(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF  THE WASHINGTON WATER POWER COMPANY FOR AN ORDER AUTHORIZING ISSUANCE OF UP TO TWO MILLION SHARES OF NEW SERIES PREFERRED STOCK, SERIES L; MANDATORY CONVERSION OF PREFERRED STOCK, SERIES L, INTO COMMON STOCK; AND ISSUANCE OF COMMON STOCK AT THE OPTION OF WASHINGTON WATER POWER IN CONNECTION WITH THE CONVERSION OF THE NEW PREFERRED STOCK. | )  )  )  )  )  )  )  )  )  )  )  ) | CASE NO. WWP-U-98-1  ORDER NO.  27761 |

Pursuant to Chapter 9 of Title 61 Idaho Code, The Washington Water Power filed an Application on August 18, 1998, requesting the Commission issue an order authorizing it to do the following:

(a)  issue up to 2 million shares of a new series of its Preferred Stock, Convertible Series L in exchange up to 20 million shares of its Common Stock, on the basis of one share of new Preferred Stock for each ten shares of Common Stock, and to cause the delivery to the exchanging shareholders of the associated Depository Shares each constituting a one-tenth interest in one share of Preferred Stock;

(b)  issue shares of Common Stock upon the mandatory conversion of the Preferred Stock into Common Stock on the Mandatory Conversion Date, on the basis of ten shares of Common Stock for one share of new Preferred Stock, and

(c)  issue new shares of Common Stock in connection with the conversion of the new Preferred Stock, at the option of the Applicant, prior to the Mandatory Conversion Date.

On September 4, 1998, the Commission issued a Notice of Application and Modified Procedure, requesting comments or requests for hearing be filed with the Commission by September 25, 1998.  Mr. George Thompson, a shareholder, filed a letter with the Commission on September 21, 1998, requesting the Commission deny the Application because Washington Water Power’s plan would adversely affect its shareholders.  He did not request a hearing.  Staff filed comments recommending the Commission approve the Preferred Stock, Convertible Series L and the instruments proposed for implementing the exchange and conversion.  It also suggested that the Commission did not have the authority to reject the Application because it might adversely affect  shareholders.  Staff also stated it will monitor the exchange and conversion activities to assure ratepayers are not harmed by the transaction.

The Idaho Public Utilities Commission, having fully considered the Application and exhibits attached thereto, and all of the Commission’s files and records pertaining to this Application, grants the Application.

BACKGROUND

Washington Water Power stated that the dividend restructuring will reduce the common stock dividend by 61% from $1.24 to $.48 per share effective with the dividend expected on December 15, 1998.  The change in dividend policy is a decision the Washington Water Power Board of Directors “deemed necessary to allow the company to grow and perform at the highest level of competition.”  Washington Water Power further stated that this change in its dividend policy will improve its cash flows, enhance its ability to acquire needed capital in a cost-effective manner, and establish a solid foundation for its continued growth and financial performance.  As part of its offering, Washington Water Power intends to change its corporate name to Avista Corporation.

According to its Application, the corporate name change to Avista Corporation will be effective January 1, 1999.  All company operations will be under the Avista Corporation name with Washington Water Power becoming the utility division of Avista Corporation.  On Monday, January 4, 1999, existing Washington Water Power common stock will be traded for the first time as Avista Corporation common stock under the ticker symbol “AVA.”

Provided Washington Water Power receives the required regulatory approvals prior to October 23, 1998, the exchange time frame will be established for interested shareholders to tender their shares for exchange.  The exchange window may be only 20 days and the shareholders will be notified of the exchange offer directly by prospectus stating the terms and conditions.  Washington Water Power will offer to exchange up to 20 million common shares, or up to approximately thirty-five percent (35%) of its outstanding common stock for the new Preferred Stock, Convertible Series L.  A minimum tender offer of 6 million shares for exchange is required for the exchange to be implemented.

According to Washington Water Power, for each common share tendered for exchange, a depository share or a Return Enhanced Convertible Securities (“RECONS”) will be issued.  Each depository share or RECONS constitutes a one-tenth interest in one share of a new series of Preferred Stock, to be designated the $12.40 Preferred Stock, Convertible Series L, no par value (New Preferred Stock).  Washington Water Power stated it will issue up to 2 million shares of New Preferred Stock from its total of 10 million authorized shares of Preferred Stock.  The Bank of New York, acting as a depository, holds the New Preferred Stock under a deposit agreement.  The depository shares or RECONS reflect the interest in the New Preferred Stock.  The RECONS is a security that (a) will pay an annual dividend of $1.24 ($0.31 each quarter); (b) will allow shareholders to participate in future appreciation in the value of the common shares up to a limit per share (to be determined); (c) will automatically convert into one common share on November 1, 2002, unless converted earlier, and (d) may be converted, before its automatic conversion, into common shares having up to a value (to be determined), but no more than one common share, and will also pay either in cash or common shares, a premium, plus all accrued and unpaid dividends.  Common Shares that are accepted for exchange will not have a voting common equity interest in Washington Water Power until the RECONS are converted.  Under Washington Water Power’s plan, the New Preferred Stock class will be authorized to vote on one director during the time the RECONS and Preferred Stock, Convertible Series L are outstanding.

According to Washington Water Power’s Application, if more than 20 million common shares are tendered for exchange, tendered shares will be accepted for exchange on a pro rata basis.  Its announcement of the final proration factor should occur approximately five New York Stock Exchange (NYSE) days after the expiration date, closing, to tender shares.  Fractional shares for conversion will be avoided.  The Bank of New York is serving as the Exchange Agent.

Washington Water Power also stated that at this time there is no public market for the RECONS.  Washington Water Power stated it will apply to have the RECONS listed for trading on the NYSE.  Acceptance for listing on another securities exchange or included in the National Association of Securities Dealers Automated Quote System would be attempted but not assured.

Washington Water Power further stated that shareholders participating in the Dividend Reinvestment Plan may tender some or all of the Common Shares held in their plan account.  However, dividend payments on RECONS received in exchange for Common Shares will be paid in cash and cannot be automatically reinvested in the plan.

Participants in the Investment and Employee Stock Ownership Plan may tender shares in their Deferral and Rollover Accounts, but not in the Matching Accounts.  Dividend payments on RECONS so held will be automatically invested in Common Shares.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Commission finds that Washington Water Power and its Application are subject to the jurisdiction of the Idaho Public Utilities Commission by virtue of Chapter 9, Title 61, Idaho Code.

Washington Water Power stated that the dividend restructuring will reduce the common stock dividend by 61% from $1.24 to $.48 per share effective with the dividend expected on December 15, 1998.  While Staff indicated in its Comments that some shareholders had expressed concern over Washington Water Power’s decision, the Commission finds that it does not have jurisdiction over Washington Water Power’s intention to cut its dividends.  The Commission finds that shareholders can sell the stock or retain it with the lower dividend.  The Commission further finds that in anticipation of shareholder concerns, Washington Water Power has offered an alternative option that may ease the cash flow impact of the dividend cut on shareholders immediately.  The conversion will allow shareholders retain the current dividend and allow more time to determine whether to retain their common shares in WWP (Avista Corporation) or to sell them.

The Commission finds that the New Preferred Stock, Convertible Series L, cannot be offered unless the Commission approves it.  The Commission further finds that the proposed offering by Washington Water Power, as authorized in this Order, will be for a lawful purpose in accordance with and permitted by the provisions of the governing statutes under which the Application is made.  However, this is only a general approval and is not a finding of fact or a conclusion of law that the particular use to which these funds are to be put is approved by this Order.  The issuance of an order authorizing the proposed issuance does not constitute agency determination/approval of the type of financing or the related costs for rate making purposes.  The Commission does not have before it for determination and, therefore, does not determine the effect of the proposed transactions on rates to be charged by Washington Water Power to consumers in the state of Idaho.

The Commission further finds that there is no indication that this issuance will be detrimental to the public interest of shareholders or customers.  For example, it provides an option for what some shareholders view as an unfavorable decision.   Moreover, it appears that there will be no tax impact from the offering and conversions that will impact Washington Water Power utility customers.  The Commission finds that the offering itself should have no impact on factors impacting rates.  The Commission, therefore, finds that the proposed transaction is in the public interest and a formal hearing on this matter would serve no useful purpose.

The Commission finds that all lawful fees have been paid by Washington Water Power,  as provided by Idaho Code Section 61-905.

O R D E R

IT IS THEREFORE ORDERED that the Application by Washington Water Power for authority to issue Preferred Stock, Convertible Series L and instruments and to implement the exchange and conversion, is hereby approved, under the terms and conditions as proposed and exhibited for the purposes specified in said Application.

IT IS FURTHER ORDERED that this authorization is without prejudice to the regulatory authority of this Commission with respect to rates, services, accounts, evaluation, estimates or determination of costs, or any other matter that may come before this Commission pursuant to its jurisdiction and authority as provided by law.

IT IS FURTHER ORDERED that nothing in this Order and no provisions of Chapter 9, Title 61, Idaho Code or any act or deed done and performed in connection with this Order shall be construed to obligate the state of Idaho to pay or guarantee in any manner whatsoever any security authorized, issued, assumed, or guaranteed under the provisions of said Chapter 9, Title 61, Idaho Code.

IT IS FURTHER ORDERED that the issuance of this Order does not constitute acceptance of Washington Water Power’s exhibits or other material accompanying this Application for any purpose other than the issuance of this Order.

THIS IS A FINAL ORDER.  Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. WWP-U-98-1 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. WWP-U-98-1.  Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration.  See Idaho Code § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of October 1998.

DENNIS S. HANSEN, PRESIDENT

RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

October 9, 1998