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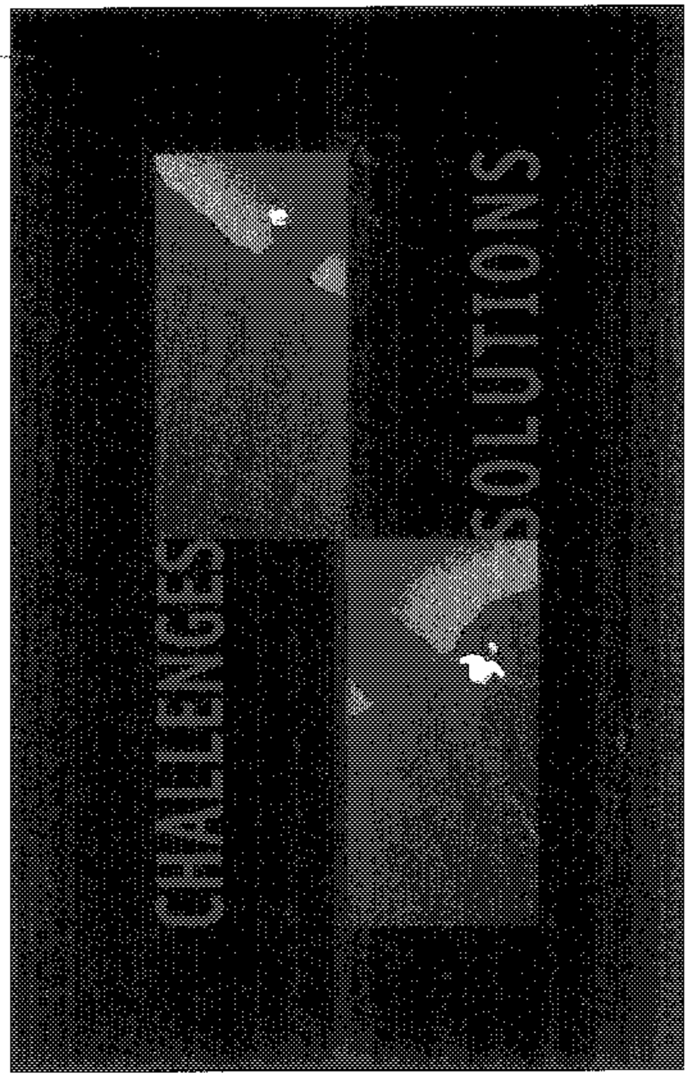
WWP
Washington Water Power

1995 Annual Report



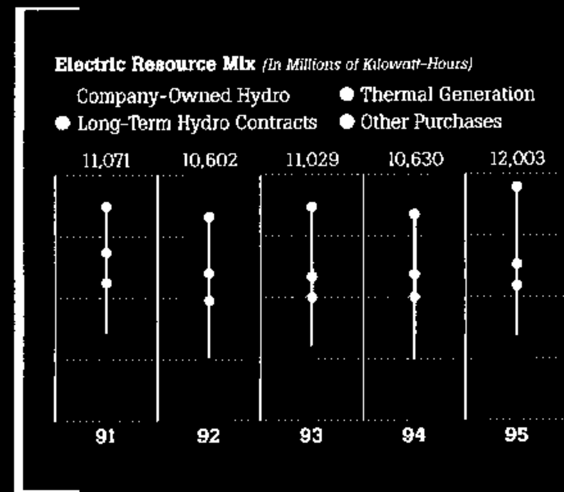
company profile

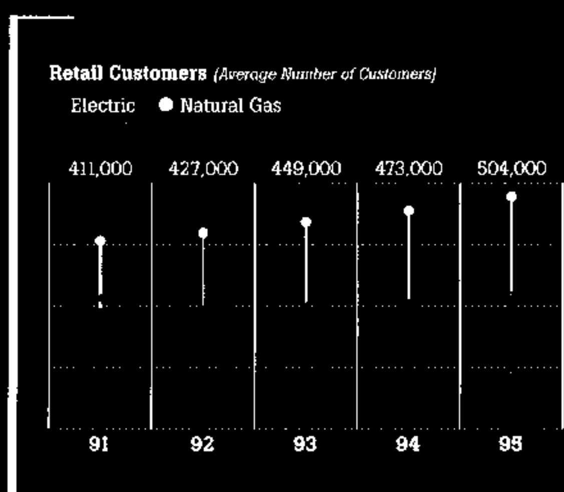
We are an energy services company with electric and natural gas operations in five western states. We are distinct from our competitors in many ways – our position as a low-cost energy provider, our innovative and results-oriented response to changes in the utility marketplace, our highly skilled and motivated employees and our extraordinary commitment to customer satisfaction. Complementing our energy services business are several energy-related enterprises and Pentzer Corporation, our wholly owned private investment firm.

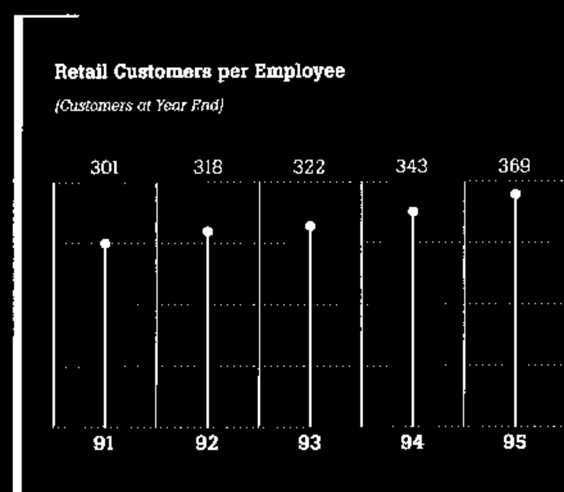
[illegible]

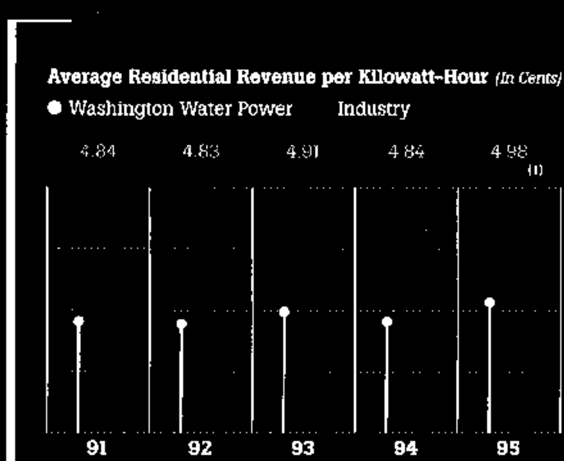
Creativity thrives on challenge. We all do our best work when the pressure's high and everything's at stake. Brilliant flashes seldom come in times of repose, nor do great deeds rise from tranquility. They come in the tumult and risk of change. The sweep of change is upon us. We saw it coming and we are ready.

[performance review]

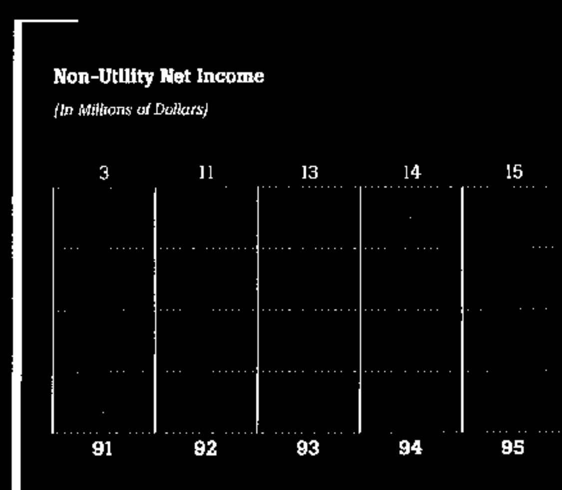








(1) Twelve months ended September 30, 1995.

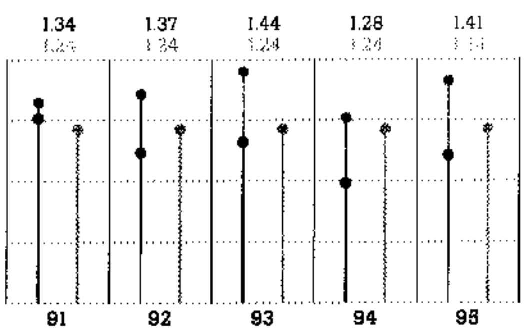


[financial and operating highlights]

(Thousands of Dollars Except Statistics and Per Share Amounts)	**1995**	1994	% Change
Financial Results			
Operating revenues	**$ 755,009**	$ 670,765	12.6
Operating expenses	**565,169**	515,307	9.7
Operating income	**189,840**	155,458	22.1
Net income	**87,121**	77,197	12.9
Net income available for common stock	**77,998**	68,541	13.8
Earnings per share	**1.41**	1.28	10.2
Dividends paid per share	**1.24**	1.24	–
Book value per share	**12.82**	12.45	3.0
Average common shares outstanding	**55,173**	53,538	3.1
Return on average common equity	**11.19%**	10.45%	7.1
Common stock closing price	**17.50**	13.75	27.3
Operating Results			
Electric:			
Revenues	**486,989**	451,291	7.9
KWh sales (millions)	**11,492**	10,141	13.3
Average customers	**287,089**	270,486	6.1
Natural gas:			
Revenues	**174,227**	156,776	11.1
Therm sales (including transport – thousands)	**657,171**	531,329	23.7
Average customers	**217,245**	202,999	7.0
Non-utility:			
Revenues	**93,793**	62,698	49.6
Total assets	**226,511**	173,582	30.5
Other Financial and Operating Statistics			
Total assets	**$2,098,902**	$1,994,253	5.2
Net utility plant	**1,357,418**	1,329,045	2.1
Utility capital expenditures	**79,944**	122,735	-34.9
Total capitalization:			
Long-term debt	**738,287**	721,146	2.4
Preferred stock	**135,000**	135,000	–
Common equity	**717,125**	677,494	5.8
Total	**$1,590,412**	$1,533,640	3.7
Total utility employees	**1,390**	1,420	-2.1

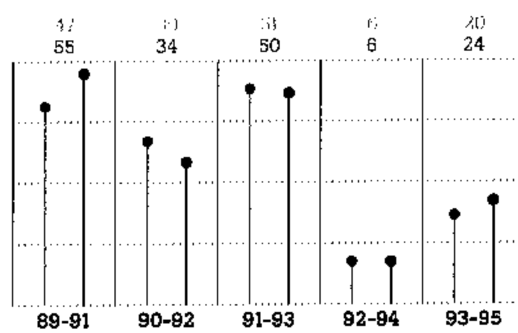
Earnings and Dividends per Share *(In Dollars)*

● Utility ● Non-Utility ❃ Dividends



Shareholder Return[1] *(In Percent)*

● Washington Water Power ● Industry



(1) Market price change plus cash dividends. Numbers represented are for three-year period ended December 31.

As steel is tempered in a forge, we've grown tougher in the changing climate of our industry. We know our strengths and we're acting to enhance them. Our task is clear – concentrate on what's coming and what it means for those we serve. Fully confident, we've defined our mission: Always deliver on our commitments.

LETTER TO OUR SHAREHOLDERS

For our company, 1995 was an exceptional year. We posted improved results in nearly every aspect of our business. We achieved record revenues of $755 million, and our net income for common stock was higher by 14 percent at $78 million. Our earnings per share grew by 10 percent to $1.41. I am enormously proud of what our team of employees accomplished through their dedication to providing superior value to our shareholders and our customers.

While pleased with our solid performance, we were deeply disappointed by the delay in completing our proposed merger with Sierra Pacific Resources. We had fully expected to be operating as a new company under a new name – Altus Corporation – by the end of 1995. But, late in the year, the Federal Energy Regulatory Commission voted to conduct hearings on the merger. This news was as surprising as it was disheartening, particularly since we had received all required state regulatory approvals for the merger. We are striving for prompt action at the federal level and are doing all we can to foster a common understanding of key issues.

We are also pursuing other opportunities in response to the profound change that is reshaping our industry. We have crafted an operating plan – driven by the fundamentals of business growth, results improvement and exceptional customer service – that will allow us to build on our success. In support of our plan, we have realigned responsibilities among our officer team. By refocusing their collective energy, we will be better able to anticipate change, provide swift and effective response and, most importantly, deliver results.

In meeting the challenges of change, we begin by building on the foundation of our business success: Our enviable position as one of the nation's lowest-cost providers of energy. We hold a distinct price advantage over almost all our competitors, which will allow us to capture the many opportunities that a deregulated marketplace will offer.

An example is our wholesale energy business, where we have greatly strengthened our competitive position. Wholesale electric revenues were up by 20 percent last year and, based on contracts already in place, we expect revenues from this business to nearly double by 1997. We will also begin marketing wholesale energy services nationally as we seek to build on our established market position in the western United States.

[Paul Redmond]

With the full blossoming of deregulation in our industry on the horizon, our retail energy business is also taking on a national focus. While continuing to deliver value to our existing customers, we are pursuing opportunities outside the traditional boundaries of our service area. To carry out this plan, we have introduced WWP Energy Solutions, a full-service energy entity with a focus on providing customers with a broader range of services.

Measured and cost-effective customer growth – whether adding customers through service extensions or through service area acquisition – continues as an important strategy. We have added 75,000 customers through acquisitions in the past five years – including 10,000 in 1995 – and we will continue to seek the right opportunities for further expansion.

Pentzer Corporation, responsible for the majority of our non-utility investments, will continue to make a valuable contribution to our overall corporate performance. Our non-utility businesses generated $15 million in net income in 1995, a year-to-year improvement of 9 percent, and contributed $0.27 per share to earnings.

We fully recognize that our success in this changing industry hinges on the imagination and energy of our employees. For that reason, we have placed an emphasis on fostering continuous employee learning and creating a more flexible and multi-skilled workforce.

The coming year will be filled with challenges. Our promise to you is to build a stronger company by delivering innovative solutions. I will keep you informed of our progress.

Paul A. Redmond

Paul A. Redmond
Chairman of the Board, President
and Chief Executive Officer

March 12, 1996

STANDING TALL IN THE MARKET

Starting from a position of strength, we're ready to lead in a dynamic market. As a low-cost provider of energy services, with a long record of price stability, we're building the loyalty of our present customers and expanding our territory to win new ones.

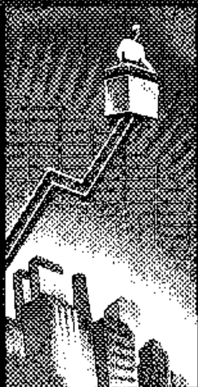
Business seemed simple not so long ago. We delivered energy services to our customers and they paid us. Those days are fading. Now, as change sweeps through our industry, we are casting off old assumptions and harnessing our strengths to meet opportunities as they emerge.

Technological advances and deregulation are creating customer choice and a wide open marketplace. Good service and standard products will no longer be enough. Staying in front of the field demands exceptional service and product flexibility to meet the needs of our present customers and attract new ones.

We're exhilarated by the challenge. We've seen this coming and we're prepared. Simply stated, we will be the customer's choice based on price, service and quality.

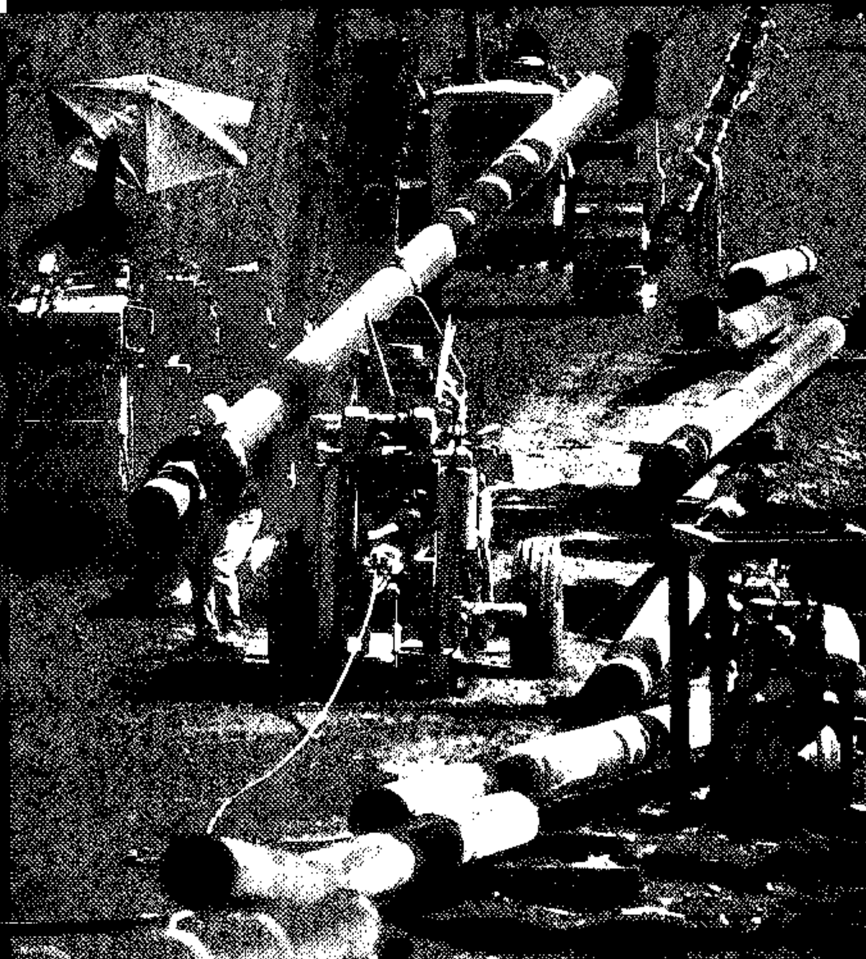
Our confidence rests on two great strengths – we are among the nation's lowest-cost energy providers and we have a nearly unparalleled record of price stability. With these advantages, we can grow in two ways. By responding to customer needs and fostering business growth and economic development, we increase our penetration of existing markets. By seeking new opportunities – expansions, mergers and acquisitions – we are moving into new service areas.

Not only is this good news for customers, it's also welcome news for shareholders. Fueled by our strategic advantages – low-cost and responsive service - we're expanding our customer base and making our business grow.



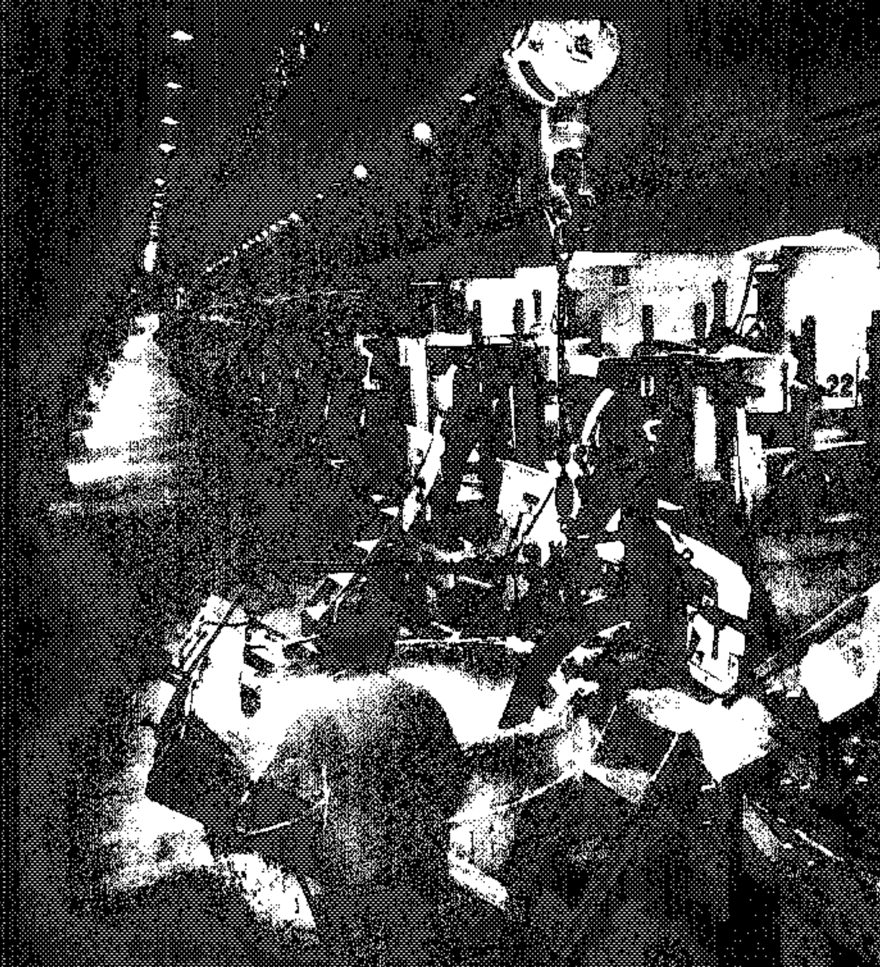
[gaining new ground]

SOLUTIONS



Completion of this pipeline project in our southern Oregon service area has improved our service reliability and is helping meet this fast-growing region's demand for natural gas.

With an innovative energy
agreement between our company
and Kaiser Aluminum, we've
entered a new market and helped a
major Spokane customer increase
competitiveness in world markets.



SOLUTION

[ingenuity at work]

FORGING NEW PARTNERSHIPS

When we collaborate with our customers to address their energy needs, creative ideas emerge, innovations that add value to our services. Together we open new opportunities to improve their business and ours. We work for them as their advocates, and they reward us with their loyalty, an invaluable asset.

When customers have choices, expectations rise. They shop for enhancements beyond basic service. To capture their loyalty, we have to see from their perspective and respond to their specific needs.

This demands new relationships. Yesterday, it was supplier and ratepayer, one facing the other. Today, it's partners, shoulder-to-shoulder, working together to find innovative ways to create value with energy services.

Commercial and industrial customers with increasing sophistication are looking for alternative solutions to their energy needs, and making national or regional energy decisions to boost their buying power.

Our focus on developing and maintaining strong customer relationships, and our expertise in the delivery of gas and electric services, give us confidence in this new arena. WWP Energy Solutions, our entrepreneurial response to these demands, and other strategies will move us into the national retail energy market in 1996.

Becoming our customers' partners and advocates has also opened new avenues for success in the wholesale electric business. In the past year we moved into new markets, capturing several long-term, firm contracts. Capitalizing on our strengths, we expect to expand in 1996 to a national focus.

Our goal is to be the first energy provider in our customers' minds. To do that, we must be ready to fill needs they have yet to define.

To be the provider of choice in a rapidly shifting environment requires a restless pursuit of improvement in every facet of our company. To achieve our high-performance goals, we're putting everything we do under scrutiny, looking for large and small ways to serve our customers better and win their business.

REFINING OUR PERFORMANCE

With the rush of change upon our industry, clearly we have to pull free of any settled position and prepare to move in the direction of opportunities as they arise. Pressing toward improvement cannot be a periodic focus. It must be our perpetual state.

Can we streamline this process to save effort and cost? What tools do we need? What training is necessary? Who should be on the team that takes on this task? These are the questions of redesign. And they are questions that are challenging us to define priorities and realign work around customer needs. In 1996, virtually every part of our company will come under this kind of analysis.

Our people have always been our greatest strength. Now we're equipping them to do the work even better. Furthermore, our plants and other facilities have always been highly productive, but we're looking for additional gains. Likewise our service delivery systems. Using technology, we've developed work management systems that reduce paperwork and more quickly get our people where they're needed most, serving customers.

As we strive toward better and better performance, our goal is always to be a more productive and a more responsive organization. This is a delicate balance. Customer service can never be sacrificed to efficiency and productivity.

Every day, we're improving our business, matching our promises to reality and delivering on our commitments.

[clockwork response]

SOLUTIONS

Our crews had plans and equipment ready when a sudden warming trend caused several Idaho and Washington rivers to flood, taking inundated residents by surprise.

The Clark Fork River reflects how nature's cycles provide the power on which we depend. Staying in harmony with those cycles is our ongoing commitment.

SOLUTIO

[in nature's mainstream]

Hydropower is the core of our generation system. Our stewardship of the rivers in our care safeguards this renewable resource for coming generations. We know that a balance of energy and environmental considerations is critical. Likewise we are stewards of our communities, serving as their partner on issues of common interest.

STEWARDSHIP OF OUR FUTURE

Being a company with 'water' as our middle name, we care deeply about the region's natural resources. From early times, when we were among the first companies of our kind to hire an on-staff fisheries biologist, to the present, when we have a whole team of them, we have been serious about our role as stewards of the river ecosystems.

Our Noxon Rapids and Cabinet Gorge facilities are currently in the federal relicensing process. To broaden involvement, we've enlisted as a participant in the process Trout Unlimited, a leading advocate for trout and salmon. This is an unprecedented display of cooperation between a hydropower utility and a conservation group.

As a company that relies on the good will and consent of society, we're concerned about the human components of a healthy environment as well. We work with our communities to encourage educational opportunities for all children that will lead to good, productive citizenship. And at every opportunity we teach and advocate safe and efficient use of electricity and natural gas.

Our future also relies on a healthy economic environment, and we strongly support collaborative efforts that will enhance the prosperity of our communities: civic organizations, service agencies that address human need, and programs in culture and the arts. And we are also an ever-willing and active partner in helping communities with their economic development activities.

BUILDING ON A SOLID BASE

For the last 11 years, Pentzer Corporation has helped increase our earnings by putting a portion of our capital to work in a portfolio of investments. With Pentzer's sound investment strategies, non-utility net income has increased in each of the last four years, and non-utility assets have more than doubled.

Balance is the key to any successful portfolio. Ours is no exception. Through Pentzer Corporation, we put some of our capital to work outside the utility industry, seeking returns that exceed those of the utility operations.

Pentzer's well-considered business strategy is to acquire controlling interest in middle market companies that have strong management and significant advantages within their markets. Most attractive are companies that are not cyclical, retail or high tech. Once a company is acquired, Pentzer helps it grow through internal development and strategic acquisitions. Giving on-site managers freedom and resources has proved a potent growth stimulus for most of our portfolio companies.

Both returns on capital and transactional gains infuse our company with added earnings. Pentzer achieved record results in 1995, producing consolidated net income of $16 million. This was an increase of nearly 9 percent over last year's results. Pentzer now accounts for 10 percent of our company's total assets.

In 1995, Pentzer added two companies to its portfolio: The Decker Company, which specializes in the design and production of point-of-purchase displays; and its largest acquisition to date, Advanced Manufacturing and Development, a manufacturer of metal and wood products for the computer, video arcade, medical equipment and point-of-purchase industries.

Non-utility earnings are growing from acquisitions like Advanced Manufacturing and Development, with 1995 sales up 52 percent and the trend expected to continue in 1996.

SOLUTION

[assembling a portfolio]

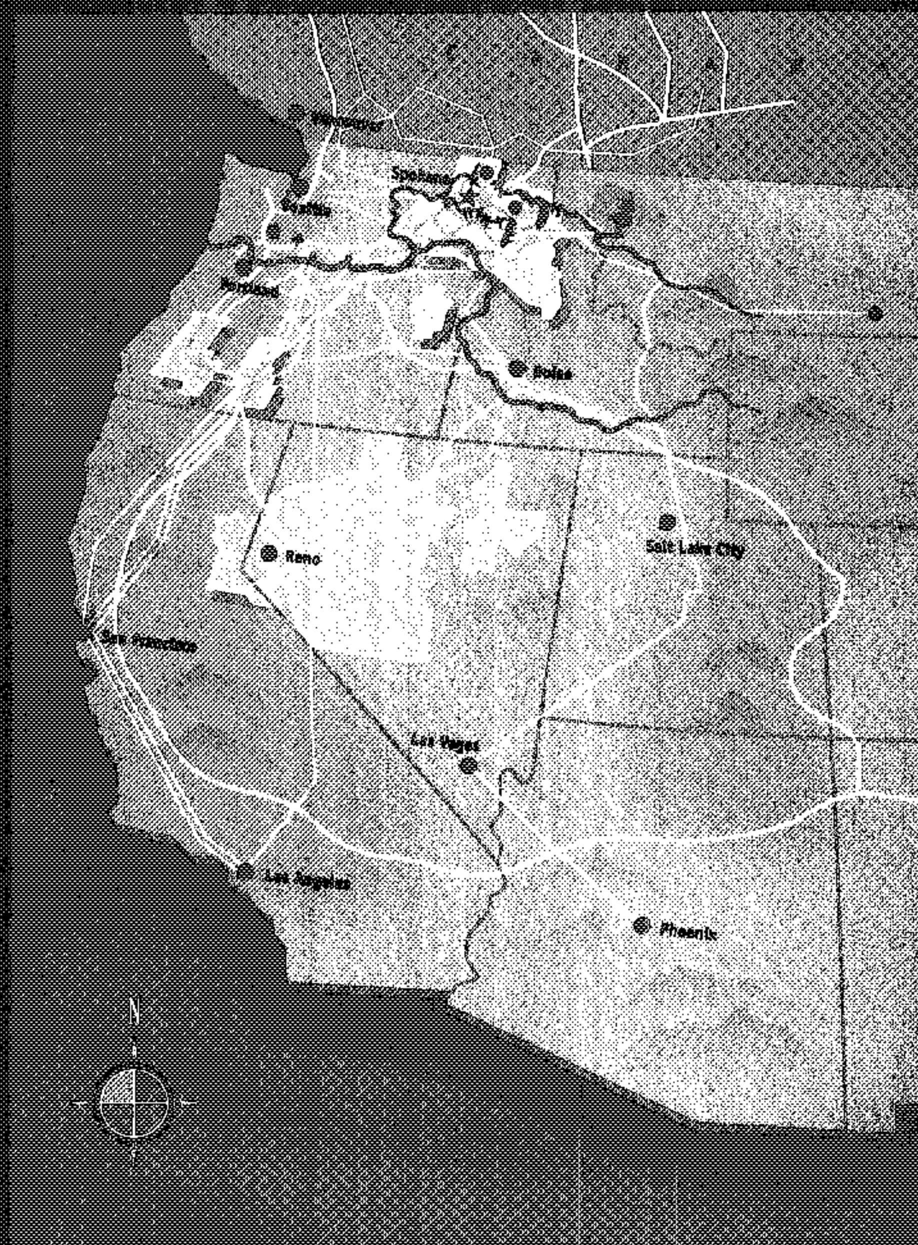
[company service area and profile]

Our company's service area covers 30,000 square miles, and we have utility operations in five western states. We currently serve nearly 290,000 electric customers in eastern Washington and northern Idaho, and we provide natural gas service to nearly 225,000 customers in parts of four states – Washington, Idaho, Oregon and California.

We are one of the nation's lowest-cost producers and providers of energy services. Our diverse mix of electric resources includes hydropower and coal, gas, and wood-waste combustion. Our low-cost resources, combined with strategic access to regional electric transmission systems, have played a crucial role in our ongoing success in the wholesale energy marketplace. Because we contract with five natural gas pipelines and have access to cost-effective domestic and Canadian gas supplies, we are able to capture market opportunities that benefit our customers.

Sierra Pacific Power Company, the utility operating subsidiary of our proposed merger partner, Sierra Pacific Resources, provides electric service to more than 270,000 customers across a 50,000 square-mile area of northern Nevada and northeastern California. Sierra Pacific also provides natural gas service to 92,000 customers and water service to 61,000 customers in the Reno/Sparks area of Nevada.

- Corporate Headquarters
- Hydro Projects
- Thermal Projects
- Jackson Prairie Gas Storage Project
- Service area of proposed merger partner, Sierra Pacific Resources
- Electric Transmission Lines
- Natural Gas Pipelines



[financial review]

[financial table of contents]

[management's discussion and analysis of financial condition and results of operations]

The Company is primarily engaged as a utility in the generation, purchase, transmission, distribution and sale of electric energy and the purchase, transportation, distribution and sale of natural gas. Natural gas operations are affected to a significant degree by weather conditions and customer growth. The Company's electric operations are highly dependent upon hydroelectric generation for its power supply. As a result, the electric operations of the Company are significantly affected by weather and streamflow conditions and, to a lesser degree, by customer growth. Revenues from the sale of surplus energy to other utilities and the cost of power purchases vary from year to year depending on streamflow conditions and the wholesale power market. The wholesale power market in the Northwest region is affected by several factors, including the availability of water for hydroelectric generation, the availability of base load plants in the region and the demand for power in the Southwest region. Other factors affecting the wholesale power market include new entrants in the wholesale market, such as power brokers and marketers, and competition from low cost generation being developed by independent power producers. Usage by retail customers varies from year to year primarily as a result of weather conditions, the economy in the Company's service area, customer growth, conservation, appliance efficiency and other technology.

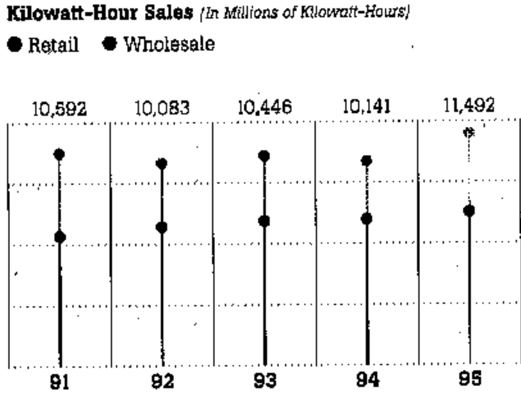
[results of operations]

Overall Operations

Overall earnings per share for 1995 were $1.41, compared to $1.28 in 1994 and $1.44 in 1993. The 1995 results include improved earnings from the Company's electric operations and $6.1 million in transactional gains from Pentzer Corporation (Pentzer), primarily due to the sale of stock in ITRON, Inc. (ITRON). The 1994 earnings include $8.0 million of gains recorded by Pentzer primarily as a result of the sale of ITRON stock. The 1993 results include gains totaling $12.8 million recorded by Pentzer as a result of the sale of several investments in its portfolio and the sale of stock in the initial public offering by ITRON in November 1993.

Utility income available for common stock increased $8.3 million, or 15%, in 1995 after decreasing $6.3 million, or 10%, in 1994. Utility income contributed $1.14 to earnings per share in 1995, compared to $1.03 in 1994 and $1.19 in 1993. Non-utility income available for common stock increased $1.2 million in 1995 and $0.4 million in 1994 and contributed $0.27 to earnings per share in 1995 and $0.25 in 1994 and 1993.

Kilowatt-Hour Sales *(In Millions of Kilowatt-Hours)*



Income from electric operations increased $17.2 million, or 18%, in 1995 over 1994, primarily due to increased wholesale revenues, resulting from both new power contracts and improved streamflow conditions, and decreased purchased power and fuel expense, both a result of the improved streamflows. Income from natural gas operations increased $0.2 million in 1995 over 1994. During 1995, increased natural gas revenues, which were primarily the result of customer growth, were nearly offset by increased purchased gas costs and other operating expenses. Weather that was 9% warmer than normal during 1994 reduced residential usage for both electric and natural gas customers. Income from electric operations increased $0.1 million in 1994 over 1993 primarily as a result of decreased purchased power expense. Income from natural gas operations decreased $0.9 million in 1994, as compared to 1993, due primarily to increased purchased gas costs that were offset substantially by increased revenues due to customer growth.

Interest expense increased $5.9 million in 1995, as compared to 1994, and $2.9 million in 1994, as compared to 1993, with both increases primarily due to higher levels of outstanding debt and a shift from short-term debt to long-term debt and the resulting higher interest rates. During 1995 and 1994, $78.0 million and $88.0 million, respectively, in long-term debt was issued, while $45.0 million and $7.5 million, respectively, of long-term debt matured or was redeemed. At December 31, 1995, long-term debt outstanding was $17.1 million higher than at December 31, 1994. Long-term debt outstanding at December 31, 1994, was $73.9 million higher than at the end of 1993.

Other Income decreased in 1995 over 1994, primarily due to lower levels of Allowance for Funds Used During Construction (AFUDC) and other capitalized interest, as a result of lower levels of construction and conservation program expenditures. (See Note 1 to Financial Statements for additional information about AFUDC.) Also contributing to the decline in Other Income were the accrual for environmental remediation work (see Note 14 to Financial Statements for additional information) and amortization of the acquisition adjustment from the Company's purchase of PacifiCorp's electric properties in northern Idaho in late December 1994.

[utility operations]

Revenues

Electric revenues increased in all classes for 1995, as compared to 1994. Wholesale revenues increased $17.8 million, or 20%, in 1995, primarily due to new power contracts for firm service and increased secondary sales, as a result of improved streamflow conditions which led to increased availability of hydroelectric generation in the region, and generation from the Rathdrum combustion turbine which went into service in January 1995. Residential and commercial revenues increased by a combined $18.8 million, primarily as a result of an increase of nearly 16,500 customers, or 6%, during 1995. Approximately 10,000 residential and commercial customers were added through the acquisition of PacifiCorp's electric properties in northern Idaho in late December 1994.

Electric revenues decreased by 3% in 1994, as compared to 1993, due to a combination of decreased residential and wholesale sales, partially offset by increased commercial sales and higher wheeling revenues. Wholesale revenues decreased $17.2 million during 1994, compared to 1993, primarily due to a significant short-term sale of wholesale energy in 1993 which increased wholesale revenues in that period, low streamflow conditions during 1994 which led to decreased KWh sales and lower wholesale prices. Residential revenues for 1994 decreased by $7.0 million from 1993, despite a 3% increase in customers, due to warm weather throughout most of the year. Residential usage continues to be affected by new appliance efficiency and other technology which has decreased customers' requirements over time. Commercial revenues increased $5.0 million, or 4%, in 1994, as compared to 1993, due to 3% customer growth and the slightly warmer-than-normal weather which increased air conditioning load. Commercial customers tend to use air conditioning systems at much cooler temperatures than residential customers, with the result that air conditioning load can be up within the commercial sector and not within the residential sector, as during the fall of 1994.

Total natural gas revenues increased $17.5 million, or 11%, in 1995, which was the result of increased therm sales of 24% in 1995. Residential and commercial revenues increased by a combined $9.5 million in 1995 as compared to 1994, primarily as a result of 7% customer growth in those sectors, primarily due to conversions from electric service to natural gas, population growth and new construction. During 1995, the Company sold natural gas on a non-retail sales basis, which accounted for a $5.4 million increase in total revenues. The revenues from these sales were offset by like increases in purchased gas expense. Margins from these transactions are credited back to customers through rate changes for the cost of gas. Transportation sales increased by 13%, leading to a $1.2 million increase in revenues.

Total natural gas revenues increased in all customer classes except industrial in 1994 compared to 1993. In 1994, natural gas revenues from residential and commercial customers rose by $8.5 million and $7.4 million, respectively. The increased revenues were due to customer growth and higher average prices than in 1993, which were offset in part by lower usage per customer as a result of warm temperatures. Much of the customer growth during the early part of 1994 was the result of the Company's emphasis on conversions from electric service to natural gas. Revisions in the Company's Demand Side Management programs in 1994 have lessened the pace of conversions. During 1994, the Company began selling natural gas on a non-retail sales basis, which resulted in a $5.1 million increase in revenues and a like increase in purchased gas expense.

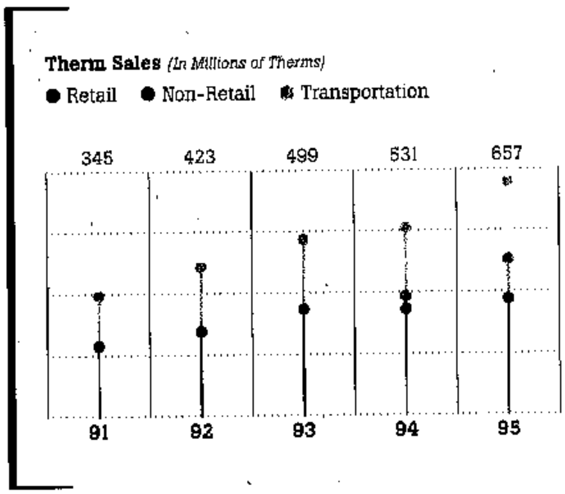
Operating Expenses

Improved streamflow conditions, which resulted in increased hydroelectric generation, caused purchased power expense for 1995 to decline by $8.6 million from 1994. Hydroelectric generation was 105% above normal, due to streamflows which were 120% of normal in 1995. Purchased power costs in 1994 decreased $12.5 million, or 11%, from levels incurred during 1993, primarily due to increased purchases during 1993 to complete a significant short-term sale of wholesale energy and to replace lost thermal generation due to plant outages. Hydroelectric generation in 1994 was 23% below normal, caused by streamflows which were 65% of normal.

Fuel costs decreased $6.9 million in 1995 compared to 1994 as a result of the increased availability of hydroelectric generation. The decreased thermal plant fuel expense was partially offset by fuel expense for generation from the Rathdrum combustion turbines, particularly in the last half of the year. Fuel costs increased $4.9 million in 1994 over 1993 due to increased thermal generation as a result of the low streamflows in 1994 and shutdowns at thermal plants during 1993 which decreased fuel expense for that year.

A large portion of purchased gas expense is variable costs, with the result that increases in revenues are generally offset by like increases in purchased gas expense. Natural gas purchased expense increased $11.1 million, or 12%, in 1995 as compared to 1994, primarily as the result of an increase in therm sales of 125.8 million, or 24%. Increases in therm sales were primarily due to customer growth in all customer classes and non-retail sales. Natural gas purchased expense increased $19.4 million in 1994 from 1993, which was the result of increased therm sales of 32.1 million therms.

Other electric operating and maintenance expenses increased $19.6 million in 1995 primarily due to lease payments and operating expenses related to the Rathdrum combustion turbine, increased amortization of conservation programs, a higher accrual for uncollectible accounts, environmental remediation reserves (see Note 14 to Financial Statements for additional information) and the Idaho Power Cost Adjustment (PCA), which allows the Company to change rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. Net PCA adjustments, resulting from improved streamflow conditions, accounted for $5.8 million of the increase in other operating and maintenance expenses in 1995 from 1994. Net PCA adjustments, resulting from low hydroelectric conditions, accounted for $4.1 million of the decrease in other operating and maintenance expenses in 1994 from 1993. Transmission and distribution costs decreased by a combined $3.3 million in 1994, as a result of decreased wholesale KWh sales and the associated wheeling costs, which also contributed to the decrease in other operating and maintenance expenses from the 1993 levels.



Administrative and general expenses increased by $5.3 million in 1995, compared to 1994, primarily due to lease payments for computer software systems, labor expenses resulting from merger activities and other labor-related costs. Administrative and general expenses increased by $3.7 million in 1994 over 1993, primarily due to labor-related cost increases.

Depreciation and amortization expense increased $2.7 million in 1995, primarily due to increased plant-in-service, particularly natural gas plant. During 1994, depreciation and amortization expense increased $1.0 million due to increased electric plant.

Other taxes, primarily excise and business and occupational taxes, were up $1.3 million in 1995 over 1994 due to increased revenues in 1995.

Income taxes increased by $9.9 million, or 26%, in 1995, as a result of increased income from electric operations. Electric operations accounted for $8.7 million of the increase. Income tax expense decreased $3.2 million in 1994 as compared to 1993 primarily due to decreased income from electric operations.

[non-utility operations]

Non-utility operations include the results of Pentzer and four other subsidiary companies. Pentzer's business strategy is to acquire controlling interests in a broad range of middle-market companies, to help these companies grow through internal development and strategic acquisitions and to sell the portfolio investments either to the public or to strategic buyers when it becomes most advantageous in meeting Pentzer's return on invested capital objectives. Pentzer's goal is to produce financial returns for the Company's shareholders that, over the long-term, should be higher than that of the utility operations. From time to time, a significant portion of Pentzer's earnings contributions may be the result of transactional gains. Accordingly, although the income stream is expected to be positive, it may be uneven from year to year.

Non-utility net income for 1995 was $14.8 million, which represents a 9% increase over 1994 earnings of $13.6 million. The increase in 1995 earnings primarily resulted from a $2.2 million increase in non-transactional earnings over 1994 as a result of improved earnings from companies in Pentzer's investment portfolio, including earnings from two companies newly acquired in 1995. Non-utility operating revenues and expenses both increased substantially in 1995 as compared to 1994 as a result of acquisitions over the past two years.

Non-utility net income for 1994 increased 3% over 1993 earnings. The increase in 1994 earnings primarily resulted from improved earnings from companies in Pentzer's investment portfolio, including earnings from newly acquired companies. Non-utility operating revenues and expenses both increased substantially in 1994 as compared to 1993 as a result of acquisitions during both 1994 and 1993.

Transactional gains in 1995 declined by $1.1 million as compared to 1994. Transactional gains of $8.0 million in 1994 declined by $4.8 million as compared to 1993. The 1995 and 1994 transactional gains were primarily the result of gains recorded from the sale of ITRON stock. The 1993 transactional gains included gains of $7.1 million from the sale of companies involved in telecommunications, technology and energy and a transactional gain of $5.7 million from the sale of ITRON stock.

[liquidity and capital resources]

Utility

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

Operating Activities – Cash from operating activities less cash dividends paid provided 83% of utility capital expenditures in 1995 as compared to 66% in 1994 and 67% in 1993. Cash available from operating activities in 1995 declined from 1994 primarily due to increases in deferred taxes and various working capital components, such as receivables, materials and supplies, fuel stock and natural gas stored and prepayments on power contracts, partially offset by the positive effect of purchased gas deferrals. However, as discussed below, construction expenditures declined by 13% in 1995 from 1994 so that cash from operating activities provided a higher percentage of the funds for construction than in the two previous years. See Note 1 to Financial Statements for additional information.

Investing Activities – Cash used in investing activities decreased in 1995 over 1994 primarily due to the acquisition of the northern Idaho properties of PacifiCorp for $33 million in 1994 and a $22 million decrease in other capital requirements, which included conservation-related capital expenditures. Utility capital expenditures, excluding Allowance for Funds Used During Construction (AFUDC) and Allowance for Funds Used to Conserve Energy (AFUCE, a carrying charge similar to AFUDC for conservation-related capital expenditures), were $338 million for the 1993-1995 period.

Financing Activities – During the 1993-1995 period, $95.0 million of long-term debt matured and $231.6 million of higher-cost debt and preferred stock was redeemed and refinanced at lower cost. During 1995, $45 million of long-term debt, with an average interest rate of 7.19%, matured and $78 million of First Mortgage Bonds issued in the form of Secured Medium-Term Notes were issued at an average interest rate of 7.1% and an average maturity of 8 years.

Capital expenditures are financed on an interim basis with notes payable (due within one year). The Company has $160 million in committed lines of credit. In addition, the Company may borrow up to $60 million through other borrowing arrangements with banks. As of December 31, 1995, $19.5 million was outstanding under the committed lines of credit and $10.0 million was outstanding under other short-term borrowing arrangements.

From time to time the Company enters into sale/leaseback arrangements for various long-term assets which provide additional sources of funds. See Note 9 to Financial Statements for additional information.

The Company is restricted under various agreements as to the additional securities it can issue. Under the most restrictive test of the Company's Mortgage, an additional $524 million of First Mortgage Bonds could be issued as of December 31, 1995. As of December 31, 1995, under its Restated Articles of Incorporation, approximately $673 million of additional preferred stock could be issued at an assumed dividend rate of 7.25%.

During the 1996-1998 period, utility capital expenditures are expected to be $237 million, and $90 million will be required for long-term debt maturities and preferred stock sinking fund requirements. During this three-year period, the Company estimates that internally-generated funds will average 95% of the funds needed for its capital expenditure program. Minimal amounts of external financing will be required to fund maturing long-term debt, preferred stock sinking fund requirements and the remaining portion of capital expenditures. These estimates of capital expenditures are subject to continuing review and adjustments. Actual capital expenditures may vary from these estimates due to factors such as changes in business conditions, construction schedules and environmental requirements. These projections relate to the Company on a stand-alone basis and do not reflect any adjustment for the effects of the proposed merger of the Company, Sierra Pacific Resources (SPR) and Sierra Pacific Power Company (SPPC) with and into Altus Corporation (Altus). See Future Outlook – Merger below.

See Notes 4, 5, 6, 7, 8 and 9 to Financial Statements for additional details related to financing activities.

Non-Utility

Capital expenditures for the non-utility operations were $13 million for the 1993-1995 period. During this period, $9 million of debt was repaid and capital expenditures were partially financed by the $14 million in proceeds from new long-term debt.

The non-utility operations have $48 million in short-term borrowing arrangements ($26.6 million outstanding as of December 31, 1995) to fund corporate requirements on an interim basis. At December 31, 1995, the non-utility operations had $32.2 million in cash and marketable securities with $28.5 million in long-term debt outstanding.

The 1996-1998 non-utility capital expenditures are expected to be $6 million, and $21 million in debt maturities will also occur. During the next three years, internally-generated cash and other debt obligations are expected to provide the majority of the funds for the non-utility capital expenditure requirements.

Total Company Cash Requirements *(Millions of Dollars)*	Actual [1]			Projected [2]		
	1993	1994	1995	1996	1997	1998
Capital Expenditures [3]:						
Utility:						
Electric	$ 60	$ 57	$45	$46	$48	$48
Natural gas	26	27	26	23	20	23
All other	49	39	9	9	10	11
Total utility	135	123	80	77	78	82
Non-utility	3	9	5	2	2	2
Total company	$138	$132	$85	$79	$80	$84
Debt and preferred stock maturities, redemptions and sinking fund requirements (consolidated)[4]:	$274	$ 8	$45	$47	$43	$21

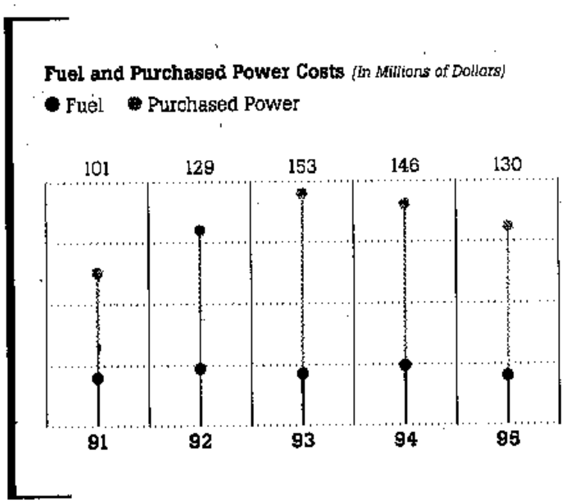
(1) Excludes $62 million for the combustion turbine project located in Rathdrum, Idaho for which the Company has obtained separate long-term lease financing; see Note 9 to Financial Statements for additional information.
Also excludes $33 million in 1994 for the acquisition of the northern Idaho electric properties of PacifiCorp.
(2) These projections relate to the Company on a stand-alone basis and do not reflect any adjustment for the effects of the proposed merger of the Company, SPR and SPPC with and into Altus.
(3) Excludes AFUDC and AFUCE.
(4) Excludes notes payable (due within one year).

The Company's total common equity increased by $40 million to $717 million at the end of 1995. The 1995 increase was primarily due to the issuance of 1.5 million shares of common stock through both the Dividend Reinvestment Plan and the Investment and Employee Stock Ownership Plan for proceeds of $24.0 million and a $10.2 million increase in retained earnings. The Company's consolidated capital structure at December 31, 1995, was 46% debt, 9% preferred stock and 45% common equity as compared to 47% debt, 9% preferred stock and 44% common equity at year-end 1994.

[future outlook]

Merger

In June 1994, the Company, Sierra Pacific Resources (SPR), Sierra Pacific Power Company, a subsidiary of SPR (SPPC), and Altus Corporation (Altus, formerly named Resources West Energy Corporation), a newly formed subsidiary of the Company, entered into an Agreement and Plan of Reorganization and Merger, as subsequently amended (Merger Agreement), which provides for the merger of the Company, SPR and SPPC into Altus. SPR and SPPC are both Nevada corporations with headquarters in Reno. The Merger Agreement provides that after the effective date of the merger, Altus' corporate headquarters office and principal executive offices will be located in Spokane and that the headquarters of the Washington Water Power and Sierra Pacific operating divisions will be in Spokane and Reno, respectively. As a result of the Merger Agreement, holders of WWP Common Stock would receive one share and holders of SPR Common Stock would receive 1.44 shares of Altus Common Stock, respectively. Each outstanding share of Preferred Stock of WWP and SPPC, respectively, will be converted into the right to receive one share of Altus Preferred Stock with equal stated value and dividends and like redemption provisions and rights upon liquidation.



Approval of the proposed merger was obtained from WWP, SPR and SPPC shareholders at meetings held on November 18, 1994. The Merger Agreement is also subject to certain customary closing conditions, including without limitation, the receipt of all necessary governmental approvals, including approval of the Federal Energy Regulatory Commission (FERC) and the state utility commissions of California (CPUC), Idaho (IPUC), Montana (MPSC), Nevada (PSCN), Oregon (OPUC) and Washington (WUTC). Applications were filed with each of the state commissions and the FERC in the third quarter of 1994.

The MPSC issued an order in October 1994 declining to exercise jurisdiction. The Company has received orders approving the merger from the commission of each state.

The major points of each order are as follows:

Washington:

Order approving the merger was issued on September 28, 1995

Electric and gas base rate freeze through December 31, 2000

Purchased gas benefits flowed through annual Purchased Gas Adjustment (PGA)

Accelerated amortization of Washington electric DSM to provide full amortization by December 31, 2003

On October 17, 1995, the Commission stayed the effectiveness of the September 28, 1995 order, so as to allow its staff and Public Counsel the opportunity to review and evaluate the order of the Nevada Commission; this stay was subsequently lifted by order of the Commission dated December 5, 1995. The amended WUTC order states that if the use of single-system pricing information by any other jurisdiction or the inter-divisional compensation for use of transmission facilities affects allocation of revenues, expenses, rate base or cost of capital to the detriment of Washington ratepayers, such effects will not be reflected in Washington results of operations for any purpose. The amended WUTC order states that "shareholders are at risk for any differences if there are costs that are made unrecoverable by this prohibition."

Idaho:

Order approving the merger was issued on September 19, 1995

Electric and gas base rate freeze through December 31, 2000

Purchased gas benefits flowed through annual PGA

Earnings capped at 12.0% ROE, with earnings above 12.0% shared 50/50 with customers through the PGA/PCA (Power Cost Adjustment)

Oregon:

Order approving the merger was issued on June 23, 1995

No rate freeze

Purchased gas benefits flowed through annual PGA, plus a sharing of non-purchased gas benefits to partially offset the expenses associated with additional transmission capacity on Pacific Gas Transmission facilities to Medford

California:

Order approving the merger was issued on October 18, 1995

Electric and gas base rate freeze through December 31, 1999

All electric and gas tracking mechanisms suspended during the rate freeze. Balances in the electric and gas tracking accounts will be set to zero upon merger. Exempt from annual electric and gas cost of capital proceedings

Electric rate reduction of $3.1 million in 1996 related to the suspension of the electric tracking mechanism and elimination of the balances in the tracking accounts

On February 12, 1996, SPR and the Company filed a petition for an Order of the Commission modifying its October 18, 1995 Order, so as to extend the date by which both companies would otherwise be obligated to submit additional regulatory filings, including general rate case filings, in the event the merger was not consummated by March 31, 1996

Nevada:

Order approving the merger was issued on October 18, 1995

Electric and gas base rate freeze through December 31, 1999. Water rates frozen through December 31, 1996

Gas tracker suspended through January 1, 1997. Electric power/fuel cost tracker suspended through December 31, 1999

One-time refunds related to a prior rate stipulation of $9 million electric and $4 million gas. Earnings for 1997-1999 capped at 12.0% ROE, with earnings above 12.0% shared 50/50 with customers. On October 25, 1995, the Company and SPR filed a petition with the PSCN requesting clarification of their order. The companies sought clarification on two key issues within the PSCN's order. The two issues were electric single-system pricing for retail services and the distribution of benefits related to the Alturas transmission project. On November 20, 1995, the PSCN issued an order denying the petition for clarification.

On November 29, 1995, the FERC ordered evidentiary hearings concerning the proposed merger. Issues raised by the FERC primarily revolve around single-system versus zonal transmission rates, pricing for inter-divisional energy transfers, justification of cost savings and the effects on competition, including access by third-party users to the merged company's transmission system, the resolution of which could have an impact on the level of anticipated savings. (See Competition and Business Risk below for additional information on the issuance of the FERC's policy statement in the forthcoming rulemaking on transmission access and pricing.) An administrative law judge has been assigned to the merger proceeding and a pre-hearing conference was held on December 13, 1995 to set a procedural schedule. The companies filed supplemental testimony on February 1, 1996. Hearings are scheduled to begin on June 4, 1996. Based on this schedule, the companies believe an order could be issued by the FERC in 1996 or early 1997.

Most of the final orders issued by state commissions include a "reopener" clause that allows the state proceedings to be reopened if any party believes that the FERC or any other state commission has taken some action which makes the Stipulation in such state undesirable.

▸ If closing conditions contained in the Merger Agreement are not satisfied or in the event that the merger is not closed on or before June 27, 1996 and either of the parties exercises its right of termination any time thereafter as provided in the Agreement, the Company would continue to operate as a separate utility and expense the merger costs that were incurred.

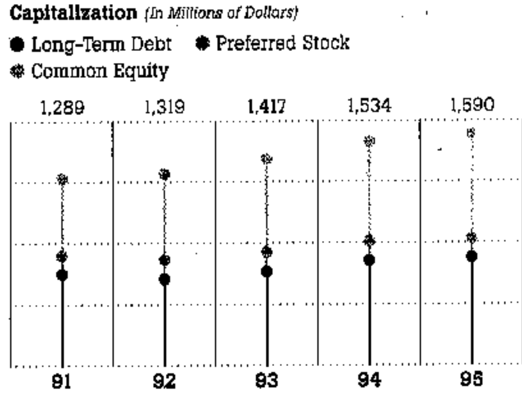
See Note 16 to Financial Statements for additional information.

Competition and Business Risk

The electric and natural gas utility businesses continue to undergo numerous transformations and are becoming increasingly competitive as a result of economic, regulatory and technological changes. The Company believes that it is well positioned to meet future challenges due to its low production costs, close proximity to major transmission lines and natural gas pipelines, active participation in the wholesale electric market and its commitment to high levels of customer satisfaction, cost reduction and continuous improvement of work processes. Additionally, the Company continually evaluates merger and acquisition opportunities that will allow it to expand its economies of scale and diversify its risk posed by weather and economic conditions.

The Company continues to compete for new retail electric customers with various rural electric cooperatives and public utility districts in and adjacent to its service territories. Challenges facing the electric business include the potential for retail wheeling, the costs of increasingly stringent environmental laws and the potential for stranded or nonrecoverable utility assets. Challenges facing the electric retail business include evolving technologies which provide alternate energy supplies, reduced energy consumption and the cost of the energy supplied, self-generation and fuel switching by commercial and industrial customers. If electric utility companies are eventually required to provide retail wheeling service, which is the transmission of electric power from another supplier to a customer located within such utility's service area, the Company believes it will be in a position to benefit since it is committed to remaining one of the country's lowest-cost providers of electric energy. Consequently, the Company believes it faces minimal risk for stranded generation, transmission or distribution assets due to its low cost structure.

Capitalization *(In Millions of Dollars)*



The National Energy Policy Act (NEPA) enacted in 1992 addresses a wide range of issues affecting the wholesale electric business. The Company believes NEPA provides future transmission, energy production and sales opportunities to the Company and complements the Company's commitment to the wholesale electric business.

On March 29, 1995, the FERC issued a Notice of Proposed Rulemaking (NOPR) relating to transmission services and a supplemental NOPR on Recovery of Stranded Costs. If adopted, the NOPR on open access transmission would require public utilities operating under the Federal Power Act to provide third-party access to their transmission systems. Each utility would also be required to establish separate rates for its transmission and generation services for new wholesale service. Further, utilities would be required to take transmission service under the same tariffs applicable to third-party users. The FERC requested comments on the desirability of unified standards for both wholesale and retail transmission services. The FERC suggested, as a possible approach, the establishment by each vertically integrated electric utility of a distribution function which would be treated as a wholesale customer taking transmission services under the utility's filed wholesale transmission tariff. The FERC recognized, and numerous comments confirmed, that such an approach would change the traditional approach of state-federal allocation of transmission costs. The supplemental NOPR on stranded costs provides a basis for recovery by regulated public utilities of legitimate and verifiable stranded costs associated with existing wholesale requirements customers and retail customers who become unbundled wholesale transmission customers of the utility. The FERC will consider allowing recovery of stranded investment costs associated with retail wheeling only if a state regulatory commission lacks the authority to consider that issue. It is anticipated that the final rules could take effect in the first half of 1996.

The Company does not believe that the Open Access NOPR will have a material effect on the Company's results of operations, assuming that the final rule is adopted substantially as proposed. However, if, in the pending or a subsequent rulemaking proceeding, the FERC adopted a rule which had the effect of requiring the wholesale transmission rate to be recognized as the transmission component of retail rates, and if the FERC imposed single-system transmission rates on Altus in the Merger proceeding, this could lead to a reduction of Altus' retail rates in Nevada but would not necessarily result in a corresponding increase in Washington and Idaho.

The Company continues to compete in the wholesale electric market with other western utilities, federal marketing agencies and power marketers. Business challenges affecting the wholesale electric business include new entrants in the wholesale market, such as power brokers and marketers, competition from low-cost generation being developed by independent power producers and declining margins.

Natural gas remains priced competitively compared to other alternative fuel sources for residential, commercial and industrial customers and is projected to remain so well into the future due to increasing supplies and competition. Challenges facing the Company's natural gas business include the potential for customers to by-pass the Company's natural gas system. Since 1988, two of the Company's large industrial customers have built their own pipeline interconnection. However, these customers continue to purchase natural gas services from the Company. To reduce the potential for such by-pass, the Company prices its natural gas services, including transportation contracts, competitively and has varying degrees of flexibility to price its transportation and delivery rates by means of special contracts. The Company has also signed long-term transportation contracts with two of its largest industrial customers which minimizes the risks of these customers by-passing the Company's system in the foreseeable future.

Resource planning for both the electric and natural gas businesses has been integrated so that the Company's customers are provided the most efficient and cost-effective products possible for all their energy requirements. The Company's need for future electric resources to serve retail loads is expected to remain very minimal. The switching of electric heating customers to natural gas requires increased efforts on the Company's part in negotiating and securing competitively-priced natural gas supplies for the future.

Economic and Load Growth

The Company expects economic growth to increase in its eastern Washington and northern Idaho service area. The Company, along with others in the service area, continues its efforts to expand existing businesses and attract new businesses to the Inland Northwest. In the past, agriculture, mining and lumber have been the primary industries. However, health care, electronic and other manufacturing, tourism and the service sectors have become increasingly important industries that operate in the Company's service area. In addition, the Company also anticipates strong economic growth to continue in its Oregon service area.

The Company anticipates electric retail load growth to average approximately 1.4% annually for the next five years primarily due to increases in both population and the number of businesses in its service territory. Although the number of electric customers is expected to increase, the average annual usage by residential customers is expected to remain stable on a weather-adjusted basis.

The Company anticipates natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 3.1% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 3.2% growth annually during that same period.

The forward-looking projections set forth above regarding retail sales growth are based, in part, upon publicly available population and demographic studies conducted independently. The Company's expectations regarding retail sales growth are also based upon various assumptions including, without limitation, assumptions relating to weather and economic and competitive conditions and an assumption that the Company will incur no material loss of retail customers due to self-generation or retail wheeling. Changes in the underlying assumptions can cause actual experience to vary significantly from forward-looking projections.

Environmental Issues

Since December 1991, a number of species of fish in the Northwest, including the Snake River sockeye salmon and chinook salmon, the Kootenai River white sturgeon and the bull trout have either been added to the endangered species list under the Federal Endangered Species Act (ESA), listed as "threatened" under the ESA or been petitioned for listing under the ESA. Thus far, measures which have been adopted and implemented to save both the Snake River sockeye salmon and chinook salmon have not directly impacted generation levels at any of the Company's hydroelectric dams. The Company does, however, purchase power from four projects on the Columbia River that are being directly impacted by these ongoing mitigation measures. The reduction in generation at these projects is relatively minor, resulting in minimal economic impact on the Company at this time. Future actions to save these, and other as yet unidentified fish or wildlife species, could further impact the Company's operations or the operations of some of its major customers. However, it is currently impossible to predict likely economic costs to the Company resulting from these actions.

See Note 14 to Financial Statements for additional information.

Other

The Board of Directors considers the level of dividends on the Company's common stock on a continuing basis, taking into account numerous factors including, without limitation, the Company's results of operations and financial condition, as well as general economic and competitive conditions. The Company's net income available for dividends are derived from its retail electric and natural gas utility operations and, increasingly, from its growing wholesale electric operations and Pentzer's non-utility investment operations.

[management's statement of responsibility]

Management of The Washington Water Power Company is responsible for the accuracy and completeness of the information in this annual report. The financial and operating information is derived from company records, and includes amounts based on judgment and estimates where necessary. Quality control practices for reporting business information in combination with the company's internal control procedures provide adequate assurance that the annual report fairly and reasonably presents the company's financial position and operating results.

The board of directors appointed Deloitte & Touche LLP, an independent accounting firm, to audit the financial statements. Deloitte & Touche LLP was provided access to all information and documentation necessary for the audit. In the course of their work, the independent auditors and internal auditors may recommend changes in control procedures. Management takes appropriate action based on such recommendations.

Paul A. Redmond
Chairman of the Board, President
and Chief Executive Officer

Jon E. Eliassen
Vice President
and Chief Financial Officer

[audit committee report]

The board of directors exercises certain oversight functions through the audit committee. The audit committee is not involved in day-to-day company management. Directors Eugene Meyer, Jean Silver and John Taylor served on the audit committee for all of 1995 and retired Director Eugene Thompson served for part of the year.

The audit committee met once each quarter in 1995. The committee met with the internal and external auditors, legal counsel and selected management to obtain information about the company.

The audit committee's oversight function is in three areas:

Financial Reporting – The committee reviews quarterly and annual financial reports and other disclosures to assure they reasonably portray the company's financial condition and results of operations, as well as to assure that accounting policies are fair and consistent.

Corporate Governance – The committee monitors actions that assure reasonable steps are taken to comply with pertinent laws, regulations and ethical business practices.

Corporate Control – The committee consults with the company's internal auditors and the independent auditors to assure that management has established adequate and effective internal control systems.

The audit committee recommended to the board of directors that Deloitte & Touche LLP be appointed as the company's independent auditors. The committee reviewed audit plans and received reports from the auditors, including certain meetings without company management present.

R. John Taylor
Chairman, Audit Committee

[consolidated statements of income and retained earnings]

(For the Years Ended December 31 – Thousands of Dollars)	1995	1994	1993
Operating Revenues	**$755,009**	$670,765	$640,599
Operating Expenses			
Operations and maintenance	**388,119**	350,703	322,117
Administrative and general	**62,486**	59,645	55,083
Depreciation and amortization	**67,572**	59,479	58,354
Taxes other than income taxes	**46,992**	45,480	44,195
Total operating expenses	**565,169**	515,307	479,749
Income from Operations	**189,840**	155,458	160,850
Other Income (Expense)			
Interest expense	**(59,022)**	(53,077)	(50,133)
Net gain on subsidiary transactions	**9,328**	11,519	9,915
Other income (deductions) – net	**(609)**	7,993	4,647
Total other income (expense) – net	**(50,303)**	(33,565)	(35,571)
Income Before Income Taxes	**139,537**	121,893	125,279
Income Taxes	**52,416**	44,696	42,503
Net Income	**87,121**	77,197	82,776
Deduct – Preferred stock dividend requirements	**9,123**	8,656	8,335
Income Available for Common Stock	**$ 77,998**	$ 68,541	$ 74,441
Average common shares outstanding (thousands)	**55,173**	53,538	51,616
Earnings Per Share of Common Stock	**$ 1.41**	$ 1.28	$ 1.44
Dividends paid per common share	**$ 1.24**	$ 1.24	$ 1.24
Retained Earnings, January 1	**$114,848**	$112,424	$101,644
Net Income	**87,121**	77,197	82,776
Dividends Declared			
Preferred stock	**(8,971)**	(8,823)	(8,219)
Common stock	**(68,392)**	(66,378)	(64,209)
ESOP dividend tax savings	**425**	428	432
Retained Earnings, December 31	**$125,031**	$114,848	$112,424

The accompanying notes are an integral part of these statements.

[consolidated balance sheets]

(At December 31 – Thousands of Dollars)	1995	1994
Assets		
Utility Plant – Original Cost		
Electric – net	**$1,523,387**	$1,477,998
Natural gas	**341,947**	316,974
Common plant	**38,332**	34,624
Utility plant	**1,903,666**	1,829,596
Less accumulated depreciation and amortization:		
Electric	**429,891**	394,559
Natural gas	**106,129**	97,217
Common plant	**10,228**	8,775
Net utility plant	**1,357,418**	1,329,045
Other Property and Investments		
Investment in exchange power – net	**82,252**	88,615
Non-utility properties and investments	**135,612**	100,174
Other – net	**9,593**	13,971
Total other property and investments	**227,457**	202,760
Current Assets		
Cash and cash equivalents	**5,164**	5,178
Temporary cash investments	**27,395**	27,928
Accounts and notes receivable – net	**102,389**	74,524
Materials and supplies, fuel stock and natural gas stored	**38,004**	21,384
Prepayments and other	**11,020**	7,552
Total current assets	**183,972**	136,566
Deferred Charges		
Regulatory assets for deferred income tax	**169,432**	174,349
Conservation programs	**62,793**	66,511
Prepaid power purchases	**32,605**	13,680
Unamortized debt expense	**25,684**	28,406
Other – net	**39,541**	42,936
Total deferred charges	**330,055**	325,882
Total assets	**$2,098,902**	$1,994,253
Capitalization and Liabilities		
Capitalization (See Consolidated Statements of Capitalization)	**$1,590,412**	$1,533,640
Current Liabilities		
Accounts payable	**64,841**	46,217
Taxes and interest accrued	**39,415**	28,931
Other	**64,703**	58,541
Total current liabilities	**168,959**	133,689
Deferred Credits		
Deferred income taxes	**307,529**	310,167
Other	**32,002**	16,757
Total deferred credits	**339,531**	326,924
Commitments and Contingencies (Notes 9,13 and 14)		
Total capitalization and liabilities	**$2,098,902**	$1,994,253

The accompanying notes are an integral part of these statements.

[consolidated statements of capitalization]

(At December 31 – Thousands of Dollars)	1995	1994
Common Equity		
Common stock, no par value; 200,000,000 shares authorized: shares outstanding: 1995 – 55,947,967; 1994 – 54,420,696	$ 594,636	$ 570,603
Note receivable from employee stock ownership plan	(11,690)	(12,267)
Capital stock expense and other paid in capital	(10,072)	(10,031)
Unrealized investment gain – net	19,220	14,341
Retained earnings	125,031	114,848
Total common equity	717,125	677,494
Preferred Stock – Cumulative		
10,000,000 shares authorized:		
Not subject to mandatory redemption:		
Flexible Auction Series J; 500 shares outstanding ($100,000 stated value)	50,000	50,000
Total not subject to mandatory redemption	50,000	50,000
Subject to mandatory redemption:		
$8.625 Series I; 500,000 shares outstanding ($100 stated value)	50,000	50,000
$6.95 Series K; 350,000 shares outstanding ($100 stated value)	35,000	35,000
Total subject to mandatory redemption	85,000	85,000
Long-Term Debt		
First Mortgage Bonds:		
4 5/8% due March 1, 1995	–	10,000
7 1/8% due December 1, 2013	66,700	66,700
7 2/5% due December 1, 2016	17,000	17,000
Secured Medium-Term Notes:		
Series A – 4.72% to 8.06% due 1996 through 2023	250,000	250,000
Series B – 6.50% to 8.25% due 1997 through 2010	141,000	63,000
Total first mortgage bonds	474,700	406,700
Pollution Control Bonds:		
6% Series due 2023	4,100	4,100
Unsecured Medium-Term Notes:		
Series A – 7.94% to 9.58% due 1997 through 2007	72,500	92,500
Series B – 5.50% to 8.55% due 1996 through 2023	135,000	150,000
Total unsecured medium-term notes	207,500	242,500
Notes payable (due within one year) to be refinanced	29,500	58,000
Other	22,487	9,846
Total long-term debt	738,287	721,146
Total Capitalization	$1,590,412	$1,533,640

The accompanying notes are an integral part of these statements.

[consolidated statements of cash flows]

(Increase (Decrease) in Cash and Cash Equivalents for the Years Ended December 31 – Thousands of Dollars)	**1995**	1994	1993
Operating Activities			
Net income	**$ 87,121**	$ 77,197	$ 82,776
Non-Cash Items Included in Net Income			
Depreciation and amortization	**67,572**	59,479	58,354
Provision for deferred income taxes	**(5,487)**	15,380	6,962
Allowance for equity funds used during construction	**(589)**	(1,261)	(1,666)
Power and natural gas cost deferrals and amortizations	**16,156**	6,365	(7,624)
Deferred revenues and other	**9,600**	5,971	6,968
(Increase) decrease in working capital components:			
Receivables and prepaid expense	**(22,279)**	(12,458)	1,116
Materials and supplies, fuel stock and natural gas stored	**(11,733)**	(1,864)	(2,001)
Payables and other accrued liabilities	**21,532**	4,343	(1,846)
Other	**(29,661)**	(8,309)	8,767
Net Cash Provided by Operating Activities	**132,232**	144,843	151,806
Investing Activities			
Construction expenditures (excluding AFUDC-equity funds)	**(83,494)**	(95,815)	(111,118)
Other capital requirements	**550**	(21,603)	(30,216)
(Increase) decrease in other noncurrent balance sheet items – net	**8,893**	(21,686)	(1,063)
Assets acquired and investments in subsidiaries	**(13,864)**	(43,823)	2,725
Net Cash Used in Investing Activities	**(87,915)**	(182,927)	(139,672)
Financing Activities			
Increase (decrease) in short-term borrowings	**(28,500)**	(10,001)	64,001
Proceeds from issuance of long-term debt	**78,000**	88,000	254,100
Redemption and maturity of long-term debt	**(45,000)**	(7,500)	(274,100)
Sale of common stock	**12,518**	14,934	25,899
Redemption premiums	**–**	–	(9,595)
Other	**4,150**	10,051	(7,819)
Net Financing Activities Before Cash Dividends	**21,168**	95,484	52,486
Less cash dividends paid	**(65,499)**	(63,423)	(61,773)
Net Cash Provided by (Used in) Financing Activities	**(44,331)**	32,061	(9,287)
Net Increase (Decrease) in Cash and Cash Equivalents	**(14)**	(6,023)	2,847
Cash and Cash Equivalents at Beginning of Period	**5,178**	11,201	8,354
Cash and Cash Equivalents at End of Period	**$ 5,164**	$ 5,178	$ 11,201
Supplemental Cash Flow Information			
Cash paid during the period:			
Interest	**$ 53,415**	$ 46,861	$ 47,854
Income taxes	**$ 50,004**	$ 34,094	$ 35,649
Non-cash financing and investing activities	**$ 87,763**	$ 25,891	$ 13,327

The accompanying notes are an integral part of these statements.

[schedule of information by business segments]

(For the Years Ended December 31 – Thousands of Dollars)	1995	1994	1993
Operating Revenues			
Electric	$ 486,989	$ 451,291	$ 464,175
Natural gas	174,227	156,776	137,547
Non-utility	93,793	62,698	38,877
Total operating revenues	$ 755,009	$ 670,765	$ 640,599
Operations and Maintenance Expenses			
Electric:			
Power purchased	$ 97,669	$ 106,277	$ 118,809
Fuel for generation	32,298	39,176	34,233
Other electric	80,834	61,268	68,567
Natural gas:			
Natural gas purchased for resale	102,375	91,277	71,867
Other natural gas	15,655	14,297	14,286
Non-utility	59,288	38,408	14,355
Total operations and maintenance expenses	$ 388,119	$ 350,703	$ 322,117
Administrative and General Expenses			
Electric	$ 39,087	$ 35,190	$ 32,376
Natural gas	12,351	10,944	10,069
Non-utility	11,048	13,511	12,638
Total administrative and general expenses	$ 62,486	$ 59,645	$ 55,083
Depreciation and Amortization Expenses			
Electric	$ 49,499	$ 48,233	$ 47,003
Natural gas	9,670	8,199	8,470
Non-utility	8,403	3,047	2,881
Total depreciation and amortization expenses	$ 67,572	$ 59,479	$ 58,354
Income from Operations			
Electric	$ 150,988	$ 125,125	$ 128,166
Natural gas	25,356	23,926	24,942
Non-utility	13,496	6,407	7,742
Total income from operations	$ 189,840	$ 155,458	$ 160,850
Income Available for Common Stock			
Utility operations	$ 63,187	$ 54,911	$ 61,175
Non-utility operations	14,811	13,630	13,266
Total income available for common stock	$ 77,998	$ 68,541	$ 74,441
Assets			
Electric	$1,440,560	$1,441,643	$1,372,128
Natural gas	274,408	247,060	220,253
Common plant	28,104	25,849	27,572
Other utility assets	129,319	106,118	81,699
Non-utility assets	226,511	173,583	136,186
Total assets	$2,098,902	$1,994,253	$1,837,838
Capital Expenditures (excluding AFUDC/AFUCE)			
Electric	$ 44,656	$ 70,791	$ 84,277
Natural gas	25,939	32,682	30,774
Common plant	9,349	19,262	19,801
Non-utility	4,934	8,701	3,452
Total capital expenditures	$ 84,878	$ 131,436	$ 138,304

The accompanying notes are an integral part of these statements.

[notes to financial statements]

[note 1] summary of significant accounting policies

Nature of Operations – The Company was incorporated in the State of Washington in 1889, and is primarily engaged as a utility in the generation, purchase, transmission, distribution and sale of electric energy and the purchase, transportation, distribution and sale of natural gas. Natural gas operations are affected to a significant degree by weather conditions and customer growth. The Company's electric operations are highly dependent upon hydroelectric generation for its power supply. As a result, the electric operations of the Company are significantly affected by weather and streamflow conditions and, to a lesser degree, by customer growth. Revenues from new wholesale contracts and the sale of surplus energy to other utilities and the cost of power purchases vary from year to year depending on streamflow conditions and the wholesale power market. The wholesale power market in the Northwest region is affected by several factors, including the availability of water for hydroelectric generation, the availability of base load plants in the region and the demand for power in the Southwest region. Other factors affecting the wholesale power market include new entrants in the wholesale market, such as power brokers and marketers, and competition from low cost generation being developed by independent power producers. Usage by retail customers varies from year to year primarily as a result of weather conditions, the economy in the Company's service area, customer growth, conservation, appliance efficiency and other technology.

Basis of Reporting – The financial statements are presented on a consolidated basis and, as such, include the assets, liabilities, revenues and expenses of The Washington Water Power Company (Company) and its wholly-owned subsidiaries, Pentzer Corporation (Pentzer), Washington Irrigation and Development Company (WIDCo), Altus Laboratories, Altus Energy Solutions and WP Finance Company. All material intercompany transactions have been eliminated in the consolidation. As discussed in Note 15, the 1993 and 1994 operating results for ITRON were accounted for on the equity method; however, as of December 31, 1994, Pentzer's investment in ITRON is classified as available for sale and recorded at fair value on the Consolidated Balance Sheets. 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 3). The financial activity of each of the Company's segments 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.

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.

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 – net – Other income-net is composed of the following items:

(Years Ended December 31 – Thousands of Dollars)	**1995**	1994	1993
Interest income	**$ 3,845**	$3,535	$ 4,058
Capitalized interest (debt)	**1,042**	3,687	3,027
Gain (loss) on property dispositions	**1,272**	738	(1,370)
Equity earnings in subsidiary companies	**-**	1,774	1,653
Minority interest	**(314)**	(289)	(1,273)
Capitalized interest (equity)	**589**	1,261	1,666
Other	**(6,843)**	(2,713)	(3,114)
Total	**$ (609)**	$7,993	$ 4,647

Earnings Per Share – Earnings per share have been computed based on the weighted average number of common shares outstanding during the period.

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 has been placed in service.

The effective AFUDC rate was 10.67% in 1995, 1994 and 1993. 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 2.57% in 1995, 2.56% in 1994 and 2.68% in 1993.

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.

Temporary Investments – Under FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," investments in debt and marketable equity securities are classified as "available for sale" and are recorded at fair value. Investments totaling $37.1 million and $27.4 million are included on the Consolidated Balance Sheets at December 31, 1995 as other property and investments and current assets, respectively. Investments totaling $34.1 million and $27.9 million are included on the Consolidated Balance Sheets at December 31, 1994 as other property and investments and current assets, respectively. Unrealized investment gains, as of December 31, 1995 and 1994, of $19.2 million and $14.3 million, respectively, net of taxes, are reflected as a separate component of shareholders' equity on the Consolidated Statements of Capitalization.

Derivative Financial Instruments – The Company has used derivative instruments to a limited extent as a means of hedging its costs and preserving margins in the wholesale power business. The extent of derivatives used through the end of 1995 is not significant. The Company may continue to use derivative instruments for hedging and risk mitigation purposes, but has adopted a policy not to trade in derivatives for speculative reasons.

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 would be required to write off its regulatory assets and would 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, unrecovered purchased gas costs and debt issuance and redemption costs. Included in Deferred Charges, Other are merger transaction and transition costs. Deferred credits include the gain on the general office building sale/leaseback being amortized over the life of the lease.

Power and Natural Gas Cost Adjustment Provisions – In 1989, the Idaho Public Utilities Commission (IPUC) approved the Company's filing for a power cost adjustment mechanism (PCA). The PCA is designed to allow the Company to modify electric rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. On July 18, 1994, the IPUC approved an indefinite extension of the Company's proposed modifications to the PCA. The modified PCA tracks changes in hydroelectric generation, secondary prices, related changes in thermal generation and PURPA contracts, but it no longer tracks changes in revenues or cost associated with other wheeling or power contracts. Rate changes are triggered when the deferred balance reaches $2.2 million. As of December 31, 1995, $0.7 million of credits not yet subject to a rebate had accumulated in the PCA deferral account. The following surcharges were in effect during the past three years:

$2.3 million (2.4%) surcharge effective September 1, 1995, which will expire August 31, 1996
$2.2 million (2.5%) surcharge effective January 1, 1995, which expired December 31, 1995
$2.3 million (2.6%) surcharge effective November 1, 1992, which expired October 31, 1993

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.

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 1992 return.

New Accounting Standards – FAS No. 121, entitled "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," was issued by the Financial Accounting Standards Board (FASB), and is effective for fiscal years beginning after December 15, 1995. FAS No. 121 requires the review of certain assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an asset is determined to be impaired, a loss is recognized. The Company will adopt the standard on January 1, 1996, but does not expect any material impact on the Company's financial position or results of operations. The Company will continue to periodically review its assets to determine whether any assets meet the requirements for impairment recognition under this standard.

FAS No. 123, entitled "Accounting for Stock-Based Compensation," which is effective for fiscal years beginning after December 15, 1995, addresses the recommended accounting and disclosure for stock-based employee compensation plans. The Company will adopt the standard on January 1, 1996, but will continue to measure stock-based compensation according to Accounting Principles Board Opinion (APB) 25.

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 net income or common shareholders' equity.

[note 2] property, plant and equipment

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

(At December 31 – Thousands of Dollars)	**1995**	1994
Electric:		
Production	**$ 691,192**	$ 678,356
Transmission	**248,587**	238,912
Distribution	**510,489**	458,867
Construction Work In Progress (CWIP) and other	**73,119**	101,863
Electric total	**1,523,387**	1,477,998
Natural Gas:		
Underground storage	**16,385**	14,946
Transmission	**3,060**	3,090
Distribution	**276,295**	253,830
CWIP and other	**46,207**	45,108
Natural gas total	**341,947**	316,974
Common plant (including CWIP)	**38,332**	34,624
Total utility	**1,903,666**	1,829,596
Non-utility	**60,498**	56,466
Total	**$1,964,164**	$1,886,062

[note 3] jointly owned electric facilities

The Company has invested in several 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. The following table indicates the Company's percentage ownership and the extent of the Company's investment in such plants at December 31, 1995:

			Company's Current Share of *(Thousands of Dollars)*				
Project	KW of Installed Capacity	Fuel Source	Ownership (%)	Plant in Service	Accumulated Depreciation	Net Plant In Service	Construction Work in Progress
Centralia	1,330,000	Coal	15%	$ 55,197	$32,683	$ 22,514	$1,337
Colstrip 3 and 4	1,556,000	Coal	15%	272,338	88,205	184,133	–

[note 4] accounts receivable sale

The Company has entered into an agreement whereby it can sell without recourse, on a revolving basis, up to $40,000,000 of interests in certain accounts receivable, both billed and unbilled. The Company is obligated to pay fees which approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. The amount of such fees is included in operating expenses. At both December 31, 1995 and 1994, $40,000,000 in receivables had been sold pursuant to the agreement.

[note 5] 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 ($11,690,250 at December 31, 1995) 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 1995, the cost recorded for the Plan was $2,857,000. This included the cost for an additional 304,353 shares which were issued for ongoing employee and Company contributions to the Plan. 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 $1,146,000, $2,350,000 and $1,215,000, 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 the earlier of February 16, 2000 or the effective time of the merger with Sierra Pacific Resources (SPR), Sierra Pacific Power Company (SPPC) and Altus Corporation (Altus). See Note 16 for additional information about the proposed merger.

During 1992, the Company received authorization to issue 1.5 million shares of Common Stock under a second Periodic Offering Program (POP). In 1993, 576,400 shares of the POP were issued for net proceeds of $11.2 million. Through December 31, 1993, 927,600 shares of the POP were issued for net proceeds of $17.3 million. No shares were issued under the POP during 1994 or 1995. At December 31, 1995, 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.

Sales of Common Stock for 1995, 1994 and 1993 are summarized below:

	1995		1994		1993	
(Thousands of Dollars)	**Shares**	**Amount**	Shares	Amount	Shares	Amount
Balance at January 1	**54,420,696**	**$570,603**	52,757,545	$544,609	50,888,130	$508,202
Employee Investment Plan (401-K)	**304,353**	**4,718**	272,278	4,302	165,335	3,216
Dividend Reinvestment Plan	**1,222,918**	**19,315**	1,390,873	21,692	1,127,680	21,779
Periodic Offering	**–**	**–**	–	–	576,400	11,412
Total Issues	**1,527,271**	**24,033**	1,663,151	25,994	1,869,415	36,407
Balance at December 31	**55,947,967**	**$594,636**	54,420,696	$570,603	52,757,545	$544,609

[note 6] preferred stock

Cumulative Preferred Stock Not Subject to Mandatory Redemption – The dividend rate on Flexible Auction Preferred Stock, Series J is reset every 49 days based on an auction. During 1995, the dividend rate varied from 4.410% to 5.150% and at December 31, 1995, was 5.150%. Series J is subject to redemption at the Company's option at a redemption price of 100% per share plus accrued dividends.

Cumulative Preferred Stock Subject to Mandatory Redemption – Redemption requirements:

$8.625, Series I - On June 15, 1996, 1997, 1998, 1999 and 2000, the Company must redeem 100,000 shares at $100 per share plus accumulated dividends. The Company may, at its option, redeem up to 100,000 shares in addition to the required redemption on any redemption date.

$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 $50 million in mandatory redemption requirements during the 1996-2000 period.

The fair value of the Company's preferred stock at December 31, 1995 and 1994 is estimated to be $139.8 million, or 104% of the carrying value and $135.1 million, or 100% of the carrying value, respectively. These estimates are based on available market information.

[note 7] long-term debt

The annual sinking fund requirements and maturities for the next five years for First Mortgage Bonds outstanding at December 31, 1995 are as follows:

(For the Years Ended December 31 – Thousands of Dollars)	Maturities	Sinking Fund Requirements	Total
1996	$35,000	$4,747	$39,747
1997	31,000	4,547	35,547
1998	10,000	4,437	14,437
1999	47,500	4,437	51,937
2000	35,000	4,287	39,287

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 1993, $25,000,000 of Unsecured Medium-Term Notes were issued. At December 31, 1995, the Company had outstanding $207,500,000 of such notes with maturities between 1 and 28 years and with interest rates varying between 5.50% and 9.58%.

In 1995, 1994 and 1993, $78,000,000, $88,000,000 and $225,000,000, respectively, First Mortgage Bonds in the form of Secured Medium-Term Notes were issued. At December 31, 1995, the Company had outstanding $391,000,000 of such notes with maturities between 1 and 28 years and with interest rates varying between 4.72% and 8.25%. As of December 31, 1995, the Company had remaining authorization to issue up to $109,000,000.

At December 31, 1995, the Company had $29,500,000 outstanding under borrowing arrangements which will be refinanced in 1996. See Note 8 for details of credit agreements.

Included in other long-term debt are the following items related to non-utility operations:

(Outstanding at December 31 – Thousands of Dollars)	**1995**	1994
Notes payable - variable rates through 1999	**$24,372**	$12,518
Industrial revenue bonds - variable rate through 2003	**–**	450
Capital lease obligations	**4,715**	16
Total non-utility	**29,087**	12,984
Less: current portion	**6,813**	2,960
Net non-utility long-term debt	**$22,274**	$10,024

The fair value of the Company's long-term debt at December 31, 1995 and 1994 is estimated to be $733.2 million, or 107% of the carrying value and $673.0 million, or 93% of the carrying value, respectively. These estimates are based on available market information.

[note 8] bank borrowings and commercial paper

At December 31, 1995, the Company maintained total lines of credit with various banks under two separate credit agreements amounting to $160,000,000. The Company has one revolving line of credit, expiring December 9, 1997, which provides a total credit commitment of $70,000,000. The second revolving credit agreement is composed of two tranches totaling $90,000,000. One tranche provides for up to $50,000,000 of notes to be outstanding at any one time, while the other provides for up to $40,000,000 of notes to be outstanding at any one time. Both tranches of this agreement expire on July 24, 1996. The Company pays commitment fees of up to 0.15% 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 $60,000,000 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. In December 1994, the Company terminated its commercial paper program.

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

(Years Ended December 31 – Thousands of Dollars)	1995	1994
Balance outstanding at end of period:		
Fixed-term loans	$10,000	$33,000
Revolving credit agreement	19,500	25,000
Maximum balance during period:		
Fixed-term loans	$10,000	$52,000
Commercial paper	–	20,000
Revolving credit agreement	28,500	32,000
Average daily balance during period:		
Fixed-term loans	$ 5,484	$29,373
Revolving credit agreement	13,886	10,941
Average annual interest rate during period:		
Fixed-term loans	6.15%	4.64%
Revolving credit agreement	6.11%	4.49%
Average annual interest rate at end of period:		
Fixed-term loans	6.06%	6.28%
Revolving credit agreement	6.08%	6.28%

Non-utility operations have $48 million in short-term borrowing arrangements available. At December 31, 1995 and 1994, $26.6 million and $22.3 million, respectively, were outstanding.

[note 9] leases

The Company has entered into several lease arrangements involving various assets, with minimum terms ranging from eleven months to seventeen years and expiration dates from 1995 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, 1995, 1994 and 1993 was $10.7 million, $2.3 million and $1.9 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, 1995 are estimated as follows:

(Year Ending December 31)	
1996	$ 8,450
1997	7,635
1998	1,847
1999	2,257
2000	2,257
Later years	24,829
Total minimum payments required	$47,275

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

[note 10] 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 1995, 1994 and 1993 is summarized as follows:

(Thousands of Dollars)	**1995**	1994	1993
Service cost-benefits earned during the period	**$ 3,464**	$ 4,323	$ 3,150
Interest cost on projected benefit obligation	**8,142**	8,523	7,771
Actual return on plan assets	**(27,910)**	(248)	(15,108)
Net amortization and deferral	**17,272**	(11,553)	3,717
Net periodic pension cost (income)	**$ 1,968**	$ 1,045	$ (470)

The funded status of the Plans and the pension liability at December 31, 1995, 1994 and 1993, are as follows:

(Thousands of Dollars)	**1995**	1994	1993
Actuarial present value of benefit obligation:			
Accumulated benefit obligation (including vested benefits of $(114,964,000), $(88,596,000) and $(84,531,000), respectively)	**$(116,877)**	$ (90,341)	$ (85,368)
Projected benefit obligation for service rendered to date	**$(133,233)**	$(107,540)	$(104,025)
Plan assets at fair value	**140,528**	119,706	126,879
Plan assets in excess of projected benefit obligation	**7,295**	12,166	22,854
Unrecognized net gain from returns different than assumed	**(19,704)**	(17,939)	(21,503)
Prior service costs not yet recognized	**18,385**	14,803	7,983
Unrecognized net transition asset at year-end (being amortized over 11 to 19 years)	**(10,273)**	(11,359)	(12,445)
Regulatory deferrals	**-**	(1,841)	(3,256)
Pension liability	**$ (4,297)**	$ (4,170)	$ (6,367)
Assumptions used in calculations were:			
Discount rate at year-end	**7.5%**	8.5%	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 11] 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 has received accounting orders from the Washington Utilities and Transportation Commission (WUTC) and the IPUC allowing the current deferral of expense accruals under this Statement as a regulatory asset for future recovery. At such time that rate recovery is requested and allowed, cumulative deferrals will be amortized over the remainder of the twenty-year amortization period. The Company expects to be able to recover the amortized amounts. Therefore, the Company's cash flows and income from operations were not affected by implementation of this Statement through 1995. The Company will begin recognition of the expense accruals in 1996.

The Company provides certain health care and life insurance benefits for substantially all of its retired employees. In 1995, 1994 and 1993, the Company recognized $1,800,000, $1,270,000 and $1,250,000, respectively, as an expense for post-retirement health care and life insurance benefits. The following table sets forth the health care plan's funded status at December 31, 1995, 1994 and 1993.

Accumulated Postretirement Benefit Obligation

(Thousands of Dollars)	1995	1994	1993
Retirees	617	642	620
Active plan participants	1,328	1,319	1,341
Total participants	1,945	1,961	1,961
Unfunded accumulated postretirement benefit obligation	$(28,718)	$(31,072)	$(39,595)
Unrecognized (gain)/loss	(3,396)	(4,897)	1,886
Unrecognized transition obligation	27,288	28,894	33,600
Accrued postretirement benefit cost	$ (4,826)	$ (7,075)	$ (4,109)

Net Postretirement Benefit Cost for 1995, 1994 and 1993

(Thousands of Dollars)	1995	1994	1993
Service cost – benefits earned during the period	$ 573	$ 802	$ 1,156
Return on the plan assets (if any)	(226)	-	-
Interest cost on accumulated postretirement benefit obligation	2,452	2,596	3,006
Amortization of transition obligation	1,414	1,606	1,769
Total net periodic cost	$4,213	$5,004	$5,931

The currently assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation is 8.0% for 1995, decreasing linearly each successive year until it reaches 6.0% in 1999. The assumed rate of future medical cost increases has been gradually decreased since the adoption of FAS 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, 1995 and net postretirement health care cost by approximately $2,299,000. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7.5%.

[note 12] accounting for income taxes

As of December 31, 1995 and 1994, the Company had recorded net regulatory assets of $169,432,000 and $174,349,000, respectively, related to the probable recovery of FAS No. 109, "Accounting for Income Taxes," deferred tax liabilities from customers through future rates. Such net 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)	1995	1994	1993
Deferred tax liabilities:			
Differences between book and tax bases of utility plant	$320,502	$317,991	$297,175
Loss on reacquired debt	7,173	8,216	9,243
Deferred natural gas credits	-	1,095	2,679
Other	10,013	8,957	5,575
Total deferred tax liabilities	337,688	336,259	314,672
Deferred tax assets:			
Reserves not currently deductible	15,742	14,429	14,486
Contributions in aid of construction	4,634	3,710	2,975
Deferred natural gas credits	3,894	-	-
Gain on sale of office building	1,463	1,555	1,647
Other	4,426	6,398	6,659
Total deferred tax assets	30,159	26,092	25,767
Net deferred tax liability	$307,529	$310,167	$288,905

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):

(For the Years Ended December 31 – Thousands of Dollars)	1995	1994	1993
Computed federal income taxes at statutory rate	**$47,875**	$ 41,983	$43,363
Increase (decrease) in tax resulting from:			
Accelerated tax depreciation	**(909)**	1,725	(2,229)
Equity earnings in affiliates	**–**	(497)	(560)
Other	**1,297**	(1,320)	1,684
Total federal income tax expense*	**$48,263**	$ 41,891	$42,258
Income Tax Expense Consists of the Following:			
Federal taxes currently provided	**$48,318**	$ 32,334	$34,749
Deferred income taxes	**(55)**	9,557	7,509
Total federal income tax expense	**48,263**	41,891	42,258
State income tax expense	**4,153**	2,805	245
Federal and state income taxes	**$52,416**	$ 44,696	$42,503
*Federal Income Tax Expense:			
Utility	**$41,203**	$ 35,513	$36,385
Non-utility	**7,060**	6,378	5,873
Total Federal Income Tax Expense	**$48,263**	$ 41,891	$42,258
Federal statutory rate	**35%**	35%	35%

[note 13] 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, 1995, pertaining to these contracts is summarized in the following table:

	Company's Current Share of *(Thousands of Dollars)*					
Public Utility District (PUD) Contracts	Output	Kilowatt Capability	Annual Costs[2]	Debt Service Costs[3]	Revenue Bonds Outstanding	Contract Expiration Date
Chelan County PUD:						
Lake Chelan Project	100.0%[1]	58,000	$1,933	$ 258	$ –	1995
Rocky Reach Project	2.9%	37,000	1,166	556	3,617	2011
Grant County PUD:						
Priest Rapids Project	6.1%	55,000	1,766	1,132	7,830	2005
Wanapum Project	8.2%	75,000	2,194	1,460	15,009	2009
Douglas County PUD:						
Wells Project	3.9%	30,000	1,021	608	7,392	2018
Totals		255,000	$8,080	$4,014	$33,848	

(1) The Company purchased 100% of the Lake Chelan Project output and sold back to the PUD about 40% of the output to supply local service area requirements. The contract expired in 1995.
(2) 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 1995.
(3) Included in annual costs.

Actual expenses for payments made under the above contracts for the years 1995, 1994 and 1993, were $8,080,000, $8,717,000 and $8,721,000, 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 $3,684,000 in 1996, $3,860,000 in 1997, $5,555,000 in 1998, $5,594,000 in 1999 and $6,948,000 in 2000 (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 14] commitments and contingencies

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. The Tribe initially indicated through expert opinion disclosures that they were seeking actual and punitive damages of $208 million. However, supplemental disclosures reflect allegations of actual loss under different assumptions of between $425 million and $650 million.

Discovery had been stayed pending a decision by the Court on a case involving some similar issues brought by the Tribe against Idaho Power Company. The Court has since decided these issues and has dismissed all claims against Idaho Power. The Idaho Power case has now been appealed by the Nez Perce Tribe to the Ninth Circuit Court of Appeals. On November 21, 1994, the Company filed its Motion and Brief in Support of Summary Judgment of Dismissal. The Nez Perce Tribe has filed a reply brief, and has requested oral argument. A hearing on the Company's Motion for Summary Judgment was held by the Court on July 27, 1995. On September 22, 1995, the federal magistrate issued a written opinion recommending to the District Court that the Company's Motion for Summary Judgment be granted and the Tribe's claims dismissed. The matter is still pending before the District Court. The case has not yet been set for trial. The Company is presently unable to assess the likelihood of an adverse outcome in this litigation, or estimate an amount or range of potential loss in the event of an adverse outcome.

Oil Spill – The Company completed an updated investigation of an oil spill from an underground storage tank that occurred several years ago in downtown Spokane at the site of the Company's steam heat plant. The Company purchased the plant in 1916 and operated it as a non-regulated plant until it was deactivated in 1986 in a business decision unrelated to the spill. After the Bunker C fuel oil spill, initial studies suggested that the oil was being adequately contained by both geological features and man-made structures. The Washington State Department of Ecology (DOE) concurred with these findings. However, more recent tests showed that the oil has migrated approximately one city block beyond the steam plant property. On December 6, 1993, the Company asked the DOE to enter into negotiations for a Consent Decree which provided for additional remedial investigation and a feasibility study. The Consent Decree, entered on November 8, 1994, provided for 22 additional soil borings to be made around the site, which have been completed. It is anticipated that a clean-up action plan will be approved by the first quarter of 1996 and that the oil spill clean-up will be conducted in 1996. As of December 31, 1995, an accrual of $3.1 million is reflected on the Company's financial statements, which represents the Company's best estimate of its liability.

The Company has completed a remedial investigation/feasibility study (RI/FS) report, which has been submitted to the DOE. The RI/FS report is subject to public review and comment. The report includes a recommended clean-up action plan (RCAP).

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 alleges that the oil released from the Company's Central Steamplant trespassed on property owned by the plaintiff. In addition, the plaintiff claims that the Steamplant has caused a diminution of value of plaintiff's land. Generally, the Complaint is based on a claim of negligence, trespass and nuisance. Discovery has been initiated by the Company and is in the initial stages. The matter has not been set for trial. The Company is presently unable to assess the likelihood of an adverse outcome in this litigation, or estimate an amount or range of potential loss in the event of an adverse outcome.

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

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

Complainants in all cases allege various theories of tortious conduct, including negligence, creation of a public nuisance, strict liability and trespass; in most cases, complainants allege that fires were caused by electric distribution and/or transmission lines downed by wind-downed trees. The lawsuits seek recovery for property damage, emotional and mental distress, lost income and punitive damages, but do not specify the amount of damages being sought. Discovery is ongoing and the

Company is presently unable to assess the likelihood of an adverse outcome or estimate an amount or range of potential loss in the event of an adverse outcome. Trials are scheduled to commence on various dates between February 3, 1997 and November 2, 1998. The Company was previously presented with a claim from the Washington State Department of Natural Resources (DNR) for fire suppression costs associated with five of these fires in eastern Washington. The total of the DNR claim was $1.0 million. On July 22, 1993, the Company entered into a settlement with the DNR whereby the Company agreed to pay $200,000 to DNR in full settlement of any and all DNR claims; however, there was no admission of liability on the part of the Company.

Williams Lake Lawsuit – On December 21, 1995, a lawsuit was commenced in Vancouver, British Columbia against the Company's subsidiary, Pentzer, by Tondu Energy Systems, Inc. and T.E.S. Williams Lake Partnership alleging contract violations, conspiracy, misrepresentation and breach of fiduciary duties in regard to the 1993 sale of assets of Pentzer Energy Services, Inc. to B.C. Gas, Inc. and a U.S. subsidiary of B.C. Gas. The claims involve an alleged first right to purchase interests in the Williams Lake, British Columbia wood-fired generating station. The suit seeks damages in excess of $10 million, plus exemplary damages, prejudgment interest, costs and attorneys' fees. Also named as defendants are B.C. Gas, Inc., Inland Pacific Energy (Williams Lake) Corp., Pentzer Energy Services, Inc. and WP Energy Company. This action originally had been filed in Spokane Superior Court against each of the same defendants and Washington Water Power. By order dated June 6, 1995, all claims against Washington Water Power were dismissed by that court with prejudice and the claims against the remaining defendants were dismissed without prejudice on the grounds that the lawsuit should have been brought in British Columbia. The Company is presently unable to assess the likelihood of an adverse outcome or estimate an amount or range of potential loss in the event of an adverse outcome.

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 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, 1995, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers represented approximately 47% of employees. The current agreement with the union local representing the majority of the bargaining unit employees expires on March 25, 1997. A local agreement in the South Lake Tahoe area, which represents approximately 7 employees, expires on June 30, 1996.

[note 15] acquisitions and dispositions

During 1995, Pentzer acquired two companies, one that designs and packages point-of-purchase displays and other marketing materials for national manufacturers of consumer products and the other that manufactures and assembles metal and wood products for the computer, video arcade and point-of-purchase industries. In 1994 and 1993, Pentzer acquired two and three companies, respectively. Sales of Pentzer's interest in companies involved in telecommunications, technology and energy services resulted in transactional gains of $7.1 million in 1993.

In 1992, Pentzer's common stock ownership in ITRON was reduced from approximately 60% to approximately 40% as a result of the issuance of common stock by ITRON in an acquisition. Accordingly, beginning in 1992, Pentzer's share of ITRON's earnings was accounted for by the equity method and was included in Other Income-Net and its investment in ITRON was reflected on the balance sheet under Other Property and Investments. ITRON's initial public offering in November 1993 and Pentzer's sales of ITRON stock during 1993 and 1994 resulted in a reduction in Pentzer's ownership interest to approximately 14%. As a result, Pentzer's investment in ITRON, beginning in December 1994, is classified as available for sale and recorded at fair value on the Consolidated Balance Sheets.

On March 1, 1996, a subsidiary of Pentzer sold certain property that was held for sale. The sale resulted in a pre-tax gain of approximately $19.3 million, which will be recognized in the first quarter of 1996.

[note 16] proposed merger

In June 1994, the Company, Sierra Pacific Resources (SPR), Sierra Pacific Power Company, a subsidiary of SPR (SPPC), and Altus Corporation, a newly formed subsidiary of the Company (Altus, formerly named Resources West Energy Corporation), entered into an Agreement and Plan of Reorganization and Merger, dated as of June 27, 1994, as amended October 4, 1994 which provides for the merger of the Company, SPR and SPPC with and into Altus. In 1994, applications seeking approval of the merger were filed with the Federal Energy Regulatory Commission (FERC) and with the state utility commissions of

California, Idaho, Montana, Nevada, Oregon and Washington. The Montana Public Service Commission issued an order in October 1994 declining to exercise jurisdiction. The Company has received orders approving the merger from the commissions of all the other states. On November 29, 1995, the FERC ordered evidentiary hearings concerning the proposed merger. An administrative law judge has been assigned to the merger proceeding and a pre-hearing conference was held on December 13, 1995 to set a procedural schedule. The companies filed supplemental testimony on February 1, 1996. Hearings are scheduled to begin on June 4, 1996. Based on this schedule, the companies believe an order could be issued by the FERC in 1996 or early 1997. The merger is designed to qualify as a pooling-of-interests for accounting and financial reporting purposes. Under this method of accounting, the recorded assets and liabilities of the Company, SPR and SPPC will be carried forward to the consolidated financial statements of Altus at their recorded amounts; income of Altus will include income of the Company, SPR and SPPC for the entire fiscal year in which the merger occurs; and the reported income of the separate corporations for prior periods will be combined and restated as income of Altus.

As of December 31, 1995, $14.5 million in merger transaction and transition costs have been deferred and are included on the Company's balance sheet as Other Deferred Charges. The cost of severance and early retirement options elected by certain eligible employees affected by the merger is expected to be approximately $8 million. The Company will determine the treatment of these costs based on regulatory rulings, generally accepted accounting principles and tax regulations. It is anticipated that for accounting purposes these merger transaction and transition costs will be expensed by Altus in the quarter the merger is completed.

The following pro forma condensed financial information combines the historical consolidated balance sheets and statements of income of the Company and SPR after giving effect to the merger. The unaudited pro forma condensed consolidated balance sheet at December 31, 1995 gives effect to the merger as if it had occurred at December 31, 1995. The unaudited pro forma condensed consolidated statements of income for each of the three years in the period ended December 31, 1995 give effect to the merger as if it had occurred at January 1, 1993. These statements are prepared on the basis of accounting for the merger as a pooling-of-interests and are based on the assumptions set forth in the paragraph below. The pro forma condensed financial information has been prepared from, and should be read in conjunction with the Company's historical consolidated audited financial statements and related notes thereto of which this note is a part and SPR's historical consolidated audited financial statements and related notes thereto included in reports filed by SPR pursuant to the Securities Exchange Act, as amended. The information contained herein with respect to SPR and its subsidiaries has been supplied by SPR. The information is not necessarily indicative of the financial position or operating results that would have occurred had the merger been consummated on the date, or at the beginning of the periods, for which the merger is being given effect, nor is it necessarily indicative of future operating results or financial position.

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

Pro Forma Condensed Consolidated Balance Sheet (unaudited):

(At December 31, 1995 – Thousands of Dollars)	WWP	SPR	Altus
Assets			
Utility plant in service-net	$1,880,620	$1,816,444	$3,697,064
Construction work in progress	23,046	153,066	176,112
Total	1,903,666	1,969,510	3,873,176
Accumulated depreciation and amortization	546,248	556,710	1,102,958
Net utility plant	1,357,418	1,412,800	2,770,218
Other property and investments	227,457	45,290	272,747
Current assets	183,972	129,414	313,386
Deferred charges	330,055	169,123	499,178
Total assets	$2,098,902	$1,756,627	$3,855,529
Capitalization and Liabilities			
Common stock and additional paid-in capital	$ 594,636	$ 463,705	$1,058,341
Other shareholders equity	122,489	80,845	203,334
Preferred stock	135,000	86,715	221,715
Long-term debt	738,287	573,933	1,312,220
Total capitalization	1,590,412	1,205,198	2,795,610
Current liabilities	168,959	203,364	372,323
Deferred income taxes	309,790	159,300	469,090
Other deferred credits	29,741	188,765	218,506
Total capitalization and liabilities	$2,098,902	$1,756,627	$3,855,529
Common shares outstanding (thousands)	55,948	30,035	99,198

Pro Forma Condensed Consolidated Statements of Income (unaudited):

(Thousands of Dollars – Except Per Share Amounts)	WWP	SPR	Altus
1995			
Operating revenues	$765,009	$606,122	$ 1,361,131
Operating expenses	565,169	464,787	1,029,956
Income from operations	189,840	141,335	331,175
Net income	87,121	65,413	152,534
Income available for common stock	77,998	58,039	136,037
Average common shares outstanding	55,173	29,755	98,020
Earnings per share	$ 1.41	$ 1.95	$ 1.39

(Thousands of Dollars – Except Per Share Amounts)	WWP	SPR	Altus
1994			
Operating revenues	$670,765	$626,312	$ 1,297,077
Operating expenses	515,307	498,860	1,014,167
Income from operations	155,458	127,452	282,910
Net income	77,197	60,300	137,497
Income available for common stock	68,541	52,366	120,907
Average common shares outstanding	53,538	29,219	95,613
Earnings per share	$ 1.28	$ 1.79	$ 1.26

(Thousands of Dollars – Except Per Share Amounts)	WWP	SPR	Altus
1993			
Operating revenues	$640,599	$528,075	$ 1,168,674
Operating expenses	479,749	415,286	895,035
Income from operations	160,850	112,789	273,639
Net income	82,776	53,151	135,927
Income available for common stock	74,441	44,890	119,331
Average common shares outstanding	51,616	26,895	90,345
Earnings per share	$ 1.44	$ 1.67	$ 1.32

[note 17] selected quarterly information (unaudited)

The Company's electric and natural gas 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 1995 follows:

Three Months Ended	March 31	June 30	September 30	December 31
1995				
Operating revenues	$197,928	$158,973	$157,869	$240,239
Operating income	58,474	40,103	31,565	59,698
Net income	28,453	15,163	10,885	32,619
Income available for common stock	26,156	12,865	8,618	30,359
Outstanding common stock (000s):				
Weighted average	54,582	54,986	55,363	55,745
Year-end	54,847	55,237	55,617	55,948
Earnings per share:				
Utility operations	$ 0.43	$ 0.19	$ 0.11	$ 0.41
Non-utility operations	0.05	0.04	0.05	0.13
Total	$ 0.48	$ 0.23	$ 0.16	$ 0.54
Dividends paid per common share	$ 0.31	$ 0.31	$ 0.31	$ 0.31
Trading price range per share – High	$ 16	$ 16	$ 16 3/8	$ 18
Trading price range per share – Low	$ 13 1/2	$ 14 3/4	$ 15	$ 16

A summary of quarterly operations (in thousands of dollars except per share amounts) for 1994 follows:

Three Months Ended	March 31	June 30	September 30	December 31
1994				
Operating revenues	$190,871	$ 147,173	$142,334	$190,552
Operating income	51,690	34,015	22,973	46,782
Net income	26,691	15,696	8,104	26,705
Income available for common stock	24,621	13,547	5,918	24,455
Outstanding common stock (000s):				
Weighted average	52,911	53,316	53,751	54,158
Year-end	53,140	53,584	54,017	54,421
Earnings per share:				
Utility operations	$ 0.43	$ 0.21	$ 0.05	$ 0.34
Non-utility operations	0.03	0.04	0.06	0.12
Total	$ 0.46	$ 0.25	$ 0.11	$ 0.46
Dividends paid per common share	$ 0.31	$ 0.31	$ 0.31	$ 0.31
Trading price range per share – High	$ 18 7/8	$ 17 7/8	$ 16 1/4	$ 14 7/8
Trading price range per share – Low	$ 16 5/8	$ 14 1/4	$ 13 7/8	$ 13 5/8

[independent auditors' report]

The Washington Water Power Company
Spokane, Washington

We have audited the accompanying consolidated balance sheets and statements of capitalization of The Washington Water Power Company and subsidiaries (the Company) as of December 31, 1995 and 1994, and the related consolidated statements of income and retained earnings, cash flows, and the schedules of information by business segments for each of the three years in the period ended December 31, 1995. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements and schedules present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. In addition, the schedules referred to above present fairly, in all material respects, the segment information of the Company and its subsidiaries in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Seattle, Washington
January 26, 1996 (March 1, 1996 as to Note 15)

[selected financial data]

(Thousands of Dollars Except Statistics and Per Share Amounts [1])	**1995**	1994	1993	1992	1991	1985
Financial Results						
Operating revenues	**$ 755,009**	$ 670,765	$ 640,599	$ 557,758	$ 566,807	$ 459,453
Operating expenses	**565,169**	515,307	479,749	407,133	407,630	325,620
Operating income	**189,840**	155,458	160,850	150,625	159,177	133,833
Interest charges	**57,980**	49,390	47,106	51,182	53,689	41,231
Net income	**87,121**	77,197	82,776	74,670	72,184	81,402
Net income for common	**77,998**	68,541	74,441	67,853	62,892	64,591
Earnings per share	**1.41**	1.28	1.44	1.37	1.34	1.51
Dividends paid per share	**1.24**	1.24	1.24	1.24	1.24	1.24
Book value per share	**12.82**	12.45	12.02	11.54	11.11	11.43
Shares of common stock:						
Outstanding	**55,948**	54,421	52,758	50,888	47,902	44,370
Average	**55,173**	53,538	51,616	49,550	46,916	42,659
Return on common equity:						
Total company	**11.19%**	10.45%	12.19%	12.13%	12.15%	13.37%
Utility only	**10.99%**	9.94%	11.67%	11.82%	13.47%	13.51%
Common stock closing price	**17.500**	13.750	18.750	17.625	16.500	12.500
Operating Results						
Electric revenues:						
Retail	**361,972**	339,352	341,000	321,885	308,716	253,420
Wholesale	**109,233**	91,386	108,634	91,791	92,348	69,743
Other	**15,784**	20,553	14,541	10,737	10,706	5,279
Total	**$ 486,989**	$ 451,291	$ 464,175	$ 424,413	$ 411,770	$ 328,442
Electric KWh sales: (thousands)						
Retail	**7,582,295**	7,253,800	7,187,386	6,920,831	6,488,346	6,304,736
Wholesale	**3,909,608**	2,886,886	3,258,210	3,162,447	4,104,054	2,951,273
Total	**11,491,903**	10,140,686	10,445,596	10,083,278	10,592,400	9,256,009
Average customers	**287,089**	270,486	263,772	256,658	251,831	236,506
Revenue per residential KWh (cents)	**4.98**	4.84	4.91	4.83	4.84	4.10
Use per residential customer (KWh)	**12,434**	12,661	13,406	13,287	13,800	14,997
Total requirements at system peak (MW)	**2,545**	2,233	2,126	2,018	2,042	1,522
Total resource availability (MW)	**3,855**	2,468	2,335	2,280	2,222	1,726
Natural gas revenues:						
Retail	**147,534**	136,885	122,760	88,177	64,775	126,196
Transport	**12,340**	11,140	10,923	8,663	5,274	89
Other	**14,353**	8,751	3,864	3,730	3,255	2,409
Total	**$ 174,227**	$ 156,776	$ 137,547	$ 100,570	$ 73,304	$ 128,694
Natural gas therm sales: (thousands)						
Retail	**331,079**	299,679	301,743	241,814	201,609	264,653
Transport	**326,092**	231,650	197,499	181,145	143,222	–
Total	**657,171**	531,329	499,242	422,959	344,831	264,653
Average customers	**217,245**	202,999	185,289	170,413	159,249	78,089
Revenue per residential therm (cents)	**52.75**	51.03	45.05	41.13	37.20	55.89
Use per residential customer (therms)	**832**	838	931	794	934 [2]	1,047
Non-utility:						
Revenues	**93,793**	62,698	38,877	32,775	81,732	55,249
Total assets	**226,511**	173,582	136,186	109,203	126,713	47,755
Investment	**130,353**	114,085	93,100	79,616	72,521	46,906
Other Financial and Operating Statistics						
Total assets	**2,098,902**	1,994,253	1,837,838	1,534,015	1,521,513	1,383,077
Net utility plant	**1,357,418**	1,329,045	1,253,991	1,191,153	1,144,646	1,185,677
Utility capital expenditures	**79,944**	122,735	134,852	97,707	145,476	68,867
Total capitalization:						
Long-term debt	**738,287**	721,146	647,229	596,897	631,981	539,816
Preferred stock	**135,000**	135,000	135,000	135,000	125,000	185,000
Common equity	**717,125**	677,494	634,379	587,035	532,116	496,494
Total	**$ 1,590,412**	$ 1,533,640	$ 1,416,608	$ 1,318,932	$ 1,289,097	$ 1,221,310
Total utility employees	**1,390**	1,420	1,438	1,377	1,390	1,440

(1) Reflects two-for-one split of common stock effective November 10, 1993.
(2) Does not include results from WP Natural Gas.

[officers and directors]

[executive officer team]

Paul A. Redmond
Chairman of the Board, President
and Chief Executive Officer
Joined company in 1965

W. Lester Bryan
Senior Vice President
Responsible for all aspects of wholesale electric and natural gas operations
Joined company in 1970

Jon E. Eliassen
Vice President and Chief Financial Officer
Responsible for finance, national accounts – retail markets and new business development
Joined company in 1970

Gary G. Ely
Vice President
Responsible for regulatory and government relations, and hydroelectric and engineering operations support
Joined company in 1967

Robert D. Fukai
Vice President
Responsible for human resources, information systems and corporate services
Joined company in 1972

JoAnn Matthiesen
Vice President
Responsible for organization effectiveness and communications
Joined company in 1990

Lawrence J. Pierce
Vice President
Responsible for business analysis and business acquisition
Joined company in 1974

Nancy J. Racicot
Vice President
Responsible for all aspects of retail electric and natural gas operations
Joined company in 1969

John W. Buergel
Controller
Joined company in 1971

Ronald R. Peterson
Treasurer
Joined company in 1975

Terry L. Syms
Corporate Secretary
Joined company in 1967

[Pentzer Corporation]

Richard A. Davis
President and Chief Executive Officer
Joined Pentzer in 1990

[directors]

David A. Clack
President, Clack & Co., Spokane, Washington. Director since 1988.

Duane B. Hagadone
Owner and President, Hagadone Corporation, Coeur d'Alene, Idaho. Director since 1966.

Eugene W. Meyer
Financial consultant, with extensive background as a financial analyst, particularly in the utility arena, Hilton Head Island, South Carolina. Director since 1990.

Paul A. Redmond
Chairman of the Board, President and Chief Executive Officer, Washington Water Power; Chairman of the Board, Pentzer Corporation. Director since 1980.

Gen. H. Norman Schwarzkopf, U.S. Army (Ret.)
Author, lecturer, and television consultant; served as U.S. Commander in Chief and Commander of Operations for Desert Shield and Desert Storm, Tampa, Florida. Director since 1993.

B. Jean Silver
Legislator, state of Washington; certified public accountant, Spokane, Washington. Director since 1988.

Larry A. Stanley
President and Chief Executive Officer, Empire Bolt and Screw, Inc., Spokane, Washington. Director since 1991.

R. John Taylor
Chairman and Chief Executive Officer, AIA Services Corporation, Lewiston, Idaho. Director since 1985.

Robert S. Jepson Jr.
Chairman and Chief Executive Officer, Kuhlman Corporation, Savannah, Georgia. Director since 1993.

Bob Jepson's extensive business interests are demanding more of his time and attention, leaving him – unfortunately for our company – precious little time for other activities. Consequently, he has decided not to stand for re-election to the Washington Water Power and Pentzer boards. We will be the poorer for it, but we have been enriched over the years by Bob Jepson's invaluable expertise, his wise counsel and his endless enthusiasm. His contribution is inestimable.

[investor information]

[corporate mailing address]

P.O. Box 3727
Spokane, Washington 99220-3727

[world wide web site]

http://www.wwpco.com

[annual meeting of shareholders]

Shareholders are invited to attend the company's annual meeting to be held at 3:00 p.m. on Monday, May 13, 1996, at the Spokane Opera House, 334 West Spokane Falls Boulevard. A reception prior to the meeting will allow shareholders the opportunity to meet with directors, officers and other company officials. For more information, call Shareholder Relations at the number provided below.

[shareholder information]

The Bank of New York is the company's Stock Transfer, Dividend Payment and Reinvestment Plan Agent. Inquiries concerning dividend payments, account information, cash payments, lost certificates, reinvestment plan transactions, stock transfers, and address changes should be addressed to:

The Bank of New York
Shareholder Relations Department – 11E
P.O. Box 11258
Church Street Station
New York, New York 10286-1258
Phone: 1-800-642-7365

Washington Water Power's Shareholder Relations staff is available to respond to your inquiries regarding the overall operations of the company and other questions shareholders may have. Inquiries should be directed to:

Washington Water Power
Shareholder Relations
P.O. Box 3647
Spokane, Washington 99220-3647
Phone: 1-800-222-4931 or (509) 482-4203

[investment community information]

Security analysts, brokers, institutional investors and other members of the investment community should contact:

Ronald R. Peterson
Phone: (509) 482-8045 Fax: (509) 482-4879

Diane C. Thoren
Phone: (509) 482-4331 Fax: (509) 482-4879

[dividend reinvestment plan]

The Dividend Reinvestment and Stock Purchase Plan provides shareholders with an economic and convenient method of purchasing additional shares of the company's common stock. The Plan also allows the deposit of certificate shares for safekeeping. Any registered shareholder of the company's common stock is eligible to participate in the Plan by doing one of the following:

- having cash dividends on their shares of common stock automatically reinvested; or
- having their cash dividends reinvested and, in addition, making optional cash payments of up to $100,000 per calendar year; or
- making only optional cash payments of up to $100,000 per calendar year.

[other financial reports]

A copy of the company's other financial reports, including the reports on forms 10-K and 10-Q filed with the Securities and Exchange Commission and the statistical supplement, will be provided, without charge, to any shareholder upon written request addressed to Ronald R. Peterson, Treasurer.

[stock exchange listing and trading]

The company's common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange.

The official New York Stock Exchange symbol is **WWP**. Newspapers usually use **WshWt** or **WashWater** in their listings.

[1995 annual report]

The purpose of this report is to give investors and others information concerning the company, and it is not issued in connection with any sale or offer for sale or solicitation to buy securities of the company.

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WWP
Washington Water Power

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