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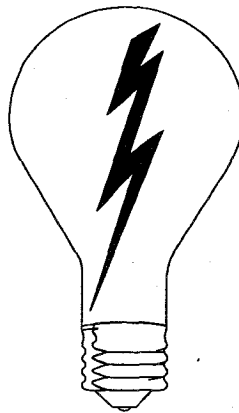
PUBLIC SERVICE  
COMMISSION

# ANNUAL REPORT

OF

Washington Water Power Co.

# ELECTRIC UTILITY



TO THE  
PUBLIC SERVICE COMMISSION  
STATE OF MONTANA  
1701 PROSPECT AVENUE  
P.O. BOX 202601  
HELENA, MONTANA 59620-2601

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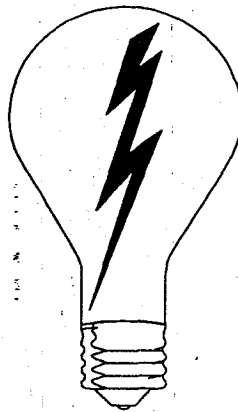
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COMMISSION

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# ELECTRIC UTILITY



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PUBLIC SERVICE COMMISSION  
STATE OF MONTANA  
1701 PROSPECT AVENUE  
P.O. BOX 202601  
HELENA, MONTANA 59620-2601

Check No. 714554

## Sch. 1

## IDENTIFICATION

Legal Name of Respondent: The Washington Water Power Company

Name Under Which Respondent Does Business: The Washington Water Power Company

Date Utility Service First Offered in Montana: July, 1960

Person Responsible for Report: Ronald R. Peterson, Vice President and Controller

Telephone Number for Report Inquiries: (509) 482-4171

Address for Correspondence Concerning Report: 1411 East Mission Avenue  
P. O. Box 3727  
Spokane, WA 99220

If direct control over respondent is held by another entity, provide below the name, address, means by which control is held and percent ownership of controlling entity:

## Sch. 2

## BOARD OF DIRECTORS

<u>Director Name &amp; Address (City, State)</u>	<u>Remuneration</u>
1 Paul A. Redmond (1) 1411 E. Mission Avenue, Spokane, WA 99202	979,547
2 W. Lester Bryan (2) 1411 E. Mission Avenue, Spokane, WA 99202	422,767
3 David A. Clack 325 E. Sprague Avenue, Spokane, WA 99202	30,417
4 Duane B. Hagadone P. O. Box 6200, Coeur d'Alene, ID 83816	19,614
5 Sarah M. R. Jewell 1201 Third Ave., Suite 1000, Seattle, WA 98101	26,675
6 John F. Kelly 19300 Pacific Highway S., Seattle, WA 98168	37,560
7 Eugene W. Meyer 3 Plumbridge Lane, Hilton Head Island, SC 29928	54,079
8 Bobby Schmidt C-6 The Village at Wexford, Hilton Head Island, SC 29928	19,033
9 General H. Norman Schwarzkopf (3) 400 N. Ashley Street, Suite 3050, Tampa, FL 33602	15,047
10 B. Jean Silver (4) 7102 N. Audubon Drive, Spokane, WA 99208	12,578
11 Larry A. Stanley 311 W. 32nd Avenue, Spokane, WA 99203	38,037
12 R. John Taylor P. O. Box 538, Lewiston, ID 83501	46,195
13	
14	
15	
16 (1) Mr. Redmond is Chairman of the Board and Chief Executive Officer	
17 (2) Mr. Bryan is President and Chief Operating Officer	
18 (3) General Schwarzkopf resigned in May 1997	
19 (4) Ms. Silver retired in May 1997	
20	

## OFFICERS

	<u>Title</u>	<u>Department Supervised</u>	<u>Name</u>
1			
2	Chairman of the Board and Chief	-	Paul A. Redmond
3	Executive Officer		
4			
5	President and Chief Operating Officer	-	W. Lester Bryan
6			
7	Senior Vice President, Chief Financial	Finance Department	Jon E. Eliassen
8	Officer and Treasurer		
9			
10	Senior Vice President and General Manager	Energy Trading and Market Services	Gary G. Ely
11			
12	Vice President	External Relations	Robert D. Fukai
13			
14	Vice President	Human Resources	JoAnn G. Matthiesen
15			
16	Vice President	Avista Energy	Lawrence J. Pierce
17			
18	Vice President and Controller	Finance Department	Ronald R. Peterson
19			
20	Vice President and Corporate Secretary	Shareholder Relations	Terry L. Syms
21			
22			
23			
24			
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## CORPORATE STRUCTURE

	<u>Subsidiary/Company Name</u>	<u>Line of Business</u>	<u>Earnings</u>	<u>Percent of Total</u>
1				
2	Avista Corp.	Parent company to all of the	(1,434,585)	-9.81%
3		Company's non-regulated		
4		subsidiaries.		
5				
6	Pentzer Corporation	Holding company designed	13,822,915	94.51%
7		to be the parent company of		
8		all the Company's subsidiaries,		
9		except the ones listed below.		
10				
11	Washington Irrigation and	Non-operating	205,407	1.40%
12	Development Company			
13				
14	WP Finance Company	Non-operating	97,330	0.67%
15				
16	Avista Advantage	Performs various energy	(2,857,732)	-19.54%
17		advisory services		
18				
19	Avista Energy	Wholesale power marketing	5,496,523	37.58%
20				
21	Avista Labs	Development of alternative	(734,386)	-5.02%
22		energy products and related		
23		research and development		
24				
25	WWP Fiber	Laying of fiber optic cables	30,102	0.21%
26				
27	WP International	Non-operating	-	0.00%
28				
29	Altus Corporation	Non-operating	-	0.00%
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46				
47	TOTAL		14,625,574	100.00%

Sch. 5

CORPORATE ALLOCATIONS

	<u>Items Allocated</u>	<u>Classification</u>	<u>Allocation Method</u>	<u>\$ to MT Utility</u>	<u>MT %</u>	<u>\$ to Other</u>
1						
2						
3			Not Applicable			
4						
5						
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33						
34	TOTAL					

Sch. 6

**AFFILIATE TRANSACTIONS - PRODUCTS & SERVICES PROVIDED TO UTILITY**

	(a) <u>Affiliate Name</u>	(b) <u>Products &amp; Services</u>	(c) <u>Method to Determine Price</u>	(d) <u>Charges to Utility</u>	(e) <u>% Total Affil. Revs.</u>	(f) <u>Charges to MT Utility</u>
1						
2						
3	Not Applicable					
4						
5						
6						
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12						
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31						
32	TOTAL					

**AFFILIATE TRANSACTIONS - PRODUCTS & SERVICES PROVIDED BY UTILITY**

	(a) <u>Affiliate Name</u>	(b) <u>Products &amp; Services</u>	(c) <u>Method to Determine Price</u>	(d) <u>Charges to Affiliate</u>	(e) <u>% Total Affil. Exp.</u>	(f) <u>Revenues to MT Utility</u>
1						
2						
3	Not Applicable					
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31						
32	TOTAL					



## Sch. 8

## MONTANA UTILITY INCOME STATEMENT

	<u>Account Number &amp; Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1	400 Operating Revenues	2,106,037	5,002,115	57.90%
2				
3	Operating Expenses			
4	401 Operation Expenses	19,869,306	23,065,631	13.86%
5	402 Maintenance Expenses	4,123,717	4,152,433	0.69%
6	403 Depreciation Expenses	8,686,133	8,461,242	-2.66%
7	404-405 Amortization of Electric Plant	None or not allocated	-	-
8	406 Amort. of Plant Acquisition Adjustments	None or not allocated	-	-
9	407 Amort. of Property Losses, Unrecovered Plant			
10	& Regulatory Study Costs	None or not allocated	-	-
11	408.1 Taxes Other Than Income Taxes	9,020,679	9,302,579	3.03%
12	409.1 Income Taxes - Federal	None or not allocated	-	-
13	- Other	673,928	1,004,182	32.89%
14	410.1 Provision for Deferred Income Taxes	None or not allocated	-	-
15	411.1 (Less) Provision for Def. Inc. Taxes - Cr.	None or not allocated	-	-
16	411.4 Investment Tax Credit Adjustment	None or not allocated	-	-
17	411.6 (Less) Gains from Disposition of Utility Plant	None or not allocated	-	-
18	411.7 Losses from Disposition of Utility Plant	None or not allocated	-	-
19				
20	TOTAL Utility Operating Expenses	42,373,763	45,986,067	7.86%
21	NET UTILITY OPERATING INCOME	(40,267,726)	(40,983,952)	1.75%

## Sch. 9

## MONTANA REVENUES

	<u>Account Number &amp; Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1	Sales of Electricity			
2	440 Residential	9,302	8,091	-14.97%
3	442 Commercial & Industrial - Small	1,885	2,381	20.83%
4	Commercial & Industrial - Large	-	-	-
5	444 Public Street & Highway Lighting	-	-	-
6	445 Other Sales to Public Authorities	-	-	-
7	446 Sales to Railroads & Railways	-	-	-
8	448 Interdepartmental Sales	5,304	5,203	-1.94%
9				
10	TOTAL Sales to Ultimate Consumers	16,491	15,675	-5.21%
11	447 Sales for Resale	1,261,842	3,321,841	62.01%
12				
13	TOTAL Sales of Electricity	1,278,333	3,337,516	61.70%
14	449.1 (Less) Provision for Rate Refunds	-	-	-
15				
16	TOTAL Revenue Net of Provision for Refunds	1,278,333	3,337,516	61.70%
17	Other Operating Revenues			
18	450 Forfeited Discounts & Late Payment Revenues	-	-	-
19	451 Miscellaneous Service Revenues	-	-	-
20	453 Sales of Water & Water Power	14,196	12,077	-17.55%
21	454 Rent From Electric Property	139,234	131,929	-5.54%
22	455 Interdepartmental Rents	-	-	-
23	456 Other Electric Revenues	674,274	1,520,593	55.66%
24				
25	TOTAL Other Operating Revenues	827,704	1,664,599	50.28%
26	Total Electric Operating Revenues	2,106,037	5,002,115	57.90%

	<u>Account Number &amp; Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1	<b>Power Production Expenses</b>			
2				
3	<b><u>Steam Power Generation</u></b>			
4	Operation			
5	500 Operation Supervision & Engineering	365,913	234,183	-36.00%
6	501 Fuel	9,076,711	9,800,981	7.98%
7	502 Steam Expenses	941,155	952,291	1.18%
8	503 Steam from Other Sources	5,913	9,329	57.77%
9	504 (Less) Steam Transferred - Cr.	-	-	-
10	505 Electric Expenses	375,660	468,456	24.70%
11	506 Miscellaneous Steam Power Expenses	560,226	810,102	44.60%
12	507 Rents	2,224	33	-98.52%
13				
14	TOTAL Operation - Steam	11,327,802	12,275,375	8.37%
15				
16	Maintenance			
17	510 Maintenance Supervision & Engineering	379,399	229,223	-39.58%
18	511 Maintenance of Structures	411,403	340,335	-17.27%
19	512 Maintenance of Boiler Plant	1,338,568	1,576,729	17.79%
20	513 Maintenance of Electric Plant	780,018	564,699	-27.60%
21	514 Maintenance of Miscellaneous Steam Plant	515,894	256,228	-50.33%
22				
23	TOTAL Maintenance - Steam	3,425,282	2,967,214	-13.37%
24				
25	TOTAL Steam Power Production Expenses	14,753,084	15,242,589	3.32%
26				
27	<b><u>Nuclear Power Generation</u></b>			
28	Operation			
29	517 Operation Supervision & Engineering	-	-	-
30	518 Nuclear Fuel Expense	-	-	-
31	519 Coolants & Water	-	-	-
32	520 Steam Expenses	-	-	-
33	521 Steam from Other Sources	-	-	-
34	522 (Less) Steam Transferred - Cr.	-	-	-
35	523 Electric Expenses	-	-	-
36	524 Miscellaneous Nuclear Power Expenses	-	-	-
37	525 Rents	-	-	-
38				
39	TOTAL Operation - Nuclear	-	-	-
40				
41	Maintenance			
42	528 Maintenance Supervision & Engineering	-	-	-
43	529 Maintenance of Structures	-	-	-
44	530 Maintenance of Reactor Plant Equipment	-	-	-
45	531 Maintenance of Electric Plant	-	-	-
46	532 Maintenance of Miscellaneous Nuclear Plant	-	-	-
47				
48	TOTAL Maintenance - Nuclear	-	-	-
49				
50	TOTAL Nuclear Power Production Expenses	-	-	-

	<u>Account Number &amp; Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1	<b>Power Production Expenses -continued</b>			
2	<b><u>Hydraulic Power Generation</u></b>			
3	Operation			
4	535 Operation Supervision & Engineering	32,942	176,697	436.39%
5	536 Water for Power	-	-	-
6	537 Hydraulic Expenses	84,805	81,981	-3.33%
7	538 Electric Expenses	552,175	602,840	9.18%
8	539 Miscellaneous Hydraulic Power Generation Expenses	94,862	168,550	77.68%
9	540 Rents	102	-	-100.00%
10				
11	TOTAL Operation - Hydraulic	764,886	1,030,068	34.67%
12				
13	Maintenance			
14	541 Maintenance Supervision & Engineering	803	77,670	9572.48%
15	542 Maintenance of Structures	46,019	77,112	67.57%
16	543 Maint. of Reservoirs, Dams & Waterways	24,891	471,990	1796.23%
17	544 Maintenance of Electric Plant	423,181	385,785	-8.84%
18	545 Maintenance of Miscellaneous Hydro Plant	9,599	30,333	216.00%
19				
20	TOTAL Maintenance - Hydraulic	504,493	1,042,890	106.72%
21				
22	TOTAL Hydraulic Power Production Expenses	1,269,379	2,072,958	63.30%
23				
24	<b><u>Other Power Generation</u></b>			
25	Operation			
26	546 Operation Supervision & Engineering	-	-	-
27	547 Fuel	-	-	-
28	548 Generation Expenses	-	-	-
29	549 Miscellaneous Other Power Gen. Expenses	-	783	-
30	550 Rents	-	126	-
31				
32	TOTAL Operation - Other	-	909	-
33				
34	Maintenance			
35	551 Maintenance Supervision & Engineering	-	-	-
36	552 Maintenance of Structures	14	-	-
37	553 Maintenance of Generating & Electric Plant	-	-	-
38	554 Maintenance of Misc. Other Power Gen. Plant	-	-	-
39				
40	TOTAL Maintenance - Other	14	-	-100.00%
41				
42	TOTAL Other Power Production Expenses	14	909	6392.86%
43				
44	<b><u>Other Power Supply Expenses</u></b>			
45	555 Purchased Power	7,454,717	7,655,335	2.69%
46	556 System Control & Load Dispatching	-	-	-
47	557 Other Expenses	-	-	-
48				
49	TOTAL Other Power Supply Expenses	7,454,717	7,655,335	2.69%
50				
51	<b>TOTAL Power Production Expenses</b>	<b>23,477,194</b>	<b>24,971,791</b>	<b>6.37%</b>

	<u>Account Number &amp; Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1	<b>Transmission Expenses</b>			
2	Operation			
3	560 Operation Supervision & Engineering	18,622	7,983	-57.13%
4	561 Load Dispatching	34,408	31,757	-7.70%
5	562 Station Expenses	85,625	364,616	325.83%
6	563 Overhead Line Expenses	10,571	11,061	4.64%
7	564 Underground Line Expenses	-	-	-
8	565 Transmission of Electricity by Others	81,577	226,007	177.05%
9	566 Miscellaneous Transmission Expenses	-	-	-
10	567 Rents	87,008	77,508	-10.92%
11				
12	TOTAL Operation - Transmission	317,811	718,932	126.21%
13	Maintenance			
14	568 Maintenance Supervision & Engineering	9,085	9,743	7.24%
15	569 Maintenance of Structures	-	381	-
16	570 Maintenance of Station Equipment	43,321	65,701	51.66%
17	571 Maintenance of Overhead Lines	95,592	50,735	-46.93%
18	572 Maintenance of Underground Lines	-	-	-
19	573 Maintenance of Misc. Transmission Plant	-	-	-
20				
21	TOTAL Maintenance - Transmission	147,998	126,560	-14.49%
22				
23	<b>TOTAL Transmission Expenses</b>	<b>465,809</b>	<b>845,492</b>	<b>81.51%</b>
24				
25	<b>Distribution Expenses</b>			
26	Operation			
27	580 Operation Supervision & Engineering	-	-	-
28	581 Load Dispatching	-	-	-
29	582 Station Expenses	2,298	1,514	-34.12%
30	583 Overhead Line Expenses	148	-	-100.00%
31	584 Underground Line Expenses	644	-	-100.00%
32	585 Street Lighting & Signal System Expenses	-	-	-
33	586 Meter Expenses	482	-	-100.00%
34	587 Customer Installations Expenses	114	-	-100.00%
35	588 Miscellaneous Distribution Expenses	-	-	-
36	589 Rents	-	-	-
37				
38	TOTAL Operation - Distribution	3,686	1,514	-58.93%
39	Maintenance			
40	590 Maintenance Supervision & Engineering	892	5,306	494.84%
41	591 Maintenance of Structures	-	-	-
42	592 Maintenance of Station Equipment	(227)	145	-163.88%
43	593 Maintenance of Overhead Lines	1,546	10,228	561.58%
44	594 Maintenance of Underground Lines	-	90	-
45	595 Maintenance of Line Transformers	-	-	-
46	596 Maintenance of Street Lighting, Signal Systems	-	-	-
47	597 Maintenance of Meters	-	-	-
48	598 Maintenance of Miscellaneous Dist. Plant	-	-	-
49				
50	TOTAL Maintenance - Distribution	2,211	15,769	613.21%
51				
52	<b>TOTAL Distribution Expenses</b>	<b>5,897</b>	<b>17,283</b>	<b>193.08%</b>

	<u>Account Number &amp; Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1	<b>Customer Accounts Expenses</b>			
2	Operation			
3	901 Supervision	-	-	-
4	902 Meter Reading Expenses	-	-	-
5	903 Customer Records & Collection Expenses	404	-	-100.00%
6	904 Uncollectible Accounts Expenses	-	-	-
7	905 Miscellaneous Customer Accounts Expenses	-	-	-
8				
9	<b>TOTAL Customer Accounts Expenses</b>	404	-	-100.00%
10				
11	<b>Customer Service &amp; Information Expenses</b>			
12	Operation			
13	907 Supervision	-	-	-
14	908 Customer Assistance Expenses	-	-	-
15	909 Informational & Instructional Adv. Expenses	-	-	-
16	910 Miscellaneous Customer Service & Info. Exp.	-	-	-
17				
18	<b>TOTAL Customer Service &amp; Info Expenses</b>	-	-	-
19				
20	<b>Sales Expenses</b>			
21	Operation			
22	911 Supervision	-	-	-
23	912 Demonstrating & Selling Expenses	-	-	-
24	913 Advertising Expenses	-	-	-
25	916 Miscellaneous Sales Expenses	-	-	-
26				
27	<b>TOTAL Sales Expenses</b>	-	-	-
28				
29	<b>Administrative &amp; General Expenses</b>			
30	Operation			
31	920 Administrative & General Salaries	-	26,865	-
32	921 Office Supplies & Expenses	-	9,127	-
33	922 (Less) Administrative Expenses Transferred - Cr.	-	-	-
34	923 Outside Services Employed	-	52,256	-
35	924 Property Insurance	-	92,940	-
36	925 Injuries & Damages	-	1,427	-
37	926 Employee Pensions & Benefits	-	1,331	-
38	927 Franchise Requirements	-	-	-
39	928 Regulatory Commission Expenses	-	1,149,228	-
40	929 (Less) Duplicate Charges - Cr.	-	-	-
41	930.1 General Advertising Expenses	-	3,273	-
42	930.2 Miscellaneous General Expenses	-	-	-
43	931 Rents	-	-	-
44				
45	<b>TOTAL Operation - Admin. &amp; General</b>	-	1,336,447	-
46	Maintenance			
47	935 Maintenance of General Plant	43,719	47,051	7.62%
48				
49	<b>TOTAL Administrative &amp; General Expenses</b>	43,719	1,383,498	3064.52%
50				
51	<b>TOTAL Operation &amp; Maintenance Expenses</b>	23,993,023	27,218,064	13.44%

## MONTANA TAXES OTHER THAN INCOME

	<u>Description of Tax</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1				
2	Real and Personal Property Tax	8,313,821	8,573,565	3.12%
3				
4	Kilowatt Hour Tax	699,221	717,933	2.68%
5				
6	Unemployment Tax	4,337	4,729	9.04%
7				
8	Motor Vehicle Tax	2,554	3,899	52.66%
9				
10	Consumer Council Tax	726	2,433	235.12%
11				
12	Public Commission Tax	20	20	0.00%
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47	TOTAL MT Taxes other than Income	9,020,679	9,302,579	3.13%

**PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES**

	<u>Name of Recipient</u>	<u>Nature of Service</u>	<u>Total Company</u>	<u>Montana</u>	<u>% Montana</u>
1					
2					
3	See Schedule Pages 13A-13G Following				
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47	TOTAL Payments for Services				

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
The Washington Water Power Company	<input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	April 30, 1998	Dec. 31, 1997

**CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES**

1. Report the information specified below for all charges made during the year included in any account (including plant accounts) for outside consultative and other professional services. (These services include rate, management, construction, engineering, research, financial, valuation, legal, accounting, purchasing, advertising, labor relations, and public relations, rendered the respondent under written or oral arrangement, for which aggregate payments were made during the year to any corporation, partnership, organization of any kind, or individual [other than for services as an employee or for payments made for medical and related services] amounting to more than \$25,000, including payments for legislative services, except those which should be reported in Account

426.4 Expenditures for Certain Civic, Political and Related Activities.

(a) Name and address of person or organization rendering services.  
(b) description of services received during year and project of case to which services relate.  
(c) basis of charges,  
(d) total charges for the year, detailing utility department and account charged.

2. For any services which are of a continuing nature, give the date and term of contract and date of Commission authorization, if contract received Commission approval.

3. Designate with an asterisk associated companies.

1	(a) ADP Proxy Solicitation		
2		(c) Operating	\$67,576
3	PO Box 12298	Capital	
4	Newark, NJ 07101-5298	Other	
5	(b) Proxy Solicitation	Total	<u>\$67,576</u>
6			
7	(a) American Public Land Exchange		
8		(c) Operating	
9	619 SW Higgins, Suite P	Capital	\$131,204
10	Missoula, MT 59801	Other	
11	(b) Environmental Consulting	Total	<u>\$131,204</u>
12			
13	(a) Anderson-Mraz-Design		
14	Corbin Mansion Maycliff Cntr	(c) Operating	\$62,260
15	W. 815 7th Avenue	Capital	
16	Spokane, WA 99204	Other	
17	(b) Graphic Design Services & Consulting	Total	<u>\$62,260</u>
18			
19	(a) Applied Archaeological		
20		(c) Operating	
21	2915 NE Tillamook St.	Capital	\$72,283
22	Portland, OR 97212	Other	
23	(b) Hydro Relicensing Consulting	Total	<u>\$72,283</u>
24			
25	(a) AUS Consultants		
26		(c) Operating	\$27,862
27	PO Box 1050	Capital	
28	Mooretown, NJ 08057	Other	
29	(b) Business Consultants	Total	<u>\$27,862</u>
30			
31	(a) Beacon Hill Partners		
32		(c) Operating	\$32,090
33	90 Broad Street	Capital	
34	New York, NY 10004	Other	
35	(b) Proxy Solicitation	Total	<u>\$32,090</u>
36			
37	(a) Beak Consultants, Inc.		
38		(c) Operating	
39	317 SW Alder, Suite 900	Capital	\$67,137
40	Portland, OR 97204	Other	
41	(b) Hydro Relicensing Consultants	Total	<u>\$67,137</u>
42			
43			
44			
45			



Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
The Washington Water Power Company	<input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	April 30, 1998	Dec. 31, 1997

**CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES (Continued)**

46	(a) Belles Consulting			
47		(c) Operating	\$20,492	
48	8020 W. Rutter Parkway	Capital	\$13,684	
49	Spokane, WA 99208	Other	\$1,834	
50	(b) Computer Services & Consulting	Total	<u>\$36,010</u>	
51				
52	(a) CJ Design			
53	Cindy J. Rother	(c) Operating	\$86,382	
54	1020 Nez Perce St.	Capital	\$11,203	
55	Moscow, ID 83843	Other		
56	(b) Computer Services & Consulting	Total	<u>\$97,585</u>	
57				
58	(a) Davis Wright Tremaine LLP			
59		(c) Operating	\$111,885	
60	1501 Fourth Avenue	Capital		
61	Seattle, WA 98101	Other		
62	(b) Legal	Total	<u>\$111,885</u>	
63				
64	(a) Deloitte & Touche			
65		(c) Operating	\$102,098	
66	111 Third Avenue	Capital		
67	Seattle, WA 98101	Other	\$466,553	
68	(b) Independent Accountants	Total	<u>\$568,651</u>	
69				
70	(a) Donelan, Cleary, Wood & Maser PC			
71		(c) Operating	\$40,575	
72	1275 K St. NW, Ste. 850	Capital		
73	Washington, DC 20005-4006	Other		
74	(b) Legal	Total	<u>\$40,575</u>	
75				
76	(a) Geraghty & Miller, Inc.			
77		(c) Operating		
78	Dept. 547	Capital		
79	Denver, CO 80291	Other	\$34,346	
80	(b) Environmental Consulting	Total	<u>\$34,346</u>	
81				
82	(a) Gordon Murray Tilden			
83		(c) Operating	\$717	
84	1325 Fourth Avenue, Ste. 1800	Capital		
85	Seattle, WA 98101	Other	\$70,564	
86	(b) Legal	Total	<u>\$71,281</u>	
87				
88	(a) Guild, Yule & Company			
89		(c) Operating	\$25,449	
90	PO Box 49170	Capital		
91	Vancouver, BC V7X 1R7	Other		
92	(b) Legal	Total	<u>\$25,449</u>	
93				
94				

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The Washington Water Power Company	<input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	April 30, 1998	Dec. 31, 1997

**CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES (Continued)**

95	(a) Henwood Energy Services, Inc.		
96		(c) Operating	\$129,901
97	2710 N. Gateway Oaks Dr., Ste. 300	Capital	
98	Sacramento, CA 95833	Other	
99	(b) Energy Services Consulting	Total	<u>\$129,901</u>
100			
101	(a) Howard Johnson & Company		
102		(c) Operating	\$13,754
103	1111 Third Avenue, Suite 1700	Capital	
104	Seattle, WA 98101	Other	\$89,315
105	(b) Actuarial & Investment Consulting	Total	<u>\$103,069</u>
106			
107	(a) Integrated Information Services		
108		(c) Operating	
109	11911 North Meridian Street	Capital	
110	Carmel, IN 46032	Other	\$28,006
111	(b) Legal	Total	<u>\$28,006</u>
112			
113	(a) Kalispel Tribe		
114		(c) Operating	
115	PO Box 39	Capital	\$27,000
116	Usk, WA 99180	Other	
117	(b) Hydro Relicensing Consulting	Total	<u>\$27,000</u>
118			
119	(a) Kleinschmidt Associates		
120		(c) Operating	
121	75 Main Street	Capital	\$73,125
122	Pittsfield, ME 04967	Other	
123	(b) Fish Consultants	Total	<u>\$73,125</u>
124			
125	(a) Landau Assoc.		
126		(c) Operating	\$25,448
127	N. 908 Howard, Suite 206	Capital	\$4,703
128	Spokane, WA 99201	Other	\$147,581
129	(b) Environmental & Engineering Consulting	Total	<u>\$177,732</u>
130			
131	(a) LeMaster & Daniels, PLLC		
132		(c) Operating	
133	800 Seafirst First Center	Capital	
134	Spokane, WA 99201-0614	Other	\$76,447
135	(b) Independent Accountants	Total	<u>\$76,447</u>
136			
137	(a) Long View Assoc		
138		(c) Operating	\$7,048
139	2705 NE 163rd St.	Capital	\$386,327
140	Ridgefield, WA 98642	Other	
141	(b) FERC Related Consulting	Total	<u>\$393,375</u>
142			
143			

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The Washington Water Power Company	<input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	April 30, 1998	Dec. 31, 1997

**CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES (Continued)**

144	(a) Lukas & Ayer, Inc.			
145		(c) Operating	\$3,080	
146	34 Providence Street	Capital	\$90,359	
147	Portland, ME 04103	Other		
148	(b) Hydro Relicensing Consulting	Total	<u>\$93,439</u>	
149				
150	(a) M Group Environmental Services			
151		(c) Operating	\$157,144	
152	PO Box 3646	Capital		
153	Spokane, WA 99220	Other		
154	(b) Environmental & Engineering Consulting	Total	<u>\$157,144</u>	
155				
156	(a) Mercer Management Consulting			
157	PO Box 3800-28	(c) Operating	\$583,114	
158	Boston, MA 02241	Capital		
159		Other		
160	(b) Business Consulting	Total	<u>\$583,114</u>	
161				
162	(a) Merrill Corporating			
163		(c) Operating	\$38,621	
164	345 California St, Ste. 1600	Capital		
165	San Francisco, CA 94104	Other	\$85,952	
166	(b) Proxy Solicitation	Total	<u>\$124,573</u>	
167				
168	(a) Miner and Miner, Consulting Engineers, Inc.			
169		(c) Operating		
170	PO Box 548	Capital	\$31,411	
171	Greeley, CO 80632-0548	Other		
172	(b) Engineering Consultants	Total	<u>\$31,411</u>	
173				
174	(a) Monigle, Glen & Assoc, Inc.			
175		(c) Operating	\$20,006	
176	150 Adams	Capital		
177	Denver, CO 80206	Other	\$8,248	
178	(b) Graphic Design Services & Consulting	Total	<u>\$28,254</u>	
179				
180	(a) MSC Life Ins. Co.			
181		(c) Operating		
182	PO Box 3048	Capital		
183	Spokane, WA 99220-3048	Other	\$43,118	
184	(b) 3rd Party Medical Administrator	Total	<u>\$43,118</u>	
185				
186	(a) MW Consulting Engineers			
187		(c) Operating	\$935	
188	W. 222 Wall Street, Suite 200	Capital	\$61,326	
189	Spokane, WA 99201	Other	\$2,765	
190	(b) Consulting Engineers	Total	<u>\$65,026</u>	
191				
192				
193				

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**CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES (Continued)**

194	(a) Nies Mapping			
195		(c) Operating		
196	1950 112th Avenue NE	Capital		
197	Bellevue, WA 98004	Other	\$161,950	
198	(b) Consulting Engineers	Total	<u>\$161,950</u>	
199				
200	(a) Northrop Devine & Tarbell, Inc.			
201		(c) Operating	\$2,412	
202	500 Washington Avenue	Capital	\$63,905	
203	Portland, ME 04103	Other		
204	(b) Engineering Consultants	Total	<u>\$66,317</u>	
205				
206	(a) Norwest Field Resources			
207		(c) Operating		
208	PO Box 8741	Capital		
209	Spokane, WA 99203	Other	\$38,456	
210	(b) Engineering Consultants	Total	<u>\$38,456</u>	
211				
212	(a) Olympus Environmental, Inc.			
213		(c) Operating	\$25,199	
214	PO Box 8741	Capital	\$27,484	
215	Kent, WA 98035-1064	Other		
216	(b) Environmental & Engineering Consulting	Total	<u>\$52,683</u>	
217				
218	(a) Online Data Processing, Inc.			
219		(c) Operating	\$5,543	
220	3501 N. Haven	Capital	\$11,509	
221	Spokane, WA 99207-5741	Other	\$8,330	
222	(b) Computer Services & Consulting	Total	<u>\$25,382</u>	
223				
224	(a) Paine, Hamblen, Coffin, Brooke & Miller			
225		(c) Operating	\$1,401,020	
226	717 W. Sprague, Suite 1200	Capital	\$11,815	
227	Spokane, WA 99204	Other	\$906,455	
228	(b) Legal	Total	<u>\$2,319,290</u>	
229				
230	(a) Patricia A. Newman			
231		(c) Operating	\$95,110	
232	75 Skyline Terrace	Capital		
233	Mill Valley, CA 94941	Other		
234	(b) Leadership Consulting	Total	<u>\$95,110</u>	
235				
236	(a) Quality Resource & Services, Inc.			
237		(c) Operating	\$292	
238	PO Box 14781	Capital	\$17,653	
239	Spokane, WA 99214	Other	\$38,433	
240	(b) Payrolling Service	Total	<u>\$56,378</u>	
241				
242				
243				

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**CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES (Continued)**

244	(a) Raytheon Engineers & Constructors			
245		(c) Operating		
246	PO Box 8500, S. 5450	Capital	\$64,297	
247	Philadelphia, PA 19178	Other	\$2,687	
248	(b) Consulting Engineers	Total	<u>\$66,984</u>	
249				
250	(a) Reid & Priest			
251		(c) Operating	\$116,827	
252	40 West 57th Street	Capital		
253	New York, NY 10019	Other	\$315,418	
254	(b) Legal	Total	<u>\$432,245</u>	
255				
256	(a) SSR Inc. Engineers			
257		(c) Operating	\$279	
258	E. 1817 Springfield, Suite G	Capital	\$58,813	
259	Spokane, WA 99202	Other		
260	(b) Consulting Engineers	Total	<u>\$59,092</u>	
261				
262	(a) Standard & Poor Corp			
263		(c) Operating	\$6,745	
264	25 Broadway, 14th Floor	Capital		
265	New York, NY 10003	Other	\$30,500	
266	(b) Business Consulting	Total	<u>\$37,245</u>	
267				
268	(a) Technical Assistance Service			
269	222 W. Mission Ave.	(c) Operating		
270	Garden Court Bldg Rm 235	Capital	\$45,125	
271	Spokane, WA 99201	Other		
272	(b) Business Consulting	Total	<u>\$45,125</u>	
273				
274	(a) The Alexander Group			
275		(c) Operating	\$12,526	
276	PO Box 4346, Dept 430	Capital		
277	Houston, TX 77210	Other	\$16,195	
278	(b) Business Consulting	Total	<u>\$28,721</u>	
279				
280	(a) Thomas A. Green			
281		(c) Operating	\$16,920	
282	#4 Shadyside Lane	Capital		
283	Coto de Caza, CA 92679	Other	\$39,526	
284	(b) Business Consulting	Total	<u>\$56,446</u>	
285				
286	(a) Thomas Dean & Hoskins, Inc.			
287		(c) Operating		
288	303 E. 2nd Avenue	Capital	\$38,109	
289	Spokane, WA 99202	Other		
290	(b) Engineering Consultants	Total	<u>\$38,109</u>	
291				
292				
293				

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
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**CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES (Continued)**

294	(a) Thomas E. Ebzery		
295		(c) Operating	\$26,479
296	1500 Poly Drive	Capital	
297	Billings, MT 59102	Other	
298	(b) Legal	Total	<u>\$26,479</u>
299			
300	(a) Trout Unlimited		
301		(c) Operating	
302	1500 Wilson Blvd, Ste. 310	Capital	\$44,500
303	Arlington, VA 22209	Other	
304	(b) Hydro Relicensing Consulting	Total	<u>\$44,500</u>
305			
306	(a) Utilities International, Inc.		
307	Management Consultants	(c) Operating	\$142,035
308	161 N. Clark St., Ste. 3400	Capital	
309	Chicago, IL 60601	Other	
310	(b) Management Consultants	Total	<u>\$142,035</u>
311			
312	(a) Vander Stoep Remund		
313		(c) Operating	\$52,954
314	PO Box 867	Capital	
315	Chehalis, WA 98532	Other	
316	(b) Legal	Total	<u>\$52,954</u>
317			
318	(a) Vincent & Associates		
319		(c) Operating	\$48,768
320	PO Box 631	Capital	
321	Medford, OR 97501	Other	
322	(b) Legislative Consulting	Total	<u>\$48,768</u>
323			
324	(a) Watson Wyatt & Company		
325		(c) Operating	\$3,460
326	Dept CH 10612	Capital	
327	Palatine, IL 60055-0612	Other	\$34,440
328	(b) Actuarial & Benefits Consulting	Total	<u>\$37,900</u>
329			
330	(a) Welsh & Katz LTD		
331		(c) Operating	\$3,823
332	120 S. Riverside Plaza, 22nd Floor	Capital	
333	Chicago, IL 60606	Other	\$23,254
334	(b) Legal	Total	<u>\$27,077</u>
335			
336	(a) Winston & Strawn		
337		(c) Operating	
338	1400 L Street, NW	Capital	\$32,865
339	Washington, D.C. 20005	Other	
340	(b) Legal	Total	<u>\$32,865</u>
341			
342			
343			

**POLITICAL ACTION COMMITTEES / POLITICAL CONTRIBUTIONS**

	<u>Description</u>	<u>Total Company</u>	<u>Montana</u>	<u>% Montana</u>
1				
2	Friends of Conrad Burns 2000	\$500.00	\$500.00	100.00%
3				
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46				
47	TOTAL	\$500.00	\$500.00	100.00%

## PENSION COSTS

	Description	Last Year	This Year	% Change
1				
2	Plan Name <u>The Retirement Plan for The Washington</u>			
3	<u>Water Power Company</u>			
4	Defined Benefit Plan <u>Yes</u>			
5				
6	Defined Contribution Plan <u>No</u>			
7				
8	Is the Plan overfunded? <u>Yes</u>			
9				
10	Actuarial Cost Method <u>Yes</u>			
11				
12	IRS Code <u>001</u>			
13				
14	Annual Contribution by Employer \$ <u>-0-</u>			
15				
16				
17	Accumulated Benefit Obligation	125,658,000	127,777,000	1.69%
18	Projected Benefit Obligation	143,242,000	155,565,000	8.60%
19	Fair Value of Plan Assets	149,846,000	166,242,000	10.94%
20				
21	Discount Rate for Benefit Obligations	7.50%	7.25%	(0.03)
22	Expected Long-Term Return on Assets	9.00%	9.00%	-
23				
24	<u>Net Periodic Pension Cost:</u>			
25	Service Cost	4,629,000	4,762,000	2.87%
26	Interest Cost	9,954,000	10,601,000	6.50%
27	Return on Plan Assets	(16,897,000)	(21,042,000)	24.53%
28	Amortization of Transition Amount	4,682,000	7,904,000	68.82%
29	Amortization of Gains or Losses	-	-	
30	Total Net Periodic Pension Cost	2,368,000	2,225,000	-6.04%
31				
32	Minimum Required Contribution	-	-	-
33	Actual Contribution	-	-	-
34	Maximum Amount Deductible	-	-	-
35	Benefit Payments	7,579,134	7,964,248	5.08%
36				
37	<u>Montana Intrastate Costs:</u>			
38	Pension Costs	Not available by state		
39	Pension Costs Capitalized			
40	Accumulated Pension Asset (Liability) at Year End			
41				
42	<u>Number of Company Employees:</u>			
43	Covered by the Plan	2,281	2,371	3.95%
44	Not Covered by the Plan	-	-	-
45	Active	1,272	1,351	6.21%
46	Retired	738	731	-0.95%
47	Deferred Vested Terminated	271	289	6.64%



	Description	Last Year	This Year	% Change
1	<u>General Information</u>			
2				
3	<u>Assumptions:</u>			
4	Discount Rate for Benefit Obligations	7.50%	7.25%	(0.03)
5	Expected Long-Term Return on Assets	-	-	-
6	Medical Cost Inflation Rate	5.00%	5.00%	0.00%
7	Actuarial Cost Method	Proj Unit Credit	Proj Unit Credit	
8				
9	List each method used to fund OPEBs (ie: VEBA, 401(h)):			
10	Method - Tax Advantaged (Yes or No)			
11				
12	VEBA - Yes			
13				
14				
15				
16	Describe Changes to the Benefit Plan:			
17				
18				
19				
20	<u>Total Company</u>			
21				
22	Accumulated Post Retirement Benefit Obligation (APBO)	25,589,000	20,704,000	-19.09%
23	Fair Value of Plan Assets	5,388,407	11,098,000	105.96%
24	List the amount funded through each funding method:			
25	VEBA	5,388,107	11,098,000	105.97%
26	401(h)	-	-	-
27	Other _____	-	-	-
28	Total amount funded	5,388,107	11,098,000	105.97%
29				
30	List amount that was tax deductible for each type of funding:			
31	VEBA	-	-	-
32	401(h)	-	-	-
33	Other _____	-	-	-
34	Total amount that was tax deductible	-	-	-
35				
36	<u>Net Periodic Post Retirement Benefit Cost:</u>			
37	Service Cost	634,000	637,000	0.47%
38	Interest Cost	2,234,000	2,247,000	0.58%
39	Return on Plan Assets	(568,000)	(637,000)	12.15%
40	Amortization of Transition Obligation	1,375,000	1,335,000	-2.91%
41	Amortization of Gains or Losses	-	-	-
42	Total Net Periodic Post Retirement Benefit Cost	3,675,000	3,582,000	-2.53%
43				
44	Benefit Cost Expensed	-	-	-
45	Benefit Cost Capitalized	-	-	-
46	Benefit Payments	-	-	-
47				
48	Number of Company Employees:			
49	Covered by the Plan	1,919	1,856	-3.28%
50	Not Covered by the Plan	-	-	-
51	Active	1,345	1,272	-5.43%
52	Retired	574	584	1.74%
53	Spouse/Dependants covered by the Plan	-	-	-

	<u>Description</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1				
2	<u>Montana</u>			
3		Not available by state		
4	Accumulated Post Retirement Benefit Obligation (APBO)			
5	Fair Value of Plan Assets			
6	List the amount funded through each funding method:			
7	VEBA			
8	401(h)			
9	Other _____			
10	Total amount funded			
11				
12	List amount that was tax deductible for each type of funding:			
13	VEBA			
14	401(h)			
15	Other _____			
16	Total amount that was tax deductible			
17				
18	<u>Net Periodic Post Retirement Benefit Cost:</u>			
19	Service Cost			
20	Interest Cost			
21	Return on Plan Assets			
22	Amortization of Transition Obligation			
23	Amortization of Gains or Losses			
24	Total Net Periodic Post Retirement Benefit Cost			
25				
26	Benefit Cost Expensed			
27	Benefit Cost Capitalized			
28	Benefit Payments			
29				
30	Number of Company Employees:			
31	Covered by the Plan			
32	Not Covered by the Plan			
33	Active			
34	Retired			
35	Spouse/Dependants covered by the Plan			
36				
37	Regulatory Treatment			
38				
39	Commission authorized - most recent			
40	Docket number:			
41	Order number:			
42				
43	Amount recovered through rates			

Sch. 16 TOP TEN MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)

	Name/Title	<u>Base Salary</u>	<u>Bonuses</u>	<u>Other</u>	<u>Total Compensation</u>	<u>Total Compensation Last Year</u>	<u>% Increase Total Compensation</u>
1	J. G. Hanna Station Electrician - Noxon	-	-	-	65,045	55,141	17.96%
2	P. A. Kelly Chief Operator - Noxon	-	-	-	63,802	57,030	11.87%
3	P. J. Aktepy Stations Mechanic - Noxon	-	-	-	63,517	56,187	13.05%
4	M. Bonney Journeyman Operator - Noxon	-	-	-	57,896	50,916	13.71%
5	T. Lampshire Journeyman Operator - Noxon	-	-	-	57,463	49,285	16.59%
6	W. A. Monroe Journeyman Operator - Noxon	-	-	-	57,322	-	-
7	L. L. Wiltse Journeyman Operator - Noxon	-	-	-	56,711	50,853	11.52%
8	D. W. Thomason Journeyman Operator - Noxon	-	-	-	55,899	51,928	7.65%
9	R. Robbins Journeyman Operator - Noxon	-	-	-	55,898	51,507	8.53%
10	T. J. Swant License Environmental Coordinator	-	-	-	55,078	51,825	6.28%

## ***THE WASHINGTON WATER POWER COMPANY***

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### **NOTES TO FINANCIAL STATEMENTS**

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#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Nature of Operations***

The Washington Water Power Company (Company) was incorporated in the State of Washington in 1889, and 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 Corp., 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. Usage by retail customers varies from year to year primarily as a result of weather conditions, customer growth, the economy in the Company's service area, conservation efforts, appliance efficiency and other technology.

The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas sales trading and wholesale marketing primarily to other utilities and power brokers in the western United States. Energy trading includes short-term sales and purchases, such as next hour, next day and monthly blocks of energy. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Generation and Resources manages the Company's electric energy resource portfolio, which is used to serve Energy Delivery's retail electric customers and Generation and Resources' wholesale electric customers. In managing the electric energy resource portfolio, Generation and Resources seeks to optimize the availability and operations of generation resources. Revenues and the cost of electric power purchases vary from year to year depending on the electric wholesale power market, which is affected by several factors, including the availability of water for hydroelectric generation, the availability of base load plants in the region, marginal fuel prices and the demand for power in other areas of the country. Other factors affecting the wholesale power market include an increasing number of power brokers and marketers, lower unit margins on new sales contracts than were realized in the past, fewer long-term power contracts being entered into, resulting in a heavier reliance on short-term power contracts, typically with lower margins, deregulation of the electric utility industry and competition from low cost generation being developed by independent power producers.

##### ***Basis of Reporting***

The financial statements are presented on a consolidated basis and, as such, include the assets, liabilities, revenues and expenses of the Company and its wholly owned subsidiaries. All material intercompany transactions have been eliminated in the consolidation. The accompanying financial statements include the Company's proportionate share of utility plant and related operations resulting from its interests in jointly owned plants (See Note 6). The financial activity of each of the Company's lines of business is reported in the "Schedule of Information by Business Segments." Such information is an integral part of these financial statements.

The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenues and expenses.

##### ***Allocation of Revenues and Expenses for Reporting Business Segments***

A portion of the utility's revenues and expenses have been allocated between the two business segments in order to report results of operations by the individual lines of business -- (1) Energy Delivery and (2) Generation and Resources. The Energy Delivery business reports the results of the Company's transmission and distribution services for retail electric operations and all natural gas operations. Costs associated with electric energy commodities, such as purchased power expense, as well as the revenues attributable to the recovery of such costs from retail customers, have been eliminated from the Energy Delivery line of business and are reflected in the results 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.

##### ***System of Accounts***

The accounting records of the Company's utility operations are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the appropriate state regulatory commissions.

## ***THE WASHINGTON WATER POWER COMPANY***

### ***Regulation***

The Company is subject to state regulation in Washington, Idaho and Montana for its electric operations. Natural gas operations are regulated in Washington, Idaho, Oregon and California. The Company is subject to regulation by the FERC with respect to its wholesale electric transmission rates and the natural gas rates charged for the release of capacity from the Jackson Prairie Storage Project.

### ***Operating Revenues***

The Company accrues estimated unbilled revenues for electric and natural gas services provided through month-end.

### ***Other Income (Deductions)—net***

Other income (deductions)-net is composed of the following items:

	<b>Years Ended December 31,</b>		
	<b>1997</b>	<b>1996</b>	<b>1995</b>
	<b>(Thousands of Dollars)</b>		
Interest income .....	\$ 6,392	\$ 5,760	\$ 3,645
Capitalized interest (debt).....	1,550	1,290	1,042
Gain (loss) on property dispositions.....	(1,222)	(152)	1,272
Minority interest.....	(574)	(1,193)	(314)
Capitalized interest (equity).....	1,323	1,072	589
Other.....	<u>(13,342)</u>	<u>(5,586)</u>	<u>(6,843)</u>
Total.....	<u>\$ (5,873)</u>	<u>\$ 1,191</u>	<u>\$ (609)</u>

### ***Earnings Per Share***

Earnings per share have been computed based on the weighted average number of common shares outstanding during the period. Basic and diluted earnings per share, computations prescribed per FAS No. 128, are the same since the Company does not have any common stock equivalents to dilute basic earnings per share.

### ***Utility Plant***

The cost of additions to utility plant, including an allowance for funds used during construction and replacements of units of property and betterments, is capitalized. Costs of depreciable units of property retired plus costs of removal less salvage are charged to accumulated depreciation.

### ***Allowance for Funds Used During Construction***

The Allowance for Funds Used During Construction (AFUDC) represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period. In accordance with the uniform system of accounts prescribed by regulatory authorities, AFUDC is capitalized as a part of the cost of utility plant and is credited currently as a noncash item to Other Income (see Other Income above). The Company generally is permitted, under established regulatory rate practices, to recover the capitalized AFUDC, and a fair return thereon, through its inclusion in rate base and the provision for depreciation after the related utility plant has been placed in service. Cash inflow related to AFUDC does not occur until the related utility plant investment is placed in service.

The effective AFUDC rate was 10.67% in 1997, 1996 and 1995. The Company's AFUDC rates do not exceed the maximum allowable rates as determined in accordance with the requirements of regulatory authorities.

### ***Depreciation***

For utility operations, depreciation provisions are estimated by a method of depreciation accounting utilizing unit rates for hydroelectric plants and composite rates for other properties. Such rates are designed to provide for retirements of properties at the expiration of their service lives. The rates for hydroelectric plants include annuity and interest components, in which the interest component is 6%. For utility operations, the ratio of depreciation provisions to average depreciable property was 2.59% in 1997, 2.58% in 1996 and 2.57% in 1995.

The average service lives and remaining average service lives, respectively, for the following broad categories of property are: electric thermal production - 35 and 19 years; hydroelectric production - 100 and 81 years; electric transmission - 60 and 30 years; electric distribution - 40 and 33 years; and natural gas distribution property - 44 and 32 years.

### ***Cash and Cash Equivalents***

For the purposes of the Consolidated Statements of Cash Flows, the Company considers all temporary investments with an initial maturity of three months or less to be cash equivalents.

***Deferred Charges and Credits***

The Company prepares its financial statements in accordance with the provisions of FAS No. 71, "Accounting for the Effects of Certain Types of Regulation." A regulated enterprise can prepare its financial statements in accordance with FAS No. 71 only if (i) the enterprise's rates for regulated services are established by or subject to approval by an independent third-party regulator, (ii) the regulated rates are designed to recover the enterprise's cost of providing the regulated services and (iii) in view of demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. FAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements. In certain circumstances, FAS No. 71 requires that certain costs and/or obligations (such as incurred costs not currently recovered through rates, but expected to be so recovered in the future) be reflected in a deferral account in the balance sheet and not be reflected in the statement of income or loss until matching revenues are recognized. If at some point in the future the Company determines that it no longer meets the criteria for continued application of FAS No. 71 to all or a portion of the Company's regulated operations, the Company could be required to write off its regulatory assets and could be precluded from the future deferral in the Consolidated Balance Sheet of costs not recovered through rates at the time such costs were incurred, even if such costs were expected to be recovered in the future.

The Company's primary regulatory assets include Investment in Exchange Power, conservation programs, deferred income taxes, the provision for postretirement benefits and debt issuance and redemption costs. Those items without a specific line on the Consolidated Balance Sheets are included in Deferred Charges - Other-net. Deferred credits include natural gas deferrals, unrecovered purchased gas costs and the gain on the general office building sale/leaseback which is being amortized over the life of the lease, and are included on the Consolidated Balance Sheets as Non-current Liabilities and Deferred Credits - Other Deferred Credits.

***Power and Natural Gas Cost Adjustment Provisions***

The Company has a power cost adjustment mechanism (PCA) in Idaho which allows the Company to modify electric rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. The PCA tracks changes in hydroelectric generation, secondary prices, related changes in thermal generation and PURPA contracts. Rate changes are triggered when the deferred balance reaches \$2.2 million. The deferred balance was \$4.2 million at December 31, 1997, but a tariff change was not filed since there are currently two rebates in effect and the PCA rules do not allow more than two consecutive surcharges/rebates during any 12-month period. The following surcharges and rebates were in effect during the past three years: a \$2.6 million (2.3%) rebate effective September 1, 1997, which will expire August 31, 1998; a \$2.6 million (2.4%) rebate effective June 1, 1997, which will expire May 31, 1998; a \$2.5 million (2.3%) rebate effective September 1, 1996, which expired August 31, 1997; \$2.3 million (2.4%) surcharge effective September 1, 1995, which expired August 31, 1996; and a \$2.2 million (2.5%) surcharge effective January 1, 1995, which expired December 31, 1995. The rebates balance and the deferred balance are included in the Current Liabilities - Other and Non-Current Liabilities and Deferred Credits - Other Deferred Credits lines, respectively, on the Consolidated Balance Sheets.

Under established regulatory practices, the Company is also allowed to adjust its natural gas rates from time to time to reflect increases or decreases in the cost of natural gas purchased. Differences between actual natural gas costs and the natural gas costs allowed in rates are deferred and charged or credited to expense when regulators approve inclusion of the cost changes in rates. In Oregon, regulatory provisions include a sharing of benefits and risks associated with changes in natural gas prices. The balance is included on the Consolidated Balance Sheets as Non-current Liabilities and Deferred Credits - Other Deferred Credits.

***Income Taxes***

The Company and its eligible subsidiaries file consolidated federal income tax returns. Subsidiaries are charged or credited with the tax effects of their operations on a stand-alone basis. The Company's federal income tax returns have been examined with all issues resolved, and all payments made, through the 1994 return.

***New Accounting Standards***

The Financial Accounting Standards Board (FASB) issued FAS No. 128, entitled "Earnings per Share" which is effective for fiscal years ending December 31, 1997. FAS No. 128 establishes standards for computing and presenting earnings per share. The Company adopted this standard effective December 31, 1997. Basic and diluted earnings per share are the same since the Company does not have any common stock equivalents to dilute basic earnings per share. Earnings per share for prior years were not restated.

FAS No. 129, entitled "Disclosure of Information about Capital Structure," effective for fiscal years ending December 31, 1997, requires certain disclosures related to the Company's capital structure. The Company adopted this standard effective December 31, 1997. The required information is provided in Notes 11, 14, 15 and 16.

## ***THE WASHINGTON WATER POWER COMPANY***

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FAS No. 130, entitled "Reporting Comprehensive Income," is effective for fiscal years beginning after December 15, 1997. It requires companies to (a) classify items of other comprehensive income by their nature in a financial statement and (b) 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. The Company does not expect this standard to have a material effect on the Company's financial statement presentation.

FAS No. 131, entitled "Disclosure about Segments of an Enterprise and Related Information," which is effective for financial statements for periods beginning after December 15, 1997, requires public enterprises to report financial and descriptive information on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. The Company adopted this standard effective December 31, 1997. The required disclosures are provided in the Schedule of Information by Business Segment and in Note 1.

### ***Reclassifications***

Certain prior year amounts have been reclassified to conform to current statement format. These reclassifications were made for comparative purposes and have not affected previously reported total net income or common shareholders' equity.

## **NOTE 2. ACCOUNTS RECEIVABLE SALE**

In July 1997, WWP Receivables Corp. (WWPRC) was incorporated as a wholly owned, bankruptcy-remote subsidiary of the Company for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. Subsequently, WWPRC and the Company have entered into an agreement whereby WWPRC can sell without recourse, on a revolving basis, up to \$40.0 million in those receivables. WWPRC is obligated to pay fees which approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. On a consolidated basis, the amount of such fees is included in operating expenses of the Company. At December 31, 1997, \$40.0 million in receivables had been sold pursuant to the agreement, which qualifies as a sale of assets under FAS No. 125.

## **NOTE 3. ENERGY COMMODITY TRADING**

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

### ***Generation and Resources***

The Company protects itself against price fluctuations on electric energy and natural gas by limiting the aggregate level of net open positions which are exposed to market price changes and through the use of electric, natural gas and related commodity derivative instruments for hedging purposes. The net open position is actively managed with strict policies designed to limit the exposure to market risk and which require daily and weekly reporting to management of potential financial exposure. The risk management committee has limited the types of financial instruments the Company may trade to those related to electricity and natural gas commodities and those instruments are to be used for hedging price fluctuations associated with the management of resources. Financial instruments are not held for speculative trading purposes. Gains and losses related to derivative commodity instruments which qualify as hedges are recognized in the Consolidated Statements of Income when the underlying hedged physical transaction closes (the deferral method) and are included in the same category as the hedged item (natural gas purchased or purchased power expense, as the case may be). At December 31, 1997, the commodity derivative hedge agreements outstanding were immaterial.

### ***Market Risk***

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

**THE WASHINGTON WATER POWER COMPANY**

**Credit Risk**

The Company is exposed to credit risk in the event of nonperformance by customers or counterparties of their contractual obligations. The concentration of customers and/or counterparties may impact overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. However, the Company maintains credit policies with regard to their customers and counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition and credit rating, collateral requirements or other credit enhancements such as letters of credit or parent company guarantees, and the use of standardized agreements which allow for the netting or offsetting of positive and negative exposures associated with a single counterparty. The Company maintains credit reserves which are based on management's evaluation of the credit risk of the overall portfolio. Based on these policies, exposures and the credit reserves, the Company does not anticipate a materially adverse effect on financial position or results of operations as a result of customer or counterparty nonperformance. New York Mercantile Exchange traded futures and option contracts are financially guaranteed by the Exchange and have nominal credit risk.

**NOTE 4. PROPERTY, PLANT AND EQUIPMENT**

The year-end balances of the major classifications of property, plant and equipment are detailed in the following table (thousands of dollars):

	<u>At December 31,</u>	
	<u>1997</u>	<u>1996</u>
Energy Delivery:		
Electric distribution.....	\$ 567,552	\$ 539,467
Electric transmission.....	262,393	251,559
Natural gas underground storage.....	18,646	18,275
Natural gas distribution.....	329,232	302,853
Natural gas transmission.....	3,059	3,059
Construction work in progress (CWIP) and other.....	163,949	156,012
Energy Delivery total.....	<u>1,344,831</u>	<u>1,271,225</u>
Generation and Resources:		
Electric production.....	702,092	695,273
CWIP and other.....	21,549	23,802
Generation and Resources total.....	<u>723,641</u>	<u>719,075</u>
Total utility.....	2,068,472	1,990,300
National Energy Trading and Marketing.....	4,345	294
Non-energy.....	44,831	35,533
Total.....	<u>\$2,117,648</u>	<u>\$2,026,127</u>

**NOTE 5. JOINTLY OWNED ELECTRIC FACILITIES**

The Company has investments in jointly owned generating plants. Financing for the Company's ownership in the projects is provided by the Company. The Company's share of related operating and maintenance expenses for plants in service is included in corresponding accounts in the Consolidated Statements of Income. See Note 17 for additional information related to potential impacts of Clean Air Act Amendments on these plants. The following table indicates the Company's percentage ownership and the extent of the Company's investment in such plants at December 31, 1997:

<u>Project</u>	<u>KW of Installed Capacity</u>	<u>Fuel Source</u>	<u>Ownership (%)</u>	<u>Company's Current Share of</u>			
				<u>Plant in Service</u>	<u>Accumulated Depreciation</u> (Thousands of Dollars)	<u>Net Plant In Service</u>	<u>Construction Work in Progress</u>
Centralia.....	1,330,000	Coal	15%	\$ 56,825	\$ 36,317	\$ 20,508	\$ 137
Colstrip 3 & 4.....	1,556,000	Coal	15	273,597	104,811	168,786	-



**THE WASHINGTON WATER POWER COMPANY**

**NOTE 6. PENSION PLANS**

The Company has a pension plan covering substantially all of its regular full-time employees. Certain of the Company's subsidiaries also participate in this plan. Individual benefits under this plan are based upon years of service and the employee's average compensation as specified in the Plan. The Company's funding policy is to contribute annually an amount equal to the net periodic pension cost, provided that such contributions are not less than the minimum amounts required to be funded under the Employee Retirement Income Security Act, nor more than the maximum amounts which are currently deductible for tax purposes. Pension fund assets are invested primarily in marketable debt and equity securities. The Company also has another plan which covers the executive officers.

Net pension cost (income) for 1997, 1996 and 1995 is summarized as follows:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(Thousands of Dollars)		
Service cost-benefits earned during the period.....	\$ 4,762	\$ 4,629	\$ 3,464
Interest cost on projected benefit obligation.....	10,601	9,954	9,142
Actual return on plan assets.....	(21,042)	(16,897)	(27,910)
Net amortization and deferral.....	7,904	4,682	17,272
Net periodic pension cost.....	<u>\$ 2,225</u>	<u>\$ 2,368</u>	<u>\$ 1,968</u>

The funded status of the Plans and the pension liability at December 31, 1997, 1996 and 1995, are as follows:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(Thousands of dollars)		
Actuarial present value of benefit obligation:			
Accumulated benefit obligation (including vested benefits of \$(127,109,000), \$(123,601,000) and \$(114,964,000), respectively)...	<u>\$(127,777)</u>	<u>\$(125,658)</u>	<u>\$(116,877)</u>
Projected benefit obligation for service rendered to date.....	<u>\$(155,565)</u>	<u>\$(143,242)</u>	<u>\$(133,233)</u>
Plan assets at fair value.....	<u>166,242</u>	<u>149,846</u>	<u>140,528</u>
Plan assets in excess of projected benefit obligation.....	10,677	6,604	7,295
Unrecognized net gain from returns different than assumed.....	(23,802)	(21,101)	(19,704)
Prior service costs not yet recognized.....	15,655	17,020	18,385
Unrecognized net transition asset at year-end (being amortized over 19 years).....	<u>(8,101)</u>	<u>(9,187)</u>	<u>(10,273)</u>
Pension liability.....	<u>\$ (5,571)</u>	<u>\$ (6,664)</u>	<u>\$ (4,297)</u>
Assumptions used in calculations were:			
Discount rate at year-end.....	7.25%	7.5%	7.5%
Rate of increase in future compensation level.....	4.0%	4.0%	4.0%
Expected long-term rate of return on assets.....	9.0%	9.0%	9.0%

**NOTE 7. OTHER POSTRETIREMENT BENEFITS**

FAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires the Company to accrue the estimated cost of postretirement benefit payments during the years that employees provide services and allows recognition of the unrecognized transition obligation in the year of adoption or the amortization of such obligation over a period of up to twenty years. The Company elected to amortize this obligation of approximately \$34,500,000 over a period of twenty years, beginning in 1993.

The Company received accounting orders from the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC) allowing the deferral of expense accruals under this Statement as a regulatory asset for future recovery. After further agreements with the WUTC, the Company discontinued deferring expenses, began amortizing prior deferrals already recorded and began recognition of current expenses in 1996.

## THE WASHINGTON WATER POWER COMPANY

The Company provides certain health care and life insurance benefits for substantially all of its retired employees. In 1997, 1996 and 1995, the Company recognized \$1.2 million, \$1.3 million and \$1.8 million, respectively, as an expense for postretirement health care and life insurance benefits. The following table sets forth the health care plan's funded status at December 31, 1997, 1996 and 1995.

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Retirees	584	574	617
Active plan participants	<u>1,272</u>	<u>1,345</u>	<u>1,328</u>
Total participants	1,856	1,919	1,945

Accumulated postretirement benefit obligation (thousands of dollars):

Non-fully eligible plan participants	\$ (7,949)	\$ (8,103)	\$ (8,813)
Fully eligible plan participants	(5,029)	(5,008)	(4,427)
Retirees and beneficiaries	<u>(18,824)</u>	<u>(17,866)</u>	<u>(20,189)</u>
Total	(31,802)	(30,977)	(33,429)
Fair value of plan assets	<u>11,098</u>	<u>5,388</u>	<u>4,711</u>
Unfunded accumulated postretirement benefit obligation	(20,704)	(25,589)	(28,718)
Unrecognized (gain)/loss	(5,639)	(6,621)	(3,396)
Unrecognized transition obligation	<u>23,000</u>	<u>25,683</u>	<u>27,288</u>
Accrued postretirement benefit cost	<u>\$ (3,343)</u>	<u>\$ (6,527)</u>	<u>\$ (4,826)</u>

Net postretirement benefit cost for 1997, 1996 and 1995 (thousands of dollars):

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Service cost - benefits earned during the period	\$ 637	\$ 634	\$ 573
Return on the plan assets (if any)	(637)	(568)	(226)
Interest cost on accumulated postretirement benefit obligation	2,247	2,234	2,452
Amortization of transition obligation	<u>1,335</u>	<u>1,375</u>	<u>1,414</u>
Total net periodic cost	<u>\$3,582</u>	<u>\$3,675</u>	<u>\$4,213</u>

The currently assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation is 5% for all years shown. The assumed rate of future medical cost increases has been gradually decreased since the adoption of FAS No. 106 in response to the actual leveling off of cost increases in the plan. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 1996 and net postretirement health care cost by approximately \$224,000. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7.25%.

### NOTE 8. ACCOUNTING FOR INCOME TAXES

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

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

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

**THE WASHINGTON WATER POWER COMPANY**

As of December 31, 1997 and 1996, the Company had recorded net regulatory assets of \$176.7 million and \$164.8 million, respectively, related to the probable recovery of FAS No. 109, "Accounting for Income Taxes," deferred tax liabilities from customers through future rates. Such regulatory assets will be adjusted by amounts recovered through rates.

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) tax credit carryforwards. The net deferred federal income tax liability consists of the following (thousands of dollars):

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Deferred tax liabilities:			
Differences between book and tax bases			
of utility plant	\$368,137	\$333,017	\$320,502
Loss on reacquired debt	5,504	6,283	7,173
Other	5,825	8,271	10,013
Total deferred tax liabilities	<u>379,466</u>	<u>347,571</u>	<u>337,688</u>
Deferred tax assets:			
Reserves not currently deductible	12,630	14,942	15,742
Contributions in aid of construction	6,277	5,425	4,634
Deferred natural gas credits	1,138	4,157	3,894
Centralia Trust	2,515	2,185	-
Gain on sale of office building	1,279	1,371	1,463
Other	2,878	6,962	4,426
Total deferred tax assets	<u>26,717</u>	<u>35,042</u>	<u>30,159</u>
Net deferred tax liability	<u>\$352,749</u>	<u>\$312,529</u>	<u>\$307,529</u>

A reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations and federal income tax as set forth in the accompanying Consolidated Statements of Income and Retained Earnings is as follows (the current and deferred effective tax rates are approximately the same during all periods):

	<u>For the Years Ended December 31,</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
	(Thousands of Dollars)		
Computed federal income taxes at statutory rate.....	\$60,552	\$46,103	\$47,875
Increase (decrease) in tax resulting from:			
Accelerated tax depreciation .....	5,014	23	(909)
Prior year audit adjustments .....	(31,458)	(3,491)	5,418
Reserve for WNP3.....	10,402	-	-
Other.....	12,500	3,955	(4,121)
Total federal income tax expense* .....	<u>\$57,010</u>	<u>\$46,590</u>	<u>\$48,263</u>
<b><i>Income Tax Expense Consists of the Following:</i></b>			
Federal taxes currently provided .....	\$51,104	\$37,456	\$48,318
Deferred income taxes .....	5,906	9,134	(55)
Total federal income tax expense .....	57,010	46,590	48,263
State income tax expense .....	4,065	2,919	4,153
Federal and state income taxes .....	<u>\$61,075</u>	<u>\$49,509</u>	<u>\$52,416</u>
*Federal Income Tax Expense:			
Utility.....	\$50,409	\$34,866	\$41,203
National Energy Trading and Marketing.....	1,415	(625)	-
Non-energy.....	5,186	12,349	7,060
Total Federal Income Tax Expense .....	<u>\$57,010</u>	<u>\$46,590</u>	<u>\$48,263</u>
Federal statutory rate .....	35%	35%	35%

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**NOTE 9. LONG-TERM PURCHASED POWER CONTRACTS WITH REQUIRED MINIMUM PAYMENTS**

Under fixed contracts with Public Utility Districts (PUD), the Company has agreed to purchase portions of the output of certain generating facilities. Although the Company has no investment in such facilities, these contracts provide that the Company pay certain minimum amounts (which are based at least in part on the debt service requirements of the supplier) whether or not the facility is operating. The cost of power obtained under the contracts, including payments made when a facility is not operating, is included in operations and maintenance expense in the Consolidated Statements of Income. Information as of December 31, 1997, pertaining to these contracts is summarized in the following table:

	Company's Current Share of					Contract Expira- tion Date
	Output	Kilowatt Capability	Annual Costs (1)	Debt Service Costs (2)	Revenue Bonds Outstanding	
(Thousands of Dollars)						
<b>PUD Contracts:</b>						
Chelan County PUD:						
Rocky Reach Project .....	2.9%	37,000	1,652	573	6,822	2011
Grant County PUD:						
Priest Rapids Project.....	6.1	55,000	1,524	883	10,627	2005
Wanapum Project .....	8.2	75,000	1,947	1,178	16,950	2009
Douglas County PUD:						
Wells Project.....	3.7	<u>30,000</u>	<u>828</u>	<u>577</u>	<u>6,593</u>	2018
Totals		<u>197,000</u>	<u>\$5,951</u>	<u>\$3,211</u>	<u>\$40,992</u>	

- (1) The annual costs will change in proportion to the percentage of output allocated to the Company in a particular year. Amounts represent the operating costs for the year 1997.
- (2) Included in annual costs.

Actual expenses for payments made under the above contracts for the years 1997, 1996 and 1995, were \$5.9 million, \$5.4 million and \$8.1 million, respectively. The estimated aggregate amounts of required minimum payments (the Company's share of debt service costs) under the above contracts for the next five years are \$5.4 million in 1998, \$5.3 million in 1999, \$6.3 million in 2000, \$6.2 million in 2001 and \$6.6 million in 2002 (minimum payments thereafter are dependent on then market conditions). In addition, the Company will be required to pay its proportionate share of the variable operating expenses of these projects.

**NOTE 10. LONG-TERM DEBT**

The annual sinking fund requirements and maturities for the next five years for long-term debt outstanding at December 31, 1997 are as follows:

Year Ended December 31	Maturities	Sinking Fund Requirements	Total
(Thousands of Dollars)			
1998 .....	10,000	4,407	14,407
1999 .....	47,500	4,407	51,907
2000 .....	55,000	4,197	59,197
2001 .....	44,000	3,647	47,647
2002 .....	50,000	3,497	53,497

The sinking fund requirements may be met by certification of property additions at the rate of 167% of requirements. All of the utility plant is subject to the lien of the Mortgage and Deed of Trust securing outstanding First Mortgage Bonds.

In 1997, \$20.0 million of First Mortgage Bonds in the form of Secured Medium-Term Notes were issued, while \$26.5 million of Secured Medium-Term Notes and \$25.0 million of Unsecured Medium-Term Notes matured or were repurchased. As of December 31, 1997, the Company had remaining authorization to issue up to \$89.0 million of Secured Medium-Term Notes.

## ***THE WASHINGTON WATER POWER COMPANY***

In November 1997, the Company filed a Registration Statement with the SEC for up to and including \$250 million of Debt Securities of the Company.

At December 31, 1997, the Company had \$108.5 million outstanding under borrowing arrangements which are expected to be refinanced in 1998. See Note 12 for details of credit agreements.

The fair value of the Company's long-term debt at December 31, 1997 and 1996 is estimated to be \$647.3 million, or 105% of the carrying value and \$658.7 million, or 102% of the carrying value, respectively. These estimates are based on available market information.

### **NOTE 11. BANK BORROWINGS**

At December 31, 1997, the Company maintained lines of credit with various banks under two separate credit agreements amounting to \$120.0 million. The Company has one revolving line of credit, expiring December 10, 1999, which provides a total credit commitment of \$70.0 million. The second revolving credit agreement, which expires on July 22, 2000, provides a total credit commitment of \$50.0 million. The Company pays commitment fees of up to 0.09% per annum on the average daily unused portion of each credit agreement.

In addition, under various agreements with banks, the Company can have up to \$60.0 million in loans outstanding at any one time, with the loans available at the banks' discretion. These arrangements provide, if funds are made available, for fixed-term loans for up to 180 days at a fixed rate of interest.

Balances and interest rates of bank borrowings under these arrangements were as follows:

	<b>Years Ended December 31,</b>	
	<b>1997</b>	<b>1996</b>
	<i>(Thousands of Dollars)</i>	
<b>Balance outstanding at end of period:</b>		
Fixed-term loans.....	\$ 60,000	\$ 50,000
Revolving credit agreement .....	48,500	35,000
<b>Maximum balance during period:</b>		
Fixed-term loans.....	\$ 60,000	\$ 50,000
Revolving credit agreement .....	48,500	35,500
<b>Average daily balance during period:</b>		
Fixed-term loans.....	\$ 23,737	\$ 15,482
Revolving credit agreement .....	8,981	12,280
<b>Average annual interest rate during period:</b>		
Fixed-term loans.....	5.81%	5.67%
Revolving credit agreement .....	5.66	5.34
<b>Average annual interest rate at end of period:</b>		
Fixed-term loans.....	6.20%	5.88%
Revolving credit agreement .....	6.39	6.02

### **NOTE 12. LEASES**

The Company has entered into several lease arrangements involving various assets, with minimum terms ranging from one to fourteen years and expiration dates from 1998 to 2011. Certain of the lease arrangements require the Company, upon the occurrence of specified events, to purchase the leased assets for varying amounts over the term of the lease. The Company's management believes that the likelihood of the occurrence of the specified events under which the Company could be required to purchase the property is remote. Rent expense for the years ended December 31, 1997, 1996 and 1995 was \$16.9 million, \$15.2 million and \$13.0 million, respectively. Future minimum lease payments (in thousands of dollars) required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1997 are estimated as follows:

## **THE WASHINGTON WATER POWER COMPANY**

Year ending December 31:	
1998	\$ 7,030
1999	7,059
2000	6,146
2001	5,957
2002	5,840
Later years	<u>31,845</u>
Total minimum payments required	\$ <u>63,877</u>

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

### **NOTE 13. PREFERRED STOCK**

#### **Cumulative Preferred Stock Not Subject to Mandatory Redemption:**

The Company redeemed its \$50 million of Flexible Auction Preferred Stock, Series J in August 1997. The dividend rate on this preferred stock was reset every 49 days based on an auction. During the time it was outstanding in 1997, the dividend rate varied from 4.06% to 4.60%.

#### **Cumulative Preferred Stock Subject to Mandatory Redemption:**

##### **Redemption requirements:**

\$8.625, Series I - On June 15, 1998, the Company must redeem the remaining 100,000 shares at \$100 per share plus accumulated dividends.

\$6.95, Series K - On September 15, 2002, 2003, 2004, 2005 and 2006, the Company must redeem 17,500 shares at \$100 per share plus accumulated dividends through a mandatory sinking fund. Remaining shares must be redeemed on September 15, 2007. The Company has the right to redeem an additional 17,500 shares on each September 15 redemption date.

There are \$11.75 million in mandatory redemption requirements during the 1998-2002 period.

In June 1997, the Company had a mandatory redemption of \$10 million, or 100,000 shares, and also completed an optional redemption of an additional 100,000 shares, or \$10 million, of its \$8.625 Series I.

The fair value of the Company's preferred stock at December 31, 1997 and 1996 is estimated to be \$49.8 million, or 111% of the carrying value and \$118.3 million, or 103% of the carrying value, respectively. These estimates are based on available market information.

### **NOTE 14. COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES**

On January 23, 1997, Washington Water Power Capital I, a business trust, issued to the public \$60,000,000 of Preferred Trust Securities having a distribution rate of 7 7/8%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued \$1,855,675 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's 7 7/8% Junior Subordinated Deferrable Interest Debentures, Series A, with a principal amount of \$61,855,675. Accordingly, no financial statements have been presented. These debt securities may be redeemed at the Company's option on or after January 15, 2002 and mature January 15, 2037.

On June 3, 1997, Washington Water Power Capital II, a business trust, issued to the public \$50,000,000 of Preferred Trust Securities having a floating distribution rate of LIBOR plus 0.875%, calculated and reset quarterly (initially 6.6875%). The distribution rate at December 31, 1997 was 6.77734%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued \$1,547,000 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's Floating Rate Junior Subordinated Deferrable Interest Debentures, Series B, with a principal amount of \$51,547,000. Accordingly, no financial statements have been presented. These debt securities may be redeemed at the Company's option on or after June 1, 2007 and mature June 1, 2037.

**THE WASHINGTON WATER POWER COMPANY**

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

The fair value of the Company's preferred trust securities at December 31, 1997 is estimated to be \$109.4 million, or 99% of the carrying value. These estimates are based on available market information.

**NOTE 15. COMMON STOCK**

In April 1990, the Company sold 1,000,000 shares of its common stock to the Trustee of the Investment and Employee Stock Ownership Plan for Employees of the Company (Plan) for the benefit of the participants and beneficiaries of the Plan. In payment for the shares of Common Stock, the Trustee issued a promissory note payable to the Company in the amount of \$14,125,000. Dividends paid on the stock held by the Trustee, plus Company contributions to the Plan, if any, are used by the Trustee to make interest and principal payments on the promissory note. The balance of the promissory note receivable from the Trustee (\$9.75 million at December 31, 1997) is reflected as a reduction to common equity. The shares of Common Stock are allocated to the accounts of participants in the Plan as the note is repaid. During 1997, the cost recorded for the Plan was \$3.4 million. Interest on the note payable to the Company, cash and stock contributions to the Plan and dividends on the shares held by the Trustee were \$1.0 million, \$2.6 million and \$1.2 million, respectively.

In February 1990, the Company adopted a shareholder rights plan, which was subsequently amended, pursuant to which holders of Common Stock outstanding on March 2, 1990, or issued thereafter, have been granted one preferred share purchase right (Right) on each outstanding share of Common Stock. Each Right, initially evidenced by and traded with the shares of Common Stock, entitles the registered holder to purchase one two-hundredth of a share of Preferred Stock of the Company, without par value, at an exercise price of \$40, subject to certain adjustments, regulatory approval and other specified conditions. The Rights will be exercisable only if a person or group acquires 10% or more of the Common Stock or announces a tender offer, the consummation of which would result in the beneficial ownership by a person or group of 10% or more of the Common Stock. The Rights may be redeemed, at a redemption price of \$0.005 per Right, by the Board of Directors of the Company at any time until any person or group has acquired 10% or more of the Common Stock. The Rights will expire on February 16, 2000.

During 1992, the Company received authorization to issue 1.5 million shares of Common Stock under a second Periodic Offering Program (POP). No shares were issued under the POP during 1995, 1996 or 1997. At December 31, 1997, 572,400 shares remained authorized but unissued.

The Company has a Dividend Reinvestment and Stock Purchase Plan under which the Company's stockholders may automatically reinvest their dividends and make optional cash payments for the purchase of the Company's Common Stock at current market value.

Beginning in early 1996, shares were purchased on the open market to fulfill obligations of the 401(K) and Dividend Reinvestment Plans. Sales of Common Stock for 1997, 1996 and 1995 are summarized below (thousands of dollars):

	1997		1996		1995	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at January 1.....	55,960,360	\$594,852	55,947,967	\$594,636	54,420,696	\$570,603
Employee Investment Plan (401-K)...	-	-	-	-	304,353	4,718
Dividend Reinvestment Plan.....	-	-	12,393	216	1,222,918	19,315
Total Issues.....	-	-	12,393	216	1,527,271	24,033
Balance at December 31.....	<u>55,960,360</u>	<u>\$594,852</u>	<u>55,960,360</u>	<u>\$594,852</u>	<u>55,947,967</u>	<u>\$594,636</u>

**NOTE 16. 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.

## ***THE WASHINGTON WATER POWER COMPANY***

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### ***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 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.

### ***Firestorm***

On October 16, 1991, gale-force winds struck a five-county area in eastern Washington and a seven-county area in northern Idaho. These winds were responsible for causing 92 separate wildland fires, resulting in two deaths and the loss of 114 homes and other structures, some of which were located in the Company's service territory. Five separate class action lawsuits have been filed against the Company by private individuals in the Superior Court for Spokane County. All of these suits were certified as class actions on September 16, 1994, and bifurcated for trial of liability and damage issues by order of the same date.

The Company was also served with two suits in Spokane County Superior Court filed on April 20, 1994 and on September 15, 1994, both of which sought individual damages from separate and for alleged wrongful death of two persons. Five additional and separate suits were brought by Grange Insurance Company, and were filed in Spokane County Superior Court on October 10, 1994, for approximately \$2.2 million paid to Grange insureds for the same fire areas.

A settlement agreement was reached with all parties to the Firestorm litigation and was approved following hearing in the Superior Court of Spokane County on December 4, 1997, and a final order of dismissal with prejudice was entered on December 5, 1997. No appeal resulted from that order. This action resolved all claims pending against the Company relating to the above-mentioned occurrences. The Company's contribution toward the settlement is \$10.3 million, with all but \$1.2 million being covered by insurance proceeds.



## ***THE WASHINGTON WATER POWER COMPANY***

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### ***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. This action has been temporarily stayed pending the determination of certain legal issues in a similar case filed in the U.S. District Court for the Eastern District of Washington, involving similar facts and circumstances, but which did not otherwise name the Company as a defendant.

### ***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.

### ***Other Contingencies***

The Company routinely assesses, based on in-depth studies, expert analyses and legal reviews, its contingencies, obligations and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties who have and have not agreed to a settlement and recoveries from insurance carriers. The Company's policy is to immediately accrue and charge to current expense identified exposures related to environmental remediation sites based on estimates of investigation, cleanup and monitoring costs to be incurred.

The Company must be in compliance with requirements under the Clean Air Act Amendments (CAAA) by the year 2000 at both the Colstrip and Centralia thermal generating plants, in which the Company maintains an ownership interest. The anticipated share of costs at Colstrip are not expected to have a major economic impact on the Company, but estimates at Centralia are expected to be approximately \$35 million, which have been included in the Company's future projected capital expenditures.

The Company has potential liabilities under the Federal Endangered Species Act (ESA) for species of fish that have either already been added to the endangered species list, been listed as "threatened" or been petitioned for listing. Thus far, measures which have been adopted and implemented have had minimal impact of the Company. Future actions to save these, and other as yet unidentified fish or wildlife species, particularly as the Company is relicensing several of its hydroelectric facilities, could impact the Company's operations. It is currently not possible to determine the likely financial impact of any further actions.

The Company has long-term contracts related to the purchase of fuel for thermal generation, natural gas and hydroelectric power. Terms of the natural gas purchase contracts range from one month to five years and the majority provide for minimum purchases at the then effective market rate. The Company also has various agreements for the purchase, sale or exchange of electric energy with other utilities, cogenerators, small power producers and government agencies.

As of December 31, 1997, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers represented approximately 46% of employees. The current agreement with the union local representing the majority of the bargaining unit employees expires on March 25, 1999. A local agreement in the South Lake Tahoe area, which represents 7 employees, also expires on March 25, 1999.

### **NOTE 17. MERGER TERMINATION**

On June 28, 1996, the Board of Directors of the Company terminated the Agreement and Plan of Reorganization and Merger, dated as of June 27, 1994 by and among the Company, Sierra Pacific Resources (SPR), Sierra Pacific Power Company, a subsidiary of SPR (SPPC), and Altus Corporation, a wholly owned subsidiary of the Company (Altus, formerly named Resources West Energy Corporation), which would have provided for the merger of the Company, SPR and SPPC with and into Altus. The Company had approximately \$15.8 million, or \$10.3 million after-tax, in merger-related transaction and transition costs that were expensed in 1996. No increase in rates will occur as a result of these costs being expensed.

**THE WASHINGTON WATER POWER COMPANY**

**NOTE 18. SELECTED QUARTERLY INFORMATION (Unaudited)**

The Company's energy operations are significantly affected by weather conditions. Consequently, there can be large variances in revenues, expenses and net income between quarters based on seasonal factors such as temperatures and streamflow conditions. A summary of quarterly operations (in thousands of dollars except per share amounts) for 1997 and 1996 follows:

	<b>Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
<b>1997</b>				
Operating revenues .....	\$284,046	\$236,274	\$295,076	\$486,776
Operating income .....	64,060	34,669	29,707	61,028
Net income .....	29,848	48,475	13,237	23,237
Income available for common stock.....	28,070	46,663	12,258	22,414
Outstanding common stock (000s):				
Weighted average.....	55,960	55,960	55,960	55,960
Actual.....	55,960	55,960	55,960	55,960
Earnings per share:				
Energy Delivery and Generation and Resources.....	\$0.49	\$0.81	\$0.12	\$0.29
National Energy Trading and Marketing ..	(0.01)	(0.03)	(0.02)	0.10
Non-energy .....	0.02	0.05	0.12	0.02
Total, Basic and Diluted.....	<u>\$0.50</u>	<u>\$0.83</u>	<u>\$0.22</u>	<u>\$0.41</u>
Dividends paid per common share .....	\$0.31	\$0.31	\$0.31	\$0.31
Trading price range per share:				
High.....	\$19	\$19 7/8	\$21 1/4	\$24 13/16
Low .....	\$17 3/8	\$17 3/8	\$18 7/8	\$18 15/16
<b>1996</b>				
Operating revenues .....	\$248,004	\$195,900	\$219,751	\$281,302
Operating income .....	66,446	45,888 *	35,627	38,960
Net income .....	41,909	8,968	18,364	14,212
Income available for common stock.....	39,643	6,827	16,572	12,433
Outstanding common stock (000s):				
Weighted average.....	55,958	55,960	55,960	55,960
Actual.....	55,960	55,960	55,960	55,960
Earnings per share:				
Energy Delivery and Generation and Resources.....	\$0.50	\$0.10	\$0.19	\$0.18
National Energy Trading and Marketing ..	-	(0.01)	-	(0.01)
Non-energy .....	0.21	0.03	0.11	0.05
Total, Basic and Diluted.....	<u>\$0.71</u>	<u>\$0.12</u>	<u>\$0.30</u>	<u>\$0.22</u>
Dividends paid per common share .....	\$0.31	\$0.31	\$0.31	\$0.31
Trading price range per share:				
High.....	\$19 1/8	\$19 7/8	\$19 3/4	\$19 3/4
Low .....	\$17 1/4	\$17 3/4	\$17 7/8	\$18

\* The amount reported above for Operating Income in the second quarter of 1996 differs from the amount reported in the second quarter Form 10-Q because the merger expenses were retroactively reclassified from operating expenses to non-operating expenses during the third quarter of 1996.

## COMPENSATION OF TOP 5 CORPORATE EMPLOYEES - SEC INFORMATION

	<u>Name/Title</u>	<u>Base Salary</u>	<u>Bonuses</u>	<u>Other</u>	<u>Total Compensation</u>	<u>Total Compensation Last Year</u>	<u>% Increase Total Compensation</u>
1	P. A. Redmond Chairman of the Board and Chief Executive Officer				979,547	905,767	8.15%
2	W. L. Bryan President and Chief Operating Officer				422,767	321,253	31.60%
3	J. E. Eliassen Senior Vice President, Chief Financial Officer and Treasurer				333,782	303,258	10.07%
4	G. G. Ely Senior Vice President and General Manager				294,338	253,504	16.11%
5	R. D. Fukai Vice President				285,203	270,856	5.30%

	Account Title	Last Year	This Year	% Change
1	<b>Assets and Other Debits</b>			
2	<b>Utility Plant</b>			
3	101 Electric Plant in Service	1,918,143,408	1,997,565,743	4.14%
4	101.1 Property Under Capital Leases	-	-	-
5	102 Electric Plant Purchased or Sold	-	-	-
6	104 Electric Plant Leased to Others	-	-	-
7	105 Electric Plant Held for Future Use	-	-	-
8	106 Completed Constr. Not Classified - Electric	-	-	-
9	107 Construction Work in Progress - Electric	38,695,999	37,445,619	-3.23%
10	108 (Less) Accumulated Depreciation	(574,360,845)	(614,136,762)	6.93%
11	111 (Less) Accumulated Amortization	(7,563,374)	(7,668,512)	1.39%
12	114 Electric Plant Acquisition Adjustments	33,460,579	33,460,579	0.00%
13	115 (Less) Accum. Amort. Elec. Acq. Adj.	(10,499,971)	(13,543,512)	28.99%
14	120 Nuclear Fuel (Net)	-	-	-
15	<b>TOTAL Utility Plant</b>	<b>1,397,875,796</b>	<b>1,433,123,155</b>	<b>2.52%</b>
16				
17	<b>Other Property &amp; Investments</b>			
18	121 Nonutility Property	3,220,318	3,063,565	-4.87%
19	122 (Less) Accum. Depr. & Amort. for Nonutil. Prop.	(24,573)	(40,614)	65.28%
20	123 Investments in Associated Companies	-	-	-
21	123.1 Investments in Subsidiary Companies	133,639,618	206,665,538	54.64%
22	124 Other Investments	88,839,178	81,057,590	-8.76%
23	125 Special Funds	20,205,540	17,812,610	-11.84%
24	<b>TOTAL Other Property &amp; Investments</b>	<b>245,880,081</b>	<b>308,558,689</b>	<b>25.49%</b>
25				
26	<b>Current &amp; Accrued Assets</b>			
27	131 Cash	(916,628)	1,543,289	-268.37%
28	132-134 Special Deposits	10,200	62,191	509.72%
29	135 Working Funds	249,517	333,463	33.64%
30	136 Temporary Cash Investments	373,426	430	-99.88%
31	141 Notes Receivable	-	-	-
32	142 Customer Accounts Receivable	68,337,759	53,367,723	-21.91%
33	143 Other Accounts Receivable	2,739,443	2,557,854	-6.63%
34	144 (Less) Accum. Provision for Uncollectible Accts.	(1,194,854)	(1,494,647)	25.09%
35	145 Notes Receivable - Associated Companies	-	-	-
36	146 Accounts Receivable - Associated Companies	(103,840)	(43,571)	-58.04%
37	151 Fuel Stock	6,353,371	7,434,376	17.01%
38	152 Fuel Stock Expenses Undistributed	-	-	-
39	153 Residuals	-	-	-
40	154 Plant Materials and Operating Supplies	11,852,026	11,278,455	-4.84%
41	155 Merchandise	-	-	-
42	156 Other Material & Supplies	14,607	2,246	-84.62%
43	157 Nuclear Materials Held for Sale	-	-	-
44	163 Stores Expense Undistributed	(131,175)	229,711	-275.12%
45	165 Prepayments	46,195,918	35,700,119	-22.72%
46	171 Interest & Dividends Receivable	40,254	494,693	1128.93%
47	172 Rents Receivable	726,963	803,154	10.48%
48	173 Accrued Utility Revenues	-	-	-
49	174 Miscellaneous Current & Accrued Assets	10,284,794	4,292,007	-58.27%
50	<b>TOTAL Current &amp; Accrued Assets</b>	<b>144,831,781</b>	<b>116,561,493</b>	<b>-19.52%</b>

	<u>Account Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1				
2	<b>Assets and Other Debits (cont.)</b>			
3				
4	<b>Deferred Debits</b>			
5				
6	181 Unamortized Debt Expense	4,700,866	7,624,682	62.20%
7	182.1 Extraordinary Property Losses	-	-	-
8	182.2 Unrecovered Plant & Regulatory Study Costs	1,217,198	842,196	-30.81%
9	182.3 Other Regulatory Assets	174,033,334	185,726,832	6.72%
10	183 Prelim. Survey & Investigation Charges	4,311,882	349,733	-91.89%
11	184 Clearing Accounts	246,740	(1,326,365)	-637.56%
12	185 Temporary Facilities	-	-	-
13	186 Miscellaneous Deferred Debits	64,315,829	78,327,407	21.79%
14	187 Deferred Losses from Disposition of Util: Plant	-	-	-
15	188 Research, Devel. & Demonstration Expend.	42,451	56,315	32.66%
16	189 Unamortized Loss on Reacquired Debt	18,446,765	16,353,501	-11.35%
17	190 Accumulated Deferred Income Taxes	15,948,019	22,324,932	39.99%
18	TOTAL Deferred Debits	283,263,084	310,279,233	9.54%
19				
20	TOTAL Assets & Other Debits	2,071,850,742	2,168,522,570	4.67%
21				
22	<b>Liabilities and Other Credits</b>			
23				
24	<b>Proprietary Capital</b>			
25				
26	201 Common Stock Issued	594,852,562	594,852,562	0.00%
27	202 Common Stock Subscribed	-	-	-
28	204 Preferred Stock Issued	115,000,000	45,000,000	-60.87%
29	205 Preferred Stock Subscribed	-	-	-
30	207 Premium on Capital Stock	-	-	-
31	211 Miscellaneous Paid-In Capital	-	-	-
32	213 (Less) Discount on Capital Stock	-	-	-
33	214 (Less) Capital Stock Expense	(10,112,016)	(10,142,819)	0.30%
34	215 Appropriated Retained Earnings	25,664,183	52,119,009	103.08%
35	216 Unappropriated Retained Earnings	105,636,590	119,657,081	13.27%
36	217 (Less) Reacquired Capital Stock	-	-	-
37	TOTAL Proprietary Capital	831,041,319	801,485,833	-3.56%
38				
39	<b>Long Term Debt</b>			
40				
41	221 Bonds	455,800,000	449,300,000	-1.43%
42	222 (Less) Reacquired Bonds	-	-	-
43	223 Advances from Associated Companies	-	-	-
44	224 Other Long Term Debt	277,558,391	386,020,481	39.08%
45	225 Unamortized Premium on Long Term Debt	-	-	-
46	226 (Less) Unamort. Discount on L-Term Debt-Dr.	(1,239,474)	(1,169,346)	-5.66%
47	TOTAL Long Term Debt	732,118,917	834,151,135	13.94%

	<u>Account Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1				
2	<b>Total Liabilities and Other Credits (cont.)</b>			
3				
4	<b>Other Noncurrent Liabilities</b>			
5				
6	227 Obligations Under Cap. Leases - Noncurrent	-	-	-
7	228.1 Accumulated Provision for Property Insurance	-	-	-
8	228.2 Accumulated Provision for Injuries & Damages	1,522,222	1,067,009	-29.90%
9	228.3 Accumulated Provision for Pensions & Benefits	13,919,295	8,710,333	-37.42%
10	228.4 Accumulated Misc. Operating Provisions	-	-	-
11	229 Accumulated Provision for Rate Refunds	-	-	-
12	<b>TOTAL Other Noncurrent Liabilities</b>	15,441,517	9,777,342	-36.68%
13				
14	<b>Current &amp; Accrued Liabilities</b>			
15				
16	231 Notes Payable	-	-	-
17	232 Accounts Payable	76,650,940	53,873,712	-29.72%
18	233 Notes Payable to Associated Companies	-	(40,000)	-
19	234 Accounts Payable to Associated Companies	873,006	496,996	-
20	235 Customer Deposits	936,353	1,162,979	24.20%
21	236 Taxes Accrued	20,077,942	18,220,751	-9.25%
22	237 Interest Accrued	15,130,459	13,770,987	-8.99%
23	238 Dividends Declared	285,835	(2)	-
24	239 Matured Long Term Debt	-	-	-
25	240 Matured Interest	-	-	-
26	241 Tax Collections Payable	75,373	(408,391)	-641.83%
27	242 Miscellaneous Current & Accrued Liabilities	15,861,331	30,636,265	93.15%
28	243 Obligations Under Capital Leases - Current	-	-	-
29	<b>TOTAL Current &amp; Accrued Liabilities</b>	129,891,239	117,713,297	-9.38%
30				
31	<b>Deferred Credits</b>			
32				
33	252 Customer Advances for Construction	2,554,282	2,415,934	-5.42%
34	253 Other Deferred Credits	21,134,582	26,030,396	23.16%
35	254 Other Regulatory Liabilities	1,937,030	2,085,343	7.66%
36	255 Accumulated Deferred Investment Tax Credit	2,162,721	2,064,873	-4.52%
37	256 Deferred Gains from Disposition Of Util. Plant	-	-	-
38	257 Unamortized Gain on Reacquired Debt	-	-	-
39	281-283 Accumulated Deferred Income Taxes	335,569,135	372,798,417	11.09%
40	<b>TOTAL Deferred Credits</b>	363,357,750	405,394,963	11.57%
41				
42	<b>TOTAL Liabilities &amp; Other Credits</b>	2,071,850,742	2,168,522,570	4.67%

	<u>Account Number &amp; Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1				
2	<b>Intangible Plant</b>			
3				
4	301 Organization	-	-	-
5	302 Franchises & Consents	193,078	193,078	0.00%
6	303 Miscellaneous Intangible Plant	4,225	16,356	287.12%
7				
8	<b>TOTAL Intangible Plant</b>	197,303	209,434	6.15%
9				
10	<b>Production Plant</b>			
11				
12	<b><u>Steam Production</u></b>			
13				
14	310 Land & Land Rights	1,305,462	1,305,462	0.00%
15	311 Structures & Improvements	99,084,454	99,094,440	0.01%
16	312 Boiler Plant Equipment	114,475,207	113,933,501	-0.47%
17	313 Engines & Engine Driven Generators	-	-	-
18	314 Turbogenerator Units	29,150,387	29,778,084	2.15%
19	315 Accessory Electric Equipment	13,430,018	13,435,903	0.04%
20	316 Miscellaneous Power Plant Equipment	12,280,184	12,049,192	-1.88%
21				
22	<b>TOTAL Steam Production Plant</b>	269,725,712	269,596,582	-0.05%
23				
24	<b><u>Nuclear Production</u></b>			
25				
26	320 Land & Land Rights	-	-	-
27	321 Structures & Improvements	-	-	-
28	322 Reactor Plant Equipment	-	-	-
29	323 Turbogenerator Units	-	-	-
30	324 Accessory Electric Equipment	-	-	-
31	325 Miscellaneous Power Plant Equipment	-	-	-
32				
33	<b>TOTAL Nuclear Production Plant</b>	-	-	-
34				
35	<b><u>Hydraulic Production</u></b>			
36				
37	330 Land & Land Rights	37,917,515	37,917,515	0.00%
38	331 Structures & Improvements	10,404,267	10,671,043	2.56%
39	332 Reservoirs, Dams & Waterways	30,816,217	30,816,217	0.00%
40	333 Water Wheels, Turbines & Generators	30,093,039	30,134,671	0.14%
41	334 Accessory Electric Equipment	3,369,813	3,471,988	3.03%
42	335 Miscellaneous Power Plant Equipment	1,654,246	1,680,078	1.56%
43	336 Roads, Railroads & Bridges	88,694	88,694	0.00%
44				
45	<b>TOTAL Hydraulic Production Plant</b>	114,343,791	114,780,206	0.38%
46				
47				
48				
49				

	<u>Account Number &amp; Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1				
2	<b>Production Plant (cont.)</b>			
3				
4	<b>Other Production</b>			
5				
6	340 Land & Land Rights	-	-	-
7	341 Structures & Improvements	-	-	-
8	342 Fuel Holders, Producers & Accessories	-	-	-
9	343 Prime Movers	-	-	-
10	344 Generators	-	-	-
11	345 Accessory Electric Equipment	-	-	-
12	346 Miscellaneous Power Plant Equipment	-	-	-
13				
14	TOTAL Other Production Plant	-	-	-
15				
16	<b>TOTAL Production Plant</b>	384,069,503	384,376,788	0.08%
17				
18	<b>Transmission Plant</b>			
19				
20	350 Land & Land Rights	883,384	883,384	0.00%
21	352 Structures & Improvements	130,527	130,527	0.00%
22	353 Station Equipment	14,117,932	14,131,716	0.10%
23	354 Towers & Fixtures	16,003,523	16,011,129	0.05%
24	355 Poles & Fixtures	6,756,823	6,761,891	0.08%
25	356 Overhead Conductors & Devices	15,714,327	15,714,327	0.00%
26	357 Underground Conduit	-	-	-
27	358 Underground Conductors & Devices	-	-	-
28	359 Roads & Trails	367,476	367,476	0.00%
29				
30	<b>TOTAL Transmission Plant</b>	53,973,992	54,000,450	0.05%
31				
32	<b>Distribution Plant</b>			
33				
34	360 Land & Land Rights	-	-	-
35	361 Structures & Improvements	15,880	15,880	0.00%
36	362 Station Equipment	151,641	151,641	0.00%
37	363 Storage Battery Equipment	-	-	-
38	364 Poles, Towers & Fixtures	8,955	8,955	0.00%
39	365 Overhead Conductors & Devices	6,676	6,676	0.00%
40	366 Underground Conduit	46	46	0.00%
41	367 Underground Conductors & Devices	638	638	0.00%
42	368 Line Transformers	897	897	0.00%
43	369 Services	127	127	0.00%
44	370 Meters	29	29	0.00%
45	371 Installations on Customers' Premises	-	-	-
46	372 Leased Property on Customers' Premises	-	-	-
47	373 Street Lighting & Signal Systems	-	-	-
48				
49	<b>TOTAL Distribution Plant</b>	184,889	184,889	0.00%
50				



	<u>Account Number &amp; Title</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1				
2	<b>General Plant</b>			
3				
4	389 Land & Land Rights	-	-	-
5	390 Structures & Improvements	-	-	-
6	391 Office Furniture & Equipment	-	-	-
7	392 Transportation Equipment	-	-	-
8	393 Stores Equipment	-	-	-
9	394 Tools, Shop & Garage Equipment	-	-	-
10	395 Laboratory Equipment	-	-	-
11	396 Power Operated Equipment	-	-	-
12	397 Communication Equipment	-	-	-
13	398 Miscellaneous Equipment	-	-	-
14	399 Other Tangible Property	-	-	-
15				
16	<b>TOTAL General Plant</b>	-	-	-
17				
18	<b>TOTAL Electric Plant in Service</b>	438,425,687	438,771,561	0.08%

Sch. 20 MONTANA DEPRECIATION SUMMARY					
	Functional Plant Classification	Plant Cost	Accumulated Depreciation		Current Avg. Rate
			Last Year Bal.	This Year Bal.	
1					
2	Steam Production	269,596,582	96,351,863	103,486,391	3.02%
3	Nuclear Production				
4	Hydraulic Production	114,780,206	8,376,661	9,483,204	0.62%
5	Other Production				
6	Transmission	4,537,104	2,256,337	2,375,399	2.62%
7	Distribution				
8	General	236,302	8,672	109,781	8.51%
9	<b>TOTAL</b>	<b>389,150,194</b>	<b>106,993,533</b>	<b>115,454,775</b>	

Sch. 21 MONTANA MATERIALS & SUPPLIES (ASSIGNED & ALLOCATED)					
	Account	Last Year Bal.	This Year Bal.	%Change	
1					
2	151 Fuel Stock	417,240	369,536	-11.43%	
3	152 Fuel Stock Expenses Undistributed				
4	153 Residuals				
5	154 Plant Materials & Operating Supplies:				
6	Assigned to Construction (Estimated)				
7	Assigned to Operations & Maintenance				
8	Production Plant (Estimated)	2,150,454	1,980,023	-7.93%	
9	Transmission Plant (Estimated)				
10	Distribution Plant (Estimated)				
11	Assigned to Other				
12	155 Merchandise				
13	156 Other Materials & Supplies				
14	157 Nuclear Materials Held for Sale				
15	163 Stores Expense Undistributed				
16					
17	<b>TOTAL Materials &amp; Supplies</b>	<b>2,567,694</b>	<b>2,349,559</b>	<b>-8.50%</b>	

Sch. 22 MONTANA REGULATORY CAPITAL STRUCTURE & COSTS				
	Commission Accepted - Most Recent	% Cap. Str.	% Cost Rate	Weighted Cost
1	Docket Number			
2	Order Number	<u>Reference is made to Schedule 27</u>		
3				
4	Common Equity			
5	Preferred Stock			
6	Long Term Debt			
7	Other			
8	<b>TOTAL</b>			
9				
10	<u>Actual at Year End</u>			
11				
12	Common Equity			
13	Preferred Stock			
14	Long Term Debt			
15	Other			
16	<b>TOTAL</b>			

## STATEMENT OF CASH FLOWS

	Description	This year	Last Year	% Change
1				
2	Increase/(decrease) in Cash & Cash Equivalents:			
3				
4	<b>Cash Flows from Operating Activities:</b>			
5	Net Income	114,797,212	83,453,847	37.56%
6	Depreciation	49,972,287	47,649,475	4.87%
7	Amortization	15,714,177	25,180,581	-37.59%
8	Deferred Income Taxes - Net	36,807,703	6,593,273	458.26%
9	Investment Tax Credit Adjustments - Net	(97,848)	(97,848)	0.00%
10	Change in Operating Receivables - Net	15,403,519	(16,953,482)	-190.86%
11	Change in Materials, Supplies & Inventories - Net	(2,134,235)	6,805,332	-131.36%
12	Change in Operating Payables & Accrued Liabilities - Net	(26,457,730)	33,879,441	-178.09%
13	Allowance for Funds Used During Construction (AFUDC)	(1,322,597)	(1,071,712)	23.41%
14	Change in Other Assets & Liabilities - Net	(14,625,572)	(21,278,796)	-31.27%
15	Other Operating Activities (explained on attached page)	15,963,720	(736,378)	-2267.87%
16	Net Cash Provided by/(Used in) Operating Activities	204,020,636	163,423,733	24.84%
17				
18	<b>Cash Inflows/Outflows From Investment Activities:</b>			
19	Construction/Acquisition of Property, Plant and Equipment (net of AFUDC & Capital Lease Related Acquisitions)	(88,548,025)	(89,895,561)	-1.50%
20	Acquisition of Other Noncurrent Assets	-	-	-
21	Proceeds from Disposal of Noncurrent Assets	-	-	-
22	Investments In and Advances to Affiliates	-	-	-
23	Contributions and Advances from Affiliates	(59,081,596)	(4,058,786)	1355.65%
24	Disposition of Investments in and Advances to Affiliates	-	-	-
25	Other Investing Activities (explained on attached page)	(8,406,798)	15,881,901	-152.93%
26	Net Cash Provided by/(Used in) Investing Activities	(156,036,419)	(78,072,446)	99.86%
27				
28				
29	<b>Cash Flows from Financing Activities:</b>			
30	Proceeds from Issuance of:			
31	Long-Term Debt	130,000,000	-	-
32	Preferred Stock	-	-	-
33	Common Stock	-	216,120	-100.00%
34	Other:	1,259,002	681,250	84.81%
35	Net Increase in Short-Term Debt	23,500,000	-	-
36	Other:	(3,966,449)	(432,125)	817.89%
37	Payment for Retirement of:			
38	Long-Term Debt	(51,500,000)	(38,000,000)	35.53%
39	Preferred Stock	(70,000,000)	(20,000,000)	250.00%
40	Common Stock	-	-	-
41	Other:	(37,910)	(14,372)	163.78%
42	Net Decrease in Short-Term Debt	-	55,500,000	-100.00%
43	Dividends on Preferred Stock	(5,625,155)	(7,927,310)	-29.04%
44	Dividends on Common Stock	(69,390,847)	(69,390,846)	0.00%
45	Other Financing Activities (explained on attached page)	-	-	-
46	Net Cash Provided by (Used in) Financing Activities	(45,761,359)	(79,367,283)	-42.34%
47				
48	<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	2,222,858	5,984,004	-62.85%
49	<b>Cash and Cash Equivalents at Beginning of Year</b>	(283,485)	(6,267,488)	-95.48%
50	<b>Cash and Cash Equivalents at End of Year</b>	1,939,373	(283,484)	-784.12%

## STATEMENT OF CASH FLOWS

	<u>Description</u>	<u>This year</u>	<u>Last Year</u>	<u>% Change</u>
1				
2	<b>Detail of Lines 15 and 26</b>			
3				
4	<b>Line 15: Other Operating Activities</b>			
5	Net Increase in Other Regulatory Liabilities	-	665,598	-
6	Idaho Accretion Income	(209,732)	(259,916)	-19.31%
7	Change in Dividends Declared	(27,218)	(285,835)	-90.48%
8	Non-Monetary Power Transactions	(16,470,238)	(8,708,710)	89.12%
9	Other	32,670,908	7,852,485	316.06%
10	Total Line 15	15,963,720	(736,378)	-2267.87%
11				
12	<b>Line 26: Other Investing Activities</b>			
13	Dividends from Subsidiary Companies	-	2,900,000	-100.00%
14	Changes in Other Non-Current Balance Sheet Accts	(5,627,159)	26,089,034	-121.57%
15	Other Special Funds	(2,779,639)	(13,107,133)	-78.79%
16	Net Cash Provided by/(Used in) Investing Activities	(8,406,798)	15,881,901	-152.93%

## LONG TERM DEBT

	<u>Description</u>	<u>Issue Date</u> Mo./Yr.	<u>Maturity Date</u> Mo./Yr.	<u>Principal Amount</u>	<u>Net Proceeds</u>	<u>Outstanding Per Balance Sheet</u>	<u>Yield to Maturity</u>	<u>Annual Net Cost Inc. Prem/Disc.</u>	<u>Total Cost %</u>
1									
2									
3									
4	<u>First Mortgage Bonds</u>								
5	7 1/8% Series	12/1/89	12/1/13	66,700,000	63,614,202	66,700,000	7.54%	5,031,631	7.54%
6	7 2.5% Series	12/1/89	12/1/16	17,000,000	16,418,069	17,000,000	7.70%	1,309,320	7.70%
7									
8	<u>Secured Medium-Term Notes</u>								
9	Series A	various	various	250,000,000	248,374,625	211,500,000	various	26,584,647	7.00%
10	Series B	various	various	161,000,000	149,175,000	150,000,000	various	-	7.42%
11									
12	<u>Unsecured Medium-Term Notes</u>								
13	Series A	various	various	200,000,000	248,374,625	52,500,000	various	14,733,158	9.00%
14	Series B	various	various	150,000,000	160,141,500	115,000,000	various	-	7.75%
15									
16									
17	6% Pollution Control Bonds	7/1/93	12/1/23	4,100,000	3,913,000	4,100,000	6.34%	259,924	6.34%
18									
19									
20									
21									
22									
23									
24	** The annual net costs and the total cost % for the 2 series each of Secured and								
25	Unsecured Medium-Term Notes are given for the securities in total, not by								
26	the individual series.								
27									
28									
29									
30									
31									
32	TOTAL			848,800,000	890,011,021	616,800,000		47,918,680	

PREFERRED STOCK

	<u>Series</u>	<u>Issue Date</u> <u>Mo./Yr.</u>	<u>Shares Issued</u>	<u>Par Value</u>	<u>Call Price</u>	<u>Net Proceeds</u>	<u>Cost of Money</u>	<u>Principal Outstanding</u>	<u>Annual Cost</u>	<u>Embed. Cost %</u>
1										
2	Subject to mandatory redemption:									
3	Series "I"	4/26/90	500,000	\$ 100	-	46,505,987	\$ 8.625	10,000,000	862,500	9.27%
4	Series "K"	9/15/92	350,000	\$ 100	-	32,910,609	\$ 6.950	35,000,000	2,432,500	7.39%
5										
6										
7										
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26										
27										
28										
29										
30										
31										
32	TOTAL					-		-	-	

## COMMON STOCK

		Avg. Number of Shares <u>Outstanding</u>	Book Value <u>Per Share</u>	Earnings Per <u>Share</u>	Dividends Per <u>Share</u>	Retention <u>Ratio</u>	Market Price		Price/ Earnings <u>Ratio</u>
							<u>High</u>	<u>Low</u>	
1									
2									
3									
4	January	55,960,360					18.625	18.000	
5									
6	February	55,960,360					19.000	18.250	
7									
8	March	55,960,360	\$12.91	\$0.50	\$0.31		18.500	17.375	15.22
9									
10	April	55,960,360					18.125	17.375	
11									
12	May	55,960,360					18.500	17.750	
13									
14	June	55,960,360	\$13.50	\$0.83	\$0.31		19.875	17.875	10.59
15									
16	July	55,960,360					21.250	18.875	
17									
18	August	55,960,360					20.875	19.500	
19									
20	September	55,960,360	\$13.31	\$0.22	\$0.31		20.750	19.000	11.26
21									
22	October	55,960,360					20.563	18.938	
23									
24	November	55,960,360					21.375	19.750	
25									
26	December	55,960,360	\$13.38	\$0.41	\$0.31		24.813	21.188	12.44
27									
28									
29									
30									
31									
32	TOTAL Year End	55,960,360	\$13.38	\$1.96	\$1.24	30.21%	24.313		12.44

**MONTANA EARNED RATE OF RETURN**

	<u>Description</u> <u>Rate Base</u>	<u>Last Year</u>	<u>This Year</u>	<u>% Change</u>
1				
2	101 Plant in Service			
3	108 (Less) Accumulated Depreciation			
4	<b>NET Plant in Service</b>	0	0	
5				
6	Additions			
7	154, 15 Materials & Supplies			
8	165 Prepayments			
9	Other Additions			
10	<b>TOTAL Additions</b>	0	0	
11				
12	Deductions			
13	190 Accumulated Deferred Income Taxes			
14	252 Customer Advances for Construction			
15	255 Accumulated Def. Investment Tax Credits			
16	Other Deductions			
17	<b>TOTAL Deductions</b>	0	0	
18	<b>TOTAL Rate Base</b>	0	0	
19				
20	<b>Net Earnings</b>			
21				
22	<b>Rate of Return on Average Rate Base</b>			
23				
24	<b>Rate of Return on Average Equity</b>			
25				
26	Major Normalizing Adjustments & Commission			
27	<u>Ratemaking adjustments to Utility Operations</u>			
28				
29				
30				
31				
32				
33				
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35				
36				
37				
38				
39				
40				
41				
42				
43				
44	<b>Adjusted Rate of Return on Average Rate Base</b>			
45				
46	<b>Adjusted Rate of Return on Average Equity</b>			

The Washington Water Power Company has 17 customers with 1997 revenues of \$5,002,115 in the State of Montana. Rates charged were based on the Company's last rate order from the Idaho Public Utilities Commission and accepted by the Montana Commission. The Company does not calculate separate rate of return for the Montana jurisdiction.



## MONTANA COMPOSITE STATISTICS

	<u>Description</u>	<u>Amount</u>
1		
2	<u>Plant (Intrastate Only) (000 Omitted)</u>	
3		
4	101 Plant in Service	438,772
5	107 Construction Work in Progress	-
6	114 Plant Acquisition Adjustments	-
7	105 Plant Held for Future Use	-
8	154, 156 Materials & Supplies	2,350
9	(Less):	
10	108, 111 Depreciation & Amortization Reserves	(115,455)
11	252 Contributions in Aid of Construction	
12		
13	NET BOOK COSTS	325,667
14		
15	<u>Revenues &amp; Expenses (000 Omitted)</u>	
16		
17	400 Operating Revenues	5,002
18		
19	403 - 407 Depreciation & Amortization Expenses	8,461
20	Federal & State Income Taxes	1,004
21	Other Taxes	9,303
22	Other Operating Expenses	27,218
23	TOTAL Operating Expenses	45,986
24		
25	Net Operating Income	(40,984)
26		
27	415-421.1 Other Income	-
28	421.2-426.5 Other Deductions	-
29		
30	NET INCOME	(40,984)
31		
32	<u>Customers (Intrastate Only)</u>	
33		
34	Year End Average:	
35	Residential	10
36	Commercial	1
37	Industrial	5
38	Other	1
39		
40	TOTAL NUMBER OF CUSTOMERS	17
41		
42	<u>Other Statistics (Intrastate Only)</u>	
43		
44	Average Annual Residential Use (Kwh)	17,300
45	Average Annual Residential Cost per (Kwh) (Cents) *	4.677
46	* Avg annual cost = [(cost per Kwh x annual use) + (mo. svc chrg x 12)]/annual use	
47	Average Residential Monthly Bill	\$67.43
48	Gross Plant per Customer	\$43,877

MONTANA CUSTOMER INFORMATION

	<u>City/Town</u>	<u>Population (Include Rural)</u>	<u>Residential Customers</u>	<u>Commercial Customers</u>	<u>Industrial &amp; Other Customers</u>	<u>Total Customers</u>
1						
2	Noxon, Montana		10	1	5	16
3						
4	Montana Power Company				1	1
5						
6						
7						
8						
9						
10						
11						
12						
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30						
31						
32	TOTAL Montana Customers		10	1	6	17

MONTANA EMPLOYEE COUNTS

	<u>Department</u>	<u>Year Beginning</u>	<u>Year End</u>	<u>Average</u>
1				
2	Noxon Generating Station	14	16	16
3				
4				
5				
6				
7				
8				
9				
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11				
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47				
48				
49	TOTAL Montana Employees	14	16	16

**MONTANA CONSTRUCTION BUDGET (ASSIGNED & ALLOCATED)**

	<u>Project Description</u>	<u>Total Company</u>	<u>Total Montana</u>
1			
2	Noxon Microwave	230,734	230,734
3			
4	Hydro Relicensing Costs -- Noxon Rapids	3,963,242	3,963,242
5			
6	Noxon #2 ACB replacement	122,122	122,122
7			
8	Minor Projects (12) Under \$100,000	72,328	72,328
9			
10			
11			
12			
13			
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15			
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46			
47	<b>TOTAL</b>	<b>4,388,426</b>	<b>4,388,426</b>

Sch. 32 TOTAL SYSTEM & MONTANA PEAK AND ENERGY						
System						
		Peak Day of Month	Peak Hour	Peak Day Volumes Megawatts	Total Monthly Volumes Energy (Mwh)	Non-Requirements Sales For Resale (Mwh)
1	Jan.	14	800	1,551	2,062,194	1,221,628
2	Feb.	7	800	1,448	1,917,692	1,206,232
3	Mar.	13	2000	1,335	2,104,996	1,370,632
4	Apr.	11	800	1,233	1,889,463	1,227,816
5	May	1	900	1,190	2,026,836	1,388,230
6	Jun.	17	1400	1,076	2,200,028	1,607,075
7	Jul.	21	1500	1,271	2,515,263	1,847,577
8	Aug.	6	1800	1,368	2,095,147	1,389,523
9	Sep.	2	1300	1,173	1,914,080	1,309,134
10	Oct.	28	1800	1,153	1,929,136	1,263,475
11	Nov.	19	1700	1,335	2,004,451	1,297,058
12	Dec.	9	1800	1,411	2,097,223	1,278,217
13	TOTAL				24,756,509	16,406,597

Montana						
		Peak Day of Month	Peak Hour	Peak Day Volumes Megawatts	Total Monthly Volumes Energy (Mwh)	Non-Requirements Sales For Resale (Mwh)
14	Jan.					29,120
15	Feb.					1,402
16	Mar.	Information in these columns is not available by state				6,968
17	Apr.					3,889
18	May					2,049
19	Jun.					19,388
20	Jul.					71,124
21	Aug.					5,407
22	Sep.					21,427
23	Oct.					3,939
24	Nov.					1,870
25	Dec.					28,801
26	TOTAL					195,384

Sch. 33 TOTAL SYSTEM Sources & Disposition of Energy				
	Sources	Megawatthours	Disposition	Megawatthours
1	Generation (Net of Station Use)			
2	Steam	2,526,157	Sales to Ultimate Consumers (Include Interdepartmental)	7,782,847
3	Nuclear	-		
4	Hydro - Conventional	4,862,534	Requirements Sales for Resale	-
5	Hydro - Pumped Storage	-		
6	Other	100,977		
7	(Less) Energy for Pumping	-	Non-Requirements Sales for Resale	16,406,597
8	NET Generation	7,489,668		
9	Purchases	17,247,791		
10	Power Exchanges			
11	Received	1,364,295	Energy Furnished Without Charge	-
12	Delivered	1,345,245		
13	NET Exchanges	19,050		
14	Transmission Wheeling for Others		Energy Used Within Electric Utility	-
15	Received	4,473,526		
16	Delivered	4,473,526		
17	NET Transmission Wheeling	-	Total Energy Losses	567,065
18	Transmission by Others Losses	-		
19	TOTAL	24,756,509	TOTAL	24,756,509

## SOURCES OF ELECTRIC SUPPLY

	Type	Plant Name	Location	Annual Peak (MW)	Annual Energy (Mwh)
1					
2	Washington:				
3	Thermal	Centralia	Centralia, WA	202	1,021,306
4	Thermal	Kettle Falls	Kettle Falls, WA	54	279,887
5	Hydro	Little Falls	Ford, WA	38	232,122
6	Hydro	Long Lake	Ford, WA	86	574,110
7	Hydro	Meyers Falls	Colville, WA	1	7,735
8	Hydro	Monroe Street	Spokane, WA	17	103,454
9	Hydro	Nine Mile	Spokane, WA	22	108,714
10	Hydro	Upper Falls	Spokane, WA	14	80,206
11	Combustion -				
12	Turbine	Northeast	Spokane, WA	59	2,693
13					
14					
15					
16	Idaho:				
17	Hydro	Cabinet Gorge	Clark Fork, ID	234	1,298,898
18	Hydro	Post Falls	Post Falls, ID	18	101,374
19	Combustion -				
20	Turbine	Rathdrum	Rathdrum, ID	164	98,284
21					
22					
23					
24	Montana:				
25	Thermal	Colstrip #3 and #4	Colstrip, MT	233	1,224,964
26	Hydro	Noxon	Thompson Falls, MT	542	2,355,921
27					
28					
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31					
32					
33					
34					
35					
36					
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42					
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44					
45					
46	Total			1,684	7,489,668

**MONTANA CONSERVATION & DEMAND SIDE MANAGEMENT PROGRAMS**

	Program Description	Current Year Expenditures	Last Year Expenditures	% Change	Planned Savings (MW & MWH)	Achieved Savings (MW & MWH)	Difference (MW & MWH)
1	Not Applicable						
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
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27							
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29							
30							
31							
32	TOTAL						

## MONTANA CONSUMPTION AND REVENUES

	<u>Sales of Electricity</u>	Operating Revenues		MegaWatt Hours Sold		Avg. No. of Customers	
		Current <u>Year</u>	Previous <u>Year</u>	Current <u>Year</u>	Previous <u>Year</u>	Current <u>Year</u>	Previous <u>Year</u>
1	Residential	8,091	9,302	173	198	10	10
2	Commercial - Small	2,381	1,885	37	29	1	1
3	Commercial - Large	-	-	-	-	-	-
4	Industrial - Small	-	-	-	-	-	-
5	Industrial - Large	-	-	-	-	-	-
6	Interruptible Industrial	-	-	-	-	-	-
7	Public Street & Highway Lighting	-	-	-	-	-	-
8	Other Sales to Public Authorities	-	-	-	-	-	-
9	Sales to Cooperatives	-	-	-	-	-	-
10	Sales to Other Utilities	3,321,841	1,261,842	195,384	97,527	1	1
11	Interdepartmental	5,203	5,304	78	79	5	5
12							
13	TOTAL	3,337,516	1,278,333	195,672	97,833	17	17