UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1998

OR

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

For the transition period from __________ to __________

Commission file number 1-3701

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

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

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

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

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

Yes [X] No [ ]

At October 31, 1998, 55,861,040 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

THE WASHINGTON WATER POWER COMPANY

Index

CONSOLIDATED STATEMENTS OF INCOME
The Washington Water Power Company

For the Three Months Ended September 30
Thousands of Dollars

	1998	1997
OPERATING REVENUES	$ 1,434,055	$ 295,076
OPERATING EXPENSES:		
Resource costs	1,289,400	166,762
Operations and maintenance	61,339	45,185
Administrative and general	30,022	24,606
Depreciation and amortization	17,622	16,764
Taxes other than income taxes	11,369	12,052
Total operating expenses	1,409,752	265,369
INCOME FROM OPERATIONS	24,303	29,707
OTHER INCOME (EXPENSE):		
Interest expense	(17,104)	(16,545)
Net gain on subsidiary transactions	48	7,756
Other income (deductions)-net	2,341	572
Total other income (expense)-net	(14,715)	(8,217)
INCOME BEFORE INCOME TAXES	9,588	21,490
INCOME TAXES	881	8,253
NET INCOME	8,707	13,237
DEDUCT-Preferred stock dividend requirements	608	979
INCOME AVAILABLE FOR COMMON STOCK	$ 8,099	$ 12,258
Average common shares outstanding (thousands)	55,960	55,960
EARNINGS PER SHARE OF COMMON STOCK, BASIC AND DILUTED	$ 0.14	$ 0.22
Dividends paid per common share	$ 0.31	$ 0.31

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME
The Washington Water Power Company

For the Nine Months Ended September 30
Thousands of Dollars

	1998	1997
OPERATING REVENUES	$ 2,661,290	$ 815,361
OPERATING EXPENSES:		
Resource costs	2,191,459	397,363
Operations and maintenance	164,887	129,226
Administrative and general	92,519	70,673
Depreciation and amortization	52,225	51,684
Taxes other than income taxes	37,255	38,049
Total operating expenses	2,538,345	686,995
INCOME FROM OPERATIONS	122,945	128,366
OTHER INCOME (EXPENSE):		
Interest expense	(51,151)	(49,061)
Interest on income tax recovery	--	47,338
Net gain on subsidiary transactions	7,579	11,152
Other income (deductions)-net	7,639	1,056
Total other income (expense)-net	(35,933)	10,485
INCOME BEFORE INCOME TAXES	87,012	138,851
INCOME TAXES	30,430	47,292
NET INCOME	56,582	91,559
DEDUCT-Preferred stock dividend requirements	2,219	4,568
INCOME AVAILABLE FOR COMMON STOCK	$ 54,363	$ 86,991
Average common shares outstanding (thousands)	55,960	55,960
EARNINGS PER SHARE OF COMMON STOCK, BASIC AND DILUTED	$ 0.97	$ 1.55
Dividends paid per common share	$ 0.93	$ 0.93

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED BALANCE SHEETS
The Washington Water Power Company

Thousands of Dollars

	September 30, 1998	December 31, 1997
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 35,508	$ 30,593
Temporary cash investments	14,727	22,641
Accounts and notes receivable-net	437,822	176,882
Energy commodity assets	193,106	76,449
Materials and supplies, fuel stock and natural gas stored	50,676	42,148
Prepayments and other	30,317	28,130
Total current assets	762,156	376,843
UTILITY PROPERTY:		
Utility plant in service-net	2,083,983	2,031,026
Construction work in progress	41,773	37,446
Total	2,125,756	2,068,472
Less: Accumulated depreciation and amortization	668,801	635,349
Net utility plant	1,456,955	1,433,123
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net	64,228	69,013
Non-utility properties and investments-net	211,954	195,046
Energy commodity assets	59,260	13,103
Other-net	23,531	20,065
Total other property and investments	358,973	297,227
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	172,358	176,682
Conservation programs	49,992	53,338
Unamortized debt expense	22,915	23,978
Prepaid power purchases	8,976	18,134
Other-net	32,142	32,460
Total deferred charges	286,383	304,592
TOTAL	$2,864,467	$2,411,785
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable	$ 487,649	$ 154,312
Energy commodity liabilities	189,858	70,135
Taxes and interest accrued	29,174	35,705
Other	64,652	79,586
Total current liabilities	771,333	339,738
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Energy commodity liabilities	44,054	10,556
Non-current liabilities	32,175	25,515
Deferred income taxes	355,396	352,749
Other deferred credits	16,422	17,230
Total non-current liabilities and deferred credits	448,047	406,050
CAPITALIZATION (See Consolidated Statements of Capitalization)	1,645,087	1,665,997
COMMITMENTS AND CONTINGENCIES (Note 5)		
TOTAL	$2,864,467	$2,411,785

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CAPITALIZATION
The Washington Water Power Company

Thousands of Dollars

	September 30, 1998	December 31, 1997
LONG-TERM DEBT:		
First Mortgage Bonds:		
7 1/8% due December 1, 2013	$ 66,700	$ 66,700
7 2/5% due December 1, 2016	17,000	17,000
Secured Medium-Term Notes:		
Series A - 5.95% to 8.06% due 2000 through 2023	211,500	211,500
Series B - 6.20% to 8.25% due 1999 through 2010	150,000	150,000
Total first mortgage bonds	445,200	445,200
Pollution Control Bonds:		
6% Series due 2023	4,100	4,100
Unsecured Medium-Term Notes:		
Series A - 7.94% to 9.58% due 1998 through 2007	48,500	52,500
Series B - 6.75% to 8.23% due 1999 through 2023	115,000	115,000
Series C - 6.37% to 6.88% due 2028	45,000	--
Total unsecured medium-term notes	208,500	167,500
Notes payable (due within one year) to be refinanced	54,200	108,500
Other	40,691	36,885
Total long-term debt	752,691	762,185
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES:		
7 7/8%, Series A, due 2037	60,000	60,000
Floating Rate, Series B, due 2037	50,000	50,000
Total company-obligated mandatorily redeemable preferred trust securities	110,000	110,000
PREFERRED STOCK-CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
$8.625 Series I; 100,000 shares outstanding ($100 stated value)	--	10,000
$6.95 Series K; 350,000 shares outstanding ($100 stated value)	35,000	35,000
Total subject to mandatory redemption	35,000	45,000
COMMON EQUITY:		
Common stock, no par value; 200,000,000 shares authorized; 55,960,360 shares outstanding	593,579	594,852
Note receivable from employee stock ownership plan	(9,533)	(9,750)
Capital stock expense and other paid in capital	(10,198)	(10,143)
Foreign currency translation adjustment	(363)	--
Unrealized investment gain-net	(82)	2,077
Retained earnings	173,993	171,776
Total common equity	747,396	748,812
TOTAL CAPITALIZATION	$ 1,645,087	$ 1,665,997

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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

For the Nine Months Ended September 30
Thousands of Dollars

	1998	1997
OPERATING ACTIVITIES:		
Net income	$ 56,582	$ 91,559
NON-CASH ITEMS INCLUDED IN NET INCOME:		
Depreciation and amortization	52,225	51,684
Provision for deferred income taxes	8,514	36,128
Allowance for equity funds used during construction	(1,105)	(960)
Power and natural gas cost deferrals and amortizations	(2,945)	(14,626)
Gains/losses on sales and other-net	(9,068)	(12,885)
(Increase) decrease in working capital components:		
Sale of customer accounts receivables-net	40,000	--
Receivables and prepaid expense	(311,481)	45,909
Materials & supplies, fuel stock and natural gas stored	(2,959)	(9,401)
Payables and other accrued liabilities	328,188	(7,485)
Other	(4,341)	13,743
NET CASH PROVIDED BY OPERATING ACTIVITIES	153,610	193,666
INVESTING ACTIVITIES:		
Construction expenditures (excluding AFUDC-equity funds)	(65,097)	(62,489)
Other capital requirements	(9,895)	(7,392)
Decrease in other noncurrent balance sheet items-net	2,859	14,590
Proceeds from sale of subsidiary investments	16,385	3,725
Assets acquired and investments in subsidiaries	(33,804)	(39,203)
NET CASH USED IN INVESTING ACTIVITIES	(89,552)	(90,769)
FINANCING ACTIVITIES:		
Decrease in short-term borrowings	(54,300)	(11,000)
Proceeds from issuance of preferred trust securities	--	110,000
Redemption of preferred stock	(10,000)	(70,000)
Proceeds from issuance of long-term debt	45,000	15,000
Redemption and maturity of long-term debt	(4,000)	(45,000)
Cash dividends paid	(54,299)	(57,157)
Other-net	18,456	(29,932)
NET CASH USED IN FINANCING ACTIVITIES	(59,143)	(88,089)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	4,915	14,808
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,593	8,211
CASH & CASH EQUIVALENTS AT END OF PERIOD	$ 35,508	$ 23,019
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period:		
Interest	$ 45,912	$ 45,397
Income taxes	33,152	51,393
Noncash financing and investing activities:		
Property purchased under capitalized leases	482	2,519

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
The Washington Water Power Company

For the Three Months Ended September 30
Thousands of Dollars

	1998	1997
OPERATING REVENUES:		
Energy Delivery	$ 78,871	$ 69,980
Generation and Resources	219,956	135,141
National Energy Trading and Marketing	1,077,730	49,535
Non-energy	60,969	41,298
Intersegment eliminations	(3,471)	(878)
Total operating revenues	$ 1,434,055	$ 295,076
RESOURCE COSTS:		
Energy Delivery:		
Natural gas purchased for resale	$ 17,020	$ 13,633
Other	(599)	(781)
Generation and Resources:		
Power purchased	179,268	86,278
Fuel for generation	12,908	9,851
Other	13,567	12,025
National Energy Trading and Marketing:		
Cost of sales	1,070,707	46,634
Intersegment eliminations	(3,471)	(878)
Total resource costs (excluding Non-energy)	$ 1,289,400	$ 166,762
GROSS MARGINS:		
Energy Delivery	$ 62,450	$ 57,128
Generation and Resources	14,213	26,987
National Energy Trading and Marketing	7,023	2,901
Total gross margins (excluding Non-energy)	$ 83,686	$ 87,016
OPERATIONS AND MAINTENANCE EXPENSES:		
Energy Delivery	$ 15,556	$ 15,240
National Energy Trading and Marketing	469	662
Non-energy	45,314	29,283
Total operations and maintenance expenses	$ 61,339	$ 45,185
ADMINISTRATIVE AND GENERAL EXPENSES:		
Energy Delivery	$ 11,726	$ 10,774
Generation and Resources	2,894	4,115
National Energy Trading and Marketing	6,896	3,458
Non-energy	8,506	6,259
Total administrative and general expenses	$ 30,022	$ 24,606
DEPRECIATION AND AMORTIZATION EXPENSES:		
Energy Delivery	$ 8,638	$ 8,095
Generation and Resources	6,345	6,106
National Energy Trading and Marketing	200	122
Non-energy	2,439	2,441
Total depreciation and amortization expenses	$ 17,622	$ 16,764
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):		
Energy Delivery	$ 18,178	$ 14,537
Generation and Resources	2,385	13,932
National Energy Trading and Marketing	(545)	(1,292)
Non-energy	4,285	2,530
Total income from operations	$ 24,303	$ 29,707

INCOME AVAILABLE FOR COMMON STOCK:		
Energy Delivery and Generation and Resources .	$ 5,903	$ 6,821
National Energy Trading and Marketing	(345)	(1,097)
Non-energy	2,541	6,534
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Total income available for common stock	$ 8,099	$ 12,258
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ASSETS: (1997 amounts at December 31)		
Energy Delivery	$ 1,065,542	$ 1,051,585
Generation and Resources	618,549	620,142
Other utility	239,818	255,012
National Energy Trading and Marketing	661,785	214,630
Non-energy	278,773	270,416
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Total assets	$ 2,864,467	$ 2,411,785
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CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):		
Energy Delivery	$ 22,530	$ 21,562
Generation and Resources	3,153	3,187
National Energy Trading and Marketing	222	2,306
Non-energy	3,025	3,802
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Total capital expenditures	$ 28,930	$ 30,857
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
The Washington Water Power Company

For the Nine Months Ended September 30
Thousands of Dollars

	1998	1997
OPERATING REVENUES:		
Energy Delivery	$ 288,048	$ 267,010
Generation and Resources	466,994	381,334
National Energy Trading and Marketing	1,752,223	51,610
Non-energy	162,083	116,353
Intersegment eliminations	(8,058)	(946)
Total operating revenues	$ 2,661,290	$ 815,361
RESOURCE COSTS:		
Energy Delivery:		
Natural gas purchased for resale	$ 73,509	$ 63,566
Other	(2,560)	(1,256)
Generation and Resources:		
Power purchased	338,776	223,042
Fuel for generation	30,196	25,494
Other	36,073	39,121
National Energy Trading and Marketing:		
Cost of sales	1,723,523	48,274
Intersegment eliminations	(8,058)	(878)
Total resource costs (excluding Non-energy)	$ 2,191,459	$ 397,363
GROSS MARGINS:		
Energy Delivery	$ 217,099	$ 204,700
Generation and Resources	61,949	93,677
National Energy Trading and Marketing	28,700	3,336
Total gross margins (excluding Non-energy)	$ 307,748	$ 301,713
OPERATIONS AND MAINTENANCE EXPENSES:		
Energy Delivery	$ 44,368	$ 44,416
National Energy Trading and Marketing	1,648	1,496
Non-energy	118,871	83,314
Total operations and maintenance expenses	$ 164,887	$ 129,226
ADMINISTRATIVE AND GENERAL EXPENSES:		
Energy Delivery	$ 37,517	$ 36,457
Generation and Resources	11,272	13,137
National Energy Trading and Marketing	18,616	6,052
Non-energy	25,114	15,027
Total administrative and general expenses	$ 92,519	$ 70,673
DEPRECIATION AND AMORTIZATION EXPENSES:		
Energy Delivery	$ 25,954	$ 24,311
Generation and Resources	18,786	19,167
National Energy Trading and Marketing	546	181
Non-energy	6,939	8,025
Total depreciation and amortization expenses	$ 52,225	$ 51,684
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):		
Energy Delivery	$ 81,550	$ 71,528
Generation and Resources	24,098	53,356
National Energy Trading and Marketing	7,871	(4,398)
Non-energy	9,426	7,948
Intersegment eliminations	--	(68)
Total income from operations	$ 122,945	$ 128,366

INCOME AVAILABLE FOR COMMON STOCK:		
Energy Delivery and Generation and Resources .	$ 37,663	$ 79,037
National Energy Trading and Marketing	5,744	(3,092)
Non-energy	10,956	11,046
Total income available for common stock	$ 54,363	$ 86,991
ASSETS: (1997 amounts at December 31)		
Energy Delivery	$ 1,065,542	$ 1,051,585
Generation and Resources	618,549	620,142
Other utility	239,818	255,012
National Energy Trading and Marketing	661,785	214,630
Non-energy	278,773	270,416
Total assets	$ 2,864,467	$ 2,411,785
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):		
Energy Delivery	$ 54,830	$ 53,751
Generation and Resources	9,816	7,228
National Energy Trading and Marketing	1,124	2,666
Non-energy	8,233	5,093
Total capital expenditures	$ 74,003	$ 68,738

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying financial statements of The Washington Water Power Company (Company) for the interim periods ended September 30, 1998 and 1997 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, 1997 (1997 Form 10-K).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NEW ACCOUNTING STANDARDS

As of January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (FAS No. 130), "Reporting Comprehensive Income." It requires companies to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. For the three months ended September 30, 1998 and 1997, accumulated comprehensive income totaled $(1.4) million and $(6.2) million, respectively. For the nine months ended September 30, 1998 and 1997, accumulated comprehensive income totaled $(2.2) million and $(1.9) million, respectively.

The Financial Accounting Standards Board (FASB) issued FAS No. 133, entitled "Accounting for Derivative Instruments and Hedging Activities" which will be effective for fiscal years beginning after June 15, 1999. The statement requires that all derivative financial instruments be recognized as either assets or liabilities on the company's balance sheets. The Company is in the process of researching the statement and its possible impact on the Company's financial position and results of operations. Additional footnote disclosure will likely be required.

ALLOCATION OF REVENUES AND EXPENSES FOR REPORTING BUSINESS SEGMENTS

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

NOTE 2. ENERGY COMMODITY TRADING

Notional Amounts and Terms The notional amounts and terms of Avista Energy's outstanding financial instruments at September 30, 1998 are set forth below:

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
Energy commodities (volumes)			
Natural gas (mmBTU)	827,881,136	776,620,175	5
Electric (MWh)	39,511,914	40,625,360	9

At September 30, 1998, Avista Energy also had sales and purchase commitments associated with contracts based on market prices totaling 369,881,772 mmBTUs, with terms extending up to 5 years. The fixed index electric transactions totaled 1,437,576 MWhs, with terms extending up to 3 years.

Notional amounts reflect the volume of transactions but do not necessarily represent the amounts exchanged by the parties to the commodity derivative instruments. Accordingly, notional amounts do not accurately measure Avista Energy's exposure to market or credit risks. The maximum terms in years detailed above are not indicative of likely

future cash flows as these positions may be offset in the markets at any time in response to Avista Energy's risk management needs.

Fair Value The fair value of Avista Energy's financial instruments as of September 30, 1998, and the average fair value of those instruments held during the nine months ended September 30, 1998 are set forth below (dollars in thousands):

	Fair Value as of September 30, 1998				Average Fair Value for the nine months ended September 30, 1998			
	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities
Natural gas	118,633	26,282	125,253	21,551	83,836	18,590	83,926	16,938
Electric	74,473	32,978	64,605	22,503	104,818	104,119	98,795	95,746
Total	193,106	59,260	189,858	44,054	188,654	122,709	182,721	112,684

The weighted average term of Avista Energy's natural gas and related commodity derivative instruments as of September 30, 1998 was approximately three months. The weighted average term of Avista Energy's electric commodity derivatives at September 30, 1998 was approximately ten months. The change in the fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk from December 31, 1997 to September 30, 1998 was $9.6 million and is included on the Consolidated Statements of Income in operating revenues.

NOTE 3. NATIONAL ENERGY TRADING AND MARKETING EQUITY INVESTMENT

Effective August 1, 1997, Howard Energy Marketing, which serves customers in the upper Midwest and Northeast United States, and Avista Energy formed Howard/Avista Energy, LLC (Howard/Avista), a limited liability company. Avista Energy's initial equity investment in Howard/Avista was $25 million, resulting in a 50% ownership interest. The investment in Howard/Avista is accounted for using the equity method of accounting. Under this method, equity in the net income or losses of Howard/Avista is reflected in Other Income (Deductions)-net on the Consolidated Statements of Income for the quarter and year-to-date ended September 30, 1998. The net investment in the net assets of Howard/Avista is included in Non-utility Properties and Investments-net on the Consolidated Balance Sheets at September 30, 1998 and December 31, 1997.

The following selected financial information reflects Howard/Avista's financial position on a total (100%) basis and operating results as of and for the quarter and year-to-date ended September 30, 1998:

RESULTS OF OPERATIONS (thousands of dollars)

	Quarter ended September 30, 1998	Year-to-date ended September 30, 1998
Revenues	$ 360,920	$ 1,545,280
Operating Expenses	(360,453)	(1,545,692)
Other Income-net	375	1,629
Net Income (pre-tax)	$ 842	$ 1,217
Avista Energy's equity in earnings of Howard/Avista Energy LLC (pre-tax)	$ 421	$ 609

FINANCIAL POSITION (thousands of dollars)

	September 30, 1998	December 31, 1997
Current Assets	$ 276,533	$ 400,150
Other Assets	1,547	1,960
Total Assets	$ 278,080	$ 402,110
Current Liabilities	$ 224,649	$ 348,339
Other Liabilities	91	228
Total Liabilities	224,740	348,567
Equity	53,340	53,543

Total Liabilities and Equity	$ 278,080	$ 402,110
Avista Energy's equity investment in Howard/Avista Energy LLC (pre-tax)	$ 26,670	$ 26,772

NOTE 4. FINANCINGS

The Company issued $45 million of Unsecured Medium-Term Notes, Series C during the second quarter of 1998, with rates between 6.37% and 6.88% and maturity dates in 2028.

The Company has made available a maximum of 2.5 million shares of its common stock for issuance under a long-term incentive plan for officers of the Company. The shares issued under the plan will be drawn from authorized and unissued shares or will be purchased by the trustee on the open market. As of September 30, 1998, 238,000 shares had been granted and no proceeds had been collected under this plan.

On October 21, 1998, the Company commenced an exchange offer under which common stock shareholders will be able to exchange their common shares for an equal number of depositary shares each representing a one-tenth interest in one share of mandatorily convertible preferred stock to be issued by the Company, which will become Preferred Series L. This new series of preferred stock is part of a dividend restructuring plan announced by the Company in August. All final regulatory compliance or approval orders were received by October 8. Under the terms of the plan, the Company has offered to exchange depositary shares representing the new preferred stock for up to 20 million, or about 35%, of its common shares outstanding. Each depositary share will pay an annual dividend of $1.24 per share. If more than 20 million shares are tendered for exchange, the tendered shares will be subject to proration. The Company has the option not to complete the exchange offer if less than 6 million shares are tendered for exchange to the Company. After three years, the new preferred stock will automatically convert back to common stock on a ten-for-one basis. Prior to the end of the three-year period, the Company has the option of converting the new preferred stock into ten shares of common stock, each having a value equal to $24.00, but in no event more than ten common shares per preferred share, and paying any accrued and unpaid dividends and a premium.

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 5. COMMITMENTS AND CONTINGENCIES

The Company believes, based on the information presently known, the ultimate liability for the matters discussed in this note, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the consolidated financial position of the Company, but could be material to results of operations or cash flows for a particular quarter or annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular lawsuit.

NEZ PERCE TRIBE

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

On November 21, 1994, the Company filed a Motion for Summary Judgment of Dismissal. On March 28, 1996, a U.S. District judge entered a summary judgment in favor of the Company dismissing the complaint. The Tribe filed a notice of appeal to the Ninth Circuit Court of Appeals on April 24, 1996. A mediation conference was held on October 11, 1996. Following the conclusion of that conference, briefing schedules were vacated indefinitely to accommodate a mediation process, which is continuing.

OIL SPILL

The Company completed an updated investigation of an oil spill from an underground storage tank that occurred several years ago in downtown Spokane at the site of the Company's steam heat plant. Underground soil testing conducted in 1993 showed that the oil had migrated approximately one city block beyond the steam plant property. The Clean-up Action Plan determined by the Department of Ecology (DOE) is underway, and remediation facilities have been constructed and installed and are being operated.

On August 17, 1995, a lawsuit was filed against the Company in Superior Court of the State of Washington for Spokane County by Davenport Sun International Hotels and Properties, Inc., the owner of a hotel property in downtown Spokane, Washington. The Complaint alleged that the oil released from the Company's Central Steamplant trespassed on property owned by the plaintiff. In addition, the plaintiff claimed that the Steamplant has caused a diminution of value of plaintiff's land. After mediation, the matter was resolved by settlement and compromise, subject to certain conditions. In December 1997, the settlement was restructured, certain amounts were paid, the litigation was dismissed with prejudice, a release was obtained, and other conditions remain to be fulfilled, none of which would affect the dismissal of this action.

The Company pursued recovery from insurers and has reached settlement with one of the two insurance carriers. On December 13, 1996, the Company filed a Complaint for declaratory relief and money damages against Underwriters at Lloyds of London (Lloyds), the remaining carrier, in Spokane County Superior Court. The purpose of this action is to seek a declaration of the insurance policies issued to the Company by Lloyds with respect to any liabilities of the Company for environmental damage associated with the oil spill at the Central Steam Plant and other environmental remediation efforts. The policies at issue were in effect during the period between 1926 and 1979; thereafter, the Company maintained its policies with a new underwriter, Aegis. The Company's Complaint seeks money damages in excess of $16 million.

ITRON LITIGATION

On August 19, 1997, a class action lawsuit was filed in the Superior Court of Spokane County against Itron, Inc. (Itron), and certain named individuals, as well as the Company, alleging violation of the Washington State Securities Act, the Washington Consumer Protection Act, and negligent misrepresentation. It is alleged that the Company was a controlling person of Itron by virtue of its ownership, at one time, of approximately 12% of the outstanding shares of Itron, and knew or should have known of the alleged false or misleading statements relating to the development of Itron's fixed network meter reading systems and the market therefor. On September 2, 1998, the court issued an order of dismissal with prejudice, finding that the plaintiffs had failed to state a cause of action.

SPOKANE GAS PLANT

The Company is participating with the Washington State Department of Transportation in an environmental study relating to the former Spokane Natural Gas Plant site (which was operated as a coal gasification plant for approximately 60 years until 1948) acquired by the Company through a merger in 1958. The Company no longer owns the property. Initial core samples taken from the site indicate environmental contamination at the site. At this time, the Company and other participants in the environmental study are in the process of determining the specific nature and extent of the contamination, and any necessary remedial action, as well as the cost thereof.

EASTERN PACIFIC ENERGY

On October 9, 1998, Eastern Pacific Energy (Eastern Pacific), an energy aggregator participating in the restructured retail energy market in California, filed suit against the Company and it affiliates, Avista Advantage, Inc. and Avista Energy, Inc. in the United States District Court for the Central District of California. Eastern Pacific alleges, among other things, a breach of an oral or implied joint venture agreement whereby the Company agreed to supply not less than 300 megawatts of power to Eastern Pacific's California customers and that Avista Advantage agreed to provide energy-related products and services. The complaint seeks an unspecified amount of damages and also seeks to recover any future profits earned from sales of the aforementioned amount of power to California consumers. The Company and its affiliates intend to vigorously defend against all of the claims.

NOTE 6. ACQUISITIONS AND DISPOSITIONS

During the first quarter of 1998, Pentzer Corporation (Pentzer) sold Systran Financial Services, resulting in an after-tax gain of $5.5 million.

In April 1998, Pentzer completed the purchase of two new companies that produce store fixtures -- Universal Showcase, Ltd., in Toronto, Canada and Triangle Systems, Inc., in New York. In October 1998, Pentzer acquired two additional store fixtures companies -- Horizon Terra, Inc., in Indiana and Pacific Coast Showcase, Inc., in Washington.

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

Effective January 1, 1999, The Washington Water Power Company (Company) will change its name to Avista Corporation. All Company operations will be unified under the Avista Corporation name, with two operating divisions -- Avista Utilities for the regulated energy activities and Avista Capital (previously Avista Corp.), a subsidiary which owns all of the non-regulated energy and non-energy businesses.

The Company operates as a regional utility providing electric and natural gas sales and services and as a national entity providing both energy and non-energy products and services. The utility portion of the Company consists of two lines of business which are subject to state and federal price regulation -- (1) Energy Delivery and (2) Generation and Resources. The national businesses are conducted under Avista Capital, which is the parent company to the Company's subsidiaries.

The Energy Delivery line of business includes transmission and distribution services for retail electric operations, all natural gas operations, and other energy products and services. The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas sales, trading and wholesale marketing primarily to other utilities and power brokers in the Western Systems Coordinating Council.

Avista Capital owns the Company's National Energy Trading and Marketing and Non-energy businesses. The National Energy Trading and Marketing businesses are conducted by Avista Energy and Avista Advantage. Avista Energy focuses on commodity trading, energy marketing and other related businesses on a national basis. Avista Advantage provides a variety of energy-related products and services, such as consolidated billing and resource accounting, to commercial and industrial customers on a national basis. The Non-energy business is conducted primarily by Pentzer Corporation (Pentzer), which is the parent company to the majority of the Company's Non-energy businesses.

Changes underway in the utility and energy industries are creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company is shifting its strategic direction to growth, which could subject the Company to a higher degree of risk than that of a traditional regulated public utility company.

RESULTS OF OPERATIONS

OVERALL OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1997

Third quarter 1998 net income available for common stock was $8.1 million compared to third quarter 1997 income of $12.3 million. The decrease in earnings was primarily the result of a gain recorded by Pentzer in 1997 related to the sale of a portion of stock it held in Itron. In addition, Generation and Resources income was down from 1997 due in large part to increased resource costs and tighter margins on wholesale sales transactions in the third quarter of 1998 as compared to the same period in 1997.

Earnings per share for the third quarter of 1998 were $0.14 as compared to $0.22 in the third quarter of 1997. Energy Delivery and Generation and Resources contributed $0.10 to earnings per share for the third quarter of 1998 compared to $0.12 in the third quarter of 1997, with the decrease resulting from increased resource costs and tighter margins on wholesale transactions. National Energy Trading and Marketing operations had a loss of $0.01 per share in the third quarter of 1998 compared to a loss of $0.02 in the same period in 1997. Non-energy operations contributed $0.05 to earnings per share for the third quarter of 1998 compared to $0.12 in the same period in 1997, primarily due to the sale in 1997 of a portion of Itron stock held by Pentzer.

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1997

Net income available for common stock for the first nine months of 1998 was $54.4 million compared to $87.0 million for the first nine months of 1997. The decrease in earnings was primarily the result of the receipt of $41.4 million, after taxes, in the second quarter of 1997 in interest income from an income tax recovery, partially offset by $9.8 million, after taxes, in non-recurring accounting transactions. The 1998 income figures include increased earnings from National Energy Trading and Marketing activities and a $5.5 million transactional gain, net of taxes, from the sale of a portfolio company by Pentzer which occurred in the first quarter of 1998. The increase in earnings was partially offset by decreased earnings from Generation and Resources operations, due in large part to increased resource costs and tighter margins on wholesale sales transactions in the first nine months of 1998 as compared to the same period in 1997.

Earnings per share for the nine months of 1998 were $0.97 as compared to $1.55 in the first nine months of 1997. Energy Delivery and Generation and Resources contributed $0.67 to earnings per share for the first nine months of 1998 compared to $1.41 in the first nine months of 1997. The reduction in the 1998 figures as compared to 1997 was primarily due to the income tax recovery in 1997. Ongoing operations for the first nine months of 1997 (removing the

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effects of the income tax recovery and non-recurring transactions) would have resulted in total earnings per share of $0.99 and utility earnings of $0.85 per share. National Energy Trading and Marketing operations contributed $0.10 to earnings per share in the first nine months of 1998 compared to a loss of $0.06 in the same period in 1997. Non-energy operations contributed $0.20 to earnings per share for the first nine months of both 1998 and 1997.

ENERGY DELIVERY

THREE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1997

Energy Delivery's pre-tax income from operations increased $3.6 million, or 25%, in the third quarter of 1998 over the same period in 1997. The increase was primarily the result of increased air conditioning loads, the positive impact of a natural gas price increase effective January 1998 and customer growth. Energy Delivery's operating revenues and expenses increased $8.9 million and $5.3 million, respectively, during the third quarter of 1998 as compared to 1997.

Electric revenues increased $4.9 million in the third quarter of 1998 over 1997 due to warmer than normal weather which increased air conditioning loads. Natural gas revenues increased $4.0 million in the third quarter of 1998 over 1997 due to a combination of higher sales for resale, increased prices approved by the Washington Utilities and Transportation Commission (WUTC) in November 1997, which were effective January 1, 1998, and customer growth.

Purchased gas costs increased $3.4 million in the third quarter of 1998 over 1997 primarily as a result of increased therm sales due to higher sales for resale and customer growth.

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1997

Energy Delivery's pre-tax income from operations increased $10.0 million, or 14%, in the first nine months of 1998 over 1997. The increase was primarily the result of the positive impact of a natural gas price increase effective January 1998, increased air conditioning loads during the summer months and customer growth. Energy Delivery's operating revenues and expenses increased $21.0 million and $11.0 million, respectively, during the first nine months of 1998 as compared to 1997.

Electric revenues increased $3.5 million year-to-date in 1998 over 1997 primarily due to the increased air conditioning loads during the third quarter of 1998. Natural gas revenues increased $17.5 million in the first nine months of 1998 over 1997 due to a combination of increased sales due to a greater volume of sales for resale, increased prices approved by the WUTC and 5% customer growth.

Purchased natural gas costs increased $9.9 million in the first nine months of 1998, primarily from increased therm sales due to higher sales for resale and customer growth.

GENERATION AND RESOURCES

THREE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1997

Generation and Resources' pre-tax income from operations decreased $11.5 million, or 83%, in the third quarter of 1998 from the same period in 1997. The decrease was primarily due to warmer than normal weather in the third quarter of 1998 throughout both the Company's service area and the Western region of the United States, which increased the demand for electricity and, in turn, increased prices for purchased power. In addition, hydroelectric generation was 19% lower in the third quarter of 1998 compared to 1997, which resulted in higher levels of purchased power to meet sales commitments. Streamflows in the third quarter of 1998 were 100% of normal, compared to 155% in the third quarter of 1997.

Increased wholesale sales and decreased hydroelectric generation caused purchased power volumes to increase 35%, which, combined with purchased power prices 54% higher than last year, resulted in a $93.0 million, or 108%, increase in purchased power costs in the third quarter of 1998 over 1997. This increase accounts for the majority of the increase in Generation and Resources' operating expenses and the decline in gross margins and pre-tax operating income.

During 1997 there was a significant shift in product mix between short- and long-term sales which continued into 1998. This trend is expected to continue due to the expiration of older sales contracts with higher margins, fewer long-term contracts being entered into and margins on new sales contracts tightening. Revenues from short-term sales, typically with smaller margins, increased $83.4 million, or 130%, while short-term sales volumes increased 1,582 million mwhs, or only 44%, during the third quarter of 1998 over 1997, reflecting the higher prices for power in the region. Revenues from long-term sales, typically with higher margins, increased $0.3 million, or 1%, while long-term sales volumes increased 6.8 million mwhs, or 1%, during the same period.

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1997

Generation and Resources' pre-tax income from operations decreased $29.3 million, or 55%, in the first nine months of 1998 from the same period in 1997. The decrease was primarily due to hydroelectric generation that was 21% lower in the first nine months of 1998 compared to 1997, which resulted in higher levels of purchased power to meet sales commitments, and to the impact of a shifting product mix as described below. Streamflows in the first nine months of 1998 were 92% of normal, compared to 175% in the first nine months of 1997.

Increased wholesale sales and decreased hydroelectric generation caused purchased power volumes to increase 18%, which, combined with purchased power prices 29% higher than last year, resulted in a $115.7 million, or 52%, increase in purchased power costs in the first nine months of 1998 over 1997. This increase accounts for the majority of the increase in Generation and Resources' operating expenses and the decline in gross margins and pre-tax operating income.

The same shift in product mix and the reasons behind it, as discussed for the third quarter, were also relevant to the results for the nine months ended September 30, 1998. Revenues from short-term sales, typically with smaller margins, increased $126.6 million, or 94%, while short-term sales volumes increased 2,853 million mwhs, or 31%, during the first nine months of 1998 over 1997, reflecting higher prices for purchased power in the region. Revenues from long-term sales, typically with higher margins, decreased $37.8 million, or 34%, while long-term sales volumes decreased 690 million mwhs, or 21%, during the same period.

NATIONAL ENERGY TRADING AND MARKETING

THREE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1997

National Energy Trading and Marketing includes the results of Avista Energy, the national energy marketing subsidiary, and Avista Advantage, the energy services subsidiary. Although both companies began incurring start-up costs during 1996, Avista Energy only became operational in July 1997. National Energy Trading and Marketing income available for common stock for the third quarter of 1998 was a loss of $0.3 million, compared to a loss of $1.1 million in the third quarter of 1997 when start-up costs were being incurred. National Energy Trading and Marketing operating revenues and expenses increased $1.03 billion and $1.03 billion, respectively, during the third quarter of 1998 as compared to 1997. The increase in both revenues and expense is primarily volume driven as Avista Energy began trading operations in July 1997. During the third quarter of 1997, Avista Energy was still developing its business and adding experienced electricity and natural gas traders.

Avista Energy expected high volatility in Eastern electric markets in the summer of 1998 and its positions were established in anticipation of such market swings. As a result of this market volatility, however, the Company experienced negative earnings in its portfolio during this period. The negative portfolio earnings were more than offset by the realization of positive earnings on prior portfolio positions taken, which were recognized in revenues and resource costs. However, because Avista Energy maintains a trading portfolio, it marks its trading portfolio to fair market value on a daily basis, which can cause earnings variability. For additional information about market risk and credit risk, see Liquidity and Capital Resources: Energy Trading Business.

Credit reserves were reviewed thoroughly during the third quarter in light of the market conditions discussed above and are believed to be at adequate levels. National Energy Trading and Marketing's total assets and liabilities decreased by approximately $230 million during the third quarter of 1998 as compared to June 30, 1998. This decrease resulted from the impact of the market's price volatility on forward price curves, which contributed to a decrease in the valuation of Avista Energy's mark-to-market assets and liabilities. In addition, a significant amount of the prior quarter's increases in mark-to-market assets and liabilities were settled and realized in revenues and resource costs during the third quarter of 1998.

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1997

National Energy Trading and Marketing income available for common stock for the first nine months of 1998 was $5.7 million, which was an $8.8 million increase over the first nine months of 1997 when start-up costs were being incurred. National Energy Trading and Marketing operating revenues and expenses increased $1.70 billion and $1.69 billion, respectively, during the first nine months of 1998 as compared to 1997 primarily as a result of Avista Energy beginning trading operations in July 1997.

Avista Energy provided positive results for the first nine months of 1998 despite the price volatility experienced in power markets in the Midwest and East during various periods of the year. The company was well-positioned in its market, which allowed net gains in its portfolio during the period of high volatility. Avista Energy expected high volatility in Eastern electric markets in the summer of 1998 based on expected demand and the high probability of a weather-related impact on energy prices. As a result, Avista Energy established positions in anticipation of volatile market swings, and in turn experienced positive earnings in its portfolio during this period. However, there is no guarantee that positive results can or will always be achieved.

National Energy Trading and Marketing's total assets and liabilities increased by approximately $449 million from December 31, 1997 to September 30, 1998. This increase resulted from both the volume of transactions increasing and the impact of the market's price volatility on forward price curves, thereby increasing the valuation of Avista Energy's mark-to-market assets and liabilities.

NON-ENERGY

THREE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1997

Non-energy income available for common stock for the third quarter of 1998 was $2.5 million, compared to third quarter 1997 earnings of $6.5 million. The decrease in 1998 earnings primarily resulted from a gain recorded in 1997 related to the sale of a portion of stock in Itron held by Pentzer. Transactional gains decreased $5.3 million in the third quarter of 1998 from 1997, but were partially offset by a $1.2 million increase in non-transactional income primarily from increased earnings from portfolio companies.

Non-energy operating revenues and expenses increased $19.7 million and $17.9 million, respectively, during the third quarter of 1998, as compared to 1997, primarily as a result of acquisitions and increased business activity from several of Pentzer's portfolio companies. Income from operations totaled $4.3 million, which was a $1.8 million increase over 1997.

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1997

Non-energy income available for common stock for the first nine months of 1998 was $11.0 million, which was the same as 1997 earnings. Transactional gains decreased $1.8 million in the first nine months of 1998 over 1997, while non-transactional income from portfolio companies increased $2.9 million.

Non-energy operating revenues and expenses increased $45.7 million and $44.3 million, respectively, during the first nine months of 1998, as compared to 1997, primarily as a result of acquisitions and increased business activity from several of Pentzer's portfolio companies. Income from operations totaled $9.4 million, which was a $1.5 million increase over 1997.

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LIQUIDITY AND CAPITAL RESOURCES

OVERALL OPERATIONS

Operating Activities Cash provided by operating activities in the first nine months of 1998 decreased $40.1 million from the same period in 1997, primarily due to the increase in 1997 net income from the income tax recovery. Changes in various working capital components, such as payables and receivables, caused cashflows to increase $6.6 million from 1997, primarily due to the growth in Avista Energy's operations and the sale of an additional $40.0 million of customer accounts receivables. Power and natural gas cost deferrals decreased cashflows to a greater degree in 1997 when natural gas prices were higher during the first part of the year, natural gas customers paid lower prices and PCA rebates were in effect. See the Consolidated Statements of Cash Flows for additional details.

Investing Activities Cash used in investing activities totaled $89.6 million in the first nine months of 1998 compared to $90.8 million in the same period in 1997. Net cash used in investing activities during 1998 primarily was for acquisitions made by Pentzer, partially offset by proceeds from the sale of subsidiary investments by Pentzer. See the Consolidated Statements of Cash Flows for additional information.

Financing Activities Cash used in financing activities totaled $59.1 million in the first nine months of 1998 compared to $88.1 million in 1997. Bank borrowings were reduced by $54.3 million and $14.0 million of preferred stock and medium-term notes matured or were redeemed in the first nine months of 1998 with the proceeds of the issuance of $45.0 million of unsecured medium-term notes. In the first nine months of 1997, bank borrowings decreased $11.0 million and preferred stock and medium-term notes totaling $115.0 million matured or were redeemed with the proceeds of $110 million of Preferred Trust Securities which were issued in January and June 1997. The increase of $18.5 million in Other-net in the first nine months of 1998 reflects an increase in short- and long-term debt by the non-energy companies as compared to a decrease of $29.9 million in 1997.

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

Capital expenditures are financed on an interim basis with notes payable (due within one year). The Company has $200 million in a committed line of credit. In addition, the Company may currently borrow up to $100 million through other borrowing arrangements with banks. As of September 30, 1998, $54.2 million was outstanding under other short-term borrowing arrangements and there were no outstanding borrowings under the committed line of credit.

The Company's estimates for capital expenditures (as reported in the 1997 Form 10-K) do not include expenditures that would be required to fund its strategic growth initiatives. Additional capital expenditures that would be required during the 1999-2000 period could be in the range of $400-600 million. Sources of funds would include, but are not necessarily limited to, cash flows from the reduction in the Company's common stock dividend that was announced on August 17, 1998, monetization of certain long-term contracts, an increase in the sale of the Company's accounts receivable, sales of certain assets, additional long-term debt, leasing or other equity securities.

The dividend restructuring reduces the annual dividend on the Company's common stock from $1.24 to $0.48 per share, a reduction of 61%. The reduction will be effective with the payment of the dividend expected on December 15, 1998.

The Company issued $45 million of Unsecured Medium-Term Notes, Series C during the second quarter of 1998, with rates between 6.37% and 6.88%.

On October 21, 1998, the Company commenced an exchange offer under which common stock shareholders will be able to exchange their common shares for an equal number of depositary shares each representing a one-tenth interest in one share of mandatorily convertible preferred stock to be issued by the Company, which will become Preferred Series L. This new series of preferred stock is part of a dividend restructuring plan announced by the Company in August. All final regulatory compliance or approval orders were received by October 8. Under the terms of the plan, the Company has offered to exchange depositary shares representing the new preferred stock for up to 20 million, or about 35%, of its common shares outstanding. Each depositary share will pay an annual dividend of $1.24 per share. If more than 20 million shares are tendered for exchange, the tendered shares will be subject to proration. The Company has the option not to complete the exchange offer if less than 6 million shares are tendered for exchange to the Company. After three years, the new preferred stock will automatically convert back to common stock on a ten-for-one basis. Prior to the end of the three-year period, the Company has the option of converting the new preferred stock into ten shares of common stock, each having a value equal to $24.00, but in no event more than ten common shares per preferred share, and paying any accrued and unpaid dividends and a premium.

The Company's total common equity decreased by $1.4 million during the first nine months of 1998 to $747.4 million, primarily due to a decrease in the unrealized investment gain-net, which is primarily Avista Capital's investment in Itron stock, due to a declining stock price. The Company's consolidated capital structure at September 30, 1998, was 46% debt, 9% preferred securities and 45% common equity, which was the same as at year-end 1997.

NATIONAL ENERGY TRADING AND MARKETING OPERATIONS

The National Energy Trading and Marketing operations have a credit agreement with a commercial bank that is guaranteed by Avista Capital. The agreement may be terminated by the bank at any time and all extensions of credit under the agreement are payable upon demand, in either case at the bank's sole discretion. The maximum cash component of credit extended by the bank is $15 million, with availability of up to $50 million in the issuance of letters of credit. At September 30, 1998, there were no cash advances (demand notes payable) outstanding, and letters of credit outstanding under the facility totaled $28.8 million. At September 30, 1998, the National Energy Trading and Marketing operations had $23.3 million in cash and cash equivalents.

NON-ENERGY OPERATIONS

The non-energy operations have $47.1 million in short-term borrowing arrangements available ($16.0 million outstanding as of September 30, 1998) to fund Pentzer's portfolio companies' requirements on an interim basis. At September 30, 1998, the non-energy operations had $26.4 million in cash and marketable securities with $51.1 million in long-term debt outstanding.

Avista Laboratories, a subsidiary of Avista Capital, recently announced the receipt of a $2 million technology development award from the Department of Commerce's National Institute of Standards and Technology Advanced Technology Program. The Company will contribute another $1.22 million over a two-year period. Avista Labs plans to work on technology that will increase the energy density of its fuel cell design and develop multiple fuel processing approaches using propane, methane and methanol as base fuels to integrate into its fuel cell subsystem.

YEAR 2000

The Company continues to move forward with a comprehensive program to address areas of risk associated with the Year 2000. Systems and programs that may be affected by the Year 2000 problem have been identified and activities are underway to make these systems Year 2000 ready. At this time, it is the Company's belief that all identified modifications that are within the Company's operating control will be made within the required time frames.

State of Readiness

In order to address Year 2000 issues, several project activity teams were created and a comprehensive readiness plan was developed to bring the Company into Year 2000 readiness by the middle of 1999. The project was divided into four major categories of activities: Desktop Computer Systems, Business Systems, Supply Chain and Embedded Systems.

Desktop Computer Systems All desktop computer hardware has been Year 2000 tested and an inventory and assessment of desktop resident third-party software has been completed. As a result, more than 350 of the Company's 1,100 desktop computers require hardware remediation, which is expected to be completed by mid-1999. All non-compliant third-party software programs are planned to be upgraded to a Year 2000 ready version by the middle of 1999. In addition, all critical business desktop applications are expected to be converted, tested and made Year 2000 ready by the middle of 1999.

Business Systems Many of the Company's critical business systems would not have operated correctly in the year 2000 and beyond, and thus have been or are in the process of being re-programmed, upgraded or replaced. Key business systems have been inventoried and assessed. For example, the Company's Accounts Payable and General Ledger systems have been upgraded to Year 2000 ready versions, while new Materials Management, Human Resources and Payroll systems are currently being installed. Year 2000 testing is in process on the Accounts Payable and General Ledger systems. Testing of the Company's Billing, Customer Service and Work Management systems began in October 1998 and is expected to be completed before the middle of 1999. A failure of these systems would not jeopardize the Company's ability to deliver energy services to customers, but might affect its ability to perform selected accounting and business-related functions.

Supply Chain The Company recognizes its dependence on outside suppliers of goods and services and is working to assure that the necessary products and services are available. To address these issues, the Company has communicated with suppliers and identified critical suppliers in order to investigate their efforts to become year 2000 ready. In addition, the Company has made site visits to select key suppliers and will be reviewing their contingency plans.

Embedded Systems The Embedded System team is responsible for locating, assessing, testing, fixing or replacing microprocessor-controlled devices. Inventory and assessment is 90 percent complete, and to date very few embedded systems have been found that require remediation. None of these requiring remediation would have caused a disruption in service to our customers. Remediation and testing is complete at nine of the Company's twelve generation sites and these sites are Year 2000 ready. The combined output from these plants represents about 75 percent of the Company's overall generation capacity or about 900 megawatts. The process for testing a generation facility for Year 2000 consists of identification and testing of all facility systems and system components; renovations of systems and components that fail the tests; and a full facility test where system clocks are manually moved forward and the entire plant is put into operation as if it were already the year 2000. Remediation and testing at the remaining sites is scheduled to occur before the middle of 1999.

The Company's Supervisory Control and Data Acquisition (SCADA) system, which monitors and controls the majority of the Company's generating and substation equipment and the transmission system, was run "in the Year 2000" for three days without incident. All testing of electric metering has been completed. Testing of devices in the Company's transmission and distribution substations systems is expected to be complete by mid-1999. Initial assessment indicates that most of the embedded systems in these areas are either already Year 2000 compliant or are not within an essential business system.

Costs

The Company estimates that the cost of its Year 2000 project will be approximately $4-6.5 million in incremental costs during the 1997-1999 time period. Through September 30, 1998, the Company has spent $2.2 million in incremental costs. These costs are being funded through operating cashflows. The Company does not expect costs associated with the Year 2000 project to materially affect the Company's earnings in any one year.

Risks

The Company believes the primary areas of Year 2000 risk to be internal business systems, which are discussed above, and external factors, which include the regional electric transmission grid and natural gas pipelines. There can be no guarantee that systems of other companies on which the Company's systems rely will be timely converted. A failure to convert by another company or a conversion that is incompatible with the Company's systems could have an effect on the Company's ability to provide energy services.

Electric The Company is working with the other energy suppliers in the area to address risks related to the regional electric transmission grid, which consists of the interconnected transmission systems of each utility within the Western Systems Coordinating Council (WSCC). Such interconnected systems are critical to the reliability of each interconnected electric service provider, as the failure of one such interconnected provider to achieve Year 2000 compliance could disrupt the others from providing electric services. Should the regional electric transmission grid become unstable, power outages may occur. The Company is in the process of developing contingency plans, including re-starting from a system-wide outage. The Company is in the process of contacting its major suppliers of electricity to assess their Year 2000 preparations. The Company has met with one of its largest suppliers, Bonneville Power Administration, and exchanged information. The North American Electric Reliability Council (NERC) has responsibility for overseeing the efforts of the industry in the United States and is coordinating Year 2000 efforts and contingency planning within ten electric reliability councils throughout the United States. Coordination in the Company's region is through the WSCC. The WSCC, along with NERC, has set a deadline of December 31, 1998 for the development of contingency plans. The Company cannot assure Year 2000 compliance or assess the effect of non-compliance by systems or parties that the Company does not control.

In addition to the traditional electric utility operations of the Company, the energy trading business conducted by Avista Energy, Inc. is subject to Year 2000 risk. Most of Avista Energy's internal business systems do not require any significant upgrading and those that do are being addressed. However, if any of Avista Energy's counterparties experience Year 2000 problems (including but not limited to problems arising out of failures in the generation or transmission systems of utilities or other energy suppliers), such problems could impair the ability of Avista Energy or any of its counterparties to fulfill their contractual obligations. Avista Energy is in the process of contacting its counterparties to assess their Year 2000 readiness and of developing contingency plans. See "Energy Trading Business".

Natural Gas The Company has performed an inventory and assessment of the equipment in its natural gas distribution systems and believes that there are no devices in the systems that will cause a disruption in the delivery of natural gas to customers due to a Year 2000 problem. However, the Company depends on natural gas pipelines which it does not own or control, and if one or more of the pipelines is unable to deliver natural gas, the Company in turn

will be unable to deliver natural gas to customers. In order to address this issue, the Company has contacted each of the natural gas pipeline companies with which it has contracts to assess their Year 2000 readiness efforts and will continue to take reasonable steps to ensure that these suppliers are addressing any Year 2000 related problems that would result in a disruption in natural gas services to customers. In the event of a disruption in natural gas service, the Company has in place Emergency Operating Plans (generic plans to handle any unexpected emergency event) to address this type of situation, and is in the process of developing contingency plans specifically for Year 2000 related disruptions in the delivery of natural gas.

Contingency Planning

The Company is in the process of developing contingency plans, which will include such topics as identifying key personnel, communications, and deployment plans, along with training and equipment. Plans are scheduled to be completed by December 31, 1998.

ENERGY TRADING BUSINESS

The participants in the emerging wholesale energy market are public utility companies and, increasingly, power marketers which may or may not be affiliated with public utility companies or other entities. The participants in this market trade not only electricity and natural gas as commodities but also derivative commodity instruments such as futures, forwards, swaps, options and other instruments. This market is largely unregulated and most transactions are conducted on an "over-the-counter" basis, there being no central clearing mechanism (except in the case of specific instruments traded on the commodity exchanges). Power marketers, whether or not affiliated with other entities, generally do not own production facilities and are not subject to net capital or other requirements of any regulatory agency.

The Company (to the extent that the Generation and Resources segment conducts energy trading) and Avista Energy are subject to the various risks inherent in commodity trading including, particularly, market risk and credit risk.

Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply (in the case of electricity, adequacy of generating reserve margins as well as scheduled and unscheduled outages of generating facilities) and demand (extreme variations in the weather, whether or not predicted). Market risk includes the risk of fluctuation in the market price of associated derivative commodity instruments. All market risk is influenced to the extent that the performance or non-performance by market participants of their contractual obligations and commitments affect the supply of the commodity.

Credit risk relates to the risk of loss that the Company (to the extent of Generation and Resources' trading activities) and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations under the various instruments with the Company or Avista Energy, as the case may be. Credit risk may be concentrated to the extent that one or more groups of counterparties have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. The Company and Avista Energy seek to mitigate credit risk (and concentrations thereof) by applying specific eligibility criteria to prospective counterparties. However, despite mitigation efforts, defaults by counterparties occur from time to time. To date, no such default has had a material adverse effect on the Company or Avista Energy.

Avista Capital provides guarantees for Avista Energy's line of credit agreement, and in the course of business may provide guarantees to other parties with whom Avista Energy may be doing business. The Company's investment in Avista Capital totaled $240.8 million at September 30, 1998.

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS.

The Company is including the following cautionary statement in this Form 10-Q to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements are all statements other than statements of historical fact, including without limitation those that are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," and similar expressions. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those expressed. Such risks and uncertainties include, among others, changes in the utility regulatory environment, wholesale and retail competition, weather conditions and various other matters, many of which are beyond the Company's control. These forward-looking statements speak only as of the date of the report. The Company expressly undertakes no obligation to update or revise any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based. See "Safe Harbor for Forward Looking Statements" in the Company's 1997

Form 10-K under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Future Outlook.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION.

OTHER.

Federal Energy Regulatory Commission (FERC) Order On April 30, 1998, the FERC issued a show cause order asserting that the Company and Avista Energy had violated Orders No. 888 and 889. The order directed the companies to show cause why, as a result of the alleged violations, the FERC should not require refunds of certain market-based power sales profits and, further, suspend, for six months, Avista Energy's use of its market-based power sales tariff for any transaction that would use the Company's transmission system.

Background: On October 30, 1997, Avista Energy submitted a request on the Company's open-access same-time information system (OASIS) for interruptible firm transmission service, pursuant to the Western Systems Power Pool agreement, to transmit 29 MW for a two-month period (November and December 1997). The Company and Avista Energy entered into an agreement to provide Avista Energy with interruptible firm service which, according to the show cause order, provided terms superior to the terms for non-firm service under the Company's pro forma tariff. The Company provided the wheeling under service schedule D of the Western Systems Power Pool agreement and was under the impression that neither the FERC's affiliate conduct requirements nor Avista Energy's and the Company's code of conduct precluded the Company from providing such service, but that the Company was required to make a separate filing pursuant to section 205 of the Federal Power Act. On November 28, 1997, the Company filed with the FERC the letter agreement under which it was providing the transmission service to Avista Energy. In a January 8, 1998, deficiency letter, the commission staff informed the Company that the proposed letter agreement failed to meet the requirement that Avista Energy must take service under the Company's open-access tariff as a condition of its market-based rate approval.

On June 11, 1998 the FERC directed Avista Energy to disgorge profits earned from the power sale underlying the off-tariff transmission service provided by the Company. The FERC additionally ordered Avista Energy not to engage for 180 days from June 11, 1998 in any power sales under its market-based power sales tariff for any power sales transaction, executed after the date of the June 11, 1998 order, that would use the Company's transmission system. The FERC ordered the Company and Avista Energy to file a compliance report within 30 days of this order. The FERC's orders were complied with in their entirety and the disgorgement and the costs of compliance were not material to the consolidated financial position of the Company.

Coeur d' Alene Lake Court Decision On July 28, 1998, the United States District Court for the District of Idaho issued its finding that the Coeur d' Alene Tribe of Idaho owns the bed and banks of the Coeur d' Alene Lake and the St. Joe River lying within the current boundaries of the Coeur d' Alene Reservation. The disputed bed and banks comprise approximately the southern one-third of Lake Coeur d' Alene. This action had been brought by the United States on behalf of the Tribe against the State of Idaho. While the Company is not a party to this action, which has been appealed by the State of Idaho to the Ninth Circuit, the Company is continuing to evaluate the impact of this decision on the operation of its hydroelectric facilities on the Spokane River, downstream of the Coeur d' Alene Lake, which is the reservoir for these plants.

Proposed Rate Increase In September 1998, the Company notified the Idaho Public Utilities Commission of its intent to file for increased electric prices. The Company intends to seek an overall general electric price increase of 5-10%, which will increase electric revenues in Idaho by $7-12 million. Company management is still in the process of determining specific amounts. The filing will be made on or about December 1, 1998, with the anticipation of implementing by the third quarter of 1999.

ADDITIONAL FINANCIAL DATA.

At September 30, 1998, the total long-term debt of the Company and its consolidated subsidiaries, as shown in the Company's consolidated financial statements, was approximately $752.7 million. Of such amount, $208.5 million represents long-term unsecured and unsubordinated indebtedness of the Company, and $449.3 million represents secured indebtedness of the Company. The balance of $94.9 million includes short-term notes to be refinanced as well as indebtedness of subsidiaries. Consolidated long-term debt does not include the Company's subordinated indebtedness held by the issuers of Company-obligated preferred trust securities.

THE WASHINGTON WATER POWER COMPANY

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

	12 Months Ended	
	September 30, 1998	December 31, 1997
Ratio of Earnings to Fixed Charges	2.71 (x)	3.49 (x)
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements	2.54 (x)	3.12 (x)

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

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

(a) Exhibits.

12 Computation of ratio of earnings to fixed charges and preferred dividend requirements.

27 Financial Data Schedule.

(b) Reports on Form 8-K.

Dated June 2, 1998, regarding the selection of the Company's new Chairman of the Board and Chief Executive Officer.
Dated August 17, 1998, regarding a dividend restructuring plan and the Company's name change.
Dated October 21, 1998, regarding the Company's press release for third quarter earnings, the proposed electric rate increase in Idaho, a lawsuit filed against the Company, new capital expenditure estimates and disclosure required by the SEC related to Year 2000 information.

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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: November 10, 1998

/s/ J. E. Eliassen

Senior Vice President, Chief
Financial Officer and Treasurer
(Principal Accounting and
Financial Officer)

EXHIBIT 12

THE WASHINGTON WATER POWER COMPANY

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

	12 Mos. Ended September 30,	Years Ended December 31			
	1998	1997	1996	1995	1994
Fixed charges, as defined:					
Interest on long-term debt	$ 65,634	$ 63,413	$ 60,256	$ 55,580	$ 49,566
Amortization of debt expense and premium - net	2,836	2,862	2,998	3,441	3,511
Interest portion of rentals	4,311	4,354	4,311	3,962	1,282
Total fixed charges	$ 72,781	$ 70,629	$ 67,565	$ 62,983	$ 54,359
Earnings, as defined:					
Net income from continuing ops	$ 79,820	$114,797	$ 83,453	$ 87,121	$ 77,197
Add (deduct):					
Income tax expense	44,389	61,075	49,509	52,416	44,696
Total fixed charges above	72,781	70,629	67,565	62,983	54,359
Total earnings	$196,990	$246,501	$200,527	$202,520	$176,252
Ratio of earnings to fixed charges	2.71	3.49	2.97	3.22	3.24
Fixed charges and preferred dividend requirements:					
Fixed charges above	$ 72,781	$ 70,629	$ 67,565	$ 62,983	$ 54,359
Preferred dividend requirements (2)	4,737	8,261	12,711	14,612	13,668
Total	$ 77,518	$ 78,890	$ 80,276	$ 77,595	$ 68,027
Ratio of earnings to fixed charges and preferred dividend requirements	2.54	3.12	2.50	2.61	2.59

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

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

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF THE WASHINGTON WATER POWER COMPANY, INCLUDED IN THE QUARTERLY REPORT ON FORM 10-Q FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS
DEC-31-1998
JAN-01-1998
SEP-30-1998
PER-BOOK
1,456,955
358,973
762,156
286,383
0
2,864,467
584,046
(10,643)
173,993
747,396
35,000
110,000
629,946
70,036
34,993
0
40,532
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4,752
2,244
1,189,568
2,864,467
2,661,290
30,430
2,538,345
2,538,345
122,945
15,218
138,163
51,151
56,582
2,219
54,363
17,348
0
153,610
0.97
0.97

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.