Seattle City Light

Memorandum

DATE: December 17, 2010

TO: Mayor Michael McGinn
Seattle City Council

FROM: Jorge Carrasco

SUBJECT: Financial Update – November 2010

This memo provides an analysis of Seattle City Light's financial condition and operating results through November 30, 2010. The attached Income Statement Analysis, which is summarized in the chart below, provides a perspective on how City Light performed year to date in 2010 compared to the same period of the previous year. In addition, we have provided a revised projection of City Light's financial results through December 2010 compared to the 2010 Financial Plan. The 2010 Financial Plan is based on the revenues and expense projections included in the adopted budget for 2010.

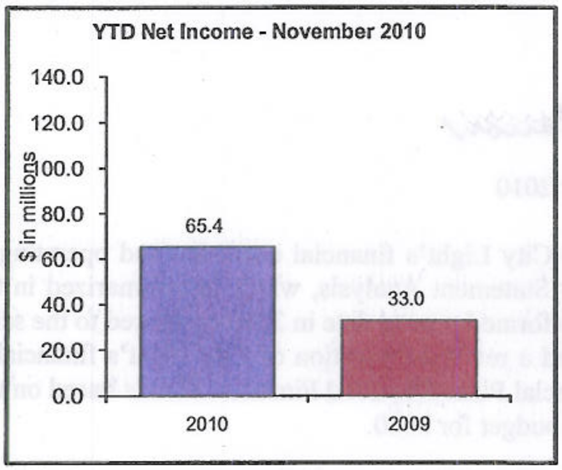
FINANCIAL HIGHLIGHTS
November 2010
($ millions)

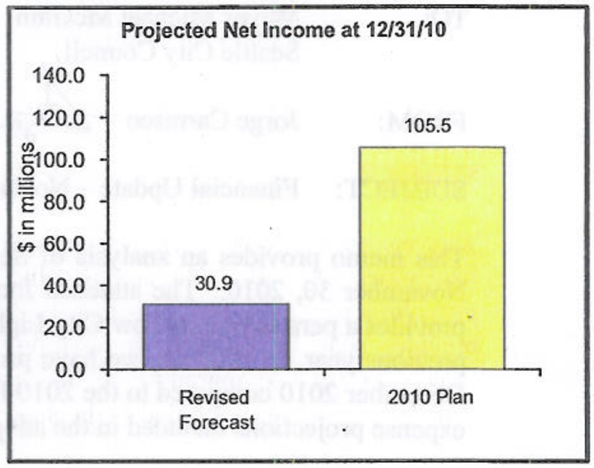
	Year-to-date Actual		Year End Dec. 31		Revised Forecast change from prior month
	2010	2009	Plan	Revised Forecast	
Retail Power Revenues(1)	$ 561.5	$ 480.6	$ 611.9	$ 625.4	$ (0.5)
Net Wholesale Energy Sales (before booked-out LT purch)	$ 47.8	$ 64.9	$ 120.0	$ 50.9	$ (1.9)
Net Income	$ 65.4	$ 33.0	$ 105.5	$ 30.9	$ 4.6
Cash Balances					
Operating Cash	$ 107.1	$ 60.3	$ 77.5	$ 52.2	$ (3.2)
Construction Account - Restricted	$ 74.1	$ -	$ -	$ 43.0	$ (1.7)
Rate Stabilization Account(2)	$ 38.8	$ -	$ 25.0	$ 79.1	$ 0.0
Debt Coverage Ratio	-	-	1.80	1.70	0.00
Debt to Capitalization Ratio	63.5%	62.9%	61.6%	63.4%	-0.1%

(1) Retail Power Revenues include revenues such as Green Power Program and Power Factor Charges and exclude low-income Rate Discounts. Revised Forecast Retail Power Revenues also include revenues from Rate Stabilization Account (RSA) surcharge of 4.5%. However, these surcharge revenues will not be recognized in 2010. Throughout this document and relevant attachments all forecasted retail revenues include RSA surcharge revenues.
(2) Balance in Contingency Reserve Account was rolled into the RSA in June 2010.

Net Income

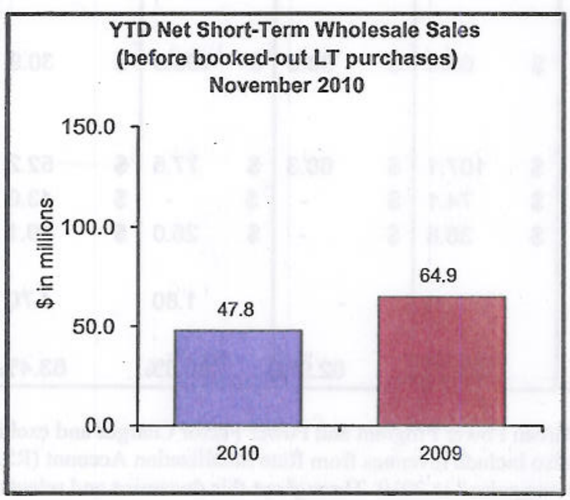
As indicated in the table on this page and in the charts on the next page, net income for the period ending November 30, 2010, was $65.4 million which results in a $32.4 million or 98.2% increase over the same time period in 2009. This increase is due to the across-the-board 13.8% rate increase effective January 1, 2010, 4.5% RSA surcharge effective May 1, 2010, a 1.8% BPA pass-through effective October 1, 2009 and another 0.5% BPA pass-through effective October 1, 2010.

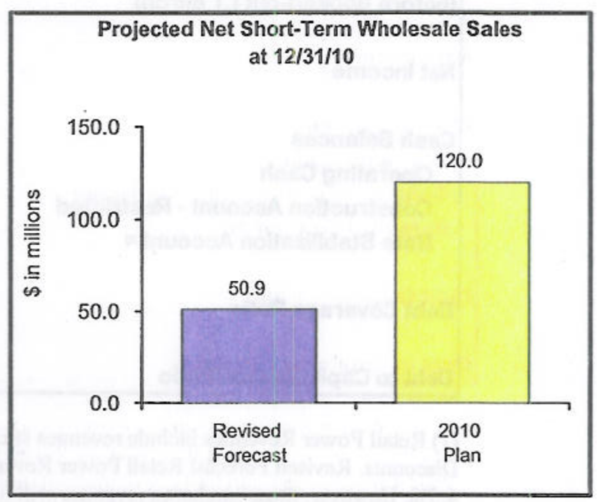




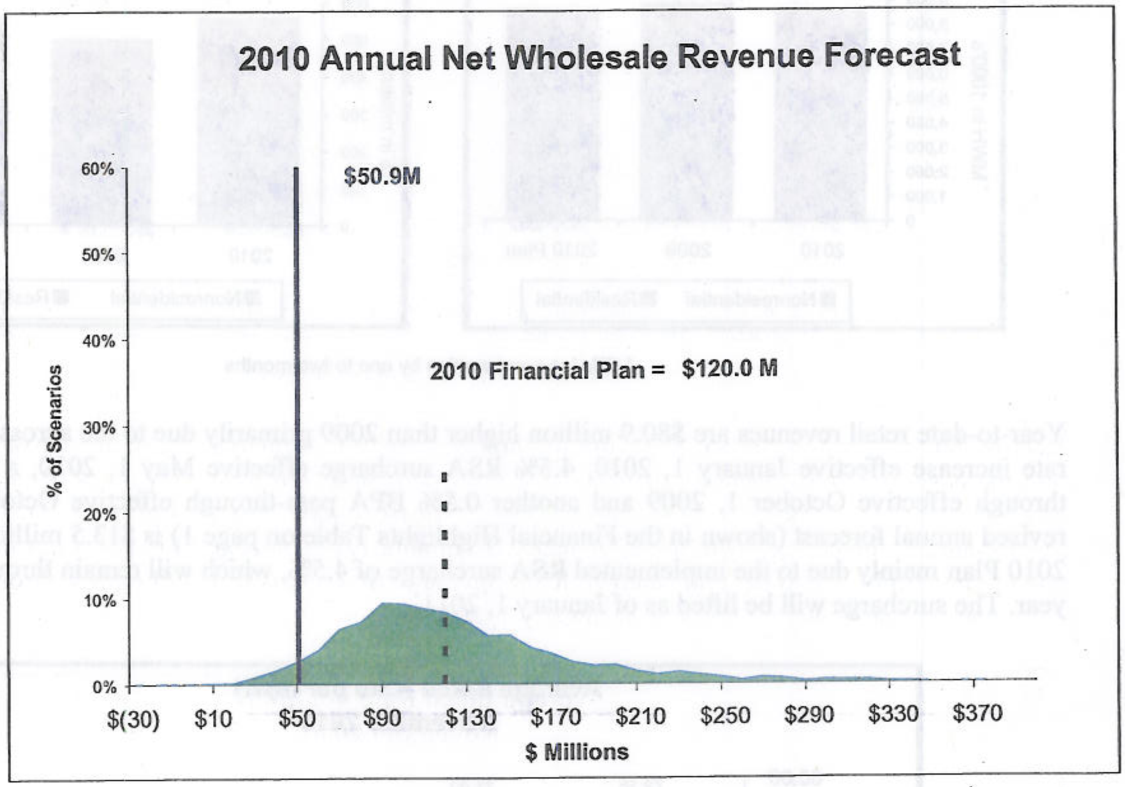
Projected net income at year-end December 31, 2010 is expected to be $30.9 million, a variance to Plan of $74.6 million or 70.7% lower than anticipated. This large decrease is explained by a projected $54.1 million transfer to the Rate Stabilization Account (RSA) in 2010 and much lower net wholesale revenue projections ($50.9 million versus $120 million in the 2010 Plan). This large difference in net wholesale revenue is due to extremely dry hydro conditions in the region in the beginning of the year and lower wholesale power prices through the end of the year.

Net Short-Term Wholesale Energy

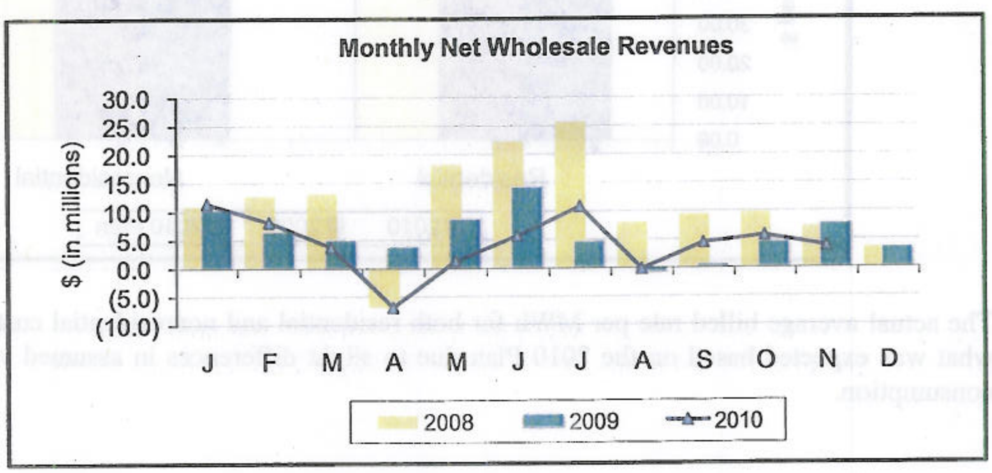




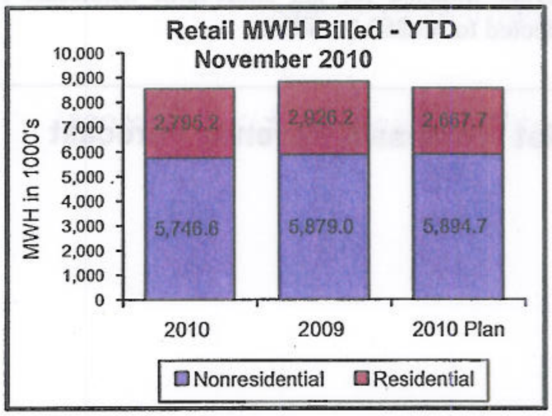
The projections of net short-term wholesale energy sales change weekly due to changes in water conditions, economic factors such as the price of natural gas, system load and the availability of surplus energy for resale. The chart below represents the current forecast for net short-term wholesale revenues before booked-out long-term purchases, which is expected to be $50.9 million.

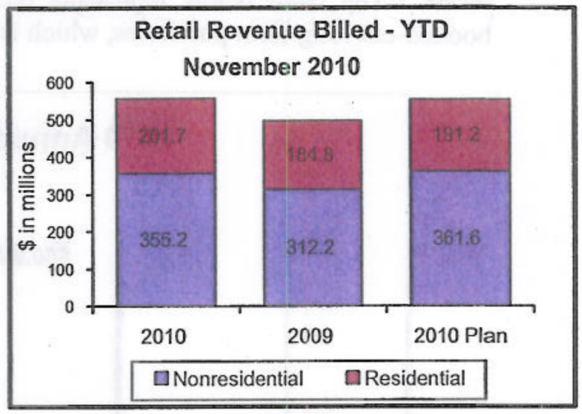


The net wholesale revenues for the month of November 2010 were $3.8 million, a decrease of $3.9 million over the same period last year. Surplus energy available for sale in November 2010 was half of the surplus in November 2009, which explains this large decrease in net wholesale revenues.



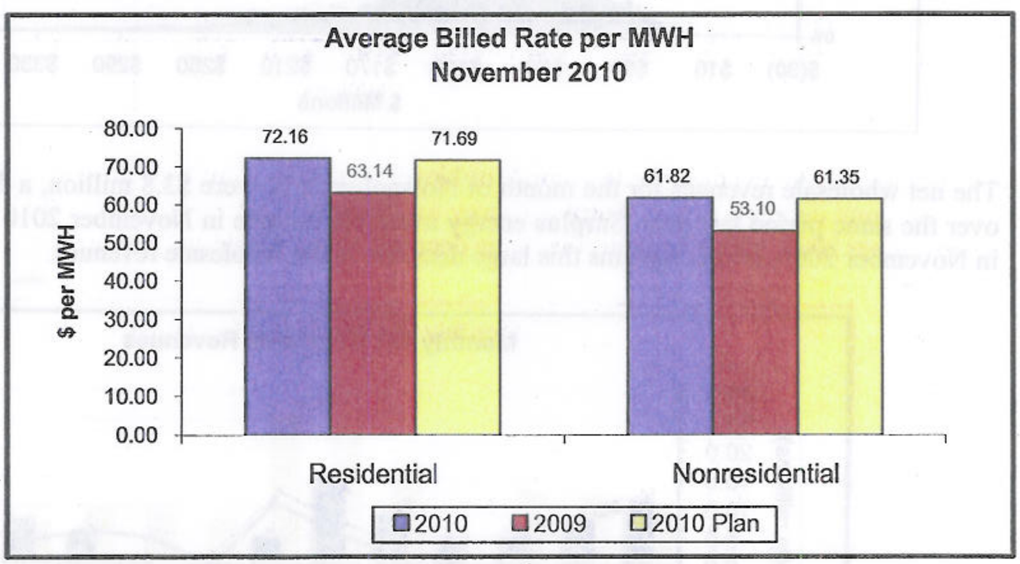
Retail Power Revenues
The charts that follow present selected data on year-to-date retail power revenues through November 2010.





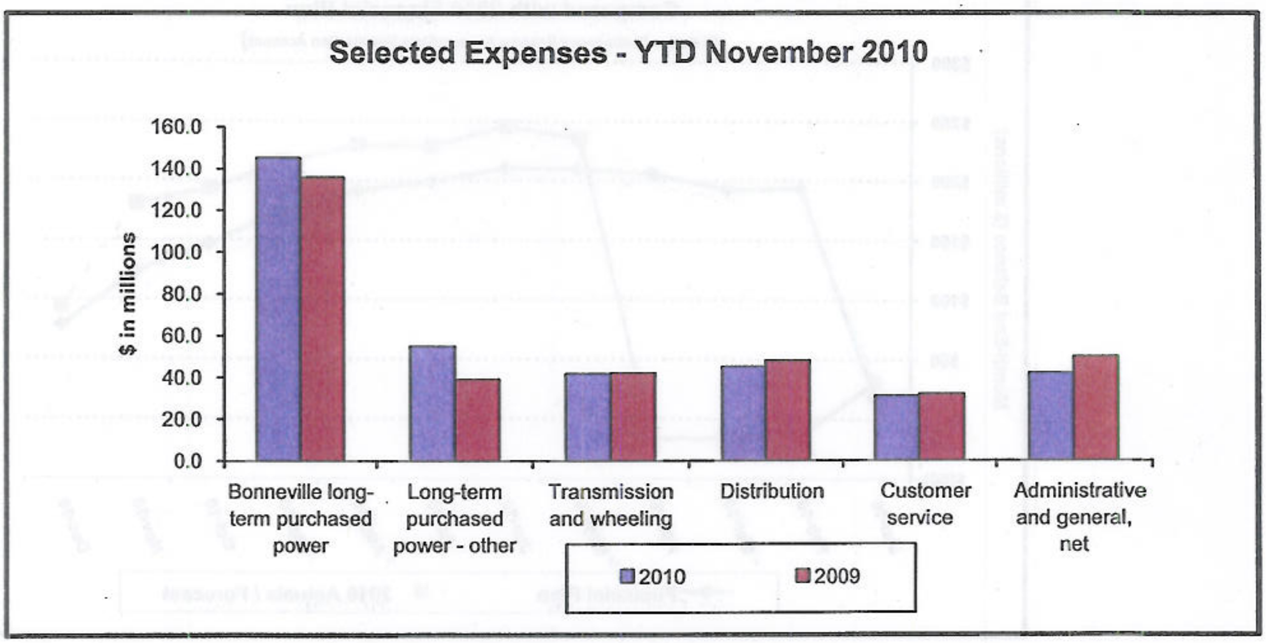
* Bills lag consumption by one to two months

Year-to-date retail revenues are $80.9 million higher than 2009 primarily due to the across-the-board 13.8% rate increase effective January 1, 2010, 4.5% RSA surcharge effective May 1, 2010, a 1.8% BPA pass-through effective October 1, 2009 and another 0.5% BPA pass-through effective October 1, 2010. The revised annual forecast (shown in the Financial Highlights Table on page 1) is $13.5 million higher than the 2010 Plan mainly due to the implemented RSA surcharge of 4.5%, which will remain through the end of the year. The surcharge will be lifted as of January 1, 2011.



The actual average billed rate per MWh for both residential and nonresidential customers is different from what was expected based on the 2010 Plan due to slight differences in assumed versus actual patterns of consumption.

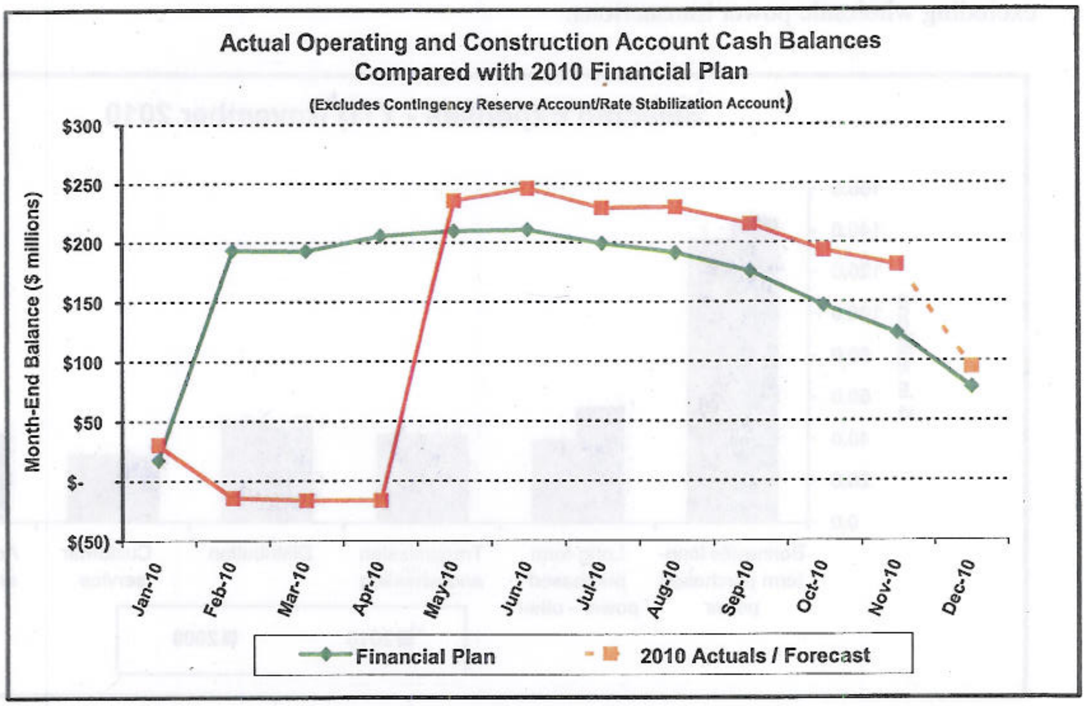
Expense Data for Selected Accounts
The following chart presents year-to-date data for major components of City Light's operating expenses excluding wholesale power transactions.



Bonneville expenses are higher year-to-date as compared to the same period last year primarily due to higher BPA Block and Slice purchases and reduced amounts of Residential Exchange Credits. Other long-term purchased power expenses are higher due to an increase in the valuation of non-cash power transactions and increased purchases from Priest Rapids and Columbia Ridge as compared to the same period last year. Lower distribution and administrative and general expenses reflect budget reductions adopted in mid-2010.

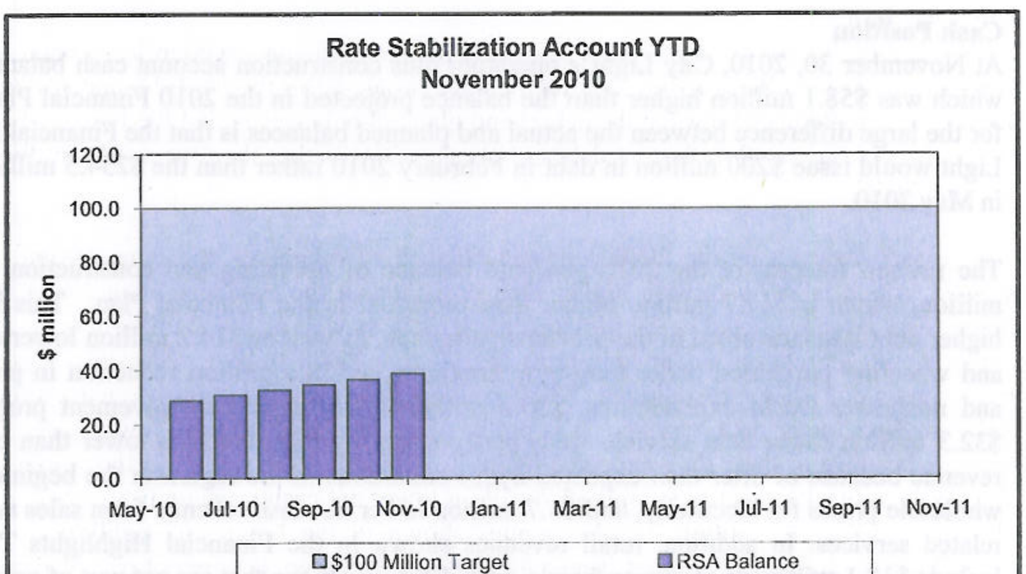
Cash Position
At November 30, 2010, City Light's operating plus construction account cash balance was $181.2 million, which was $58.1 million higher than the balance projected in the 2010 Financial Plan. The primary reason for the large difference between the actual and planned balances is that the Financial Plan assumed that City Light would issue $200 million in debt in February 2010 rather than the $254.5 million debt actually issued in May 2010.

The revised forecast of the 2010 year-end balance of operating and construction account cash is $95.2 million, which is $17.7 million higher than projected in the Financial Plan. This is primarily due to the higher debt issuance noted in the previous paragraph, as well as $14.2 million lower expenditures for power and wheeling purchased under long-term contracts, a $28.8 million reduction in production, transmission and nonpower O&M expenditures, $30.2 million lower capital improvement program expenditures and $32.3 million lower debt service. It is partly offset by $69.1 million lower than expected net wholesale revenue because of drier than expected hydro conditions in the region in the beginning of 2010 and lower wholesale prices for electricity, and $3.7 million lower net cash revenue from sales and purchases of power-related services. In addition, retail revenues shown in the Financial Highlights Table on the first page include $18.1 million in revenues from a 4.5% RSA surcharge that are not part of operating and construction accounts. Thus, retail revenues without the RSA surcharge portion are currently projected to be $4.6 million lower than in the 2010 Plan.



RSA Position

The chart below displays year-to-date cash in the RSA as of November 30, 2010, which includes $25 million Contingency Reserve and revenues collected from the 4.5% surcharge implemented on May 1, 2010. The Department anticipates reaching the initial target of $100 million on January 1, 2011 through a combination of existing $25 million Contingency Reserve, revenues from RSA surcharge, 2010 Cash from Operations and 2010 Bond Refunding Savings realized in 2010 and 2011.



Stress Case

This section compared Cash from Operations under the expected case (Revised Forecast) and a "stress case" in which net wholesale revenue for the year would have turned out to be much lower than expected. The RSA eliminates uncertainty associated with the net wholesale revenue, which existed prior to its implementation. Therefore, this section is no longer needed and will be removed from this report in 2011.

2010 Budget

As of November 2010, City Light is projecting that overall it will be within its budget authority through year-end 2010. To improve the utility's financial position, City Light has identified approximately $9.0 million in O&M budget reductions and $30.8 million in Capital budget savings for 2010. The budget savings have been removed from each Division's budget and sequestered to monitor progress in achieving the planned reductions.

The Department has spent 77% of the overall O&M budget (O&M budget includes Non-Power O&M expenses, O&M sequestered savings, Purchased Power, Taxes and Debt Service) through November. At this point in the year we would normally expect to have spent 91%. City Light's spending on the Capital program through November is 88% of the 2010 work plan for the year to date. The majority of the variance is due to the Boundary Unit 55 Rewind contract, which has been rescheduled from July to December. The 2010 Capital work plan has the objective of limiting spending to meet financial targets while responding to customer requests and maintaining the electrical infrastructure.

Debt-to-Capitalization

At November 30, 2010, City Light's debt-to-capitalization ratio was 63.5%, an increase from the 62.6% reported at December 31, 2009 and above the 62.9% reported at the same time last year. Based on the revised forecast the 2010 year-end debt-to-capitalization ratio is now expected to be 63.4%, an increase from 61.6% in the 2010 Plan. This increase is due to the increase in the size of the May 2010 bond issue by about $50 million from the amount in the 2010 Financial Plan and the forecasted decrease in net wholesale revenue.

Compliance with Risk Policies and Standards

Attached for your information is the City Light Risk Oversight Status Report as of December 8, 2010, which conveys City Light's compliance with risk policies and standards at that point in time.

Performance Metrics

In addition to the financial information included above, we have provided a report on performance metrics for Distribution Operations, Vegetation Management, Safety and Human Resources, Power Resources and Customer Care. The updated Performance Metrics Report for November 2010, with 2009 data included for comparison, is attached.

Attachments

Line No.	Condensed Statements of Revenues and Expenses	Year-to-date			Year Ending December 31, 2010		
1	(Unaudited)	[A]	[B]	[A - B]	[C]	[D]	[C - D]
2	(In millions)			Actuals to	2010	2010	
3		Actuals	Actuals	Actuals	Revised	Financial	
4		November 30, 2010	November 30, 2009	Variance	Forecast	Plan	Change
5	**Operating Revenues**						
6	Retail power revenues	$ 561.5	$ 480.6	$ 80.9	$ 625.4	$ 611.9	13.5
7	S-T wholesale power revenues, net (lines 42 + 45)	65.9	81.0	(15.1)	72.9	144.4	(71.6)
8	Power-related revenues - other	61.6	56.9	4.7	68.2	86.7	(18.6)
9	Transfers To/From Rate Stabilization Account	(13.8)	0.0	(13.8)	(54.1)		(54.1)
10	Other revenues	19.5	20.8	(1.3)	21.0	20.4	0.6
11	Total operating revenues	694.7	639.3	55.4	733.3	863.4	(130.1)
12	**Operating Expenses**						
13	Generation	24.9	24.8	0.1	28.9	31.6	(2.7)
14	Bonneville long-term purchased power	145.1	135.9	9.2	163.3	166.4	(3.1)
15	Long-term purchased power - other	54.9	39.0	15.9	60.9	61.8	(0.9)
16	Short-term wholesale power purchases	21.9	19.9	2.0	26.4	34.5	(8.0)
17	Power-related wholesale purchases - other	24.1	25.7	(1.6)	25.9	35.9	(10.0)
18	Other power costs	9.0	7.6	1.4	10.4	9.7	0.7
19	Transmission and wheeling	41.8	42.1	(0.3)	46.5	54.4	(7.8)
20	Distribution	45.0	47.9	(2.9)	53.8	61.4	(7.6)
21	Customer service	30.9	31.8	(0.9)	34.6	34.9	(0.3)
22	Conservation	15.2	15.5	(0.3)	17.5	22.7	(5.2)
23	Administrative and general, net	42.0	49.7	(7.7)	55.3	62.4	(7.1)
24	Taxes	62.9	55.1	7.8	70.0	69.7	0.3
25	Depreciation and amortization	77.7	74.3	3.4	84.8	88.6	(3.9)
26	Total operating expenses	595.4	569.3	26.1	678.4	734.0	(55.6)
27							
28	**Net Operating Income**	**99.3**	**70.0**	**29.3**	**55.0**	**129.4**	**(74.4)**
29							
30	**Other Deductions, Net**						
31	Investment Income	3.3	3.0	0.3	3.4	4.4	(1.0)
32	Other income (expense), net	4.4	(0.3)	4.7	4.9	0.8	4.2
33	Interest expense	(59.6)	(65.2)	5.6	(69.2)	(73.9)	4.7
34	Capital contributions	14.4	18.0	(3.6)	32.2	43.3	(11.0)
35	Grants	3.6	7.5	(3.9)	4.6	1.5	3.0
36	Total other deductions, net	(33.9)	(37.0)	3.1	(24.1)	(23.9)	(0.2)
37							
38	***Net Income***	**65.4**	**33.0**	**32.4**	**30.9**	**105.5**	**(74.6)**
39							
40							
41	**Note A:**						
42	Short-term wholesale energy sales, gross	69.7	84.8	(15.1)	77.3	154.4	(77.2)
43	Short-term wholesale energy purchases	(21.9)	(19.9)	(2.0)	(26.4)	(34.5)	8.0
44	**Net ST wholesale sales before booked-out LT purchases**	**47.8**	**64.9**	**(17.1)**	**50.9**	**120.0**	**(69.1)**
45	Booked-out long term purchases	(3.8)	(3.8)	-	(4.4)	(10.0)	5.6
46	Net short-term wholesale energy sales	**44.0**	**61.1**	**(17.1)**	**46.4**	**110.0**	**(63.5)**
47							

Net Income Variance Analysis
November 2010

Variance Year-to-Date 2010 Compared to 2009 Actuals: $32.4 million or 98.2%

Major components ($ millions):

$33.0	Net Income YTD through November 30, 2009
($17.1)	Lower net surplus energy sales due to extremely dry hydro conditions early in the year
$80.9	Higher retail revenues due to across-the-board 13.8% rate increase effective January 1, 2010, 4.5% RSA surcharge effective May 2010, a 1.8% BPA pass-through effective October 1, 2009 and another 0.5% BPA pass-through effective October 1, 2010
($13.8)	RSA deferred revenues
($7.8)	Higher City Occupation and State Public Utility taxes, due to higher retail electric revenues
($7.5)	Lower capital contributions and grants
($2.3)	Other (net)
$65.4	Net Income YTD through November 30, 2010

Variance 2010 Revised Forecast Compared to Financial Plan: ($74.6) million or (70.7%)

Major components ($ millions):

$105.5	Net Income YTD through December 31, 2010 - Financial Plan
($69.1)	Lower net surplus energy sales, due to extremely dry hydro conditions early in the year
$13.5	Higher retail revenues due in part to 4.5% surcharge effective May 1, 2010
($54.1)	RSA deferred revenues
$7.8	Lower transmission and wheeling
$3.9	Lower estimate for depreciation
$7.6	Lower distribution
$7.1	Lower administrative and general, net
$4.7	Lower interest expense
$4.0	Other (net)
$30.9	Net Income YTD through December 31, 2010 - Revised Forecast

City Light Risk Oversight Status Report
As Of
Wednesday, December 8, 2010

Summary

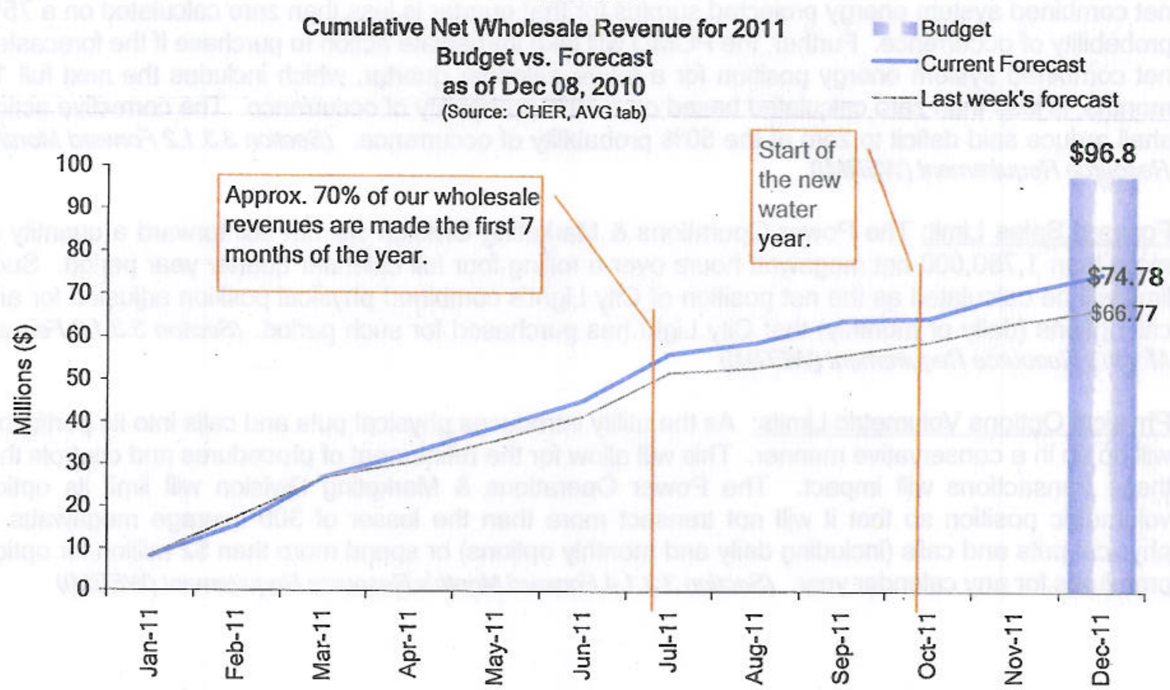
	% of 5 yr Avg	Current '11 Avg	5 Yr Avg
SCL Hydro Generation	99%	1,095 MW	1,101 MW
Peak Market Prices	67%	$36.08	$53.55

SCL Hydro Generation: The total average generation per hour for Seattle City Light's three major hydroelectric resources (Skagit, Boundary, and BPA Slice) for the 2011 calendar year. This average includes actual generation for past months, and forecasted MW for future months. The 5 year average value is comprised of actuals for years 2005-09.

Peak Market Prices: The average peak market price for the nearest electricity trading hub (Mid-C) for the 2011 calendar year. The 2011 average is comprised of monthly peak forward marks for future months and averaged Dow Jones firm peak index daily prices for past months. The 5 year average is calculated using Dow Jones peak daily prices for years 2005-09.

Wholesale Revenue Variance: In the 2011 approved budget, the forecasted Wholesale Revenue is $96.8 million. The chart (Chart 1) compares the current annual estimate to the approved budget ($96.8 million) with the current forecast of $74.8 million. The current forecast increased about $8 million from last week as a result of higher prices and higher resources (approximately 20.6 MW).

Chart 1



Published Date: 12.14.10

Policy Compliance:

Tail Risk Limit	Prompt Month & Within Month Limit	Forward Month's Resource Requirement Limit	Forward Sales Limit	Physical Options Limit
Compliant	Compliant	Compliant	Compliant	Compliant

Tail Risk: For the current calendar year, the Power Operations & Marketing Division will conduct its hedging activity to maintain the Utility's position within an $8 million Risk Tolerance Band (RTB) around the calculated 5% Tail Risk metric. For the prompt year (the year immediately following the current calendar year), the Utility's position will remain within a $12 million RTB around the 5% Tail Risk metric. *(Section 3.3.2 Prompt and Within the Month (WERM))*

Prompt Month & Within Month Volumetric Limit: The Power Operations & Marketing Division will maintain City Light's power portfolio position for any prompt month or any Balance of the Month period so that such position shall not exceed a 50 average megawatt deficit during such period. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any call options (daily or monthly) that City Light has purchased for such month. If this limit is exceeded, the Division will take immediate action to reduce the deficit to under 50 average megawatts. *(Section 3.3.1.1 Prompt and Within the Month (WERM))*

Forward Month's Resource Requirement Limit: The POMD will immediately suspend any further forward sales for any future calendar quarter, which includes the next full 18 months, if the forecasted net combined system energy projected surplus for that quarter is less than zero calculated on a 75% probability of occurrence. Further, the POMD will take immediate action to purchase if the forecasted net combined system energy position for a future calendar quarter, which includes the next full 18 months, is less than zero calculated based on a 50% probability of occurrence. The corrective action shall reduce said deficit to zero at the 50% probability of occurrence. *(Section 3.3.1.2 Forward Month's Resource Requirement (WERM))*

Forward Sales Limit: The Power Operations & Marketing Division will not sell forward a quantity of more than 1,750,000 net megawatt hours over a rolling four full calendar quarter year period. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any call options (daily or monthly) that City Light has purchased for such period. *(Section 3.3.1.3 Forward Month's Resource Requirement (WERM))*

Physical Options Volumetric Limits: As the utility introduces physical puts and calls into its portfolio it will do so in a conservative manner. This will allow for the refinement of procedures and controls that these transactions will impact. The Power Operations & Marketing Division will limit its option volumetric position so that it will not transact more than the lesser of 300 average megawatts in physical puts and calls (including daily and monthly options) or spend more than $2 million for option premiums for any calendar year. *(Section 3.3.1.4 Forward Month's Resource Requirement (WERM))*

5% Tail Risk Metric, 2011

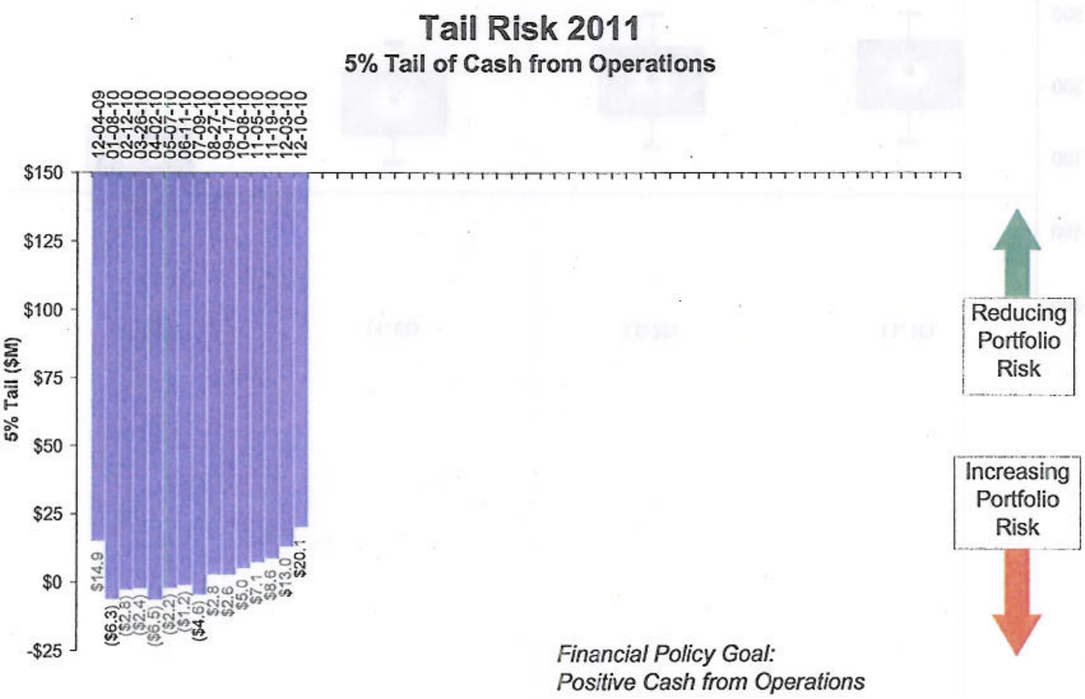
In October 2007, City Light implemented a risk metric named the "5% Tail Risk". It is calculated as the average of the worse case scenarios for City Light's Cash From Operations for the calendar year. Cash From Operations is defined as the cash available to finance capital projects.

Although there are numerous drivers of cash from operations such as retail revenue, investment income, debt service, and O&M expenses; wholesale energy revenue is the primary driver of this metric. As a result, the 5% Tail Risk metric is used as a control measure in our management of the forecasted surplus hydro resource quantity. It is used in concert with additional volumetric limits, as well as expert knowledge and analysis of western wholesale energy markets, river flow data, and generation unit outages, to inform power management decisions.

Every week, portfolio models are updated with the most current information and the 5% Tail Risk is recalculated for both the current portfolio (forecast position plus purchases, less sales) and planned portfolio (current portfolio plus remainder of existing hedge plan). The metric provides an indication as to whether the utility's portfolios include too much or too little surplus resources.

Chart 2 (below) illustrates the 5% Tail Risk metric values for the calendar year 2011. As time progresses, the 5% Tail Risk metric value has decreased from an initial projection of $14.9 million to the current projection of a worse case of $20.1 million of Cash from Operations.

Chart 2



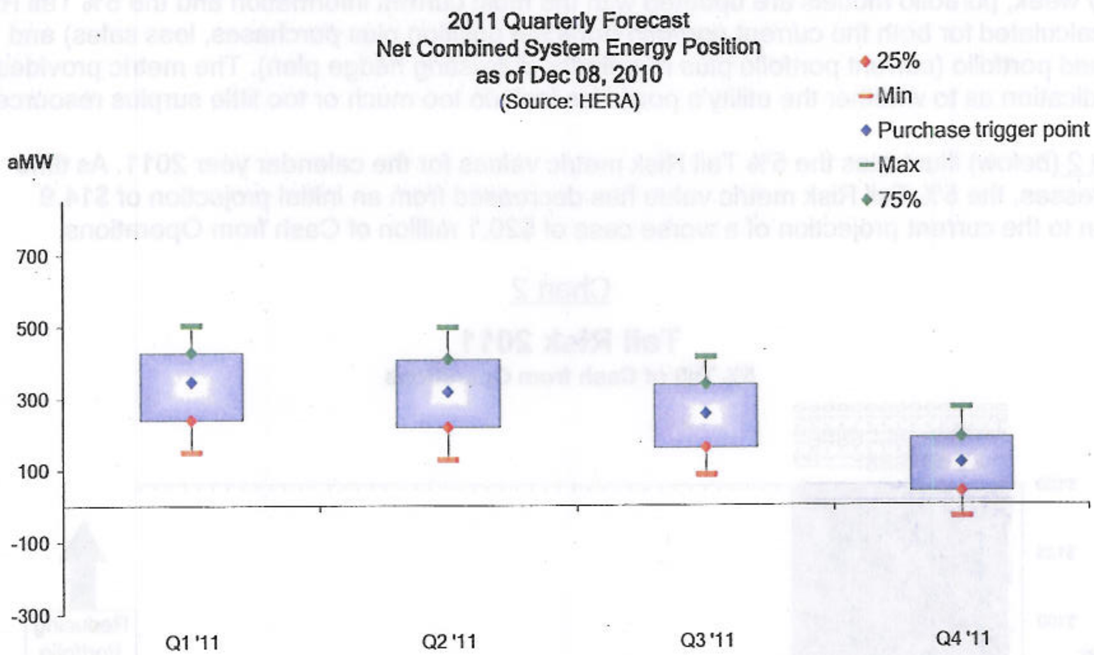
Notes on significant changes:

Hedging Plan & Position Status

Hedge Plan 2010, Phase 4 was approved by ROC on September 20, 2010. The current volume planned to be hedged is 0 MW.

Risk Policy Section 3.3.1b was amended by the Chair of the Energy, Technology, and Civil Rights Committee on March 8, 2010, changing the trigger point for purchasing power in the forward quarter-year periods to the 50th percentile (previously, it was the 25th percentile, or 75% confidence), when, at that level of expectation, the net position is below 0 . Chart 3 shows the Net Combined System Energy Position for the next four quarter-year periods. The blue boxes represent the expected net energy position from the 25th to the 75th percentile. The dark blue diamonds inside the boxes represent the 50th percentile (the new purchase trigger). Under the amended rule, if the blue diamond is below 0, City Light must purchase energy to get back above 0.

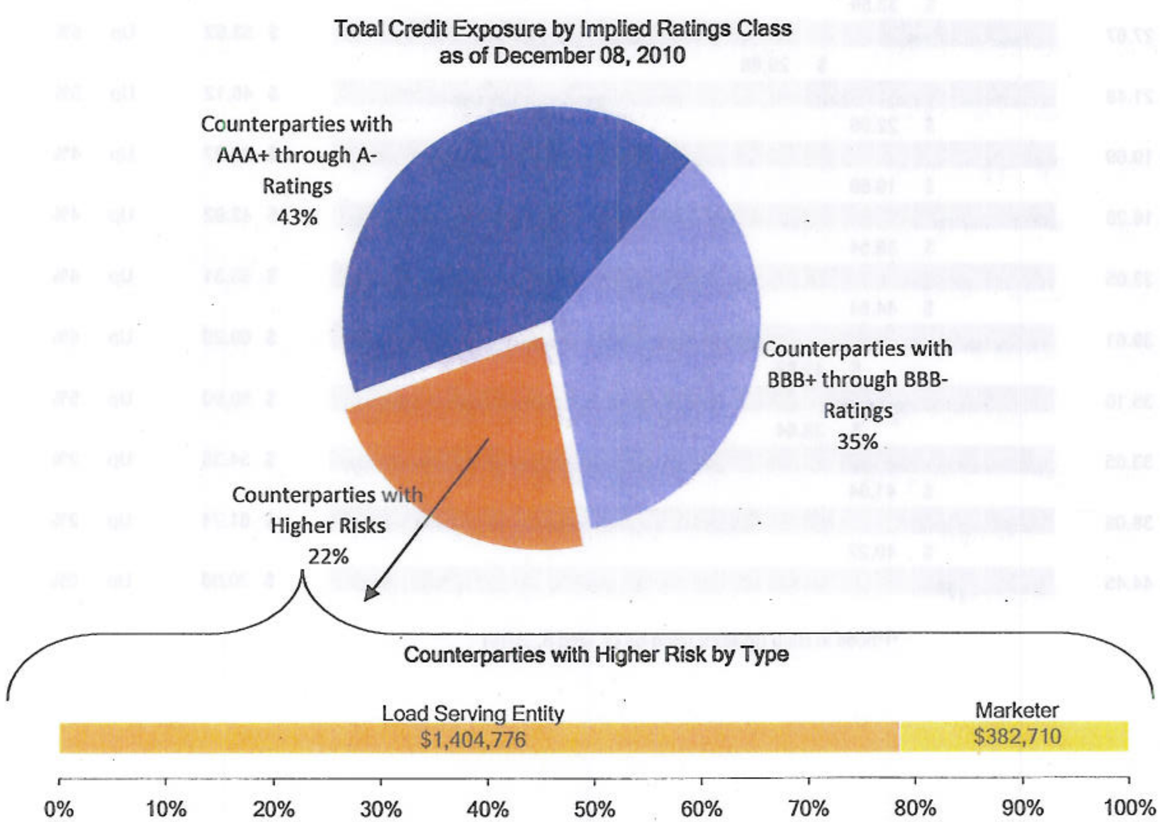
Chart 3



Credit

City Light actively manages its wholesale energy market credit risk by: setting credit limits for each counterparty that are derived from credit scoring models and analysis; securing credit enhancements; monitoring industry news; and by tracking counterparty credit exposures. Beginning in 2009 the Risk Management Division began using an industry standard tool (Moody's KMV) to proactively measure changes in counterparty creditworthiness. This necessitated the use of implied (internal) credit ratings instead of the actual rating agency ratings for Chart 4, below. It is important to note that this represents the assessment of credit risk by the Director of Risk Management. Actual credit ratings by Standard and Poors and Moody's Investor Services are higher.

Chart 4



Price

To ensure that prices are independently developed, City Light's official price curve is prepared by PLATTS and used for internal analysis, valuation and modeling tasks. Chart 5 shows the forward price range (Mid-C) for the upcoming 12 months since the previous 12 months.

Chart 5

Low for the period	Price range since December 08, 2009 (data source: PLATTS)	High for the period	% from last wk
$ 34.00	$ 38.00	$ 63.73	Up 3%
$ 32.36	$ 36.25	$ 58.33	Up 3%
$ 27.67	$ 33.50	$ 53.62	Up 5%
$ 21.48	$ 29.68	$ 46.12	Up 5%
$ 19.69	$ 22.96	$ 39.97	Up 4%
$ 16.28	$ 19.66	$ 42.92	Up 4%
$ 33.05	$ 36.54	$ 63.31	Up 4%
$ 39.61	$ 44.54	$ 69.29	Up 4%
$ 35.16	$ 41.92	$ 60.90	Up 5%
$ 33.65	$ 38.84	$ 54.35	Up 2%
$ 38.08	$ 41.64	$ 61.74	Up 2%
$ 44.45	$ 49.27	$ 70.66	Up 2%

*Prices in Blue (today's price as of Dec 8, 2010)

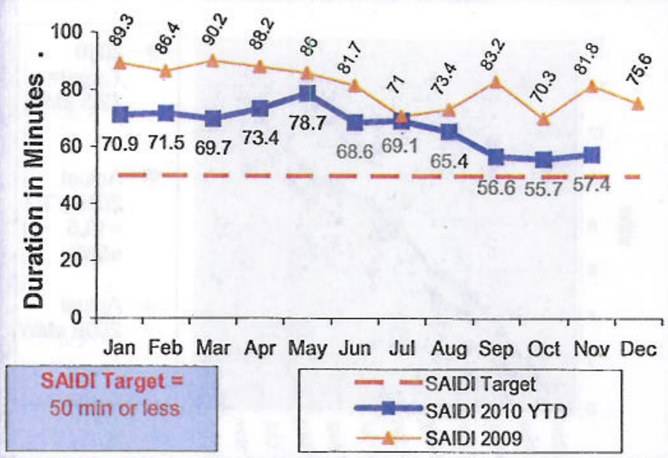
Seattle City Light

Performance Metrics Report

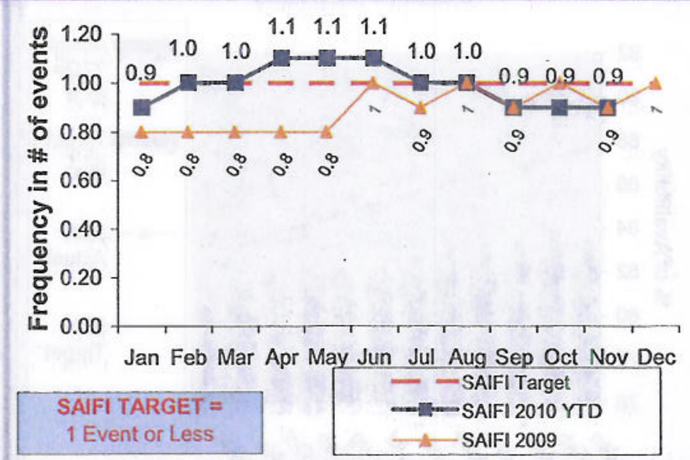
November 2010

Distribution Operations:

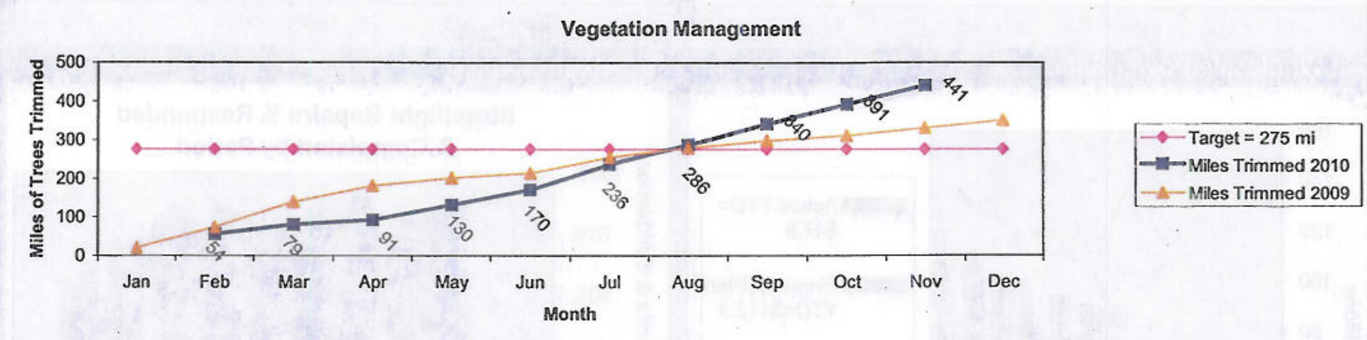
SAIDI -12 Month Rolling Average YTD



SAIFI - 12 Month Rolling Average YTD

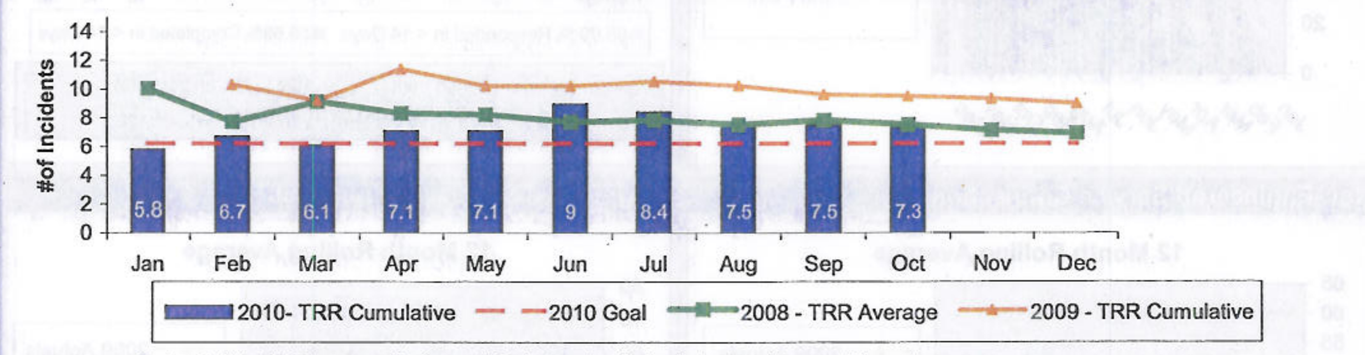


Cumulative Miles of Trees Trimmed vs Annual Target



Human Resources:

Safety - Average Total Recordable Incident Rate (TRR) YTD



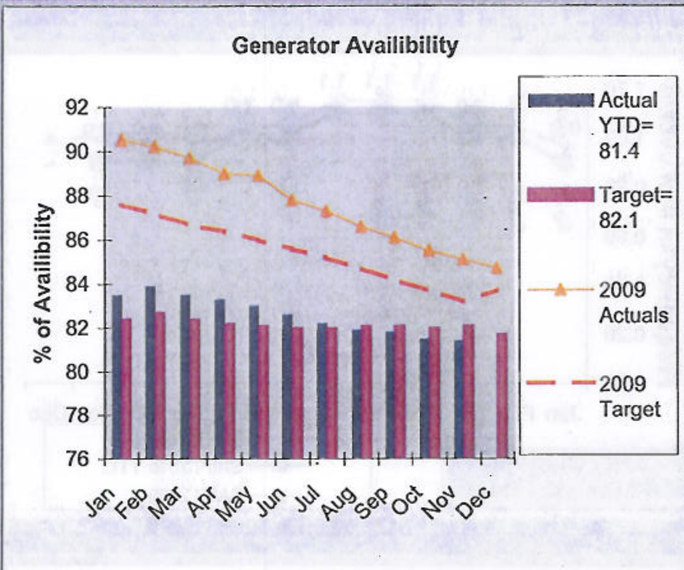
Note: Safety Metrics are only through October due to technical problems with systems

Hiring Statistics Cumulative YTD

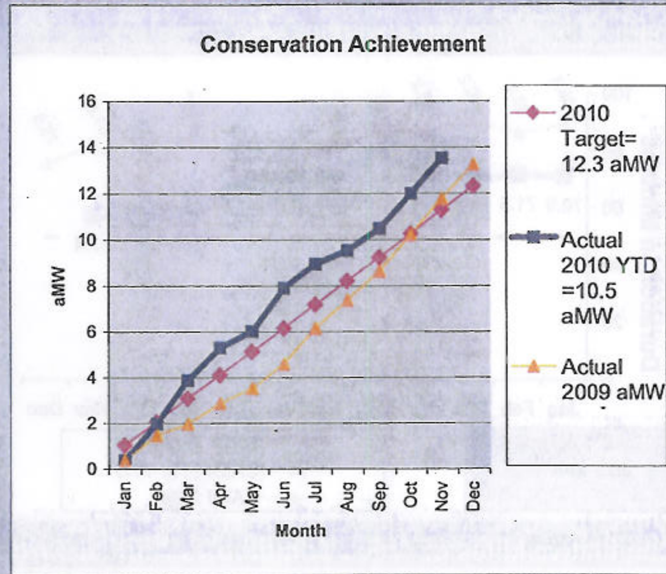
	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
# of New Hires YTD	3	6	12	14	16	18	24	28	30	33	37	
# of Promotions YTD	5	7	13	17	20	26	30	32	50	58	62	
# of Days for Hiring Process	41	38	40	37	36	35	38	41	43	47	45	
Vacancy Rate Mo. End	8.6%	8.2%	8.2%	8.9%	9.1%	9.9%	9.9%	10.0%	10.1%	10.3%	10.5%	

Power Resources:

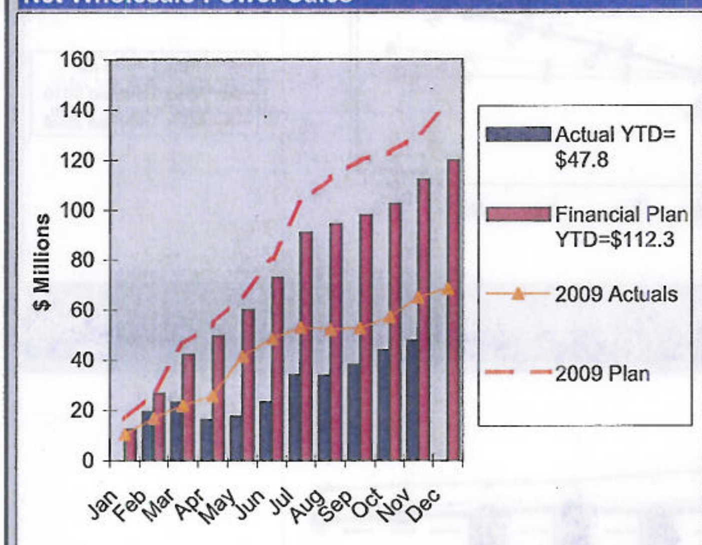
Generator Availability-12 Month Rolling Average



Conservation Savings

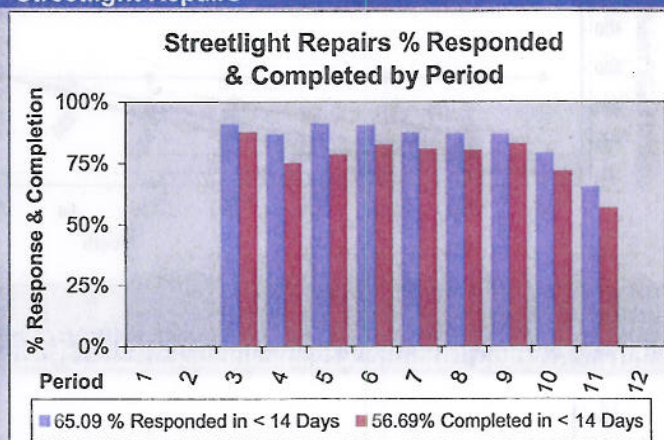


Net Wholesale Power Sales



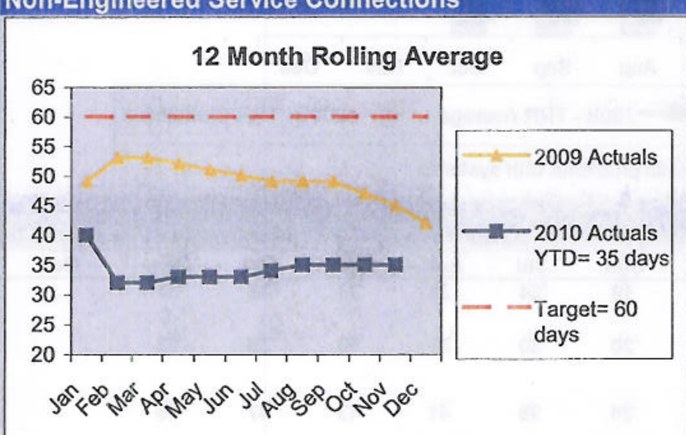
Customer Care:

Streetlight Repairs



(Current period from October 16th to November 15th)
# of Streetlight Tickets in current period: 1203

Non-Engineered Service Connections



Engineered Service Connections