<br>outstanding (\$100 stated value) . . . . .   | 50,000                | 50,000               |
| \$6.95, Series K; 350,000 shares<br>outstanding (\$100 stated value) . . . . .  | 35,000                | 35,000               |
|   | -----                 | -----                |
| Total subject to mandatory<br>redemption . . . . .  | 85,000                | 85,000               |
|   | -----                 | -----                |
| LONG-TERM DEBT: (Note 2)  |                       |                      |
| First Mortgage Bonds:   |                       |                      |
| 4 5/8% due March 1, 1995 . . . . .  | 10,000                | 10,000               |
| 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<br>4.72% to 8.06% due 1996<br>through 2023 . . . . .   | 250,000               | 225,000              |
| Secured Medium-Term Notes Series B<br>7.89% to 7.95% due 2005<br>through 2006 . . . . .   | 31,000                | -                    |
|   | -----                 | -----                |
| Total first mortgage bonds . . . . .  | 374,700               | 318,700              |
|   | -----                 | -----                |
| Pollution Control Bonds:  |                       |                      |
| 6% Series due 2023 . . . . .  | 4,100                 | 4,100                |
| Unsecured Medium-Term Notes:  |                       |                      |
| Series A - 7.94% to 9.58% due<br>1995 through 2007 . . . . .  | 92,500                | 100,000              |
| Series B - 5.50% to 8.55% due 1995<br>through 2023 . . . . .  | 150,000               | 150,000              |
|   | -----                 | -----                |
| Total unsecured medium-term notes . . . . .   | 242,500               | 250,000              |
|   | -----                 | -----                |
| Notes payable (due within one year) and<br>commercial paper to be refinanced . . . . .  | 33,000                | 68,001               |
| Other . . . . .   | 10,085                | 6,428                |
|   | -----                 | -----                |
| Total long-term debt . . . . .  | 664,385               | 647,229              |
|   | -----                 | -----                |
| TOTAL CAPITALIZATION . . . . .  | \$1,449,017           | \$1,416,608          |
|   | =====                 | =====                |

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

|   | 1994             | 1993            |
|---|------------------|-----------------|
|   | -----            | -----           |
| <b>OPERATING ACTIVITIES:</b>  |                  |                 |
| Net income . . . . .  | \$ 50,491        | \$ 59,191       |
| <b>NON-CASH REVENUES AND EXPENSES</b>   |                  |                 |
| <b>INCLUDED IN NET INCOME:</b>  |                  |                 |
| Depreciation and amortization . . . . .   | 52,140           | 49,435          |
| Provision for deferred income taxes . .   | 7,198            | 7,606           |
| Allowance for equity funds used during<br>construction . . . . .                    | (1,110)          | (926)           |
| Power and natural gas cost deferrals and<br>amortization . . . . .                  | 2,163            | (5,266)         |
| Deferred revenues and other-net . . . .   | (3,487)          | (3,747)         |
| (Increase) decrease in working capital<br>components:                               |                  |                 |
| Receivables and prepaid<br>expenses-net . . . . .                                   | 18,140           | 26,930          |
| Materials & supplies, fuel stock<br>and natural gas stored . . . . .                | (3,967)          | (5,798)         |
| Payables and other accrued<br>liabilities . . . . .                                 | 2,126            | (8,407)         |
| Other-net . . . . .   | (2,770)          | 5,913           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES . . . .</b>                            | <b>120,924</b>   | <b>124,931</b>  |
|   | -----            | -----           |
| <b>INVESTING ACTIVITIES:</b>  |                  |                 |
| Construction expenditures (excluding<br>AFUDC-equity funds) . . . . .               | (67,771)         | (70,755)        |
| Other capital requirements . . . . .  | (18,470)         | (21,128)        |
| (Increase) decrease in other noncurrent<br>balance sheet items-net . . . . .        | (17,305)         | 8,507           |
| Assets acquired and investments in<br>subsidiaries (Note 4) . . . . .               | (9,708)          | (8,186)         |
| <b>NET CASH USED IN INVESTING ACTIVITIES . . . . .</b>                              | <b>(113,254)</b> | <b>(91,562)</b> |
|   | -----            | -----           |
| <b>FINANCING ACTIVITIES:</b>  |                  |                 |
| Increase (decrease) in commercial paper,<br>notes payable and bank borrowings-net . | (35,001)         | 28,000          |
| Sale of unsecured medium-term notes . . . .   | -                | 25,000          |
| Redemption and maturity of unsecured<br>medium-term notes . . . . .                 | (7,500)          | (50,000)        |
| Sale of secured medium-term notes (a<br>series of first mortgage bonds) . . . . .   | 56,000           | 174,000         |
| Redemption of mortgage bonds . . . . .  | -                | (170,000)       |
| Redemption premiums . . . . .   | -                | (9,595)         |
| Sale of common stock - Net of ESOP note<br>receivable . . . . .                     | 12,043           | 19,575          |
| Miscellaneous-net . . . . .   | 8,666            | (8,037)         |
| <b>NET FINANCING ACTIVITIES BEFORE CASH</b>   |                  |                 |
| <b>DIVIDENDS . . . . .</b>  | <b>34,208</b>    | <b>8,943</b>    |
| Less cash dividends paid . . . . .  | (47,221)         | (46,201)        |
| <b>NET CASH USED IN FINANCING ACTIVITIES . . . . .</b>                              | <b>(13,013)</b>  | <b>(37,258)</b> |
|   | -----            | -----           |
| <b>NET INCREASE (DECREASE) IN CASH AND<br/>EQUIVALENTS . . . . .</b>                | <b>(5,343)</b>   | <b>(3,889)</b>  |
| <b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD . .</b>                              | <b>11,201</b>    | <b>8,354</b>    |
|   | -----            | -----           |
| <b>CASH AND EQUIVALENTS AT END OF PERIOD . . . . .</b>                              | <b>\$ 5,858</b>  | <b>\$ 4,465</b> |
|   | =====            | =====           |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW<br/>INFORMATION</b>                         |                  |                 |
| Cash paid during the period:  |                  |                 |
| Interest . . . . .  | \$30,095         | \$33,327        |
| Income taxes . . . . .  | \$22,919         | \$22,894        |
| Non-cash financing and investing activities   | \$8,618          | \$10,538        |

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

|  | 1994        | 1993        |
|--|-------------|-------------|
|  | -----       | -----       |
| <b>OPERATING REVENUES:</b>                             |             |             |
| Electric . . . . .                                     | \$ 103,960  | \$ 97,832   |
| Natural gas . . . . .                                  | 21,158      | 20,590      |
| Non-utility . . . . .                                  | 17,216      | 5,085       |
|  | -----       | -----       |
| Total operating revenues . . . . .                     | \$ 142,334  | \$123,507   |
|  | =====       | =====       |
| <b>OPERATIONS AND MAINTENANCE EXPENSES:</b>            |             |             |
| Electric:  |             |             |
| Power purchased . . . . .                              | \$ 28,190   | \$ 23,393   |
| Fuel for generation . . . . .                          | 10,201      | 8,944       |
| Other electric . . . . .                               | 15,363      | 17,589      |
| Natural gas:   |             |             |
| Natural gas purchased for resale . . . . .             | 13,045      | 11,113      |
| Other natural gas . . . . .                            | 3,626       | 3,364       |
| Non-utility . . . . .                                  | 10,297      | 239         |
|  | -----       | -----       |
| Total operations and maintenance expenses . . . . .    | \$ 80,722   | \$ 64,642   |
|  | =====       | =====       |
| <b>ADMINISTRATIVE AND GENERAL EXPENSES:</b>            |             |             |
| Electric . . . . .                                     | \$ 7,466    | \$ 7,970    |
| Natural gas . . . . .                                  | 2,146       | 2,291       |
| Non-utility . . . . .                                  | 3,049       | 3,491       |
|  | -----       | -----       |
| Total administrative and general expenses . . . . .    | \$ 12,661   | \$ 13,752   |
|  | =====       | =====       |
| <b>DEPRECIATION AND AMORTIZATION EXPENSES:</b>         |             |             |
| Electric . . . . .                                     | \$ 12,132   | \$ 12,272   |
| Natural gas . . . . .                                  | 2,090       | 2,242       |
| Non-utility . . . . .                                  | 818         | 503         |
|  | -----       | -----       |
| Total depreciation and amortization expenses . . . . . | \$ 15,040   | \$ 15,017   |
|  | =====       | =====       |
| <b>INCOME FROM OPERATIONS:</b>                         |             |             |
| Electric . . . . .                                     | \$ 21,341   | \$ 19,646   |
| Natural gas . . . . .                                  | (1,148)     | 192         |
| Non-utility . . . . .                                  | 2,780       | 565         |
|  | -----       | -----       |
| Total income from operations . . . . .                 | \$ 22,973   | \$ 20,403   |
|  | =====       | =====       |
| <b>INCOME AVAILABLE FOR COMMON STOCK:</b>              |             |             |
| Utility operations . . . . .                           | \$ 2,626    | \$ 3,582    |
| Non-utility operations . . . . .                       | 3,292       | 1,730       |
|  | -----       | -----       |
| Total income available for common stock                | \$ 5,918    | \$ 5,312    |
|  | =====       | =====       |
| <b>ASSETS: (1993 amounts at December 31)</b>           |             |             |
| Electric . . . . .                                     | \$1,397,186 | \$1,375,502 |
| Natural gas . . . . .                                  | 244,688     | 207,101     |
| Common plant . . . . .                                 | 24,703      | 0           |
| Other utility assets . . . . .                         | 70,906      | 52,092      |
| Non-utility assets . . . . .                           | 145,887     | 129,179     |
|  | -----       | -----       |
| Total assets . . . . .                                 | \$1,883,370 | \$1,763,874 |
|  | =====       | =====       |
| <b>CAPITAL EXPENDITURES (excluding AFUDC):</b>         |             |             |
| Electric . . . . .                                     | \$ 17,459   | \$ 21,627   |
| Natural gas . . . . .                                  | 8,649       | 8,169       |
| Common plant . . . . .                                 | 5,189       | 6,110       |
| Non-utility . . . . .                                  | 1,476       | 726         |
|  | -----       | -----       |
| Total capital expenditures . . . . .                   | \$ 32,773   | \$ 36,632   |
|  | =====       | =====       |

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

|  | 1994        | 1993        |
|--|-------------|-------------|
|  | -----       | -----       |
| <b>OPERATING REVENUES:</b>                             |             |             |
| Electric . . . . .                                     | \$330,006   | \$343,845   |
| Natural gas . . . . .                                  | 100,937     | 90,139      |
| Non-utility . . . . .                                  | 49,461      | 29,377      |
|  | -----       | -----       |
| Total operating revenues . . . . .                     | \$480,404   | \$463,361   |
|  | =====       | =====       |
| <b>OPERATIONS AND MAINTENANCE EXPENSES:</b>            |             |             |
| Electric:  |             |             |
| Power purchased . . . . .                              | \$ 74,447   | \$ 86,786   |
| Fuel for generation . . . . .                          | 28,721      | 24,013      |
| Other electric . . . . .                               | 45,809      | 49,454      |
| Natural gas:   |             |             |
| Natural gas purchased for resale . . . . .             | 59,142      | 46,097      |
| Other natural gas . . . . .                            | 10,405      | 10,370      |
| Non-utility . . . . .                                  | 31,406      | 11,678      |
|  | -----       | -----       |
| Total operations and maintenance expenses . . . . .    | \$249,930   | \$228,398   |
|  | =====       | =====       |
| <b>ADMINISTRATIVE AND GENERAL EXPENSES:</b>            |             |             |
| Electric . . . . .                                     | \$ 25,569   | \$ 23,462   |
| Natural gas . . . . .                                  | 7,730       | 7,093       |
| Non-utility . . . . .                                  | 9,741       | 8,827       |
|  | -----       | -----       |
| Total administrative and general expenses . . . . .    | \$ 43,040   | \$ 39,382   |
|  | =====       | =====       |
| <b>DEPRECIATION AND AMORTIZATION EXPENSES:</b>         |             |             |
| Electric . . . . .                                     | \$ 36,215   | \$ 34,889   |
| Natural gas . . . . .                                  | 6,116       | 6,610       |
| Non-utility . . . . .                                  | 2,203       | 2,277       |
|  | -----       | -----       |
| Total depreciation and amortization expenses . . . . . | \$ 44,534   | \$ 43,776   |
|  | =====       | =====       |
| <b>INCOME FROM OPERATIONS:</b>                         |             |             |
| Electric . . . . .                                     | \$ 91,887   | \$ 98,544   |
| Natural gas . . . . .                                  | 11,492      | 13,944      |
| Non-utility . . . . .                                  | 5,298       | 5,556       |
|  | -----       | -----       |
| Total income from operations . . . . .                 | \$108,677   | \$118,044   |
|  | =====       | =====       |
| <b>INCOME AVAILABLE FOR COMMON STOCK:</b>              |             |             |
| Utility operations . . . . .                           | \$ 37,185   | \$ 44,290   |
| Non-utility operations . . . . .                       | 6,901       | 8,641       |
|  | -----       | -----       |
| Total income available for common stock                | \$ 44,086   | \$ 52,931   |
|  | =====       | =====       |
| <b>ASSETS: (1993 amounts at December 31)</b>           |             |             |
| Electric . . . . .                                     | \$1,397,186 | \$1,375,502 |
| Natural gas . . . . .                                  | 244,688     | 207,101     |
| Common plant . . . . .                                 | 24,703      | 0           |
| Other utility assets . . . . .                         | 70,906      | 52,092      |
| Non-utility assets . . . . .                           | 145,887     | 129,179     |
|  | -----       | -----       |
| Total assets . . . . .                                 | \$1,883,370 | \$1,763,874 |
|  | =====       | =====       |
| <b>CAPITAL EXPENDITURES (excluding AFUDC):</b>         |             |             |
| Electric . . . . .                                     | \$ 54,591   | \$ 53,437   |
| Natural gas . . . . .                                  | 22,229      | 19,785      |
| Common plant . . . . .                                 | 14,271      | 14,737      |
| Non-utility . . . . .                                  | 7,443       | 1,709       |
|  | -----       | -----       |
| Total capital expenditures . . . . .                   | \$ 98,534   | \$ 89,668   |
|  | =====       | =====       |

The Accompanying Notes are an Integral Part of These Statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying financial statements of The Washington Water Power Company (Company) for the interim periods ended September 30, 1994 and 1993 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, 1993.

## NOTE 1. RECLASSIFICATIONS

Certain prior year amounts related to segment information have been reclassified due to a current year change in the allocation method for common plant, plant-related costs and administrative and general expenses.

## NOTE 2. FINANCINGS

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

## NOTE 3. COMMITMENTS AND CONTINGENCIES

## SUPPLY SYSTEM PROJECT 3

In 1985, the Company and the Bonneville Power Administration (BPA) reached a settlement surrounding litigation related to the suspension of construction of Washington Public Power Supply System (Supply System) Project 3. Project 3 is a partially constructed 1,240 MW nuclear generating plant in which the Company has a 5% interest. Under the settlement agreement, the Company receives power deliveries from BPA from 1987 to 2017 in proportion to the Company's investment in Project 3.

The settlement with BPA and other parties does not affect the Company's obligations under the Ownership Agreement among the owners of Project 3. BPA proposed termination of Projects 1 and 3 and the Supply System has voted to invoke the termination procedures under the Ownership Agreement. The Company would be reimbursed for the cost of termination under the settlement with BPA.

The only material claim against the Company arising out of the Company's involvement in Project 3, which is still pending in the United States District Court for the Western District of Washington (District Court), is the claim of Chemical Bank, as bond fund trustee for Supply System Projects 4 and 5, against all owners of Projects 1, 2 and 3 for unjust enrichment in the allocation of certain costs of common services and facilities among the Supply System's five nuclear projects. Projects 4 and 5 were being constructed adjacent to Projects 1 and 3, respectively, under a plan to share certain costs. Chemical Bank is seeking a reallocation of \$495 million in costs (plus interest since commencement of construction in 1976) originally allocated to Projects 4 and 5.

On October 7, 1992, the District Court issued an order ruling in favor of the defendants, including the Company, that the "proportional" allocation methodology actually employed by the Supply System was permitted by the Projects 4 and 5 bond resolution. This ruling does not resolve all cost reallocation claims pending in the District Court, including whether the Supply System correctly followed its methodology. Chemical Bank has indicated its intent to assert claims for cost reallocations based upon other theories which have not been litigated. The case is now in the discovery phase on those claims, as settlement talks were not successful.

The Company cannot predict whether Chemical Bank will ultimately be successful in its claim for reallocation of any of the costs of Supply System projects, nor can the Company predict any amounts which might be reallocated to Project 3 or to the Company due to its 5% ownership interest therein. The Company also has claims pending against the Supply System and Chemical Bank with respect to a subordinated loan made by the Company to Projects 4 and 5 in 1981, in the amount of approximately \$11 million including interest. The District Court has yet to rule on the Company's motion to set-off the amount due on the loan, including interest, against any recovery by

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Chemical Bank on its cost reallocation claims. The District Court appointed a Settlement Master to explore settlement of some or all of the issues, and preliminary meetings have been held with him. Meanwhile, the District Court set a trial date for July 15, 1995, for the litigation of all remaining issues affecting the Company. The Company intends to continue to defend this suit vigorously. Since the discovery is not yet complete, the Company is 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.

## 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 (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. The Tribe initially indicated through expert opinion disclosures that they were seeking actual and punitive damages of \$208 million. However, supplemental disclosures reflect allegations of actual loss under different assumptions of between \$425 million and \$650 million. On September 24, 1994, in a companion case involving similar issues, the Federal District Court for Idaho dismissed an action by the Tribe against the Idaho Power Company. The Company intends to file a similar motion for summary judgment or dismissal. Since discovery is not yet complete, should this matter proceed to trial the Company is 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.

## LITTLE FALLS PROJECT

Pending before the U. S. District Court in the Eastern District of Washington is the case of Spokane Tribe of Indians v. WWP. This matter involves a claim of the Spokane Tribe of Indians for damages arising out of the Company's Little Falls Hydroelectric Development that was constructed on the Spokane River pursuant to a 1905 Act of Congress. The Tribe claimed the Company's dam interfered with Indian fishing rights and sought a declaratory judgment and quiet title to part of the property comprising the Little Falls Hydroelectric Development. However, WWP, the Tribe and the Bureau of Indian Affairs signed a settlement agreement on September 9, 1994 which provides for an initial payment of \$1.0 million to the Tribe plus an additional \$3.2 million will be paid over the next five years for fish and wildlife enhancement projects. An accrual of \$4.2 million was made during June 1994 and is reflected in the Company's financial statements. Thereafter, annual payments will also be made to the Tribe, which will be tied to generation at the Little Falls Project and escalate at the rate of 4.1 percent per year, with the first installment of \$375,000 to be made by January 31, 1995. By the end of 1994 it is expected that the Secretary of the Interior and the Tribe will execute an irrevocable easement and license to WWP to the property comprising the Little Falls Hydroelectric Development. After the execution of the easement and license, the lawsuit will be dismissed with prejudice.

## STEAM HEAT PLANT

The Company recently completed an updated investigation of an oil spill that occurred several years ago in downtown Spokane at the site of the Company's steam heat plant. The Company purchased the plant in 1916 and operated it as a non-regulated plant until it was deactivated in 1986 in a business decision unrelated to the leak. After the Bunker C fuel oil spill, initial studies suggested that the oil was being adequately contained by both geological features and man-made structures. The Washington State Department of Ecology (DOE) concurred with these findings. However, more recent tests confirm that the oil has migrated beyond the steam plant property. On December 6, 1993, the Company asked the DOE to enter into negotiations for a Consent Decree which will provide for additional remedial investigation and a feasibility study. Public comment on the Consent Decree has been received and the Consent Decree was entered on November 8, 1994, which provides for 22 additional soil borings to be made around the site. In December 1993, the Company established a reserve of \$2.0 million.

## FIRESTORM

On October 16, 1991, gale-force winds struck a five-county area in Eastern Washington and a seven-county area in

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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. On October 13, 1993, three separate class action lawsuits were filed by private individuals in the Superior Court of Spokane County in connection with fires occurring in the Midway, Nine Mile and Chattaroy regions of eastern Washington. Service of these suits, together with a fourth suit, occurred on January 7, 1994. The Company was subsequently served with eight additional suits in connection with such fires prior to the expiration of the statute of limitations on October 16, 1994. Complainants allege various theories of tortious conduct, including negligence, creation of a public nuisance, strict liability and trespass. 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. The Superior Court has indicated that it intends to certify the four initial lawsuits as class actions, but a motion for reconsideration is pending and will be the subject of a motion for discretionary appellate review. The Company intends to vigorously defend against all such pending claims. Since the discovery is not yet complete, the Company is 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.

## OTHER CONTINGENCIES

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 power with other utilities, cogenerators, small power producers and government agencies.

## NOTE 4. ACQUISITIONS

On February 15, 1994, the Company announced it had reached agreement to acquire the northern Idaho electric properties of Pacific Power & Light Company, an operating division of PacifiCorp (Pacific). The adjusted cash purchase price will be approximately \$30 million, subject to adjustments upon closing. The approximate book value of the assets is \$23.1 million. Pacific's northern Idaho electric system currently serves approximately 9,600 customers. Approval of the acquisition was received from the FERC on July 22, 1994. On October 5, 1994, the Idaho Public Utilities Commission (IPUC) issued an order approving the purchase subject to various conditions. Both Pacific and the Company have asked for reconsideration of some conditions of the order and closing of the transaction will not occur unless and until certain issues are favorably resolved on reconsideration by the IPUC. The Company believes this acquisition will not have a material impact on its financial position or its results of operations.

## NOTE 5. PROPOSED MERGER

As previously reported in the Company's Current Report on Form 8-K dated June 27, 1994 (Form 8-K), the Company, Sierra Pacific Resources (SPR), Sierra Pacific Power Company (SPPC), a subsidiary of SPR, and a newly-formed subsidiary of the Company, WPM Corp. (renamed Resources West Energy Corporation (Resources West) on August 1, 1994), entered into an Agreement and Plan of Reorganization and Merger, dated as of June 27, 1994 and as amended October 4, 1994 (Merger Agreement) providing for the combination of the Company, SPR and SPPC. Pursuant to the Merger Agreement, each of the Company, SPR and SPPC will be merged with and into Resources West, with Resources West being the surviving corporation.

The merger is subject to certain customary closing conditions, including, without limitation, the receipt of all necessary governmental approvals, including the approval of FERC and approvals of the state utility commissions of California, Idaho, Montana, Nevada, Oregon and Washington. Approvals from the common and preferred shareholders of the merging companies will be sought at shareholder meetings, which are currently scheduled to be held on November 18, 1994. Applications seeking approval of the merger were filed with FERC on August 4, 1994 and in Idaho, Nevada, Oregon and Washington on August 10, 1994; the California application was filed on August 29, 1994. The Montana application was filed on September 1, 1994 and an order was issued by the Montana Public Service Commission on October 17, 1994 stating that it would not exercise jurisdiction over the merger. A number of entities have intervened or expressed their intent to intervene either at the federal level or before the various state commissions. However, the approvals in the other jurisdictions and the implementation process are expected to be completed by the fourth quarter of 1995.

The merger will be accounted for using the pooling-of-interests method of accounting.

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See the Form 8-K, or the Registration Statement on Form S-4 of Resources West (Registration No. 33-55763) including the prospectus of Resources West and the Joint Proxy Statement of the Company, SPR and SPPC, for additional details relating to the terms of the proposed merger.

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

The Company is primarily engaged as a utility in the generation, purchase, transmission, distribution and sale of electric energy and the purchase, transportation, distribution and sale of natural gas. Natural gas operations are affected to a significant degree by weather conditions and customer growth. The Company's electric operations are highly dependent upon hydroelectric generation for its power supply. As a result, the electric operations of the Company are significantly affected by weather and streamflow conditions, and to a lesser degree, by customer growth. Revenues from the sale of surplus energy to other utilities and the cost of power purchases vary from year to year depending on streamflow conditions and the wholesale power market. The wholesale power market in the Northwest region 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 from the Southwest region. 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 and conservation.

The Company will continue to emphasize the efficient use of energy by its customers, increase efforts to grow its customer base, especially natural gas, and continue to manage its operating costs, increase revenues and improve margins. The Company will also pursue resource opportunities through system upgrades, purchases, demand side management and other options that will result in obtaining electric power and natural gas supplies at the lowest possible cost.

## RESULTS OF OPERATIONS

## OVERALL OPERATIONS

Overall earnings per share for the third quarter of 1994 increased to \$0.11 from \$0.10 in 1993. Total earnings per share for the first nine months of 1994 decreased to \$0.83 from \$1.03 for the same period in 1993. The year-to-date change was primarily the result of unfavorable weather conditions and decreased electric wholesale sales during the first quarter of 1994. Weather during the first nine months of 1994 was 22% warmer than for the comparable period in 1993. The warm weather reduced customer usage during the first half of the year, but increased residential and commercial electric sales during the third quarter, and had a significant impact on electric and natural gas revenues. The 1993 year-to-date results also reflect a large short-term wholesale sale of energy during the first quarter of 1993 that increased wholesale revenues for that period but did not recur in 1994.

Utility income available for common stock contributed \$0.05 to earnings per share for the third quarter of 1994 compared to \$0.07 in the third quarter of 1993. Non-utility income available for common stock contributed \$0.06 to earnings per share for the third quarter of 1994 compared with \$0.03 for the same period in 1993. For the first nine months of 1994, utility income available for common stock contributed \$0.70 to earnings per share compared to \$0.86 during 1993. Non-utility income available for common stock contributed \$0.13 to earnings per share for the first nine months of 1994 compared with \$0.17 in 1993. The year-to-date decline in utility earnings is primarily due to unfavorable weather conditions during the first half of the year and decreased electric wholesale sales during the first quarter of 1994, as discussed above. The decrease in non-utility results is primarily due to transactional gains recorded by Pentzer Corporation (Pentzer) in 1993.

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## ELECTRIC OPERATIONS

Operating income summary  
(Dollars in thousands)

|   | Three months ended<br>September 30 |          | Change  |      | Nine months ended<br>September 30 |           | Change     |      |
|---|------------------------------------|----------|---------|------|-----------------------------------|-----------|------------|------|
|   | 1994                               | 1993     | Amount  | %    | 1994                              | 1993      | Amount     | %    |
| Operating Revenues . . . . .              | \$103,960                          | \$97,832 | \$6,128 | 6    | \$330,006                         | \$343,845 | \$(13,839) | (4)  |
| Operating Expenses:                       |                                    |          |         |      |                                   |           |            |      |
| Purchased power . . . . .                 | 28,190                             | 23,393   | 4,797   | 21   | 74,447                            | 86,786    | (12,339)   | (14) |
| Fuel for generation . . . . .             | 10,201                             | 8,944    | 1,257   | 14   | 28,721                            | 24,013    | 4,708      | 20   |
| Other operating and maintenance . . . . . | 15,363                             | 17,589   | (2,226) | (13) | 45,809                            | 49,454    | (3,645)    | (7)  |
| Administrative and general . . . . .      | 7,466                              | 7,970    | (504)   | (6)  | 25,569                            | 23,462    | 2,107      | 9    |
| Depreciation and amortization . . . . .   | 12,132                             | 12,272   | (140)   | (1)  | 36,215                            | 34,889    | 1,326      | 4    |
| Taxes other than income . . . . .         | 9,267                              | 8,018    | 1,249   | 16   | 27,358                            | 26,697    | 661        | 2    |
| Total operating expenses . . . . .        | 82,619                             | 78,186   | 4,433   | 6    | 238,119                           | 245,301   | (7,182)    | (3)  |
| Income from operations . . . . .          | 21,341                             | 19,646   | 1,695   | 9    | 91,887                            | 98,544    | (6,657)    | (7)  |
| Electric operating income taxes . . . . . | 4,291                              | 4,550    | (259)   | (6)  | 24,732                            | 27,456    | (2,724)    | (10) |
| Net operating income (1) . . . . .        | \$ 17,050                          | \$15,096 | \$1,954 | 13   | \$ 67,155                         | \$ 71,088 | \$(3,933)  | (6)  |

(1) Does not include interest expense or other income.

Electric operating revenues increased \$6.1 million in the third quarter of 1994 over 1993. Residential and commercial revenues rose by a combined \$5.7 million due to increased kWh sales resulting from warmer weather and customer growth. Temperatures were 73% warmer in the third quarter of 1994 compared to the same period in 1993, which resulted in higher loads due to air conditioning use. Residential customers increased by approximately 5,850, or 3%, and commercial customers grew by over 600 customers, or 2%, in the third quarter of 1994 as compared to third quarter 1993. Wholesale revenues decreased by \$0.8 million, or 4%, as kWh sales decreased by 30%, but were partially offset by average prices that were 38% higher in the third quarter of 1994 than during the same period in 1993. The decreased wholesale sales and higher average prices were the result of significantly decreased hydroelectric generation due to low streamflows. Precipitation in the area during 1994 has been less than two-thirds of normal and streamflows on the Spokane River reached their lowest levels in 66 years this past summer.

Year-to-date, revenues decreased in all classes except commercial for 1994 as compared to 1993. Weather that was 22% warmer than in 1993 contributed to a \$6.5 million, or 6%, decrease in residential revenues. Commercial revenues increased by \$3.6 million during the first nine months of 1994 as compared to 1993, due to air conditioning load during the third quarter of 1994 and customer growth. Wholesale revenues decreased by \$15.7 million, or 19%, during the first nine months of 1994 when compared to the same period in 1993, due primarily to a large sale of surplus energy over a six-week period in the first quarter of 1993 which was not repeated in 1994.

## ELECTRIC REVENUES AND KWH SALES BY SERVICE CLASS

| Class                     | Increase (Decrease) from prior year   |     |           |      |                                      |      |           |      |
|---------------------------|---------------------------------------|-----|-----------|------|--------------------------------------|------|-----------|------|
|                           | Three months ended September 30, 1994 |     |           |      | Nine months ended September 30, 1994 |      |           |      |
|                           | REVENUE                               |     | KWH SALES |      | REVENUE                              |      | KWH SALES |      |
|                           | (Dollars and kWhs in millions)        |     |           |      |                                      |      |           |      |
| Residential . . . . .     | \$2.6                                 | 9%  | 59.0      | 10%  | \$(6.5)                              | (6)% | (93.7)    | (4)% |
| Commercial . . . . .      | 3.1                                   | 10  | 65.2      | 11   | 3.6                                  | 4    | 79.4      | 5    |
| Industrial . . . . .      | 0.9                                   | 6   | 24.1      | 6    | (0.2)                                | (1)  | 37.8      | 3    |
| Other utilities . . . . . | (0.8)                                 | (4) | (227.6)   | (30) | (15.7)                               | (19) | (409.5)   | (16) |

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Purchased power expense increased by \$4.8 million and fuel costs were up by \$1.3 million in the third quarter of 1994, primarily due to significantly decreased hydroelectric generation due to low streamflows. In October 1989, the Idaho Public Utilities Commission (IPUC) approved a power cost adjustment mechanism (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. The PCA decreased other operating and maintenance expenses in the third quarter of 1994 by \$2.7 million over the comparable period of 1993 as a result of low streamflows and higher wholesale market prices.

Purchased power decreased by \$12.3 million in the first nine months of 1994 and fuel expense increased \$4.7 million. Purchased power expense declined primarily due to the purchase of energy to complete a large sale of wholesale energy in the first quarter of 1993 that was not repeated in 1994. Fuel expense increased from 1993 due to increased generation from thermal plants due to low streamflows in 1994. The PCA decreased other operating and maintenance expenses by \$3.0 million during the first nine months of 1994 as compared to 1993 due primarily to low streamflows and higher wholesale market prices. The decreased amount of power purchased in 1994 resulted in lower transmission costs, which caused a portion of the decrease in other operating and maintenance expenses. Administrative and general expenses increased by \$2.1 million in the first nine months of 1994 primarily due to labor-related costs.

## NATURAL GAS OPERATIONS

Operating income summary  
(Dollars in thousands)

|  | Three months ended<br>September 30 |          | Change   |      | Nine months ended<br>September 30 |          | Change    |      |
|--|------------------------------------|----------|----------|------|-----------------------------------|----------|-----------|------|
|  | 1994                               | 1993     | Amount   | %    | 1994                              | 1993     | Amount    | %    |
| Operating Revenues . . . . .   | \$21,158                           | \$20,590 | \$ 568   | 3    | \$100,937                         | \$90,139 | \$10,798  | 12   |
| Operating Expenses:  |                                    |          |          |      |                                   |          |           |      |
| Natural gas purchased . . . . .  | 13,045                             | 11,113   | 1,932    | 17   | 59,142                            | 46,097   | 13,045    | 28   |
| Other operating and maintenance . . . . .                              | 3,626                              | 3,364    | 262      | 8    | 10,405                            | 10,370   | 35        | -    |
| Administrative and general . . . . .                                   | 2,146                              | 2,291    | (145)    | (6)  | 7,730                             | 7,093    | 637       | 9    |
| Depreciation and amortization . . . . .                                | 2,090                              | 2,242    | (152)    | (7)  | 6,116                             | 6,610    | (494)     | (7)  |
| Taxes other than income . . . . .                                      | 1,399                              | 1,388    | 11       | 1    | 6,052                             | 6,025    | 27        | -    |
| Total operating expenses . . . . .                                     | 22,306                             | 20,398   | 1,908    | 9    | 89,445                            | 76,195   | 13,250    | 17   |
| Income from operations . . . . .                                       | (1,148)                            | 192      | (1,340)  | -    | 11,492                            | 13,944   | (2,452)   | (18) |
| Natural gas oper. income taxes . . . . .                               | (1,063)                            | (692)    | (371)    | (54) | 2,654                             | 3,073    | (419)     | (14) |
| Net operating income (1) . . . . .                                     | \$ (85)                            | \$ 884   | \$ (969) | -    | \$ 8,838                          | \$10,871 | \$(2,033) | (19) |
| Actual Heating Degree Days (2) . . . . .                               | 120                                | 451      | (331)    | (73) | 3,626                             | 4,653    | (1,027)   | (22) |
| Historical Heating Degree Days (3) . . . . .                           | 309                                | 289      |          |      | 4,243                             | 4,324    |           |      |
| Actual Degree Days as a Percent<br>of Historical Degree Days . . . . . | 39%                                | 156%     |          |      | 85%                               | 108%     |           |      |

- (1) Does not include interest expense or other income.  
(2) Heating degree days information is for Spokane area.  
(3) Historical degree days represent the 30-year average.

Total natural gas revenues increased by \$0.6 million in the third quarter of 1994 over the third quarter of 1993. Natural gas revenues from WWP (Washington and Idaho) operations increased by \$1.1 million, or 8% in the third quarter of 1994. WPNG revenues (Oregon and California) decreased by \$0.5 million, or 9%, in the third quarter of 1994 as compared to the same period in 1993. In each service area, revenues were unfavorably impacted by warmer than normal weather during the third quarter of 1994, as compared to 1993, that was not offset by customer growth. WWP operations were able to offset the negative effects of warmer weather with sales of natural gas to other utilities, which began in June 1994 (see table on next page). These revenues were offset by like increases in purchased gas expense. Margins from these transactions will be credited back to customers through rate changes for the cost of gas. The average number of customers increased in both areas in the residential and commercial classes in the third quarter of 1994 as compared to 1993. WWP residential customers rose 11,600, or 11%, while WPNG residential customers increased by approximately 4,700 or 8%. WWP commercial customers increased by approximately 550, or 4%, and WPNG commercial customers rose by over 350, or 4%.



## THE WASHINGTON WATER POWER COMPANY

Total natural gas revenues increased during the first nine months of 1994 over the same time period in 1993. WWP revenues increased by \$9.1 million, or 15%, while revenues from WPNG increased by \$1.7 million, or 5%, during the first nine months of 1994 compared to the same period in 1993. The increased revenues were due to customer growth and higher average prices than last year, which offset the impact of year-to-date temperatures in 1994 that were 22% warmer than in 1993. WWP and WPNG residential and commercial customers grew by approximately 11% and 8%, respectively, during the first nine months of 1994 compared to the same period in 1993. Customer growth in the WWP service area during the three and nine-month periods ended September 30, 1994 was primarily the result of the Company's emphasis on conversions from electric service to natural gas. Recent revisions in the Company's demand side management programs may lessen the pace of conversions in the future.

## NATURAL GAS REVENUES AND THERM SALES BY SERVICE CLASS

|                                      | Three months ended September 30, 1994 |       |             |       | Nine months ended September 30, 1994 |      |             |      |
|--------------------------------------|---------------------------------------|-------|-------------|-------|--------------------------------------|------|-------------|------|
|                                      | REVENUE                               |       | THERM SALES |       | REVENUE                              |      | THERM SALES |      |
|                                      | (Dollars and therms in millions)      |       |             |       |                                      |      |             |      |
| Residential . . . . .                | \$(1.3)                               | (16)% | (4.6)       | (29)% | \$4.1                                | 10%  | (7.0)       | (7)% |
| Commercial . . . . .                 | (0.6)                                 | (10)  | (2.4)       | (14)  | 4.0                                  | 14   | (0.7)       | (1)  |
| Industrial - firm . . . . .          | (0.1)                                 | (9)   | (0.6)       | (15)  | (0.2)                                | (4)  | (2.2)       | (16) |
| Industrial - interruptible . . . . . | 0.1                                   | 9     | 2.7         | 84    | (0.5)                                | (14) | (0.4)       | (4)  |
| Other utilities . . . . .            | 2.7                                   | -     | 19.4        | -     | 3.8                                  | -    | 25.5        | -    |
| Transportation . . . . .             | (0.1)                                 | (4)   | (2.2)       | (5)   | (0.1)                                | (2)  | (8.1)       | (5)  |

Natural gas purchased expense increased by \$1.9 million, or 17%, in the third quarter of 1994 as compared to third quarter 1993. The increased cost was primarily the result of an increase in therm sales of 12.4 million, or 15%, primarily due to sales to other utilities. Income tax expense decreased \$0.4 million, or 54%, due to decreased operating income in the third quarter of 1994.

Natural gas purchased expense increased \$13.0 million, or 28%, in the first nine months of 1994. The higher purchased gas costs resulted primarily from increased therm sales of 6.7 million therms, or 2%, primarily due to sales to other utilities. Income tax expense decreased \$0.4 million, or 14%, during the first nine months of 1994 due to decreased operating income for the nine-month period.

## NON-UTILITY OPERATIONS

Operating income summary  
(Dollars in thousands)

|                                      | Three months ended<br>September 30 |         |          |    | Nine months ended<br>September 30 |          |           |      |
|--------------------------------------|------------------------------------|---------|----------|----|-----------------------------------|----------|-----------|------|
|                                      | 1994                               | 1993    | Amount   | %  | 1994                              | 1993     | Amount    | %    |
|                                      | Change                             |         |          |    |                                   |          |           |      |
| Operating revenues . . . . .         | \$17,216                           | \$5,085 | \$12,131 | -  | \$49,461                          | \$29,377 | \$20,084  | 68   |
| Operating expenses . . . . .         | 14,436                             | 4,520   | 9,916    | -  | 44,163                            | 23,821   | 20,342    | 85   |
| Operating income . . . . .           | 2,780                              | 565     | 2,215    | -  | 5,298                             | 5,556    | (258)     | (5)  |
| Other income - net . . . . .         | 2,183                              | 1,797   | 386      | 21 | 5,121                             | 3,175    | 1,946     | 61   |
| Income before income taxes . . . . . | 4,963                              | 2,362   | 2,601    | -  | 10,419                            | 8,731    | 1,688     | 19   |
| Income tax provision (benefit)       | 1,671                              | 632     | 1,039    | -  | 3,518                             | 90       | 3,428     | -    |
| Net income . . . . .                 | \$ 3,292                           | \$1,730 | \$ 1,562 | 90 | \$ 6,901                          | \$ 8,641 | \$(1,740) | (20) |

Non-utility operations include the results of Pentzer and three other minor subsidiary companies. 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 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

## THE WASHINGTON WATER POWER COMPANY

higher than that of the utility operations. From time to time, a significant portion of Pentzer's earnings contributions may be the result of transactional gains. Accordingly, although the income stream is expected to be positive, it may be uneven from year to year.

Pentzer's earnings for the third quarter of 1994 exceeded 1993 by \$1.7 million primarily as a result of improved earnings from its portfolio of investments. In addition, 1994 transactional gains exceeded 1993 transactional gains by \$0.8 million.

Pentzer's earnings for the first nine months of 1994 were less than 1993 by \$1.5 million primarily due to the impact in 1993 of transactional gains of \$2.8 million, after-tax, and the recognition in 1993 of an income tax benefit of \$2.2 million due to tax loss carryforwards in a subsidiary. Transactional gains through the first nine months of 1994 totaled \$2.1 million. The year-to-date 1994 non-transactional earnings from Pentzer's portfolio of investments exceeded 1993 by \$1.4 million.

In March 1994, Pentzer acquired The Form House, Inc., a bindery services company that serves customers in the advertising, printing, publishing and direct mail industries. In June 1994, Pentzer acquired Safety Speed Cut Manufacturing Co., Inc., a designer and manufacturer of panel saws, routers and accessories.

## THE WASHINGTON WATER POWER COMPANY

## LIQUIDITY AND CAPITAL RESOURCES.

## UTILITY

On August 25, 1994, the Company issued the remaining \$4 million of Secured Medium Term Notes, Series A with a twelve year maturity and a 7.90% coupon rate plus an additional \$26 million of Secured Medium Term Notes, Series B (Series B) with a twelve year maturity and a 7.89% coupon rate. On November 3, 1994, the Company issued \$5 million of Series B with a three year maturity and a 7.52% coupon rate.

On August 4 and 9, 1994, respectively, \$5 million of 8.95% and \$2.5 million of 8.90% Unsecured Medium Term Notes, Series A Due 1999 were redeemed at 100% of their principal amount.

The Company has a number of common stock ownership plans which provide additional equity to fund the Company's capital expenditure program. These include a Dividend Reinvestment and Stock Purchase Plan, a Periodic Offering Program, and an Investment and Employee Stock Ownership Plan. During the first nine months of 1994, the Company issued and sold over 1,300,000 shares of Common Stock for proceeds of over \$21 million under these plans.

Capital expenditures are financed on an interim basis with short-term debt. The Company has \$160 million in committed lines of credit, a portion of which backs up a \$50 million commercial paper facility. In addition, the Company may borrow up to \$60 million through other borrowing arrangements with banks. As of September 30, 1994, \$23 million was outstanding under the other short-term borrowing arrangements and \$10 million was outstanding under the committed lines of credit but there was no outstanding balance under the commercial paper facility.

In the third quarter of 1994 the Company executed a sale and leaseback agreement relating to certain qualifying internally developed customer service and other related software systems. The lease qualifies as an operating lease and the lease payments will be recorded as an operating expense. As of September 30, 1994, systems with a cost of \$15.4 million had been sold and leased under this agreement. An additional \$5.6 million of systems may be sold or leased under this agreement.

During the 1994-1996 period, capital expenditures are currently estimated to be \$278 million, a reduction from the original forecast as detailed in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994. Internally-generated funds are currently estimated to provide 57% of the funds required for the Company's capital expenditures program from 1994-1996, during which time external financing will be required to fund \$90 million of long-term debt maturities, preferred stock sinking fund requirements and the remaining portion of capital expenditures.

## NON-UTILITY

The non-utility operations have \$44.0 million in short-term borrowing arrangements available (\$21.1 million in current liabilities outstanding at September 30, 1994) to fund capital expenditures and other corporate requirements on an interim basis. At September 30, 1994, the non-utility operations had \$26.9 million in cash and marketable securities and \$13.2 million in long-term debt outstanding.

The 1994-1996 non-utility capital expenditures are expected to be \$8 million, and \$1 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-utility capital expenditure requirements.

## PART II. OTHER INFORMATION

## ITEM 5. OTHER INFORMATION.

Outstanding shares of the Company's no par value Common Stock are listed on both the New York Stock Exchange and the Pacific Stock Exchange.

## REGULATORY PROCEEDINGS.

On June 28, 1994, the Company announced that it had entered into a proposed merger agreement with SPR, SPPC and Resources West. Applications seeking approval of the merger have been filed with the FERC and with the state utility commissions in the states of California, Idaho, Montana, Nevada, Oregon and Washington. See Note 5 to Financial Statements contained in Item 1 of Part I of this Report for additional information.

## THE WASHINGTON WATER POWER COMPANY

On October 5, 1994, the IPUC issued an order giving conditional approval regarding the Company's proposed acquisition of the northern Idaho properties of Pacific. See Note 4 to Financial Statements for additional information.

In August 1994, the IPUC issued a ruling to the Idaho Power Company that effectively canceled the proposed long-term sale of capacity and energy from the Company which was announced on March 25, 1994 and disclosed in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994.

## Natural Gas Service

In mid-July, the Company filed natural gas trackers with the Washington Utilities and Transportation Commission (WUTC) and the California Public Utilities Commission (CPUC) primarily to reflect changes in the cost of purchased natural gas during the past year. The trackers in Washington and California reflect approximately a 9% increase but will result in no additional net income to the Company. At the same time a natural gas tracker was filed with the IPUC for a 4% decrease primarily due to a change in cost determination methodology which resulted in an over-collection of past purchased natural gas costs. The tracker in Washington was approved on August 31, 1994, effective September 1, 1994, authorizing an 8.75% overall increase. The tracker in Idaho was approved and became effective on September 1, 1994 authorizing a 3.98% decrease. The CPUC application is expected to be approved effective January 1, 1995.

On August 16, 1994, the Public Utility Commission of Oregon (OPUC) approved Pilot High Efficiency Space Heating and High Efficiency Water Heating Equipment Programs. Both programs began on August 17, 1994, will run through December 30, 1996 and are available to qualifying residential customers.

In mid-October, the Company filed a natural gas tracker with the OPUC requesting a 5.75% increase and a December 1, 1994 effective date. As with the earlier applications, this tracker primarily reflects changes in the cost of purchased natural gas during the past year and will result in no additional net income to the Company.

## Electric Service

On July 18, 1994, the IPUC approved an indefinite extension of the Company's Power Cost Adjustment (PCA) mechanism with minor modifications beginning August 1, 1994. The modifications sought by the Company included elimination of the contract tracker portion, which was approved by the Commission, and inclusion of incremental costs of combustion turbine resources, which was rejected by the Commission at this time. On September 15, 1994, a notice was filed with the IPUC that the \$2.2 million surcharge trigger had been exceeded and requested a PCA increase effective for a twelve month period beginning December 1, 1994.

On October 24, 1994, the Company filed an application with both the WUTC and the IPUC for a new Demand-Side Management Tariff Rider. This special tariff would be used solely to cover costs directly associated with current customer efficiency programs, which are estimated to be approximately \$5.7 million.

## 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,<br>1994<br>---- | December 31,<br>1993<br>---- |
| Ratio of Earnings to Fixed Charges  | 3.21 (x)                      | 3.45 (x)                     |
| Ratio of Earnings to Fixed Charges and<br>Preferred Dividend Requirements | 2.56 (x)                      | 2.77 (x)                     |

The Company has long-term purchased power arrangements with various Public Utility Districts, with interest on these contracts included in purchased power expenses. These amounts do not have a material impact on fixed charges ratios.

THE WASHINGTON WATER POWER COMPANY

PRO FORMA CONSOLIDATED FINANCIAL INFORMATION.

The pro forma financial information on the following pages combines the historical consolidated balance sheets of the Company and SPR after giving effect to the Merger as if the Merger had occurred on September 30, 1994 and the historical consolidated income statements as if the Merger had occurred at the beginning of the periods presented. The pro forma financial information should be read in conjunction with the Company's consolidated financial statements and related notes thereto included in Item 1 of Part I of this Report and SPR's consolidated financial statements and related notes thereto included in reports filed by SPR pursuant to the Securities Exchange Act of 1934, as amended. The information contained herein with respect to SPR and its subsidiaries has been supplied by SPR.

RESOURCES WEST ENERGY CORPORATION  
 PRO FORMA CONSOLIDATED BALANCE SHEET  
 AT SEPTEMBER 30, 1994  
 (thousands of dollars)  
 (unaudited)

|   | WWP         | SPR         | PRO FORMA   |
|---|-------------|-------------|-------------|
| <b>ASSETS:</b>  |             |             |             |
| <b>PROPERTY:</b>  |             |             |             |
| Utility plant in service-net.....   | \$1,748,952 | \$1,752,460 | \$3,501,412 |
| Construction work in progress.....  | 23,885      | 62,549      | \$86,434    |
| Total.....  | 1,772,837   | 1,815,009   | 3,587,846   |
| Less: accumulated depreciation and amortization.....                      | 490,825     | 498,550     | 989,375     |
| Net utility plant.....  | 1,282,012   | 1,316,459   | 2,598,471   |
| <b>OTHER PROPERTY AND INVESTMENTS:</b>                                    |             |             |             |
| Investment in exchange power-net.....                                     | 90,094      | -           | 90,094      |
| Other-net.....  | 93,458      | 20,634      | 114,092     |
| Total other property and investments.....                                 | 183,552     | 20,634      | 204,186     |
| <b>CURRENT ASSETS:</b>  |             |             |             |
| Cash and temporary investments.....                                       | 27,804      | 10,366      | 38,170      |
| Accounts and notes receivable-net of uncollectibles (Note 3).....         | 44,443      | 52,355      | 96,798      |
| Materials, supplies, fuel and natural gas inventories (average cost)..... | 23,487      | 31,293      | 54,780      |
| Prepayments and other.....  | 12,986      | 5,522       | 18,508      |
| Total current assets.....   | 108,720     | 99,536      | 208,256     |
| <b>DEFERRED CHARGES:</b>  |             |             |             |
| Deferred energy costs.....  | 10,209      | 33,690      | 43,899      |
| Regulatory assets for deferred income tax .....                           | 174,277     | 70,479      | 244,756     |
| Other regulatory assets.....  | 8,221       | 45,260      | 53,481      |
| Conservation programs.....  | 64,188      | 10,003      | 74,191      |
| Other-net.....  | 52,191      | 15,123      | 67,314      |
| Total deferred charges.....   | 309,086     | 174,555     | 483,641     |
| TOTAL.....  | \$1,883,370 | \$1,611,184 | \$3,494,554 |
| <b>CAPITALIZATION AND LIABILITIES:</b>                                    |             |             |             |
| <b>CAPITALIZATION:</b>  |             |             |             |
| Common stock and additional paid in capital (Note 4)....                  | \$564,907   | \$448,622   | 1,013,529   |
| Other shareholders equity (includes retained earnings)..                  | 84,725      | 49,909      | 134,634     |
| Preferred stock - not subject to mandatory redemption..                   | 50,000      | 73,115      | 123,115     |
| Preferred stock - subject to mandatory redemption.....                    | 85,000      | 20,400      | 105,400     |
| Long-term debt.....   | 664,385     | 565,180     | 1,229,565   |
| Total capitalization.....   | 1,449,017   | 1,157,226   | 2,606,243   |
| <b>CURRENT LIABILITIES:</b>   |             |             |             |
| Short-term borrowings.....  | -           | 40,113      | 40,113      |
| Current maturities of long-term debt and preferred stock                  | 2,402       | 7,413       | 9,815       |
| Accounts payable.....   | 33,518      | 45,627      | 79,145      |
| Taxes payable.....  | 23,774      | 3,195       | 26,969      |
| Interest payable.....   | 14,995      | 14,122      | 29,117      |
| Dividends declared.....   | -           | 10,128      | 10,128      |
| Other.....  | 50,141      | 13,886      | 64,027      |
| Total current liabilities.....  | 124,830     | 134,484     | 259,314     |
| <b>DEFERRED CREDITS:</b>  |             |             |             |
| Investment tax credits.....   | 2,383       | 46,209      | 48,592      |
| Deferred income taxes.....  | 292,691     | 159,124     | 451,815     |
| Regulatory tax liability.....   | -           | 47,453      | 47,453      |
| Customer advances for construction.....                                   | 2,297       | 40,709      | 43,006      |
| Other.....  | 10,971      | 25,979      | 36,950      |
| Total deferred credits.....   | 308,342     | 319,474     | 627,816     |
| MINORITY INTEREST .....   | 1,181       | -           | 1,181       |
| TOTAL.....  | \$1,883,370 | \$1,611,184 | \$3,494,554 |

The accompanying Notes to The Pro Forma Consolidated Balance Sheet and Statements of Income are an integral part of these statements.

RESOURCES WEST ENERGY CORPORATION  
 PRO FORMA CONSOLIDATED STATEMENT OF INCOME  
 FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1994  
 (Thousands of dollars, except per share amounts)  
 (unaudited)

|  | WWP<br>-----      | SPR<br>-----       | PRO FORMA<br>----- |
|--|-------------------|--------------------|--------------------|
| OPERATING REVENUES.....  | \$142,334         | \$158,180          | \$300,514          |
| OPERATING EXPENSES:  |                   |                    |                    |
| Operations.....  | 80,722            | 104,316            | 185,038            |
| Maintenance.....   | 12,661            | 3,377              | 16,038             |
| Depreciation and amortization.....                             | 15,040            | 13,374             | 28,414             |
| Taxes other than income taxes.....                             | 10,938            | 4,338              | 15,276             |
| Total operating expenses.....                                  | 119,361           | 125,405            | 244,766            |
| INCOME FROM OPERATIONS.....                                    | 22,973            | 32,775             | 55,748             |
| INTEREST EXPENSE AND (OTHER INCOME):                           |                   |                    |                    |
| Interest expense.....  | 13,751            | 10,561             | 24,312             |
| Interest capitalized and AFUCE.....                            | (435)             | (673)              | (1,108)            |
| Other (income) deductions-net.....                             | (3,100)           | (983)              | (4,083)            |
| Total interest expense and other<br>income-net.....            | 10,216            | 8,905              | 19,121             |
| INCOME BEFORE INCOME TAXES.....                                | 12,757            | 23,870             | 36,627             |
| INCOME TAXES.....  | 4,653             | 8,569              | 13,222             |
| INCOME BEFORE PREFERRED DIVIDENDS.....                         | 8,104             | 15,301             | 23,405             |
| DEDUCT-Preferred stock dividend<br>requirements.....           | 2,186             | 1,925              | 4,111              |
| INCOME AVAILABLE FOR COMMON STOCK.....                         | \$ 5,918<br>===== | \$ 13,376<br>===== | \$ 19,294<br>===== |
| Average common shares outstanding<br>(thousands) (Note 1)..... | 53,751            | 29,269             | 95,898             |
| EARNINGS PER SHARE.....  | \$0.11            | \$0.46             | \$0.20             |

The accompanying Notes to The Pro Forma Consolidated Balance Sheet and Statements of Income are an integral part of these statements.

RESOURCES WEST ENERGY CORPORATION  
 PRO FORMA CONSOLIDATED STATEMENT OF INCOME  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1994  
 (Thousands of dollars, except per share amounts)  
 (unaudited)

|   | WWP       | SPR       | PRO FORMA |
|---|-----------|-----------|-----------|
|   | -----     | -----     | -----     |
| OPERATING REVENUES.....                                       | \$480,404 | \$448,133 | \$928,537 |
|   | -----     | -----     | -----     |
| OPERATING EXPENSES:   |           |           |           |
| Operations.....   | 249,930   | 292,665   | 542,595   |
| Maintenance.....  | 43,040    | 12,126    | 55,166    |
| Depreciation and amortization.....                            | 44,534    | 39,006    | 83,540    |
| Taxes other than income taxes.....                            | 34,223    | 12,658    | 46,881    |
|   | -----     | -----     | -----     |
| Total operating expenses.....                                 | 371,727   | 356,455   | 728,182   |
|   | -----     | -----     | -----     |
| INCOME FROM OPERATIONS.....                                   | 108,677   | 91,678    | 200,355   |
|   | -----     | -----     | -----     |
| INTEREST EXPENSE AND (OTHER INCOME):                          |           |           |           |
| Interest expense.....   | 39,186    | 31,420    | 70,606    |
| Interest capitalized and AFUCE.....                           | (3,242)   | (3,265)   | (6,507)   |
| Other (income) deductions-net.....                            | (8,410)   | (3,003)   | (11,413)  |
|   | -----     | -----     | -----     |
| Total interest expense and other<br>income - net.....         | 27,534    | 25,152    | 52,686    |
|   | -----     | -----     | -----     |
| INCOME BEFORE INCOME TAXES.....                               | 81,143    | 66,526    | 147,669   |
|   | -----     | -----     | -----     |
| INCOME TAXES.....   | 30,652    | 22,612    | 53,264    |
|   | -----     | -----     | -----     |
| INCOME BEFORE PREFERRED DIVIDENDS.....                        | 50,491    | 43,914    | 94,405    |
|   | -----     | -----     | -----     |
| DEDUCT-Preferred stock dividend<br>requirements.....          | 6,405     | 6,009     | 12,414    |
|   | -----     | -----     | -----     |
| INCOME AVAILABLE FOR COMMON STOCK.....                        | \$ 44,086 | \$ 37,905 | \$ 81,991 |
|   | =====     | =====     | =====     |
| Average common shares outstanding<br>(thousands)(Note 1)..... | 53,329    | 29,171    | 95,335    |
|   | -----     | -----     | -----     |
| EARNINGS PER SHARE.....                                       | \$0.83    | \$1.30    | \$0.86    |

The accompanying Notes to The Pro Forma Consolidated Balance Sheet and Statements of Income are an integral part of these statements.



## RESOURCES WEST ENERGY CORPORATION

## NOTES TO THE PRO FORMA CONSOLIDATED BALANCE SHEET AND STATEMENTS OF INCOME

1. The Pro Forma Consolidated Financial Statements reflect the conversion of each share of SPR Common Stock outstanding into 1.44 shares of Resources West Common Stock and the conversion of each share of WWP Common Stock outstanding into one share of Resources West Common Stock. The Pro Forma Consolidated Financial Statements are presented as if the companies were combined during all periods included therein.
2. All references to per share information for WWP have been adjusted to reflect the two-for-one common stock split which became effective on November 9, 1993.
3. The Accounts and Notes Receivable are reported on the Balance Sheet net of the Allowance for Uncollectible Accounts. The balances of the Allowance for Uncollectible Accounts (in thousands) at September 30, 1994 are: WWP, \$833; SPR, \$1,039; and Pro Forma, \$1,872.
4. The number of shares of common stock outstanding at September 30, 1994 are: WWP, 54,017,315 shares; SPR, 29,297,550 shares; and Pro Forma, 96,205,787 shares.
5. The Pro Forma Financial Statements do not reflect the \$450 million (net) cost savings estimated to be achieved in the ten year period following the consummation of the Merger.
6. Intercompany transactions (including purchased and exchanged power transactions) between WWP and SPR during the periods presented were not material and, accordingly, no pro forma adjustments were made to eliminate such transactions.
7. For comparative purposes, certain historical amounts have been reclassified to conform to the pro forma financial statement format.

THE WASHINGTON WATER POWER COMPANY

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

(a) Exhibits.

- 4(a) Bylaws of The Washington Water Power Company, as amended May 12, 1994.
- 4(b) Amendment No. 2 to the Shareholder Rights Plan, dated as of June 27, 1994.
- 12 Computation of ratio of earnings to fixed charges and preferred dividend requirements.
- 27 Financial Data Schedule.

(b) Reports on Form 8-K.

None.

THE WASHINGTON WATER POWER COMPANY

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

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(Registrant)

Date: November 10, 1994

/s/ J. E. Eliassen

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J. E. Eliassen  
Vice President - Finance and  
Chief Financial Officer  
Principal Accounting and  
Financial Officer)

BYLAWS  
OF  
The Washington Water Power  
Company

As Amended May 12, 1994

BYLAWS  
OF  
THE WASHINGTON WATER POWER COMPANY  
\* \* \* \* \*

ARTICLE I.  
OFFICES

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

ARTICLE II.  
SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

### ARTICLE III. BOARD OF DIRECTORS

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

SECTION 2. NUMBER AND TENURE. The number of Directors of the Corporation shall be ten (10); provided, however, that if the right to elect a majority of the Board of Directors shall have accrued to the holders of the Preferred Stock as provided in paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, then, during such period as such holders shall have such right, the number of directors may exceed ten. Directors shall be divided into three classes, as nearly equal in number as possible. At each Annual Meeting of Shareholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Shareholders after their election. Notwithstanding the foregoing, directors elected

by the holders of the Preferred Stock in accordance with paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation shall be elected for a term which shall expire not later than the next Annual Meeting of Shareholders. All directors shall hold office until the expiration of their respective terms of office and until their successors shall have been elected and qualified.

SECTION 3. REGULAR MEETINGS. The regular annual meeting of the Board of Directors shall be held immediately following the adjournment of the annual meeting of the shareholders. At such meeting the Board of Directors, including directors newly elected, shall organize itself for the coming year, shall elect officers of the Corporation for the ensuing year, and shall transact all such further business as may be necessary or appropriate. The Board shall hold regular quarterly meetings, without call or notice, on the first Friday in the months of August, November and February throughout the year. If any such date shall fall on a legal holiday, the meeting scheduled for that date shall be held on the next ensuing business day that is not a legal holiday. At such quarterly meetings the Board of Directors shall transact all business properly brought before the Board. Written notice of the annual and quarterly meetings of the Board shall be given to each director at least two (2) full days in advance of the meeting.

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

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

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

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

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

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

number of directors may be filled by the Board of Directors for a term of office continuing only until the next election of directors by the shareholders.

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

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

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

SECTION 13. NOMINATION OF DIRECTORS. Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, nominations for the election of directors may be made by the Board of Directors, or a nominating committee appointed by the Board of Directors, or by any holder of shares of the capital stock of the Corporation entitled generally to vote in the election of directors (such stock being hereinafter in this Section called "Voting Stock"). However, any holder of shares of the Voting Stock may nominate one or more persons for election as directors at a meeting only if written notice of such shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Corporate Secretary not later than (i) with respect to an election to be held at an annual meeting of shareholders, ninety (90) days in advance of such meeting and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that such shareholder is a holder of record of shares of the Voting Stock of the Corporation and intends to appear in person or by proxy at the meeting to nominate the person or persons identified in the notice; (c) a description of all arrangements or understandings between such shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (or any subsequent revisions replacing such Act, rules or regulations) if the nominee(s) had been nominated, or were intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a Director of the Corporation if so elected. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.



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

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

ARTICLE IV.  
EXECUTIVE COMMITTEE  
AND  
ADDITIONAL COMMITTEES

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

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

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

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

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

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

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

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

ARTICLE V.  
OFFICERS

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

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

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

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

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

ARTICLE VI.  
CONTRACTS, CHECKS AND DEPOSITS

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

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

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

ARTICLE VII.  
CERTIFICATES FOR SHARES AND THEIR TRANSFER

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

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

ARTICLE VIII.  
CORPORATE SEAL

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

ARTICLE IX.  
INDEMNIFICATION

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

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

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

ARTICLE X.  
AMENDMENTS

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

AMENDMENT NO. 2  
to  
RIGHTS AGREEMENT

AMENDMENT NO. 2, dated as of June 27, 1994, to the Rights Agreement, dated as of February 16, 1990, between The Washington Water Power Company, a Washington corporation (the "Company"), and The Bank of New York, as Rights Agent (the "Rights Agent"), as heretofore amended by Amendment No. 1 thereto, dated as of May 10, 1994 (the "Rights Agreement").

WHEREAS, all capitalized terms used herein, unless otherwise defined, shall have the respective meanings ascribed to them in the Rights Agreement; and

WHEREAS, the Company has entered into an Agreement and Plan of Reorganization and Merger, dated as of June 27, 1994 (the "Merger Agreement"), with Sierra Pacific Resources, a Nevada corporation ("SPR"), Sierra Pacific Power Company, a Nevada corporation and a subsidiary of SPR ("SPPC") and WPM Corp., a Nevada Corporation and a wholly-owned subsidiary of the Company ("WPM Corp.") pursuant to which each of the Company, SPR and SPPC will be merged with and into WPM Corp.; and

WHEREAS, to facilitate consummation of the transactions contemplated by the Merger Agreement, the Company desires to amend the Rights Agreement to provide for the expiration of the Rights immediately prior to the Effective Time of the Merger (as each of such terms is defined in the Merger Agreement) without further action on the part of the Company; and

NOW, THEREFORE, pursuant to Section 26 of the Rights Agreement, in order to make provision in regard to certain matters or questions arising under the Rights Agreement which the Company deems necessary and desirable and which are consistent with the objectives of the Board of Directors of the Company in adopting the Rights Agreement, the Company and the Rights Agent hereby amend the Rights Agreement as follows:

1. Amendment of Section 7(a). Section 7(a) of the Rights Agreement is hereby amended by deleting it in its entirety and substituting therefor the following:

(a) Subject to Section 7(e) and Section 9 hereof, at any time after the Distribution Date and immediately prior to the earlier of (i) the close of business on February 16, 2000 (the "Final Expiration Date"), (ii) the time at which the Rights are redeemed or exchanged as provided in Section 23 hereof (the "Redemption Date"), and (iii) the Effective Time of the Merger (as each such term is defined in the Agreement and Plan of Reorganization and Merger, dated as of June 27, 1994 (the "Merger Agreement"), by and among the Company, Sierra Pacific Resources, Sierra Pacific Power Company and WPM Corp., a wholly owned Subsidiary of the Company), the

Registered Holder of any Right Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein, including without limitation, any restriction on exercisability set forth in or resulting from Section 9, Section 11(a)(iii), Section 14 and Section 20(j) hereof) in whole or in part upon surrender of the Right Certificate, with the form of election to purchase and the certificate on the reverse side thereof duly executed, to the Rights Agent at the principal shareholder services office of the Rights Agent, together with payment of the portion of the aggregate Exercise Price applicable to such Rights Certificate which is correlative to the extent to which the Rights evidenced by such Rights Certificate are being exercised.

2. Acknowledgement. The Company and the Rights Agent hereby acknowledge and confirm that none of Sierra Pacific Resources ("SPR"), Sierra Pacific Power Company ("SPPC") nor WPM Corp., a wholly-owned subsidiary of the Company ("WPM Corp."), nor any of their Affiliates or Associates is deemed to be an "Acquiring Person" and, therefore, it is hereby acknowledged and confirmed that no Shares Acquisition Date or Distribution Date has occurred or will occur as a result of (i) the execution and delivery of the Agreement and Plan of Reorganization and Merger, dated as of June 27, 1994, by and among the Company, SPR, SPPC and WPM Corp., as the same may be amended from time to time (the "Merger Agreement") or (ii) the consummation of the Merger (as such term is defined in the Merger Agreement).

3. Rights Agreement Remains in Full Force and Effect. Except as provided in this Amendment to Rights Agreement, the Rights Agreement remains unmodified and in full force and effect.

4. Counterparts. This Amendment may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Company and the Rights Agent have caused this Amendment No. 2 to be duly executed as of the day and year first above written.

THE WASHINGTON WATER POWER COMPANY

By: /s/ Ronald R. Peterson  
-----  
Name: Ronald R. Peterson  
Title: Treasurer

THE BANK OF NEW YORK

By: /s/ Robert Dietz  
-----  
Name: Robert Dietz  
Title: Asst. Vice President

## THE WASHINGTON WATER POWER COMPANY

Computation of Ratio of Earnings to Fixed Charges and  
Preferred Dividend Requirements(1)  
Consolidated  
(Thousands of Dollars)

|   | 12 Mos. Ended        | Years Ended December 31 |                  |                  |                  |
|---|----------------------|-------------------------|------------------|------------------|------------------|
|   | September 30<br>1994 | 1993                    | 1992             | 1991             | 1990             |
| Fixed charges, as defined:  |                      |                         |                  |                  |                  |
| Interest on long-term debt  | \$48,430             | \$47,129                | \$51,727         | \$52,801         | \$56,202         |
| Amortization of debt expense<br>and premium - net                         | 3,593                | 3,004                   | 1,814            | 1,751            | 1,558            |
| Interest portion of rentals   | 1,053                | 924                     | 1,105            | 1,018            | 1,012            |
| Total fixed charges   | <u>\$53,076</u>      | <u>\$51,057</u>         | <u>\$54,646</u>  | <u>\$55,570</u>  | <u>\$58,772</u>  |
| Earnings, as defined:   |                      |                         |                  |                  |                  |
| Net income from continuing ops.   | \$74,076             | \$82,776                | \$72,267         | \$70,631         | \$72,147         |
| Add (deduct):   |                      |                         |                  |                  |                  |
| Income tax expense  | 43,112               | 42,503                  | 41,330           | 38,086           | 33,150           |
| Total fixed charges above   | 53,076               | 51,057                  | 54,646           | 55,570           | 58,772           |
| Total earnings  | <u>\$170,264</u>     | <u>\$176,336</u>        | <u>\$168,243</u> | <u>\$164,287</u> | <u>\$164,069</u> |
| Ratio of earnings to fixed charges  | 3.21                 | 3.45                    | 3.08             | 2.96             | 2.79             |
| Fixed charges and preferred<br>dividend requirements:                     |                      |                         |                  |                  |                  |
| Fixed charges above   | \$53,076             | \$51,057                | \$54,646         | \$55,570         | \$58,772         |
| Preferred dividend requirements(2)  | 13,415               | 12,615                  | 10,716           | 14,302           | 12,287           |
| Total   | <u>\$66,491</u>      | <u>\$63,672</u>         | <u>\$65,362</u>  | <u>\$69,872</u>  | <u>\$71,059</u>  |
| Ratio of earnings to fixed charges<br>and preferred dividend requirements | 2.56                 | 2.77                    | 2.57             | 2.35             | 2.31             |

(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.



UT

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 QUARTER ENDED SEPTEMBER 30, 1994, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

| 9-MOS     | DEC-31-1994 | SEP-30-1994 |
|-----------|-------------|-------------|
|           |             | PER-BOOK    |
| 1,282,012 |             |             |
| 183,552   |             |             |
| 108,720   |             |             |
| 309,086   |             |             |
|           | 0           |             |
|           | 1,883,370   |             |
|           |             | 552,515     |
| (10,013)  |             |             |
|           | 107,130     |             |
| 649,632   |             |             |
|           | 85,000      |             |
|           |             | 50,000      |
|           | 575,621     |             |
|           | 33,000      |             |
|           | 10,755      |             |
|           | 0           |             |
| 47,419    |             |             |
|           | 0           |             |
|           | 10          |             |
|           |             | 7           |
| 431,926   |             |             |
| 1,883,370 |             |             |
|           | 480,404     |             |
|           |             | 30,652      |
|           | 371,727     |             |
|           | 371,727     |             |
|           | 108,677     |             |
|           |             | 8,410       |
| 117,087   |             |             |
|           | 35,944      |             |
|           |             | 50,491      |
|           | 6,405       |             |
| 44,086    |             |             |
|           | 49,592      |             |
|           | 0           |             |
|           | 120,924     |             |
|           |             | 0.83        |
|           |             | 0.83        |

LONG-TERM DEBT-NET DOES NOT MATCH THE AMOUNT REPORTED ON THE COMPANY'S CONSOLIDATED STATEMENT OF CAPITALIZATION AS LONG-TERM DEBT DUE TO THE OTHER CATEGORIES REQUIRED BY THIS SCHEDULE.

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

THE COMPANY DOES NOT INCLUDE INCOME TAX EXPENSE AS AN OPERATING EXPENSE ITEM. IT IS INCLUDED ON THE COMPANY'S 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.