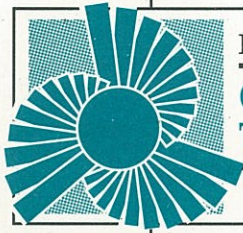
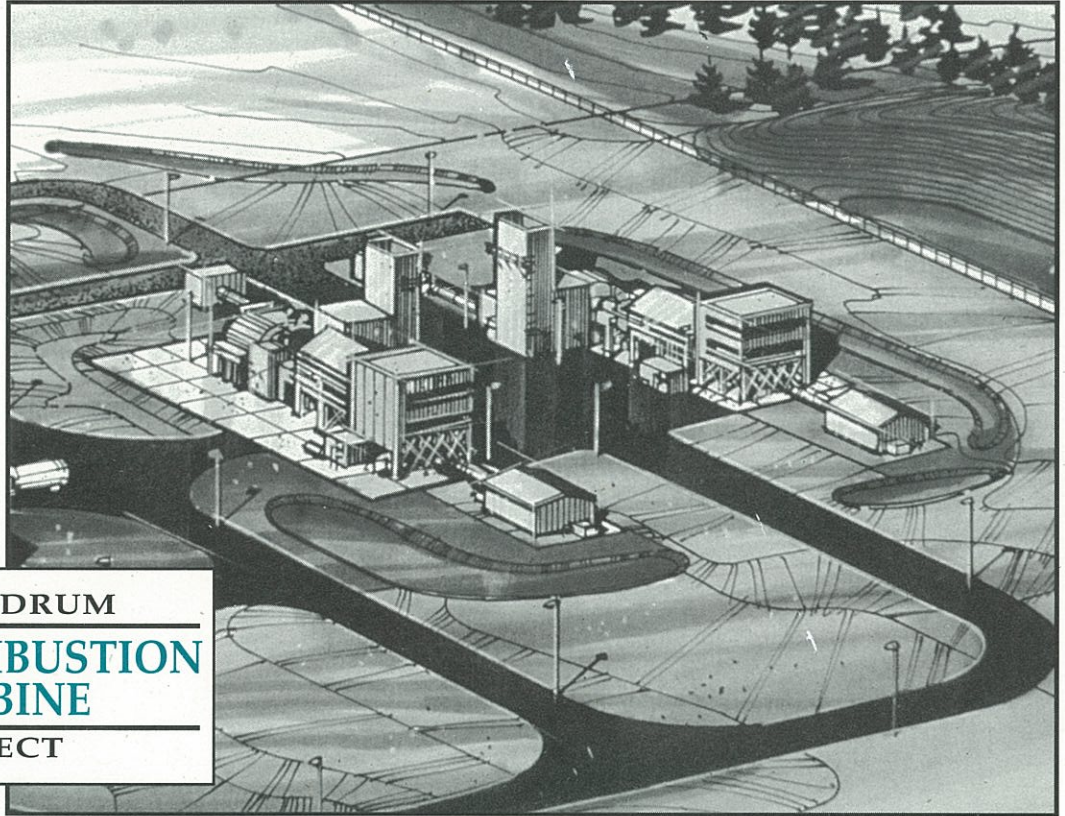

The Washington Water Power Company's 1995 Electric Integrated Resource Plan



RATHDRUM
COMBUSTION
TURBINE
PROJECT

WWP's 176-megawatt simple-cycle combustion turbine project, completed December 1994

EXECUTIVE SUMMARY

Contents

Page

“What’s the plan?” 1

The IRP process is one tool for utilities to effectively manage resources to meet customer demand at the least total cost to both the utility and its customers.

Resource Changes Since 1993 IRP 2

Addition of Rathdrum, Clean Air Act impacts at Centralia, Demand Side Management and hydro upgrades . . .

Resource Issues for 1995 IRP 4

Merger with Sierra Pacific, Hydro relicensing, Open Access, RTGs and Retail Wheeling . . .

Changing Utility Environment 6

Perhaps at no time in our company’s history have we looked at the future of our industry with such uncertainty.

1995 Near-Term Action Plan 8

Outlines activities that support the preferred resource strategy.

Current Resource Assessment 10

WWP’s resource picture is evaluated often to take advantage of opportunities which benefit both the company and customers.

Preferred Resource Strategy 12

Energy resources acquired under the preferred strategy will provide for the company’s energy needs to the year 2013.

Executive Summary

“What’s the plan?”

We’ve all heard this question at the end of a strategy meeting. After discussing all the issues and possible approaches, an action plan is needed that will help accomplish established goals. The Washington Water Power Company (WWP) has set the long-term goal of remaining the preferred energy service provider. Our action plan includes sustaining low rates by capturing internal efficiencies and savings; continuing to provide excellent customer service; and managing our existing resources to provide optimum benefit for the company and all customers.

Integrated Resource Planning (IRP)

The Integrated Resource Planning (IRP) process is one tool for utilities to effectively manage resources to meet customer demand for energy services at the least total cost to both the utility and its customers. For WWP, the formal guidelines for developing a least cost plan are set forth by the Washington Utilities and Transportation Commission and the Idaho Public Utilities Commission. The process has evolved over the past six years to consider a wide range of resource issues and alternatives. This evolution adds some complexity to an already dynamic resource planning process. In addition, as competitive forces advance within the electric service industry, the role of integrated resource planning will also evolve.

WWP’s 1995 Electric Integrated Resource Plan

WWP’s 1995 Electric Integrated Resource Plan is presented in two spiral-bound documents: this compact *Executive Summary* and the more detailed *Appendices*. The *Appendices* section includes a “Table of Contents”; “Glossary of Terms, Abbreviations and Acronyms”; and a list of “Benchmarks” which provides quick reference to specific issues.

According to the company’s latest electric forecast, WWP is energy surplus until the year 2010. Therefore, the only resource acquisitions WWP plans to make over the next 20-year planning period are those that make sense for efficiency reasons and those that address changes within the marketplace. If conditions in the future change, WWP plans to manage these changes in a way that will be beneficial for the company and for customers. Again, our long-term goal is to remain the preferred provider by maintaining stable and competitive rates for customers. For more details on this subject, see the “Preferred Resource Strategy” discussion on page 12.

In January, 1995, WWP was awarded the Regional Foresters Public Service Award for outstanding land stewardship activities along the Clark Fork River corridor.

Resource Changes Since 1993 IRP

Since the publication of WWP's 1993 Integrated Resource Plan, the company has initiated changes in its resource mix. The changes were necessary for several reasons including:

- Termination and/or initiation of power contracts
- Lower forecasted energy and capacity needs
- New requirements resulting from regulation or legislation
- Opportunities to optimize existing resources

The major changes WWP has made in the last two-year period are summarized in this section.

Rathdrum Combustion Turbines

WWP's 176-MW simple-cycle combustion turbine project at Rathdrum is the company's first built resource since Kettle Falls in 1983. The plant began commercial operation on Jan. 1, 1995. It consists of two General Electric gas turbine units that each produce about 88 megawatts of power using natural gas as fuel. Each unit can operate independent of the other. Revenue from a long-term capacity sale contract with Portland General Electric financed construction of the plant.

Both primary and backup fuel arrangements have been successfully tested by WWP. The units have also successfully met the specified levels for electrical output, heat rate and air emissions. Dry, low NO_x units were purchased from General Electric because they provide the lowest emissions available in the generation marketplace.

Clean Air Act Requirements for Centralia

Phase I of the Clean Air Act Amendment begins limiting SO₂ emissions at the Centralia plant in 1995. Phase I requirements can be met by blending lower sulfur with the Centralia mine coal. Phase II takes affect in the year 2000 and is much more stringent. A Reasonable Available Control Technology (RACT) review must be completed to determine the technical and economically lowest limit of SO₂ emissions. In 1994, a strategy to meet Phase II SO₂ emission controls was developed by PacifiCorp and reviewed by the non-operating plant owners. This strategy includes eight different options for controlling emissions of SO₂. These options include various fuel blending scenarios and/or post combustion flue gas treatment. The eight

**Colstrip's Unit 3
1994 generation
was a record
6,235,560 MWh
gross. This was
the highest yearly
generation ever
for a single unit
there.**

**Executive
Summary****(continued)**

As of March 3, 1995, both the IPUC and the WUTC have approved WWP's innovative tariff rider designed to provide a consistent level of funding for DSM programs into the future.

options have a wide range of compliance costs and effectiveness in controlling emissions.

These options were described in the RACT review document and submitted to the Southwest Air Pollution Control Authority (SWAPCA) in September 1994. At the time of this publication (3/95), SWAPCA had issued the RACT document and the project owners were reviewing it.

1995-1996 Demand Side Management Filing

On Dec. 31, 1994, WWP brought most of the programs from its 1992 DSM filing to a close. The three-year program outperformed original estimates achieving 34 aMW of energy savings at an average cost of 2.7 cents/kWh. On Dec. 14th and 20th of 1994, WWP filed for the continuation of some of these programs along with several new ones in Washington and Idaho. The filing also included a request for a special tariff, called a "tariff rider", designed to generate a pool of funds for DSM programs. Financing efficiency programs in this manner allows the company to avoid capitalization of DSM expenses. With the rider, DSM costs are expensed in the year they are incurred and the company avoids placement of a regulatory asset on its books.

Given WWP's current resource picture, it is the company's belief that customers are best served by a long-term focus on energy efficiency through codes and market transformation gained through both local and regional efforts. Therefore, the company's 1995-1996 DSM programs focus on two areas: 1) continuation of selected existing programs available to broad customer classes; and 2) market transformation programs and participation in selected regional programs. These programs, while maintaining a residential electric weatherization program and fuel efficiency awareness programs, put a greater emphasis on commercial and industrial programs.

Upgrades at Cabinet Gorge and Nine-Mile

In April of 1994, the company completed upgrade work on the 40-year-old Unit 1 at Cabinet Gorge. The project included replacing the existing turbine runner with a new runner of modern design, which increased unit capacity by 6 MW.

WWP replaced two of the four existing turbine-generator units at Nine Mile. The new Units 3 and 4 went on-line for commercial operation June 30, 1994. WWP also reconstructed the intakes on Units 1 and 2, but kept the original units. The entire project increased plant capacity by 11 MW and was completed on Dec. 15, 1994.

Resource Issues for 1995 IRP

The following are the major resource issues currently facing WWP:

Merger

On June 28, 1994, WWP and Sierra Pacific announced their plans to merge into a new company called Resources West Energy. Resources West Energy will be incorporated under Nevada law and will be headquartered in Spokane, Washington. Federal and state regulatory agencies must approve the merger, including utility commissions in Nevada, Washington, California, Oregon and Idaho. The review process conducted by each regulatory agency includes an opportunity for input by the public and customers. WWP anticipates that all state and federal approvals for the merger will be completed by October 1995. The shareholders of both companies approved the new partnership during special meetings held on Nov. 18, 1994.

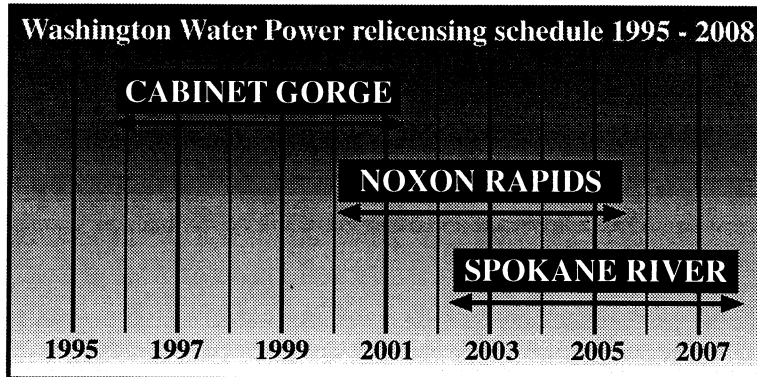
By combining the resources of WWP and Sierra Pacific, an estimated \$450 million will be saved over the next 10 years.

Since WWP was in the latter part of the two-year planning cycle when the merger was announced, the company decided to complete the IRP process as a stand alone company. No resources of Sierra were taken into account in this report. It is anticipated that the next IRP will be a resource plan reflecting the merged companies' situation as to future resource acquisitions.

Hydro Relicensing

Over the next 10 to 15 years, WWP will be involved in relicensing its hydroelectric projects on the Spokane and Clark Fork rivers. WWP must conduct numerous environmental studies, solicit public consultation and participation, develop data reports, work with government agencies and submit filings with regulatory bodies such as FERC. To begin addressing the multi-faceted project of relicensing, WWP has formed an employee team comprised of a cross section of employees. The team is currently developing the company's relicensing strategy, timeline, implementation plans, budget and scope of external factors affecting the relicensing process.

Proposed Relicensing Schedule for WWP Hydros



**Executive
Summary****(continued)****Transmission**

WWP historically has provided transmission service to anyone requesting it for wholesale purposes, e.g., WWP provides access to the City of Spokane to wheel power from its waste-to-energy plant to Puget Sound Power & Light Company. WWP will continue to provide wheeling services to existing and new customers in order to increase revenues from a fixed capital investment. The company does not foresee any major changes or impacts due to open access resulting from EPAct since WWP already operates its system on essentially an "open" basis. WWP anticipates that FERC will be issuing guidelines on "comparability" issues in the next 2-3 years. At that time, the company will be better able to assess the impacts of any applicable guidelines.

Open Access

WWP, in conjunction with Sierra Pacific as part of the merger application, recently submitted open access transmission tariffs to the FERC. These tariffs are intended to eliminate any concerns at the FERC regarding the impact of the merger on market power or competition.

Regional Transmission Groups

Throughout the U.S., Regional Transmission Groups (RTGs or RTAs) are being formed to facilitate resolution of transmission issues on a regional level. WWP has submitted letters of support for both the Western Regional Transmission Association (WRTA) and the Northwest Regional Transmission Association (NWRTA). FERC has conditionally approved the WRTA Governing Agreements; WRTA, in turn, has filed revisions to the agreements in an attempt to comply with the FERC order. WRTA and NWRTA will encourage member utilities to address transmission access issues, coordinate transmission planning, resolve disputes and collect needed data.

Retail Wheeling

WWP believes that more competition within the electric utility industry is inevitable. If retail wheeling or related legislation is not passed, technology and economics will eventually force utilities to meet customers' requirements for more service choices. As contemplated in California and other jurisdictions, retail wheeling, in some form, is less than five years away. WWP endorses competition and is positioning so that customers and the company realize benefits from opportunities derived from competition. WWP views the risk of retail wheeling as being manageable. The company also plans to be involved at the various state levels in discussions and planning for retail wheeling implementation such as the Notice of Inquiry on "Examining Regulation of Electric Utilities in the Face of Change in the Electric Industry" issued by the WUTC on Dec. 16, 1994.

Changing Utility Environment

WWP has generated and distributed electric energy since 1889. Our company has a proud history of providing quality services at the lowest possible price. From the fragile beginnings on the shores of the Spokane River to today's high-efficiency combustion turbine in Rathdrum, we have carried our tradition of excellent service with us.

But, perhaps at no time in our company's history have we looked at the future of our industry with such uncertainty. In recent years, other traditional utilities (telephone, natural gas, cable, etc.) have had to undergo massive operational changes in their now less regulated markets. The word "competition" looms large over every electric utility headquarters in the U.S.--we are all thinking about how our business might change in the years to come. Now, more than ever before, electric utilities must think strategically and position for the potentially sweeping changes to come.

Renewed Customer Focus

Utilities which have a customer focus will be best prepared for the changing, but as yet unknown future. However, customer choice issues are a relatively new subject for electric utilities. Based in part on WWP's experience in natural gas deregulation, starting in 1993 WWP began a "Voice of the Customer" initiative to gather information beyond its routine surveys of customer satisfaction. Generally, customers' top concerns are low rates, high reliability and following through on commitments. The following is a summary of the recent efforts by the company to address customers' concerns:

- **System enhancements to avoid price increases.** Optimization of generation, transmission and distribution assets to "squeeze out additional kWh" by strategic and low-cost improvements to these facilities. Examples include the Rathdrum CT, hydro upgrades and targeted DSM programs.
- **Administrative efficiencies to avoid price increases.** Every dollar saved from overhead and general expenses is one less dollar to be recovered in rates from customers. Examples of these efficiencies include acquisition of CP National, PacifiCorp's Sandpoint properties and Citizens Utility Company's Idaho service territory. Additional examples are WWP's cost improvement program, cost containment initiatives, corporate evaluation program and career broad banding.

Executive Summary

(continued)

- **Public policy issues.** WWP has demonstrated a commitment to environmental and energy-efficiency efforts as shown by management of WWP's hydro projects, elimination of the oil storage option at Rathdrum, hydro relicensing efforts and innovative DSM programs and funding mechanisms.
- **Customer service regarding delivery improvements.** Responsive customer service and reliability are hallmarks of successful firms in competitive environments. WWP efforts for improvement in this area include telecommunication enhancements for the company's Customer Call Centers; the implementation of one of the world's most technologically advanced customer billing systems -- WWP's own Customer Service System (CSS); and the adoption of the redesign process.

Redesign at WWP

In early 1993, WWP adopted a redesign or re-engineering process. Redesign is a strategic tool which offers the potential for breakthrough improvements in WWP's business operations. After dividing the company into five core process areas, WWP took an aggressive step and began with the redesign of the most critical core process--the "Electric and Natural Gas Customer Delivery Core Process."

Through redesign, WWP hopes to create a work system that is more responsive to customer needs. Redesign creates a work environment free of the obstacles and barriers faced in trying to meet the needs of customers--whether rules, processes, superfluous systems or conflicting goals. All these systems will be brought into alignment to best serve the customers, and make it easier to get things done. Over time, that means WWP will be more successful at maintaining and adding to its customer base.

At the time of this publication, WWP's first redesign team is rolling out its recommendations for improvements to the Electric and Natural Gas Customer Delivery Core Process. Recommendations include implementation of new technology to improve efficiency for field work; development of self-managed, geographic teams who are accountable to one core process owner; and performance-based compensation for employees who work within the customer delivery core process.

An important aspect of redesign for WWP is the ability to apply its principles again and again. Even after all of a corporation's core processes have been "redesigned", the model can be reintroduced to uncover more non-value added work and unnecessary handoffs. For the future, WWP sees the opportunity to use redesign as a strategic tool to keep costs low while providing excellent customer service.

WWP's Core Processes have been identified as:

- Strategic & Business Planning
- Product & Service Development
- Gas Buying & Transmission
- Electric Buying, Generating & Trans.
- Gas & Electric Customer Delivery

1995 Near-Term Action Plan

WWP's preferred energy strategy provides direction for the company's long-term resource acquisitions. The company's near-term action plan outlines activities that will support this strategy and improve the planning process. This section describes action items planned for 1995 and 1996. Progress on these activities will be monitored over the two-year planning cycle and reported in the company's next Integrated Resource Plan.

Public Process

1. Continue to be involved with the public outreach programs in order to solicit meaningful public input and improve public education and support for resource planning.
2. Encourage participation of the TAC members and the Resource Clearinghouse members in resource acquisition plans.

Merger Activities

1. Support the hearing process before FERC and state commissions.
2. Facilitate transition activities to ensure merger savings are realized.
3. Develop plans for the merged company that will allow joint planning activities, such as IRPs, to utilize the strengths of both Sierra and WWP.

Load Forecasting

1. Continue to update historical data base with actual data. This new data will be used to calibrate the forecast.
2. Evaluate elasticity impacts by May 1996.

Demand-Side Management

1. Implement the programs included in the December, 1994 DSM filing.
2. Develop and implement appropriate measurement and evaluation analyses for programs approved in December, 1994.
3. Evaluate options to participate in regional, market transformation DSM programs.
4. Develop plans for DSM program implementation beyond 1996 or post-merger with Sierra Pacific.

Supply-Side Resource Options

1. Maintain updated analysis on potential hydro upgrade opportunities.
2. Negotiate a favorable long-term extension of the Wanapum and Priest Rapids

**Executive
Summary****(continued)**

power sale contracts.

3. Continue to evaluate renewable resources, e.g. wind, and new/distribution resources such as fuel cells.
4. Finalize the transmission system loss savings study by December 1995.

Resource Management Issues

1. Continue to evaluate the effects to hydroelectric system operation resulting from efforts to protect fish stocks listed under the ESA.
2. Implement plan for successful relicensing of the company's existing hydroelectric plants under FERC guidelines.
3. Actively participate in WUTC NOI activities.
4. Submit a RFP or alternative to the WUTC by June 1995.
5. Based on projected resource needs, file an updated avoided cost with both the WUTC and the IPUC by midsummer 1995.
6. Implement a compliance strategy for the Centralia coal-fired plant.
7. Continue to monitor and evaluate the effects of the 1992 Energy Policy Act including the impact of transmission access legislation.
8. Continue to monitor and evaluate the effects of environmental externalities on new resource acquisition decisions.
9. Finalize the discussions on Canadian Entitlements by 1996.

Resource Plan Evaluation

1. Incorporate Prosym, an hourly production cost model, into the data/resource analysis used by the company.
2. Determine the capacity criteria for use in capacity planning by utilizing new capacity planning tools.

Wholesale Marketing

1. Use wholesale marketing activities to maintain short-term and long-term resource balance.
2. Identify and pursue those opportunities that add value to the existing system and provide a positive revenue benefit.

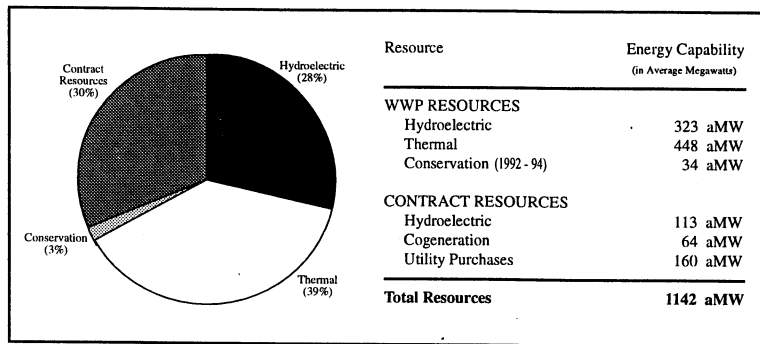
**Executive
Summary**

(continued)

Current Resource Assessment

WWP's review of resource needs and options includes a forecast of energy and peak customer demand and a full assessment of demand-side and supply-side alternatives. The company's resource picture is evaluated often to take advantage of opportunities which benefit both the company and customers.

**1994
Existing
Resources**



Electric Forecast

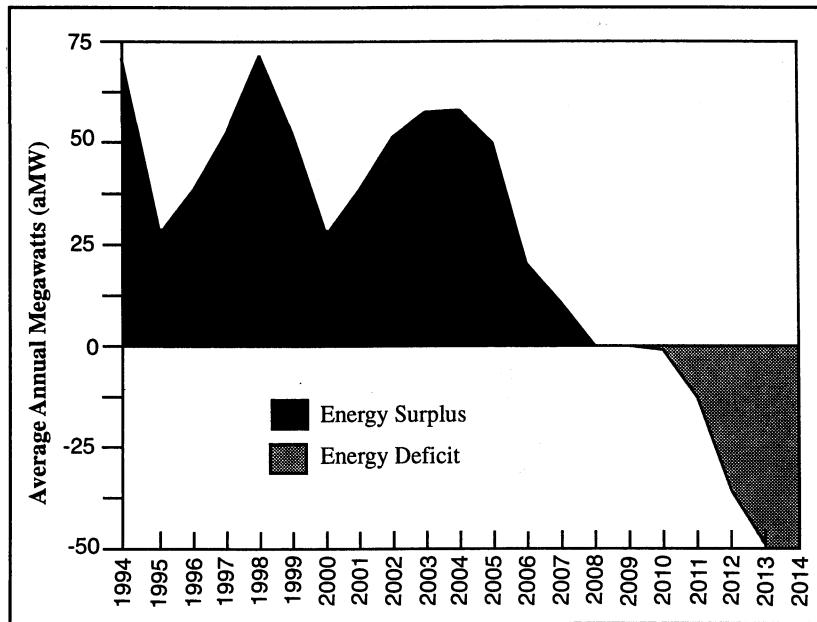
While portions of WWP's service territory have experienced a surge in customer growth, long-term electric energy requirements are being restrained by several factors:

- Conversion of electric appliances to natural gas.
- New construction utilizing natural gas in lieu of electricity.
- Increased energy efficiency through building codes and new appliances.

WWP's electric forecast serves as the basis for the company's energy planning activities. The current medium-range forecast projects that system energy needs will grow at an annual rate of 0.9 percent through 2013. To meet these long term energy requirements, WWP will need to acquire about 60 average megawatts of electricity. This is about one fourth of the energy now used by the city of Spokane. Predictions for potential high and low annual growth rates are 1.3 percent and 0.6 percent respectively. According to the medium-growth forecast, WWP will not need additional energy resources until the year 2010.

Energy Outlook

1994 - 2014



Resource Options

Potential new resources for WWP include:

- Resource proposals submitted under the Washington state competitive bidding process.
- Qualifying facilities under the Public Utilities Regulatory Policies Act (PURPA) of 1978.
- Unsolicited proposals for new resource development.
- WWP programs to acquire demand-side resources.
- WWP efforts to upgrade existing facilities or construct new ones.
- Cooperative regional efforts to develop new conservation and supply-side resources or transmission opportunities.
- Existing or emerging technologies.
- Utility power purchase agreements.

Currently there are a number of electric generation options available to electric utilities. WWP strives to track and evaluate all of these options; a detailed assessment of these options is available in Appendix H, pages 105-110.

Preferred Resource Strategy

For WWP, the preferred resource strategy provides focus for resource actions during the 20-year planning period; however, it also leaves flexibility for the company to respond to changing market conditions. If major changes in the industry are experienced in the future, WWP plans to manage these changes in a way that will be beneficial to the company and our customers.

For now, conservation and contract renegotiations are expected to cover any new resource requirements. The energy resources acquired under the preferred strategy are currently projected to meet the company's energy needs to the year 2013. Although a portion of this energy would be acquired prior to immediate needs, it represents a cost-effective opportunity to meet the company's long-term energy requirements.

The company believes this approach acknowledges the specific nature of the individual resources, especially conservation, which must be acquired over time to realize its full energy potential. This approach also helps the company mitigate some of the uncertainty associated with events that impact resource capability, e.g., federal relicensing requirements (which may mandate the schedule for efficiency improvements at some of the company's hydroelectric facilities).

For the latter part of the 20-year planning horizon, WWP's preferred strategy is to rely on the following resources to serve retail needs:

- **Conservation--43 aMW**--Energy savings gained by increasing efficiency of end-use customers through fuel efficiency or other means.
- **Contract Extensions--42 aMW**--An economic supply of energy generated by existing Columbia River hydroelectric facilities purchased through an extension of some of WWP's mid-Columbia contracts.