

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 June 30, 1995

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-3701

THE WASHINGTON WATER POWER COMPANY

-----  
(Exact name of registrant as specified in its charter)

Washington

91-0462470

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

1411 East Mission Avenue, Spokane, Washington

99202-2600

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code:

509-489-0500  
-----

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 August 1, 1995, 55,299,130 shares of Registrant's Common Stock, no par value  
(the only class of common stock), were outstanding.

## THE WASHINGTON WATER POWER COMPANY

## Index

	Page No. -----
Part I. Financial Information:	
Item 1. Financial Statements	
Consolidated Statements of Income - Three Months Ended June 30, 1995 and 1994. . . . .	3
Consolidated Statements of Income - Six Months Ended June 30, 1995 and 1994. . . . .	4
Consolidated Balance Sheets - June 30, 1995 and December 31, 1994 . . . . .	5
Consolidated Statements of Capitalization - June 30, 1995 and December 31, 1994 . . . . .	6
Consolidated Statements of Cash Flows - Six Months Ended June 30, 1995 and 1994. . . . .	7
Schedule of Information by Business Segments - Three Months Ended June 30, 1995 and 1994. . . . .	8
Schedule of Information by Business Segments - Six Months Ended June 30, 1995 and 1994. . . . .	9
Notes to Consolidated Financial Statements. . . . .	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations . . . . .	15
Part II. Other Information:	
Item 4. Submission of Matters to a Vote of Security Holders . . . . .	21
Item 5. Other Information . . . . .	21
Item 6. Exhibits and Reports on Form 8-K. . . . .	22
Signature. . . . .	23

CONSOLIDATED STATEMENTS OF INCOME  
The Washington Water Power Company

For the Three Months Ended June 30  
Thousands of Dollars

	1995	1994
	-----	-----
OPERATING REVENUES . . . . .	\$158,973	\$147,173
	-----	-----
OPERATING EXPENSES:		
Operations and maintenance . . . . .	74,452	71,398
Administrative and general . . . . .	16,915	16,685
Depreciation and amortization . . . . .	15,647	14,937
Taxes other than income taxes . . . . .	11,856	10,138
	-----	-----
Total operating expenses . . . . .	118,870	113,158
	-----	-----
INCOME FROM OPERATIONS . . . . .	40,103	34,015
	-----	-----
OTHER INCOME (EXPENSE):		
Interest expense . . . . .	(14,721)	(13,113)
Interest capitalized and AFUCE . . . . .	218	1,418
Net gain on subsidiary transactions . . . . .	34	1,332
Other income (deductions)-net . . . . .	(932)	2,389
	-----	-----
Total other income (expense)-net . . . . .	(15,401)	(7,974)
	-----	-----
INCOME BEFORE INCOME TAXES . . . . .	24,702	26,041
INCOME TAXES . . . . .	9,539	10,345
	-----	-----
NET INCOME . . . . .	15,163	15,696
DEDUCT-Preferred stock dividend requirements . . . . .	2,298	2,149
	-----	-----
INCOME AVAILABLE FOR COMMON STOCK . . . . .	\$ 12,865	\$ 13,547
	=====	=====
Average common shares outstanding (thousands) . . . . .	54,986	53,316
EARNINGS PER SHARE OF COMMON STOCK . . . . .	\$ 0.23	\$ 0.25
Dividends paid per common share . . . . .	\$ 0.31	\$ 0.31

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME  
The Washington Water Power Company

-----  
For the Six Months Ended June 30  
Thousands of Dollars

	1995	1994
	-----	-----
OPERATING REVENUES . . . . .	\$356,901	\$338,070
	-----	-----
OPERATING EXPENSES:		
Operations and maintenance . . . . .	168,246	169,208
Administrative and general . . . . .	33,032	30,379
Depreciation and amortization . . . . .	31,065	29,494
Taxes other than income taxes . . . . .	25,981	23,285
	-----	-----
Total operating expenses . . . . .	258,324	252,366
	-----	-----
INCOME FROM OPERATIONS . . . . .	98,577	85,704
	-----	-----
OTHER INCOME (EXPENSE):		
Interest expense . . . . .	(29,451)	(25,435)
Interest capitalized and AFUCE . . . . .	442	2,807
Net gain on subsidiary transactions . . . . .	1,952	1,332
Other income (deductions)-net . . . . .	(1,632)	3,978
	-----	-----
Total other income (expense)-net . . . . .	(28,689)	(17,318)
	-----	-----
INCOME BEFORE INCOME TAXES . . . . .	69,888	68,386
INCOME TAXES . . . . .	26,270	25,999
	-----	-----
NET INCOME . . . . .	43,618	42,387
DEDUCT-Preferred stock dividend requirements . . . . .	4,596	4,219
	-----	-----
INCOME AVAILABLE FOR COMMON STOCK . . . . .	\$ 39,022	\$ 38,168
	=====	=====
Average common shares outstanding (thousands) . . . . .	54,785	53,114
EARNINGS PER SHARE OF COMMON STOCK . . . . .	\$ 0.71	\$ 0.72
Dividends paid per common share . . . . .	\$ 0.62	\$ 0.62

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED BALANCE SHEETS  
The Washington Water Power Company

-----  
Thousands of Dollars

	June 30, 1995	December 31, 1994
	-----	-----
ASSETS:		
PROPERTY:		
Utility plant in service-net . . . . .	\$1,832,666	\$1,802,280
Construction work in progress. . . . .	28,251	27,316
	-----	-----
Total. . . . .	1,860,917	1,829,596
Less: Accumulated depreciation and amortization . . . . .	522,965	500,551
	-----	-----
Net utility plant. . . . .	1,337,952	1,329,045
	-----	-----
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net . . . . .	85,512	88,615
Other-net. . . . .	129,773	114,145
	-----	-----
Total other property and investments . . . . .	215,285	202,760
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents. . . . .	3,984	5,178
Temporary cash investments . . . . .	24,578	27,928
Accounts and notes receivable-net. . . . .	67,713	74,524
Materials and supplies, fuel stock and natural gas stored (average cost) . . . . .	30,577	21,384
Prepayments and other. . . . .	6,399	7,552
	-----	-----
Total current assets . . . . .	133,251	136,566
	-----	-----
DEFERRED CHARGES:		
Regulatory assets for deferred income tax. . . . .	172,009	174,349
Conservation programs. . . . .	63,686	66,511
Other-net. . . . .	85,515	85,022
	-----	-----
Total deferred charges . . . . .	321,210	325,882
	-----	-----
TOTAL. . . . .	\$2,007,698	\$1,994,253
	=====	=====
CAPITALIZATION AND LIABILITIES:		
CAPITALIZATION (See Consolidated Statements of Capitalization) . . . . .	\$1,541,012	\$1,533,640
	-----	-----
CURRENT LIABILITIES:		
Accounts payable . . . . .	25,558	46,217
Taxes accrued. . . . .	27,780	17,977
Interest accrued . . . . .	12,790	10,954
Other. . . . .	61,964	57,369
	-----	-----
Total current liabilities. . . . .	128,092	132,517
	-----	-----
DEFERRED CREDITS:		
Deferred income taxes. . . . .	317,486	312,525
Other. . . . .	19,836	14,399
	-----	-----
Total deferred credits . . . . .	337,322	326,924
	-----	-----
MINORITY INTEREST. . . . .	1,272	1,172
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 2 and 4)		
TOTAL. . . . .	\$2,007,698	\$1,994,253
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CAPITALIZATION  
The Washington Water Power Company

-----  
Thousands of Dollars

	June 30, 1995	December 31, 1994
	-----	-----
COMMON EQUITY:		
Common stock, no par value: 200,000,000 shares authorized:		
shares outstanding: 1995-55,237,359; 1994-54,420,696 . . . . .	\$ 582,940	\$ 570,603
Note receivable from employee stock ownership plan . . . . .	(11,991)	(12,267)
Capital stock expense and other paid in capital . . . . .	(10,058)	(10,031)
Unrealized investment gain-net . . . . .	23,726	14,341
Retained earnings . . . . .	120,033	114,848
	-----	-----
Total common equity . . . . .	704,650	677,494
	-----	-----
PREFERRED STOCK-CUMULATIVE: (Note 1)		
10,000,000 shares authorized:		
Not subject to mandatory redemption:		
Flexible Auction Series J; 500 shares outstanding (\$100,000 stated value) . . . . .	50,000	50,000
	-----	-----
Total not subject to mandatory redemption . . . . .	50,000	50,000
	-----	-----
Subject to mandatory redemption:		
\$8.625, Series I; 500,000 shares outstanding (\$100 stated value) . . . . .	50,000	50,000
\$6.95, Series K; 350,000 shares outstanding (\$100 stated value) . . . . .	35,000	35,000
	-----	-----
Total subject to mandatory redemption . . . . .	85,000	85,000
	-----	-----
LONG-TERM DEBT: (Note 1)		
First Mortgage Bonds:		
4 5/8% due March 1, 1995 . . . . .	-	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 - 4.72% to 8.06% due 1996 through 2023 . . . . .	250,000	250,000
Series B - 6.61% to 8.25% due 1997 through 2010 . . . . .	121,000	63,000
	-----	-----
Total first mortgage bonds . . . . .	454,700	406,700
	-----	-----
Pollution Control Bonds:		
6% Series due 2023 . . . . .	4,100	4,100
Unsecured Medium-Term Notes:		
Series A - 7.94% to 9.58% due 1995 through 2007 . . . . .	92,500	92,500
Series B - 5.50% to 8.55% due 1996 through 2023 . . . . .	135,000	150,000
	-----	-----
Total unsecured medium-term notes . . . . .	227,500	242,500
Notes payable (due within one year) to be refinanced . . . . .	6,500	58,000
Other . . . . .	8,562	9,846
	-----	-----
Total long-term debt . . . . .	701,362	721,146
	-----	-----
TOTAL CAPITALIZATION . . . . .	<u>\$1,541,012</u>	<u>\$1,533,640</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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

For the Six Months Ended June 30  
 Thousands of Dollars

	1995	1994
	-----	-----
<b>OPERATING ACTIVITIES:</b>		
Net income . . . . .	\$ 43,618	\$ 42,387
<b>NON-CASH REVENUES AND EXPENSES</b>		
<b>INCLUDED IN NET INCOME:</b>		
Depreciation and amortization . . . . .	37,038	34,501
Provision for deferred income taxes . . . . .	(20)	4,714
Allowance for equity funds used during construction . . . . .	(427)	(951)
Power and natural gas cost deferrals and amortization . . . . .	11,567	1,055
Deferred revenues and other-net . . . . .	469	(1,271)
<b>(Increase) decrease in working capital components:</b>		
Receivables and prepaid expenses-net . . . . .	6,381	18,483
Materials & supplies, fuel stock and natural gas stored . . . . .	(9,145)	(3,523)
Payables and other accrued liabilities . . . . .	(8,761)	(7,975)
Other-net . . . . .	(9,680)	5,411
	-----	-----
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES . . . . .</b>	<b>71,040</b>	<b>92,831</b>
	-----	-----
<b>INVESTING ACTIVITIES:</b>		
Construction expenditures (excluding AFUDC-equity funds) . . . . .	(34,486)	(53,624)
Other capital requirements . . . . .	608	(14,840)
(Increase) decrease in other noncurrent balance sheet items-net . . . . .	6,843	(16,969)
Assets acquired and investments in subsidiaries (Note 3) . . . . .	(899)	(9,671)
	-----	-----
<b>NET CASH USED IN INVESTING ACTIVITIES . . . . .</b>	<b>(27,934)</b>	<b>(95,104)</b>
	-----	-----
<b>FINANCING ACTIVITIES:</b>		
Increase (decrease) in commercial paper, notes payable and bank borrowings-net . . . . .	(51,500)	(25,501)
Maturity of unsecured medium-term notes . . . . .	(15,000)	-
Sale of secured medium-term notes . . . . .	58,000	26,000
Maturity of first mortgage bonds . . . . .	(10,000)	-
Sale of common stock-net . . . . .	6,682	8,444
Miscellaneous-net . . . . .	140	9,901
	-----	-----
<b>NET FINANCING ACTIVITIES BEFORE CASH DIVIDENDS . . . . .</b>	<b>(11,678)</b>	<b>18,844</b>
Less cash dividends paid . . . . .	(32,622)	(31,248)
	-----	-----
<b>NET CASH USED IN FINANCING ACTIVITIES . . . . .</b>	<b>(44,300)</b>	<b>(12,404)</b>
	-----	-----
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .</b>	<b>(1,194)</b>	<b>(14,677)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD . . . . .</b>	<b>5,178</b>	<b>33,718</b>
	-----	-----
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD . . . . .</b>	<b>\$ 3,984</b>	<b>\$ 19,041</b>
	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period:		
Interest . . . . .	\$ 24,632	\$ 22,643
Income taxes . . . . .	\$ 18,058	\$ 18,379
Non-cash financing and investing activities . . . . .	\$ 5,931	\$ 5,706

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS  
The Washington Water Power Company

For the Three Months Ended June 30  
Thousands of Dollars

	1995	1994
	-----	-----
<b>OPERATING REVENUES:</b>		
Electric . . . . .	\$ 103,069	\$ 101,120
Natural gas . . . . .	35,304	26,290
Non-utility . . . . .	20,600	19,763
	-----	-----
Total operating revenues . . . . .	\$ 158,973	\$ 147,173
	=====	=====
<b>OPERATIONS AND MAINTENANCE EXPENSES:</b>		
Electric:		
Power purchased . . . . .	\$ 15,538	\$ 16,354
Fuel for generation . . . . .	3,035	7,115
Other electric . . . . .	18,113	15,333
Natural gas:		
Natural gas purchased for resale . . . . .	21,948	15,402
Other natural gas . . . . .	3,816	3,774
Non-utility . . . . .	12,002	13,420
	-----	-----
Total operations and maintenance expenses . . . . .	\$ 74,452	\$ 71,398
	=====	=====
<b>ADMINISTRATIVE AND GENERAL EXPENSES:</b>		
Electric . . . . .	\$ 10,471	\$ 9,524
Natural gas . . . . .	3,266	2,688
Non-utility . . . . .	3,178	4,473
	-----	-----
Total administrative and general expenses . . . . .	\$ 16,915	\$ 16,685
	=====	=====
<b>DEPRECIATION AND AMORTIZATION EXPENSES:</b>		
Electric . . . . .	\$ 12,347	\$ 12,108
Natural gas . . . . .	2,414	2,090
Non-utility . . . . .	886	739
	-----	-----
Total depreciation and amortization expenses . . . . .	\$ 15,647	\$ 14,937
	=====	=====
<b>INCOME FROM OPERATIONS:</b>		
Electric . . . . .	\$ 34,218	\$ 32,442
Natural gas . . . . .	1,623	679
Non-utility . . . . .	4,262	894
	-----	-----
Total income from operations . . . . .	\$ 40,103	\$ 34,015
	=====	=====
<b>INCOME AVAILABLE FOR COMMON STOCK:</b>		
Utility operations . . . . .	\$ 10,411	\$ 11,557
Non-utility operations . . . . .	2,454	1,990
	-----	-----
Total income available for common stock . . . . .	\$ 12,865	\$ 13,547
	=====	=====
<b>ASSETS: (1994 amounts at December 31)</b>		
Electric . . . . .	\$1,456,084	\$1,441,643
Natural gas . . . . .	243,525	247,060
Common plant . . . . .	27,622	25,849
Other utility assets . . . . .	85,588	106,118
Non-utility assets . . . . .	194,879	173,583
	-----	-----
Total assets . . . . .	\$2,007,698	\$1,994,253
	=====	=====
<b>CAPITAL EXPENDITURES (excluding AFUDC):</b>		
Electric . . . . .	\$ 10,046	\$ 16,955
Natural gas . . . . .	5,260	8,511
Common plant . . . . .	1,314	5,083
Non-utility . . . . .	458	1,708
	-----	-----
Total capital expenditures . . . . .	\$ 17,078	\$ 32,257
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.



SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS  
The Washington Water Power Company

For the Six Months Ended June 30  
Thousands of Dollars

	1995	1994
	-----	-----
<b>OPERATING REVENUES:</b>		
Electric . . . . .	\$ 228,890	\$ 226,046
Natural gas . . . . .	94,440	79,779
Non-utility . . . . .	33,571	32,245
	-----	-----
Total operating revenues . . . . .	\$ 356,901	\$ 338,070
	=====	=====
<b>OPERATIONS AND MAINTENANCE EXPENSES:</b>		
Electric:		
Power purchased . . . . .	\$ 38,491	\$ 46,257
Fuel for generation . . . . .	10,759	18,521
Other electric . . . . .	35,915	30,446
Natural gas:		
Natural gas purchased for resale . . . . .	56,766	46,097
Other natural gas . . . . .	7,562	6,779
Non-utility . . . . .	18,753	21,108
	-----	-----
Total operations and maintenance expenses . . . . .	\$ 168,246	\$ 169,208
	=====	=====
<b>ADMINISTRATIVE AND GENERAL EXPENSES:</b>		
Electric . . . . .	\$ 20,140	\$ 18,103
Natural gas . . . . .	6,533	5,584
Non-utility . . . . .	6,359	6,692
	-----	-----
Total administrative and general expenses . . . . .	\$ 33,032	\$ 30,379
	=====	=====
<b>DEPRECIATION AND AMORTIZATION EXPENSES:</b>		
Electric . . . . .	\$ 24,466	\$ 24,083
Natural gas . . . . .	4,859	4,025
Non-utility . . . . .	1,740	1,386
	-----	-----
Total depreciation and amortization expenses . . . . .	\$ 31,065	\$ 29,494
	=====	=====
<b>INCOME FROM OPERATIONS:</b>		
Electric . . . . .	\$ 79,365	\$ 70,546
Natural gas . . . . .	13,249	12,641
Non-utility . . . . .	5,963	2,517
	-----	-----
Total income from operations . . . . .	\$ 98,577	\$ 85,704
	=====	=====
<b>INCOME AVAILABLE FOR COMMON STOCK:</b>		
Utility operations . . . . .	\$ 34,097	\$ 34,559
Non-utility operations . . . . .	4,925	3,609
	-----	-----
Total income available for common stock . . . . .	\$ 39,022	\$ 38,168
	=====	=====
<b>ASSETS: (1994 amounts at December 31)</b>		
Electric . . . . .	\$1,456,084	\$1,441,643
Natural gas . . . . .	243,525	247,060
Common plant . . . . .	27,622	25,849
Other utility assets . . . . .	85,588	106,118
Non-utility assets . . . . .	194,879	173,583
	-----	-----
Total assets . . . . .	\$2,007,698	\$1,994,253
	=====	=====
<b>CAPITAL EXPENDITURES (excluding AFUDC):</b>		
Electric . . . . .	\$ 19,794	\$ 37,132
Natural gas . . . . .	10,005	13,580
Common plant . . . . .	2,501	9,082
Non-utility . . . . .	781	5,967
	-----	-----
Total capital expenditures . . . . .	\$ 33,081	\$ 65,761
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying financial statements of The Washington Water Power Company (Company) for the interim periods ended June 30, 1995 and 1994 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, 1994.

## NOTE 1. 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 2. 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 only material claim against the Company arising out of the Company's involvement in Project 3, which has been pending since October 1982 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 was seeking a reallocation of \$495 million in costs (plus interest since commencement of construction in 1976) originally allocated to Projects 4 and 5.

On July 6, 1995, the Company paid Chemical Bank \$500,000 in settlement of all remaining claims involving the Company in connection with the "cost sharing" litigation. The payment was consistent with a settlement agreement executed by all parties to the litigation except PacifiCorp, as PacifiCorp had unrelated claims pending against the Supply System. The settlement has been submitted to the Court, and an order approving it and dismissing all related litigation against the Company is anticipated forthwith.

## NEZ PERCE TRIBE

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

Discovery had been stayed pending a decision by the Court on a case involving some similar issues brought by the Tribe against Idaho Power Company. The Court has since decided these issues and has dismissed all claims against Idaho Power. The Idaho Power case has now been appealed by the Nez Perce Tribe to the Ninth Circuit Court of Appeals. On November 21, 1994, the Company filed its Motion and Brief in Support of Summary Judgment of Dismissal. The Nez Perce Tribe has filed a reply brief, and has requested oral argument. A hearing on the Company's Motion for Summary Judgment was heard by the Court on July 27, 1995. The matter has not yet been set for trial. The Company is presently unable to assess the likelihood of an adverse outcome in this litigation, or estimate an amount or range of potential loss in the event of an adverse outcome.

#### OIL SPILL

The Company recently completed an updated investigation of an oil spill from an underground storage tank that occurred several years ago in downtown Spokane at the site of the Company's steam heat plant. 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 spill. 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 showed that the oil has migrated approximately one city block beyond the steam plant property. On December 6, 1993, the Company asked the DOE to enter into negotiations for a Consent Decree which provided for additional remedial investigation and a feasibility study. The Consent Decree, entered on November 8, 1994, provided for 22 additional soil borings to be made around the site, which have been completed. It is anticipated that a remedial action plan will be approved by the fall of 1995 and that the remediation efforts will be conducted in 1996. As of June 30, 1995, a reserve of \$3.1 million is reflected on the Company's financial statements.

#### FIRESTORM

On October 16, 1991, gale-force winds struck a five-county area in eastern Washington and a seven-county area in northern Idaho. These winds were responsible for causing 92 separate wildland fires, resulting in two deaths and the loss of 114 homes and other structures, some of which were located in the Company's service territory. Four separate class action lawsuits were filed against the Company by private individuals in the Superior Court of Spokane County on October 13, 1993. These suits concern fires identified as Midway, Golden Cirrus, Nine Mile and Chattaroy. All of these suits were certified as class actions on September 16, 1994, and bifurcated for trial of liability and damage issues by order of the same date. The Company's Motion for Reconsideration was denied on October 21, 1994, and a Motion for Discretionary Review of the Court's decision on certification of class actions was timely filed with the Washington Court of Appeals (Division III) on November 14, 1994.

The Company was also served with two suits in Spokane County Superior Court filed on April 20, 1994 and on September 15, 1994, both of which sought individual damages from separate fires within the Chattaroy Fire complex. Five additional and separate suits were brought by Grange Insurance Company, and were filed in Spokane County Superior Court on October 10, 1994, for approximately \$2.2 million paid to Grange insureds for the same fire areas. Two additional class action suits were also filed - one in Lincoln County Superior Court, filed on October 14, 1994, for a fire known as "Nine Mile West" (previously included in the Spokane County Nine Mile suit certified as a class action), and the second in Spokane County Superior Court, filed on October 14, 1994, for the Ponderosa Fire area (which had not been the subject of previous suit). The Lincoln County suit has been transferred to Spokane County and both suits have now also been certified as class actions.

Complainants in all cases allege various theories of tortious conduct, including negligence, creation of a public nuisance, strict liability and trespass; in most cases, complainants allege that fires were caused by electric distribution lines downed by the wind. 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. Discovery is ongoing and the Company is presently unable to assess the likelihood of an adverse outcome or estimate an amount or range of potential loss in the event of an adverse outcome. Trials are scheduled to commence on various dates between February 3, 1997 and November 2, 1998. The Company was previously presented with a claim from the Washington State Department of Natural Resources (DNR) for fire suppression costs associated with five of these fires in eastern Washington. The total of the DNR claim was \$1.0 million. On July 22, 1993, the Company entered into a settlement with the DNR whereby the Company agreed to pay \$200,000 to DNR in full settlement of any and all DNR claims; however, there was no admission of liability on the part of the Company.

## WILLIAMS LAKE LAWSUIT

On February 2, 1995, a lawsuit was commenced in Spokane County Superior Court against the Company and its subsidiary, Pentzer, by Tondou Energy Systems, Inc. and T.E.S. Williams Lake Partnership alleging contract violations, conspiracy, misrepresentation and breach of fiduciary duties in regard to the 1993 sale of Pentzer Energy Services, Inc. to B.C. Gas, Inc. The suit claims damages in excess of \$10 million, plus exemplary damages, prejudgment interest, costs and attorneys' fees. Also named as defendants are B.C. Gas, Inc., Inland Pacific Energy (Williams Lake) Corp. and the former Pentzer Energy Services, Inc. subsidiaries which were involved in the sale. The claims involve an alleged first right to purchase interests in the Williams Lake, British Columbia wood-fired generating station. By Order of Summary Judgment entered June 16, 1995, all claims against the Company were dismissed with prejudice. Actions against the remaining defendants, including Pentzer, were dismissed without prejudice on grounds of an inconvenient forum. The Company cannot predict whether or not an action will be commenced against the remaining defendants in another court.

## DOLLAR ROAD

Soil contamination was discovered on a Company-owned site located east of Spokane on Dollar Road in 1993. The property was originally acquired under lease in 1956 and was subleased to other entities until 1992. The property was purchased by the Company in 1993 and DOE was notified of the contamination. The site has a land area of 4.4 acres of which one-half is involved. The Company recorded the \$1.0 million estimated cost of the site remediation in the second quarter of 1995. Clean-up is expected to be completed by December 1995.

## 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 3. ACQUISITIONS AND DISPOSITIONS

In February 1995, Pentzer Corporation (Pentzer), the Company's wholly-owned private investment firm, acquired The Decker Company, Inc., a company that designs and packages point-of-purchase displays and other marketing materials for national manufacturers of consumer products.

## NOTE 4. PROPOSED MERGER

In June 1994, the Company, Sierra Pacific Resources (SPR), Sierra Pacific Power Company, a subsidiary of SPR (SPPC), and Resources West Energy Corporation, a newly formed subsidiary of the Company (Resources West) entered into an Agreement and Plan of Reorganization and Merger, dated as of June 27, 1994, as amended October 4, 1994 which provides for the merger of the Company, SPR and SPPC with and into Resources West. The merger is designed to qualify as a pooling-of-interests for accounting and financial reporting purposes. Under this method of accounting, the recorded assets and liabilities of the Company, SPR and SPPC will be carried forward to the consolidated financial statements of Resources West at their recorded amounts; income of Resources West will include income of the Company, SPR and SPPC for the entire fiscal year in which the merger occurs; and the reported income of the separate corporations for prior periods will be combined and restated as income of Resources West.

The cost savings from the merger are estimated to approximate \$450 million, net of merger transaction and transition costs, over a 10 year period following the consummation of the merger. As of June 30, 1995, \$10.7 million in merger transaction and transition costs have been incurred and are included on the Company's balance sheet as Other Deferred Charges. The Company will determine the treatment of these costs based on regulatory rulings, generally accepted accounting principles and tax regulations. It is anticipated that for accounting purposes these merger transaction and transition costs will be expensed by Resources West after the merger is completed.

## THE WASHINGTON WATER POWER COMPANY

The following pro forma condensed financial information combines the historical consolidated balance sheets and statements of income of the Company and SPR after giving effect to the merger. The unaudited pro forma condensed consolidated balance sheet at June 30, 1995 gives effect to the merger as if it had occurred at June 30, 1995. The unaudited pro forma condensed consolidated statements of income for the quarter and six-months ended June 30, 1995 give effect to the merger as if it had occurred at January 1, 1995. These statements are prepared on the basis of accounting for the merger as a pooling-of-interests and are based on the assumptions set forth in the paragraph below. The pro forma condensed financial information has been prepared from, and should be read in conjunction with the Company's historical consolidated financial statements and related notes thereto of which this note is a part and SPR's historical 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. The information is not necessarily indicative of the financial position or operating results that would have occurred had the merger been consummated on the date, or at the beginning of the periods, for which the merger is being given effect, nor is it necessarily indicative of future operating results or financial position.

Intercompany transactions (including purchased and exchanged power transactions) between the Company and SPR during the period presented were not material and, accordingly, no pro forma adjustments were made to eliminate such transactions. For comparative purposes, certain historical amounts have been reclassified to conform to the pro forma condensed financial statement format. The \$450 million net cost savings estimated to be achieved by the merger are not reflected in the pro forma financial statements. Pro forma per share data and common shares outstanding for Resources West give effect to the conversion of each share of WWP Common Stock into one share of Resources West Common Stock and the conversion of each share of SPR Common Stock into 1.44 shares of Resources West Common Stock.

Unaudited Pro Forma Condensed Consolidated Balance Sheet at June 30, 1995 (in thousands of dollars):

	WWP -----	SPR -----	PRO FORMA -----
<b>Assets</b>			
Utility plant in service-net . . . . .	\$1,832,666	\$1,787,229	\$3,619,895
Construction work in progress. . . . .	28,251	97,449	125,700
	-----	-----	-----
Total. . . . .	1,860,917	1,884,678	3,745,595
Accumulated depreciation and amortization. . . . .	522,965	529,324	1,052,289
	-----	-----	-----
Net utility plant. . . . .	1,337,952	1,355,354	2,693,306
Other property and investments . . . . .	215,285	27,733	243,018
Current assets . . . . .	133,251	117,180	250,431
Deferred charges . . . . .	321,210	161,559	482,769
	-----	-----	-----
Total assets . . . . .	\$2,007,698	\$1,661,826	\$3,669,524
	=====	=====	=====
<b>Capitalization and Liabilities</b>			
Common stock and additional paid-in capital. . . . .	\$ 582,940	\$ 458,324	\$1,041,264
Other shareholders equity. . . . .	121,710	67,555	189,265
Preferred stock. . . . .	135,000	86,715	221,715
Long-term debt . . . . .	701,362	570,298	1,271,660
	-----	-----	-----
Total capitalization . . . . .	1,541,012	1,182,892	2,723,904
Current liabilities. . . . .	128,092	146,180	274,272
Deferred income taxes. . . . .	317,486	155,859	473,345
Other deferred credits . . . . .	19,836	176,895	196,731
Minority interest. . . . .	1,272	-	1,272
	-----	-----	-----
Total capitalization and liabilities . . . . .	\$2,007,698	\$1,661,826	\$3,669,524
	=====	=====	=====
Common shares outstanding (thousands). . . . .	55,237	29,785	98,127

## THE WASHINGTON WATER POWER COMPANY

Unaudited Pro Forma Condensed Consolidated Statements of Income for the three months ended June 30, 1995 (in thousands of dollars, except per share amounts):

	WWP -----	SPR -----	PRO FORMA -----
Operating revenues . . . . .	\$158,973	\$142,233	\$301,206
Operating expenses . . . . .	118,870	119,913	238,783
Income from operations . . . . .	40,103	22,320	62,423
Net income . . . . .	15,163	12,774	27,937
Income available for common stock . . . . .	12,865	10,896	23,761
Average common shares outstanding . . . . .	54,986	29,666	97,705
Earnings per share . . . . .	\$0.23	\$0.37	\$0.24

Unaudited Pro Forma Condensed Consolidated Statements of Income for the six months ended June 30, 1995 (in thousands of dollars, except per share amounts):

	WWP -----	SPR -----	PRO FORMA -----
Operating revenues . . . . .	\$356,901	\$302,378	\$659,279
Operating expenses . . . . .	258,324	252,807	511,131
Income from operations . . . . .	98,577	49,571	148,148
Net income . . . . .	43,618	29,946	73,564
Income available for common stock . . . . .	39,022	26,144	65,166
Average common shares outstanding . . . . .	54,785	29,563	97,356
Earnings per share . . . . .	\$0.71	\$0.88	\$0.67

## 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 in the Southwest region. Other factors affecting the wholesale power market include new entrants in the wholesale market, such as power brokers and marketers, and competition from low cost generation being developed by independent power producers. Usage by retail customers varies from year to year primarily as a result of weather conditions, the economy in the Company's service area, customer growth, conservation, appliance efficiency and other technology.

The Company intends to 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 also intends to 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 second quarter of 1995 decreased to \$0.23 from \$0.25 in 1994. Total earnings per share for the first six months of 1995 decreased to \$0.71 from \$0.72 for the same period in 1994. Net income increased slightly for the six-month period in 1995 as compared to 1994, but the increase in the average number of shares outstanding resulted in a small decrease in per-share earnings. Both the quarterly and year-to-date decreases in earnings per share were primarily the result of non-operating items. Other income decreased in both periods, primarily due to the accrual for the remediation work at Dollar Road (see Note 2 to the Financial Statements for additional information) and amortization of the Sandpoint acquisition adjustment from the Company's acquisition of PacifiCorp's electric properties in northern Idaho in late December 1994. Lower levels of AFUDC, due to lower levels of construction, increased interest expense, primarily due to higher levels of outstanding debt, a shift from short-term debt to long-term debt and higher interest rates and a decrease in other income also contributed to the decline in earnings per share in both the three and six months periods in 1995.

Utility income available for common stock contributed \$0.19 to earnings per share for the second quarter of 1995 compared to \$0.21 in the second quarter of 1994. Non-utility income available for common stock contributed \$0.04 to earnings per share for the second quarter of both 1995 and 1994. For the first half of 1995, utility income available for common stock contributed \$0.62 to earnings per share compared to \$0.65 during 1994. Non-utility income available for common stock contributed \$0.09 to earnings per share for the first six months of 1995 compared with \$0.07 in 1994. The decline in utility earnings is primarily due to non-operating activities, such as the decline in other income, lower levels of AFUDC and increased interest expense discussed above. The increase in non-utility operating results is primarily due to the impact of a transactional gain of \$1.3 million, net of tax, from the sale of Itron, Inc. stock in 1995.

## THE WASHINGTON WATER POWER COMPANY

## ELECTRIC OPERATIONS

Operating income summary  
(Dollars in thousands)

	Three months ended June 30		Change		Six months ended June 30		Change	
	1995	1994	Amount	%	1994	1994	Amount	%
Operating Revenues . . . . .	\$103,069	\$101,120	\$ 1,949	2	\$228,890	\$226,046	\$ 2,844	1
Operating Expenses:								
Purchased power . . . . .	15,538	16,354	(816)	(5)	38,491	46,257	(7,766)	(17)
Fuel for generation . . . . .	3,035	7,115	(4,080)	(57)	10,759	18,521	(7,762)	(42)
Other operating and maintenance . . . . .	18,113	15,333	2,780	18	35,915	30,446	5,469	18
Administrative and general . . . . .	10,471	9,524	947	10	20,140	18,103	2,037	11
Depreciation and amortization . . . . .	12,347	12,108	239	2	24,466	24,083	383	2
Taxes other than income . . . . .	9,347	8,244	1,103	13	19,754	18,090	1,664	9
Total operating expenses . . . . .	68,851	68,678	173	-	149,525	155,500	(5,975)	(4)
Income from operations . . . . .	34,218	32,442	1,776	5	79,365	70,546	8,819	13
Electric operating income taxes . . . . .	8,858	9,197	(339)	(4)	21,755	20,441	1,314	6
Net operating income (1) . . . . .	\$ 25,360	\$ 23,245	\$ 2,115	9	\$ 57,610	\$ 50,105	\$ 7,505	15

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

Total electric revenues increased \$1.9 million in the second quarter of 1995 over 1994. Residential and commercial revenues rose by a combined \$4.8 million due to increased kwh sales. Residential customers increased by over 14,000, or 6%, and commercial customers grew by over 3,000 customers, also a 6% increase, in the second quarter of 1995 as compared to second quarter 1994. Approximately 10,000 customers were added through the acquisition of PacifiCorp's electric properties in northern Idaho in late December 1994. Wholesale revenues decreased by \$3.3 million, or 14%, as a result of improved streamflow conditions and increased availability of hydroelectric generation in the region which led to reduced demand for secondary energy and lower market prices. Wholesale kwh sales decreased by 11% and average prices declined by 4% in the second quarter of 1995 as compared to 1994.

Year-to-date, total electric revenues increased \$2.8 million in 1995 as compared to 1994. Customer growth, primarily due to the acquisition of properties in northern Idaho, as mentioned above, was the primary reason for the increase in electric revenues during the first six months of 1995. Wholesale revenues decreased by \$7.5 million, or 16%, during the first half of 1995 as a result of improved streamflows and increased availability of hydroelectric generation in the region, which led to reduced demand for secondary energy and lower market prices.

## ELECTRIC REVENUES AND KWH SALES BY SERVICE CLASS

Class	Increase (Decrease) from prior year							
	Three months ended June 30, 1995				Six months ended June 30, 1995			
	REVENUE		KWH SALES		REVENUE		KWH SALES	
	(Dollars and kWhs in millions)							
Residential . . . . .	\$2.5	9%	33.1	5%	\$6.1	8%	84.9	6%
Commercial . . . . .	2.3	8	22.8	4	4.9	8	53.8	4
Industrial . . . . .	0.6	4	14.3	3	1.9	7	44.8	5
Wholesale . . . . .	(3.3)	(14)	(82.9)	(11)	(7.5)	(16)	(284.7)	(18)

Fuel expense decreased by \$4.1 million, or 57%, in the second quarter of 1995 compared to 1994 as increased hydroelectric generation resulted in the economic dispatch of some of the thermal plants. Improved streamflow conditions and increased hydroelectric generation caused purchased power costs to decline by \$0.8 million in the second quarter of 1995 over 1994. Other operating and maintenance expenses increased \$2.8 million, or 18%, during the second quarter of 1995 primarily due to lease payments and operating expenses related to the Rathdrum



## THE WASHINGTON WATER POWER COMPANY

combustion turbine, which went into service during the first quarter of 1995, and amortization of the Demand Side Management programs. Administrative and general expenses increased by \$0.9 million in the second quarter of 1995 due primarily to lease payments for computer software systems and labor-related costs. Other taxes, primarily excise and business and occupation taxes, were up \$1.1 million from the second quarter of 1994, primarily due to increased revenues in the second quarter of 1995.

Improved streamflow conditions and increased hydroelectric generation caused year-to-date 1995 purchased power costs to decline by \$7.8 million. Fuel expense decreased by \$7.8 million in the first six months of 1995 compared to 1994 as increased hydroelectric generation resulted in the economic dispatch of thermal plants. Other operating and maintenance expenses increased \$5.5 million year-to-date primarily due to lease payments and operating expenses related to the Rathdrum combustion turbine and amortization of the Demand Side Management programs. Administrative and general expenses increased by \$2.0 million in the first half of 1995 due primarily to lease payments for computer software systems and labor-related costs.

## NATURAL GAS OPERATIONS

Operating income summary  
(Dollars in thousands)

	Three months ended June 30		Change		Six months ended June 30		Change	
	1995	1994	Amount	%	1994	1994	Amount	%
Operating Revenues . . . . .	\$35,304	\$26,290	\$9,014	34	\$94,440	\$79,779	\$14,661	18
Operating Expenses:								
Natural gas purchased . . . . .	21,948	15,402	6,546	43	56,766	46,097	10,669	23
Other operating and maintenance . . . . .	3,816	3,774	42	1	7,562	6,779	783	12
Administrative and general . . . . .	3,266	2,688	578	22	6,533	5,584	949	17
Depreciation and amortization . . . . .	2,414	2,090	324	16	4,859	4,025	834	21
Taxes other than income . . . . .	2,237	1,657	580	35	5,471	4,653	818	18
Total operating expenses . . . . .	33,681	25,611	8,070	32	81,191	67,138	14,053	21
Income from operations . . . . .	1,623	679	944	-	13,249	12,641	608	5
Natural gas oper. income taxes . . . . .	40	(253)	293	-	3,745	3,718	27	1
Net operating income (1) . . . . .	\$ 1,583	\$ 932	\$ 651	70	\$ 9,504	\$ 8,923	\$ 581	7
Actual Heating Degree Days (2) . . . . .	1,010	891	119	13	3,597	3,506	91	3
Historical Heating Degree Days (3) . . . . .	1,056	1,056			3,934	3,934		
Actual Degree Days as a Percent of Historical Degree Days . . . . .	96%	84%			91%	89%		

- (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 in all revenue classes in second quarter 1995 from the second quarter of 1994. WPNG (Oregon and California) revenues increased by \$1.9 million, or 22%, in the second quarter of 1995 as compared to the same period in 1994. Natural gas revenues from WWP (Washington and Idaho) operations increased by \$7.1 million, or 40% in the second quarter of 1995. In both service areas, the revenue increase was primarily due to customer growth from conversions from electric service to natural gas, population growth and new construction. The average number of customers increased in both areas in the residential and commercial classes in the second quarter of 1995 as compared to 1994. WPNG and WWP residential customers increased by approximately 4,000, or 6%, and 9,400, or 8%, respectively. WPNG and WWP commercial customers rose by 3% and 7%, respectively, in the second quarter of 1995 as compared to 1994.

## THE WASHINGTON WATER POWER COMPANY

Total natural gas revenues increased \$14.7 million during the first six months of 1995 over the same period in 1994. WPNG revenues increased by \$2.2 million, or 8%, while revenues from WWP operations increased by \$12.5 million, or 24%, during the first half of 1995 compared to 1994. The revenue increase was primarily due to customer growth and higher average prices than last year. WPNG and WWP residential and commercial customers grew by approximately the same percentages described above during the first six months of 1995 compared to the same period in 1994. The total number of transportation customers grew by 23% in the first half of 1995.

## NATURAL GAS REVENUES AND THERM SALES BY SERVICE CLASS

Class	Increase (Decrease) from prior year							
	Three months ended June 30, 1995				Six months ended June 30, 1995			
	REVENUE		KWH SALES		REVENUE		KWH SALES	
	(Dollars and kWhs in millions)							
Residential . . . . .	\$3.5	29%	5.6	25%	\$ 7.1	17%	9.9	12%
Commercial . . . . .	2.0	25	3.4	18	3.5	13	4.8	8
Industrial - firm . . . . .	0.4	34	0.9	28	0.4	17	0.8	11
Industrial - interruptible	0.1	5	0.1	5	(0.3)	(18)	(0.8)	(16)
Sales for resale . . . . .	2.9	-	31.8	-	3.0	-	33.6	-
Transportation . . . . .	0.1	4	5.8	12	0.5	9	10.7	11

Natural gas purchased expense increased \$6.5 million, or 43%, in the second quarter of 1995 as compared to second quarter 1994. The increased cost was primarily the result of a 48% increase in therm sales to new customers. Administrative and general expenses increased by 22% in 1995 over the second quarter of 1994, primarily due to lease payments for computer software systems and labor-related costs. Depreciation and amortization expense also increased by 16% during the second quarter of 1995 as a result of increased natural gas plant-in-service. Other taxes, primarily excise and business and occupation taxes, were up \$0.6 million from the second quarter of 1994, primarily due to increased revenues in the second quarter of 1995.

Total natural gas operating expenses increased by \$14.1 million, or 21%, in the first half of 1995. Purchased gas costs increased \$10.7 million in the first six months of 1995 due primarily to a 24% increase in therm sales as a result of customer growth. Other operating and maintenance expenses increased \$0.8 million in the first half of 1995 over 1994 primarily due to amortization of the Demand Side Management programs. Administrative and general expenses increased by 17% in 1995 over 1994, primarily due to lease payments for computer software systems and labor-related costs. Depreciation and amortization expense increased by \$0.8 million during the first six months of 1995 as a result of increased natural gas plant-in-service. Other taxes, primarily excise and business and occupation taxes, were also up \$0.8 million from the first half of 1994, primarily due to increased year-to-date revenues.

## THE WASHINGTON WATER POWER COMPANY

## NON-UTILITY OPERATIONS

Operating income summary  
(Dollars in thousands)

	Three months ended June 30		Change		Six months ended June 30		Change	
	1995	1994	Amount	%	1994	1994	Amount	%
Operating revenues . . . . .	\$20,600	\$19,763	\$ 837	4	\$33,571	\$32,245	\$ 1,326	4
Operating expenses . . . . .	16,338	18,869	(2,531)	(13)	27,608	29,728	(2,120)	(7)
Operating income . . . . .	4,262	894	3,368	-	5,963	2,517	3,446	-
Other income (expense) . . . . .	(204)	2,458	(2,662)	-	1,493	2,939	(1,446)	(49)
Income before income taxes . . . . .	4,058	3,352	706	21	7,456	5,456	2,000	37
Income tax provision . . . . .	1,604	1,362	242	18	2,531	1,847	684	37
Net income . . . . .	\$ 2,454	\$ 1,990	\$ 464	23	\$ 4,925	\$ 3,609	\$ 1,316	36

Non-utility operations include the results of Pentzer and one other active subsidiary. Pentzer's business strategy is to acquire controlling interest in a broad range of middle-market companies, to help these companies grow through internal development and strategic acquisitions, and to sell the portfolio investments to the public or to strategic buyers. Pentzer's objective is to produce current returns from its portfolio investments that are higher than that of the utility operations and to supplement these current returns by generating transactional gains through the sale of portfolio investments when appropriate. 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 second quarter of 1995 exceeded 1994 by \$0.4 million. Non-transactional earnings from its portfolio investments exceeded 1994 by \$0.8 million due to stronger earnings from existing investments as well as new earnings from two companies acquired in the past 12 months. Transactional gains in 1995 were less than 1994 by \$0.4 million.

Pentzer's earnings for the first six months of 1995 exceeded 1994 by \$1.3 million. Transactional gains, primarily from the sale of Itron stock, increased by \$0.8 million. Non-transactional earnings from its portfolio investments grew by \$0.5 million in 1995 as compared to the same period in 1994.

In February 1995, Pentzer acquired The Decker Company, Inc., a company that designs and packages point-of-purchase displays and other marketing materials for national manufacturers of consumer products.

## LIQUIDITY AND CAPITAL RESOURCES

## UTILITY

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

**Operating Activities** Cash available from operating activities in the first six months of 1995 decreased by over \$21 million from the same period in 1994 primarily due to an increase in various working capital components, such as increased materials and supplies, fuel stock and natural gas stored and prepayments on power contracts, partially offset by the positive effect of purchased gas deferrals. See the Consolidated Statements of Cash Flows for additional details.

**Investing Activities** Cash used in investing activities decreased by more than \$67 million in the first half of 1995, when compared to the same period in 1994, primarily due to a 50% decrease in construction and demand side management program expenditures. See the Consolidated Statements of Cash Flows for additional information.

**Financing Activities** Cash used in financing activities increased by almost \$32 million in the six months ended June 30, 1995 when compared to the same period in 1994. Since January 1, 1995, \$58 million of Secured Medium Term Notes, Series B (Series B Notes) have been issued with an average interest rate of 7.31% and an average maturity of 7.3 years. The proceeds were primarily used to fund the maturity of \$15 million of Unsecured Medium-Term Notes and \$10 million of 4 5/8% First Mortgage Bonds and to repay \$51.5 million of short-term debt. As of August 10, 1995, \$129 million of Series B Notes remained to be issued.

Capital expenditures are financed on an interim basis with short-term debt. The Company has \$160 million in committed lines of credit. In addition, the Company may borrow up to \$60 million through other borrowing arrangements with banks. As of June 30, 1995, \$6.5 million was outstanding under the other borrowing arrangements with banks.

The Company's total common equity increased by \$28 million during the first half of 1995 to \$705 million. The increase was primarily due to the issuance of 816,000 shares of common stock through both the Dividend Reinvestment Plan and the Investment and Employee Stock Ownership Plan for proceeds of approximately \$12 million and a \$9.4 million increase in unrealized investment gains from Pentzer's investment in Itron. No shares were issued under the Company's Periodic Offering Program. The utility capital structure at June 30, 1995, was 49% debt, 10% preferred stock and 41% common equity as compared to 50% debt, 10% preferred stock and 40% common equity at year-end 1994.

During the 1995-1997 period, utility capital expenditures are expected to be \$228 million, and \$132 million will be required for long-term debt maturities and preferred stock sinking fund requirements. During this three-year period, the Company estimates that internally-generated funds will provide approximately 90% of the funds needed for its capital expenditure program. External financing will be required to fund maturing long-term debt, preferred stock sinking fund requirements and the remaining portion of capital expenditures. These projections relate to the Company on a stand-alone basis and do not reflect any adjustment for the effects of the proposed merger of the Company, SPR and SPPC with and into Resources West. See Regulatory Proceedings below for additional merger information.

## NON-UTILITY

The non-utility operations have \$39 million in borrowing arrangements (\$27 million outstanding as of June 30, 1995) to fund corporate requirements on an interim basis. At June 30, 1995, the non-utility operations had \$31 million in cash and marketable securities with \$11 million in long-term debt outstanding.

The 1995-1997 non-utility capital expenditures are expected to be \$5 million, and \$7 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The 1995 Annual Meeting of Shareholders of the Company was held on May 11, 1995. The re-election of directors with expiring terms was the only matter voted on at the meeting. There were 54,810,894 shares of Common Stock issued and outstanding as of March 16, 1995, the proxy record date, with 46,620,910 shares represented at said meeting. The details of the voting are shown below:

	For -----	Against or Withheld -----
Re-election of Directors		
David A. Clack	45,138,599	1,482,311
Duane B. Hagadone	44,960,945	1,659,965
Larry A. Stanley	45,125,951	1,494,959

## ITEM 5. OTHER INFORMATION.

## REGULATORY PROCEEDINGS.

Merger 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 were filed with the FERC and with the state utility commissions in the states of California, Idaho, Montana, Nevada, Oregon and Washington. The Montana Public Service Commission issued an order in October 1994 declining to exercise jurisdiction. The Company has negotiated stipulations with the commission staffs and certain other parties in each of the other five states. The major points of each stipulation and the current status are as follows:

Washington: Electric and gas base rate freeze through December 31, 2000  
Purchased gas benefits flowed through annual PGA (Purchased Gas Adjustment)  
Accelerated amortization of Washington electric DSM to provide full amortization by December 31, 2003  
Final order is still pending with respect to the proposed stipulation

Idaho: Electric and gas base rate freeze through December 31, 2000  
Purchased gas benefits flowed through annual PGA  
Earnings capped at 12.5% ROE, with earnings above 12.5% shared 50/50 with customers through PGA/PCA (Power Cost Adjustment)  
Final order is still pending with respect to the proposed stipulation

Oregon: No rate freeze  
Purchased gas benefits flowed through annual PGA, plus a sharing of non-purchased gas benefits to partially offset the expenses associated with additional capacity on Pacific Gas Transmission to Medford  
Final order was issued on June 23, 1995

California: Electric and gas base rate freeze through December 31, 1999  
All electric and gas tracking mechanisms suspended during the rate freeze. Balances in the electric and gas tracking accounts will be set to zero at January 1, 1996 or upon merger. Exempt from annual electric and gas cost of capital proceedings  
Electric rate reduction of \$3.1 million in 1996 related to the suspension of the electric tracking mechanism and elimination of the balances in the tracking accounts  
Final order is still pending with respect to the proposed stipulation

## THE WASHINGTON WATER POWER COMPANY

Nevada: Electric and gas base rate freeze through December 31, 1999. Water rates frozen through December 31, 1996. Gas tracker suspended through January 1, 1997. Electric power/fuel cost tracker suspended through December 31, 1999. One-time refunds related to a prior rate stipulation of \$9 million electric and \$4 million gas. Earnings for 1997-1999 capped at 12.0% ROE, with earnings above 12.0% shared 50/50 with customers. Final order is still pending with respect to the proposed stipulation.

The FERC has not yet established a procedural schedule for this proposed merger. However, the Company continues to anticipate receiving final orders from all jurisdictions and closing the merger transaction by the end of 1995. See Note 4 to Financial Statements for additional information.

FERC NOPR On March 29, 1995, the FERC issued a Notice of Proposed Rulemaking (NOPR) relating to transmission services and a supplemental NOPR on Recovery of Stranded Costs. If adopted, the NOPR on open access transmission would require public utilities operating under the Federal Power Act to provide third-party access to their transmission systems at comparable rates. The supplemental NOPR on stranded costs provides a basis for recovery by regulated public utilities of legitimate and verifiable stranded costs associated with existing wholesale requirements customers and retail customers who become unbundled wholesale transmission customers of the utility. FERC will consider allowing recovery of stranded investment costs associated with retail wheeling only if a state regulatory commission lacks the authority to consider that issue. The Company is currently evaluating the NOPR to determine its potential impact on the Company, its customers and on its proposed merger with SPR and SPPC. The Company filed comments with the FERC regarding the NOPR. It is anticipated that the final rules could take effect in early 1996. The Company cannot predict the outcome of this matter.

## 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	
	June 30, 1995	December 31, 1994
Ratio of Earnings to Fixed Charges	3.06 (x)	3.24 (x)
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements	2.48 (x)	2.59 (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.

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

- (a) Exhibits.
- 4(a) Bylaws of The Washington Water Power Company, as amended May 11, 1995.
- 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

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SIGNATURE

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

THE WASHINGTON WATER POWER COMPANY  
(Registrant)

Date: August 11, 1995

/s/ J. E. Eliassen

-----  
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 11, 1995



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 nine (9); provided, however, that if the right to elect a majority of the Board of Directors shall have accrued to the holders of the Preferred Stock as provided in paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, then, during such period as such holders shall have such right, the number of directors may exceed nine (9). Directors shall be divided into three classes, as nearly equal in number as possible. At each Annual Meeting of Shareholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Shareholders after their election. Notwithstanding the foregoing, directors elected

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

SECTION 3. REGULAR MEETINGS. The regular annual meeting of the Board of Directors shall be held immediately following the adjournment of the annual meeting of the shareholders. 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.



## THE WASHINGTON WATER POWER COMPANY

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

	12 Mos. Ended	Years Ended December 31			
	June 30 1995	1994	1993	1992	1991
Fixed charges, as defined:					
Interest on long-term debt	\$ 53,563	\$ 49,566	\$ 47,129	\$ 51,727	\$ 52,801
Amortization of debt expense and premium - net	3,530	3,511	3,004	1,814	1,751
Interest portion of rentals	2,672	1,282	924	1,105	1,018
	<u>\$ 59,765</u>	<u>\$ 54,359</u>	<u>\$ 51,057</u>	<u>\$ 54,646</u>	<u>\$ 55,570</u>
Earnings, as defined:					
Net income from continuing ops.	\$ 78,427	\$ 77,197	\$ 82,776	\$ 72,267	\$ 70,631
Add (deduct):					
Income net expense	44,967	44,696	42,503	41,330	38,086
Total fixed charges above	59,765	54,359	51,057	54,646	55,570
	<u>\$183,159</u>	<u>\$176,252</u>	<u>\$176,336</u>	<u>\$168,243</u>	<u>\$164,287</u>
Ratio of earnings to fixed charges	3.06	3.24	3.45	3.08	2.96
Fixed charges and preferred dividend requirements:					
Fixed charges above	\$ 59,765	\$ 54,359	\$ 51,057	\$ 54,646	\$ 55,570
Preferred dividend requirements(2)	14,211	13,668	12,615	10,716	14,302
	<u>\$ 73,976</u>	<u>\$ 68,027</u>	<u>\$ 63,672</u>	<u>\$ 65,362</u>	<u>\$ 69,872</u>
Ratio of earnings to fixed charges and preferred dividend requirements	2.48	2.59	2.77	2.57	2.35

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

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

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF THE WASHINGTON WATER POWER COMPANY. INCLUDED IN THE QUARTERLY REPORT ON FORM 10-Q FOR THE SIX MONTHS ENDED JUNE 30, 1995, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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6-MOS	DEC-31-1995	JUN-30-1995
		PER-BOOK
1,337,952		
215,285		
133,251		
321,210		
	0	
	2,007,698	
		570,949
13,668		
	120,033	
704,650		
	85,000	
		50,000
	651,632	
	6,500	
	8,222	
0		
37,504		
	0	
8		
		11
464,171		
2,007,698		
356,901		
	26,270	
258,324		
258,324		
	98,577	
		320
98,897		
	29,009	
		43,618
	4,596	
39,022		
	33,958	
	0	
	71,040	
		0.71
		0.71

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.