



DATE: March 21, 2011

TO: Mayor Michael McGinn  
Seattle City Council

FROM: Jorge Carrasco *Jorge Carrasco*

SUBJECT: Financial Update – February 2011

This memo provides an analysis of Seattle City Light's financial condition and operating results through February 28, 2011. The attached Income Statement Analysis, which is summarized in the chart below, provides a perspective on how City Light performed year to date in 2011 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 2011 compared to the 2011 Financial Plan. The 2011 Financial Plan is based on the revenues and expense projections included in the adopted budget for 2011.

### FINANCIAL HIGHLIGHTS

February 2011

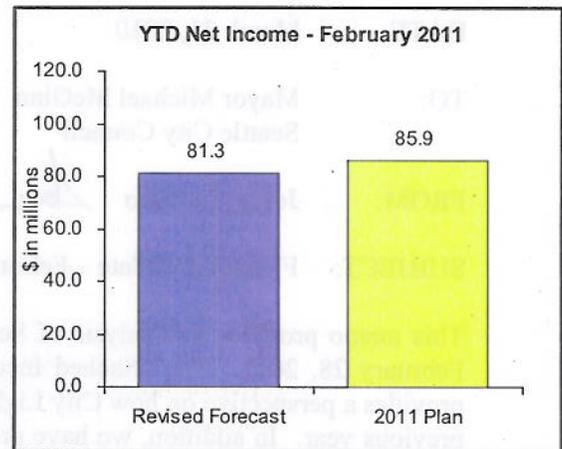
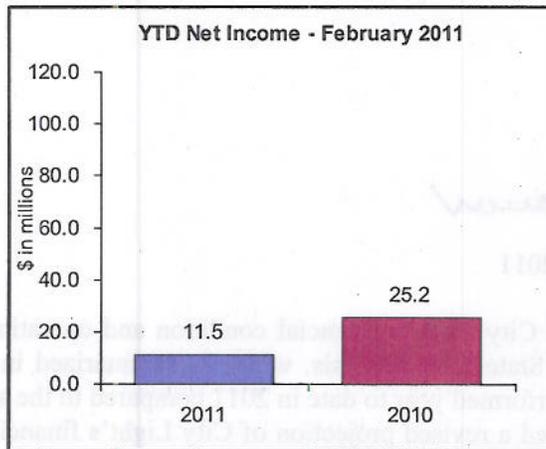
(\$ millions)

	Year-to-date Actual		Year End Dec. 31	
	2011	2010	Plan	Revised Forecast
Retail Power Revenues <sup>(1)</sup>	\$ 119.8	\$ 114.9	\$ 649.8	\$ 648.4
Net Wholesale Energy Sales (before booked-out LT purch)	\$ 24.4	\$ 19.5	\$ 96.8	\$ 83.3
Net Income	\$ 11.5	\$ 25.2	\$ 85.9	\$ 81.3
Cash Balances				
Operating Cash	\$ 40.4	\$ (14.0)	\$ 111.0	\$ 133.0
Construction Account - Restricted	\$ 246.4	\$ -	\$ -	\$ -
Rate Stabilization Account	\$ 105.7	\$ 25.0	\$ 101.1	\$ 88.5
Debt Coverage Ratio	-	-	1.80	1.83
Debt to Capitalization Ratio	66.7%	62.0%	63.3%	63.4%

(1) Retail Power Revenues include revenues such as Green Power Program and Power Factor Charges and exclude low-income Rate Discounts.

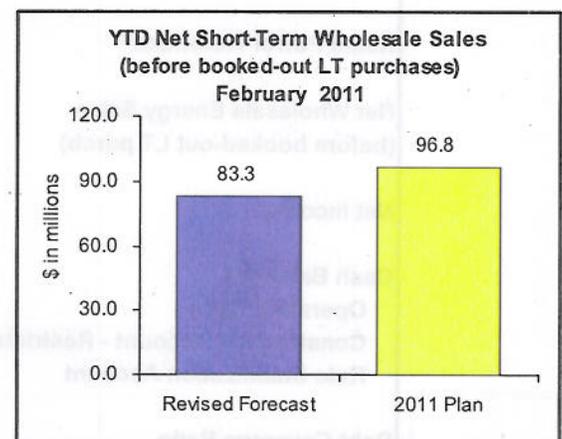
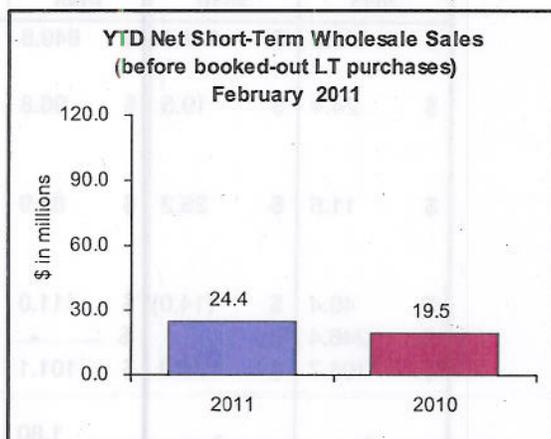
#### Net Income

As indicated in the table on this page and in the charts on the next page, net income for the period ending February 28, 2011, was \$11.5 million which results in a \$13.7 million or 54.4% decrease over the same time period in 2010. This decrease is primarily due to the transfer of \$26.5 million to the Revenue Stabilization Account (RSA) year-to-date. The offsetting effects include higher retail power revenues due to the across-the-board 4.3% rate increase effective January 1, 2011, a 0.5% BPA pass-through effective October 1, 2010 and higher wholesale power sales due to more precipitation.

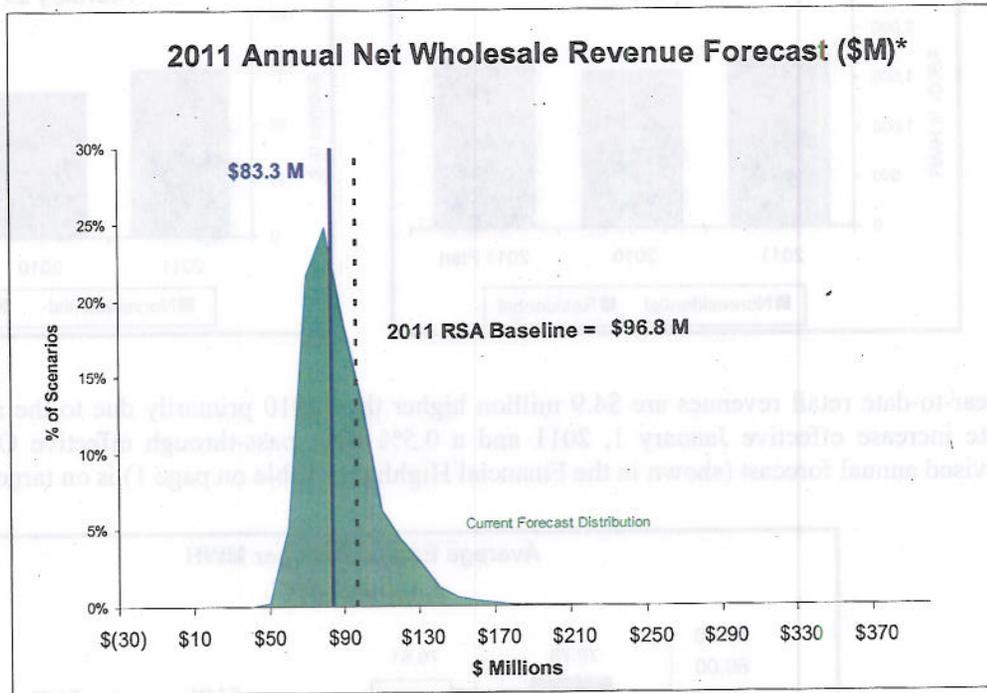


Projected net income at year-end December 31, 2011 is expected to be \$81.3 million, \$4.6 million or 5.4% lower than anticipated in the 2011 Plan. This decrease is primarily due to lower wholesale energy prices that are currently being forecasted which affect valuations of the energy exchanges and other power-related purchases and sales.

### Net Short-Term Wholesale Energy

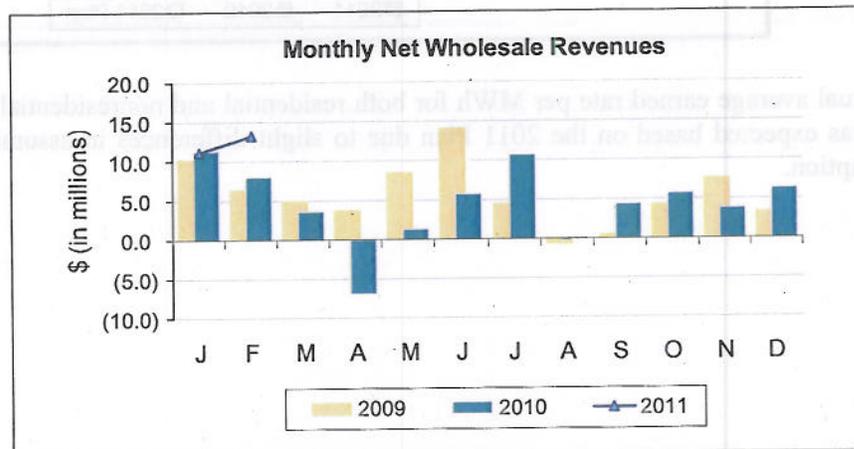


The projections of net short-term wholesale energy sales change weekly due to changes in water conditions, economic factors such as the price of natural gas, system load and the availability of surplus energy for resale. The chart below represents the current forecast for net short-term wholesale revenues before booked-out long-term purchases, which is expected to be \$83.3 million.



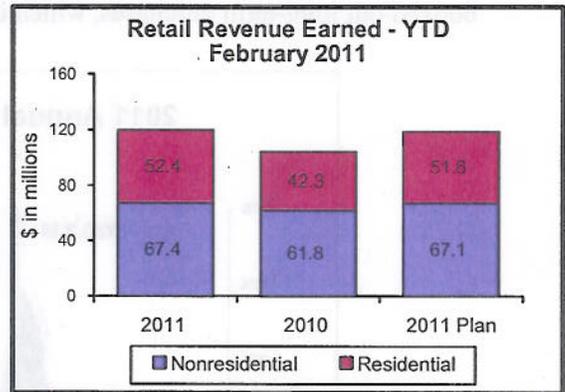
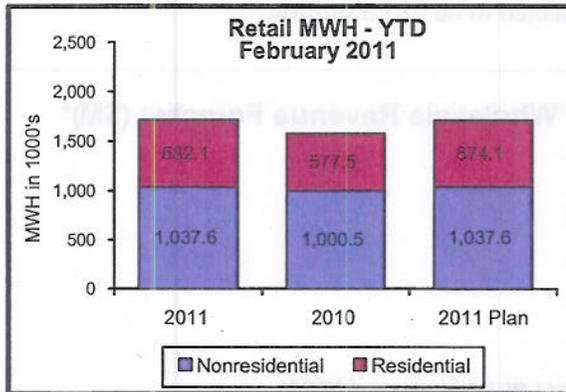
\* In prior years we also showed the distribution for the financial plan in this graph. This graph now only shows the distribution of the forecast and the RSA baseline, which is based on the 2010 RSA ordinance.

Net wholesale revenues for January were approximately the same (\$0.2 million lower) as those received in January last year. However, net wholesale revenues for the month of February were \$13.2 million, an increase of \$5.1 million over the same period last year. Surplus energy available for sale in February 2011 was three times the surplus in February 2010. However, this increase was partially offset by much lower energy prices in February 2011, about half of the February 2010 prices.

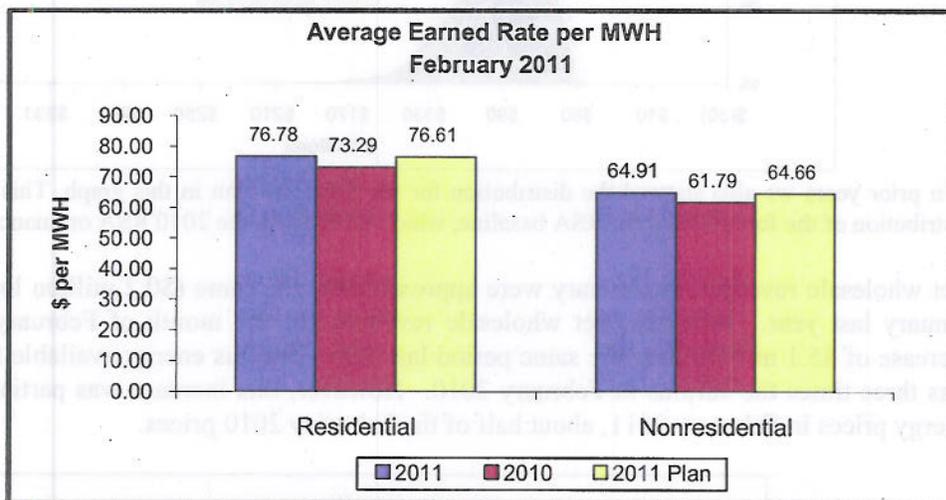


**Retail Power Revenues**

The charts that follow present selected data on 2011 retail power revenues.



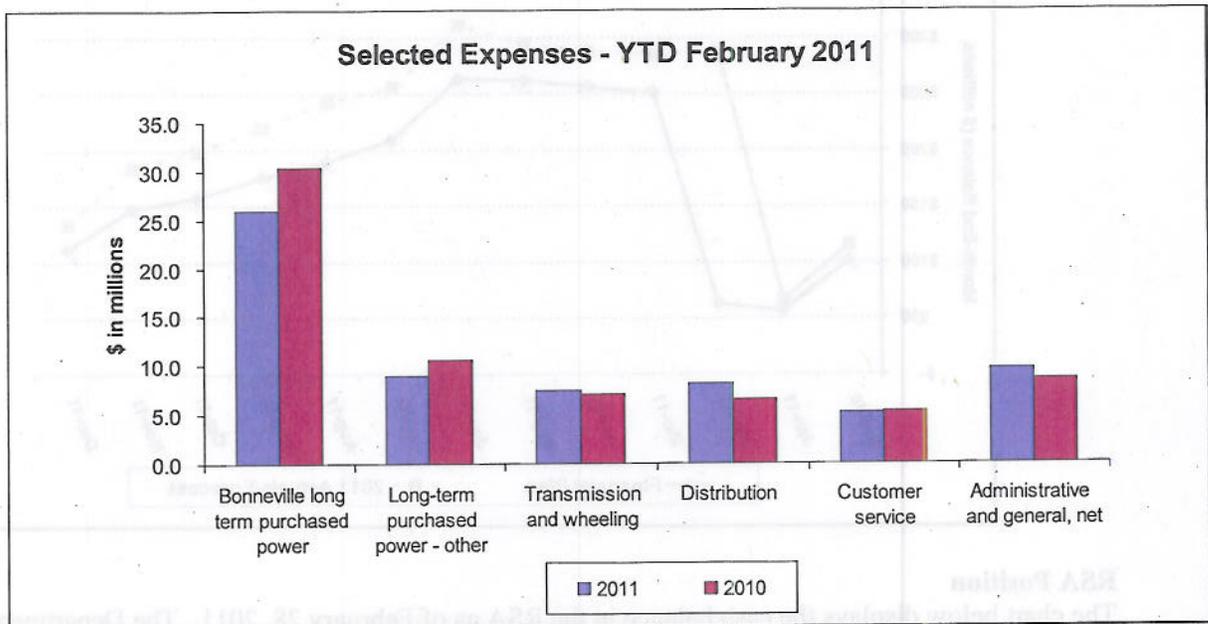
Year-to-date retail revenues are \$4.9 million higher than 2010 primarily due to the across-the-board 4.3% rate increase effective January 1, 2011 and a 0.5% BPA pass-through effective October 1, 2010. The revised annual forecast (shown in the Financial Highlights Table on page 1) is on target with the 2011 Plan.



The actual average earned rate per MWh for both residential and nonresidential customers is different from what was expected based on the 2011 Plan due to slight differences in assumed versus actual patterns of consumption.

**Expense Data for Selected Accounts**

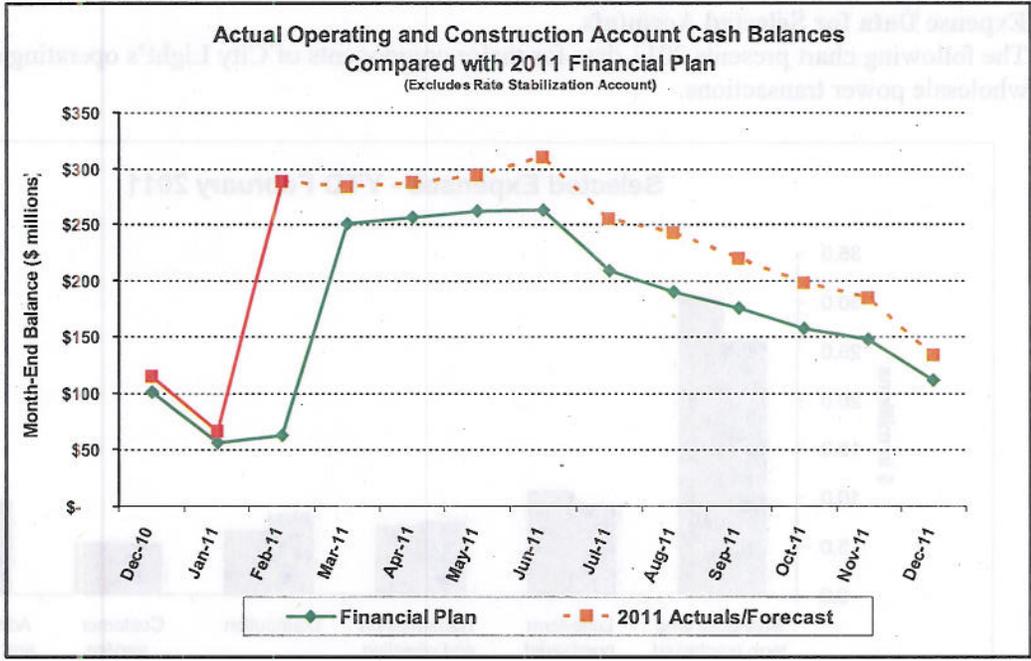
The following chart presents 2011 data for major components of City Light’s operating expenses excluding wholesale power transactions.



Bonneville expenses are lower year-to-date as compared to the same period last year primarily due to a higher BPA Slice true-up credit. Other long-term purchased power expenses are also lower. This decrease is due to lower purchases from Priest Rapids and lower valuation of SMUD exchange expenses as a result of lower market prices in 2011. However, these lower expenses were partially offset by higher purchases from the Stateline Wind project. The increase in distribution expenses is explained by additional budget allocated to programs such as the life-cycle asset management program (LAMP), the work and asset management system (WAMS) and vegetation management in 2011. Higher administrative and general expenses reflect an increase in pension contributions and benefits costs and hiring additional staff in 2011.

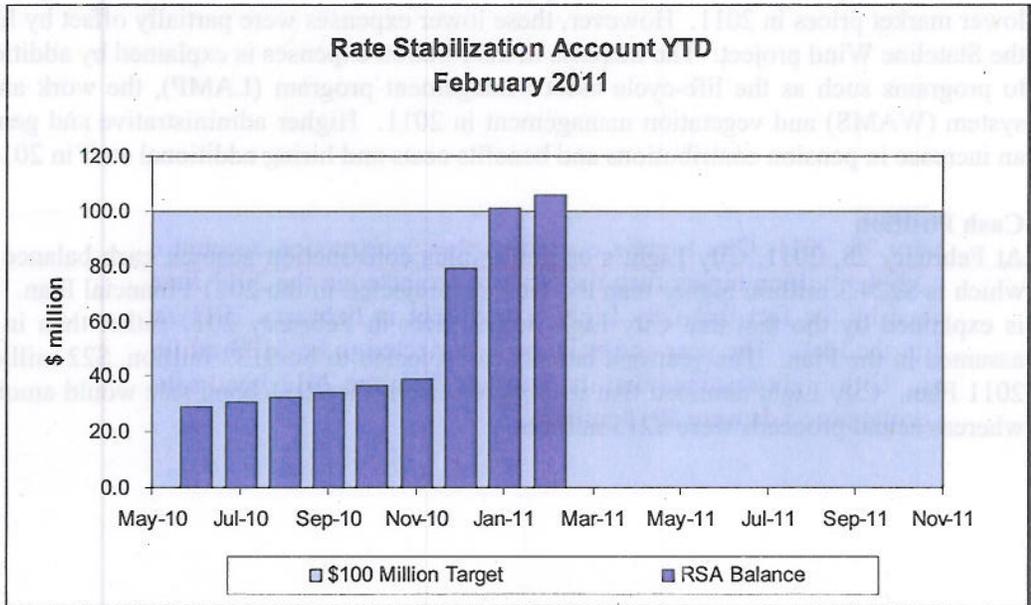
**Cash Position**

At February 28, 2011, City Light’s operating plus construction account cash balance was \$286.8 million, which is \$224.3 million higher than the balance projected in the 2011 Financial Plan. This large difference is explained by the fact that City Light issued debt in February 2011 rather than in March 2011 as was assumed in the Plan. The year-end balance is projected to be \$133 million, \$22 million higher than in the 2011 Plan. City Light assumed that its proceeds from the 2011 bond sale would amount to \$198.7 million whereas actual proceeds were \$215 million.



**RSA Position**

The chart below displays the cash balance in the RSA as of February 28, 2011. The Department reached the initial target of \$100 million on January 1, 2011 through a combination of the existing \$25 million Contingency Reserve, 2010 revenues from the RSA surcharge, 2010 Cash from Operations and 2010 Bond Refunding Savings realized in 2010 and 2011. The RSA surcharge was lifted as of January 1, 2011.



**2011 Budget**

As of February 2011, City Light is projecting that overall it will be within its budget authority through year-end 2011. The Department has spent 12% of the overall O&M budget (O&M budget includes Non-Power O&M expenses, Purchased Power, Taxes and Debt Service) through February. At this point in the year we would normally expect to have spent 17%. City Light's spending on the Capital program through February is 94% of the 2011 work plan for the year to date.

**Debt-to-Capitalization**

At February 28, 2011, City Light's debt-to-capitalization ratio was 66.7%, an increase from the 64.3% reported at December 31, 2010 and above the 62.0% reported at the same time last year. Based on the revised forecast the 2011 year-end debt-to-capitalization ratio is now expected to be 63.4%, a slight increase from 63.3% in the 2011 Plan.

**Compliance with Risk Policies and Standards**

Attached for your information is the City Light Risk Oversight Status Report as of March 9, 2011, 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 February 2011, with 2010 data included for comparison, is attached.

**Attachments**



Line No.	Condensed Statements of Revenues and Expenses (Unaudited) (In millions)	Year-to-date			Year Ending December 31, 2011		
		[A] Actuals February 28, 2011	[B] Actuals February 28, 2010	[A - B] Actuals to Actuals Variance	[C] 2011 Revised Forecast	[D] 2011 Financial Plan	[C - D]
5	<b>Operating Revenues</b>						
6	Retail power revenues	\$ 119.8	\$ 114.9	\$ 4.9	\$ 648.4	\$ 649.8	(1.3)
7	S-T wholesale power revenues, net (lines 42 + 45)	24.7	19.8	4.9	108.7	120.2	(11.5)
8	Power-related revenues - other	6.0	6.6	(0.6)	60.3	80.8	(20.5)
9	Transfers To/From Rate Stabilization Account	(26.5)	0.0	(26.5)	(9.2)	(22.0)	12.8
10	Other revenues	3.8	3.3	0.5	21.4	21.8	(0.4)
11	Total operating revenues	127.8	144.6	(16.8)	829.6	850.5	(21.0)
12	<b>Operating Expenses</b>						
13	Generation	2.8	2.4	0.4	32.0	37.9	(6.0)
14	Bonneville long-term purchased power	25.9	30.4	(4.5)	157.9	159.9	(2.0)
15	Long-term purchased power - other	8.9	10.6	(1.7)	58.3	63.2	(4.9)
16	Short-term wholesale power purchases	1.3	0.9	0.4	30.4	28.5	2.0
17	Power-related wholesale purchases - other	3.7	7.8	(4.1)	21.2	26.7	(5.5)
18	Other power costs	1.2	1.1	0.1	10.6	10.6	0.0
19	Transmission and wheeling	7.4	7.1	0.3	49.9	49.4	0.5
20	Distribution	8.2	6.5	1.7	67.2	67.2	0.0
21	Customer service	5.2	5.3	(0.1)	35.7	35.8	(0.1)
22	Conservation	3.0	2.8	0.2	25.5	25.5	0.0
23	Administrative and general, net	9.6	8.6	1.0	66.9	66.8	0.0
24	Taxes	14.0	13.0	1.0	74.4	73.6	0.8
25	Depreciation and amortization	14.8	13.5	1.3	80.7	85.4	(4.7)
26	Total operating expenses	106.0	110.0	(4.0)	710.9	730.7	(19.8)
27							
28	<b>Net Operating Income</b>	21.8	34.6	(12.8)	118.7	119.8	(1.1)
29							
30	<b>Other Deductions, Net</b>						
31	Investment income	0.7	0.3	0.4	5.0	4.5	0.5
32	Other income (expense), net	0.7	0.0	0.7	5.8	2.3	3.5
33	Interest expense	(12.3)	(10.8)	(1.5)	(96.0)	(89.8)	(6.2)
34	Capital contributions	0.6	1.0	(0.4)	45.4	46.6	(1.2)
35	Grants	0.0	0.1	(0.1)	2.5	2.5	0.0
36	Total other deductions, net	(10.3)	(9.4)	(0.9)	(37.4)	(33.9)	(3.4)
37							
38	<b>Net Income</b>	11.5	25.2	(13.7)	81.3	85.9	(4.6)
39							
40							
41	<b>Note A:</b>						
42	Short-term wholesale energy sales, gross	25.7	20.4	5.3	113.8	125.3	(11.5)
43	Short-term wholesale energy purchases	(1.3)	(0.9)	(0.4)	(30.4)	(28.5)	(2.0)
44	<b>Net ST wholesale sales before booked-out LT purchases</b>	24.4	19.5	4.9	83.3	96.8	(13.5)
45	Booked-out long term purchases	(1.0)	(0.6)	(0.4)	(5.1)	(5.1)	0.0
46	<b>Net short-term wholesale energy sales</b>	23.4	18.9	4.5	78.3	91.7	(13.5)
47							

Line No.	Condensed Balance Sheets (Unaudited) (In millions)	[A] February 28, 2011	[B] December 31, 2010	[A - B] Change	[C] February 28, 2010	[A] - [C]
1						
2						
3						
4	<b>Assets</b>					
5	Net utility plant at original cost	\$ 1,796.6	\$ 1,821.1	\$ (24.5)	\$ 1,527.5	\$ 269.1
6	Construction work-in-process	158.1	147.0	11.1	160.5	(2.4)
7	Assets held for future use	9.3	9.3	-	11.3	(2.0)
8	Land and nonoperating, net	95.7	95.7	-	87.9	7.8
9	Contingency reserve account	-	-	-	25.0	(25.0)
10	Rate Stabilization account	105.7	79.3	26.4	-	105.7
11	Construction Account	246.4	57.0	189.4	-	246.4
12	Restricted assets - other	9.6	3.9	5.7	41.4	(31.8)
13	Operating cash	40.4	56.9	(16.5)	(14.0)	54.4
14	Accounts receivable, net	101.7	81.8	19.9	93.4	8.3
15	Unbilled revenues	60.5	69.7	(9.2)	60.1	0.4
16	Current assets - other	43.7	26.6	17.1	45.5	(1.8)
17	Other assets	222.8	221.5	1.3	364.9	(142.1)
18	Total assets	\$ 2,890.5	\$ 2,669.8	\$ 220.7	\$ 2,403.5	\$ 487.0
19						
20	<b>Liabilities and equity</b>					
21	Long-term debt	\$ 1,687.5	\$ 1,515.8	\$ 171.7	\$ 1,299.5	\$ 388.0
22	Noncurrent liabilities	55.0	55.0	-	49.5	5.5
23	Debt, notes, and obligation - current	98.6	58.7	39.9	80.7	17.9
24	Accrued interest	13.3	34.4	(21.1)	23.7	(10.4)
25	Current liabilities - other	64.6	73.4	(8.8)	62.1	2.5
26	Bonneville conservation augmentation	3.7	4.7	(1.0)	9.4	(5.7)
27	Rate Stabilization Deferred Revenue	80.7	54.3	26.4	-	80.7
28	Deferred credits - other	21.0	18.9	2.1	29.2	(8.2)
29	Equity	866.1	854.6	11.5	849.4	16.7
30	Total equity and liabilities	\$ 2,890.5	\$ 2,669.8	\$ 220.7	\$ 2,403.5	\$ 487.0

**Net Income Variance Analysis**  
**February 2011**

**Variance Year-to-Date 2011 Compared to 2010 Actuals: (\$13.7) million or (54.4%)**

Major components (\$ millions):

\$25.2	Net Income YTD through February 28, 2010
\$4.9	Higher retail revenues primarily due to 4.3% rate increase effective January 1, 2011 and 0.5% BPA pass-through effective October 1, 2010.
\$4.9	Higher net wholesale energy sales due to more precipitation this year
\$4.5	Lower BPA purchased power expenses
(\$26.5)	RSA deferred revenues
(\$1.5)	Other (net)
\$11.5	Net Income YTD through February 28, 2011

**Variance 2011 Revised Forecast Compared to Financial Plan: (\$4.6) million or (5.4%)**

Major components (\$ millions):

\$85.9	Net Income YTD through December 31, 2011 - Financial Plan
(\$13.5)	Lower net surplus energy sales than planned
(\$20.5)	Lower other power-related revenues due to lower wholesale prices on power exchanges and lower Priest Rapids sales
\$12.8	Transfer from RSA to offset lower net surplus energy sales
\$6.0	Lower generation due to lower FERC land use fees
\$4.9	Lower long-term purchased power-other
\$5.5	Lower power-related wholesale purchases -other
\$4.7	Lower depreciation
(\$6.2)	Higher interest expense due to change in accounting for subsidies on debt interest
\$1.7	Other (net)
\$81.3	Net Income YTD through December 31, 2011 - Revised Forecast





# City Light Risk Oversight Status Report

## As Of Wednesday, March 09, 2011

### Summary

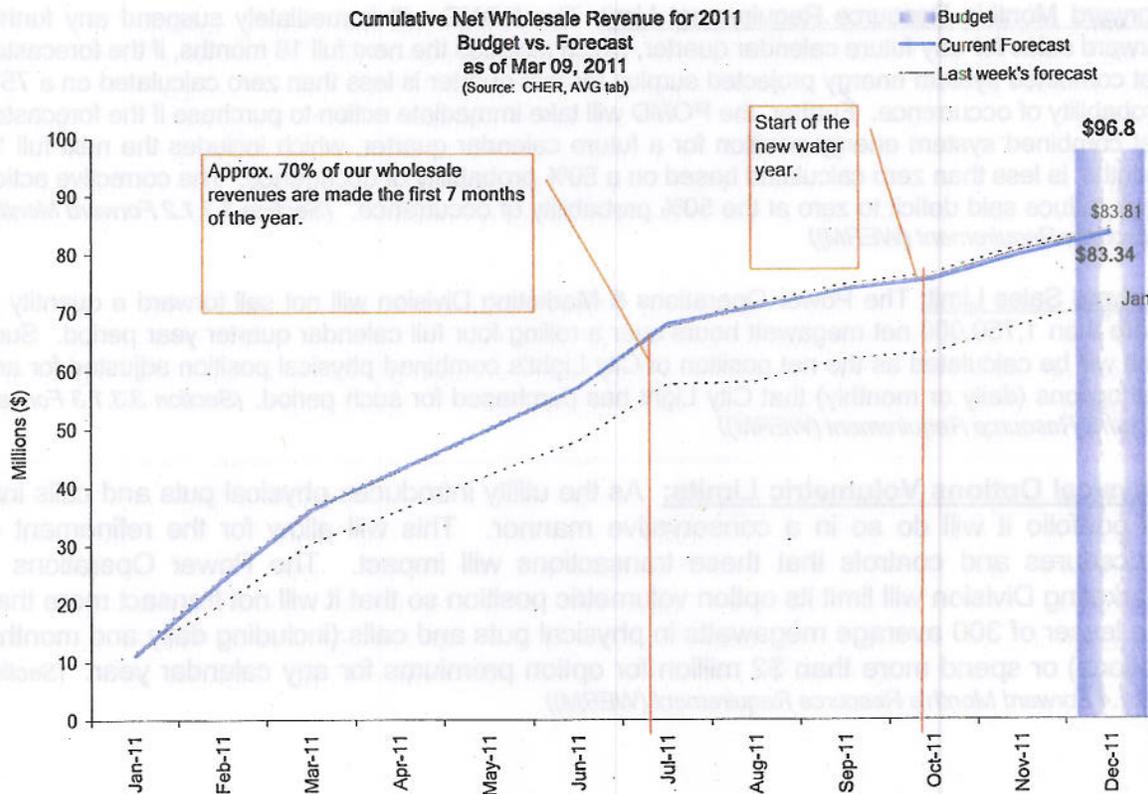
	% of 5 yr Avg	Current '11 Avg	5 Yr Avg
SCL Hydro Generation	112%	1,221 MW	1,094 MW
Peak Market Prices	59%	\$28.84	\$48.67

**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 2006-10.

**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 approved Wholesale Revenue is \$96.8 million. The chart (Chart 1) compares the current annual budget (\$96.8 million) with the current forecast of \$83.34 million. The forecast decreased by \$0.5 million from last week, mostly on account of lower wholesale energy prices.

Chart 1



## 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))*

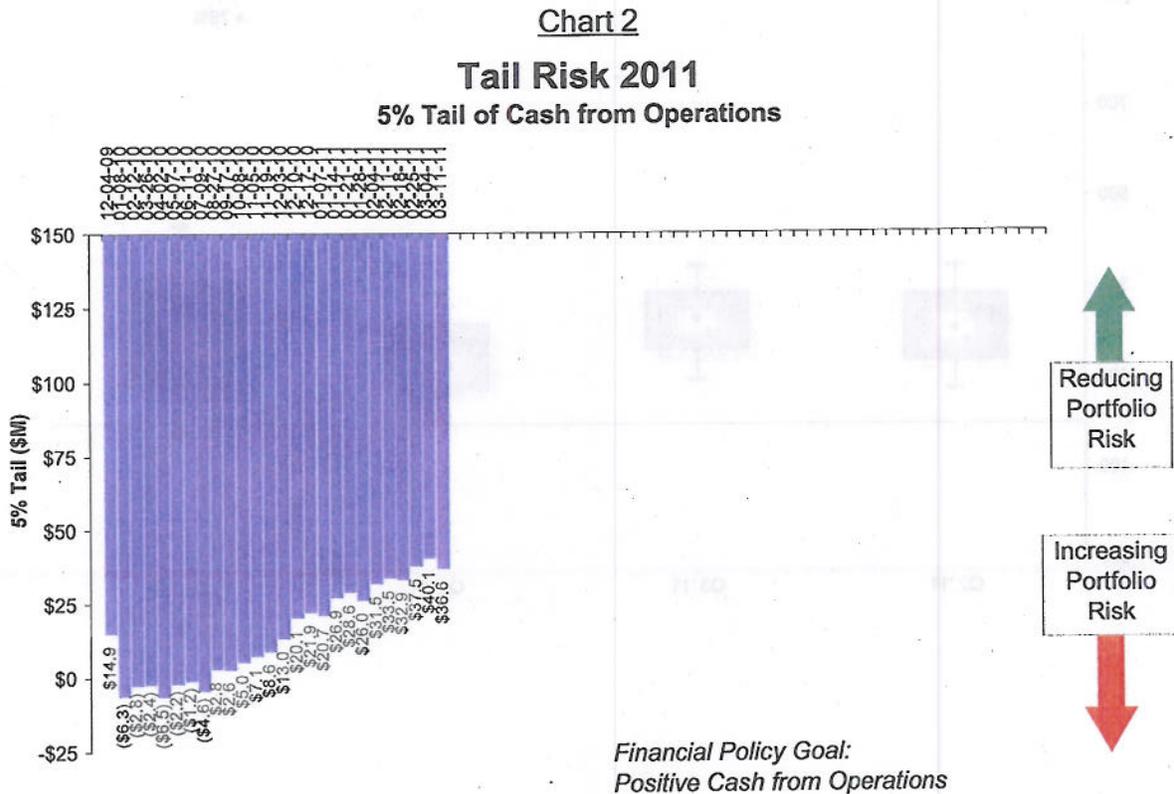
## 5% Tail Risk Metric, 2011

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 \$36.6 million of Cash from Operations.



*Notes on significant changes:*

## Hedging Plan & Position Status

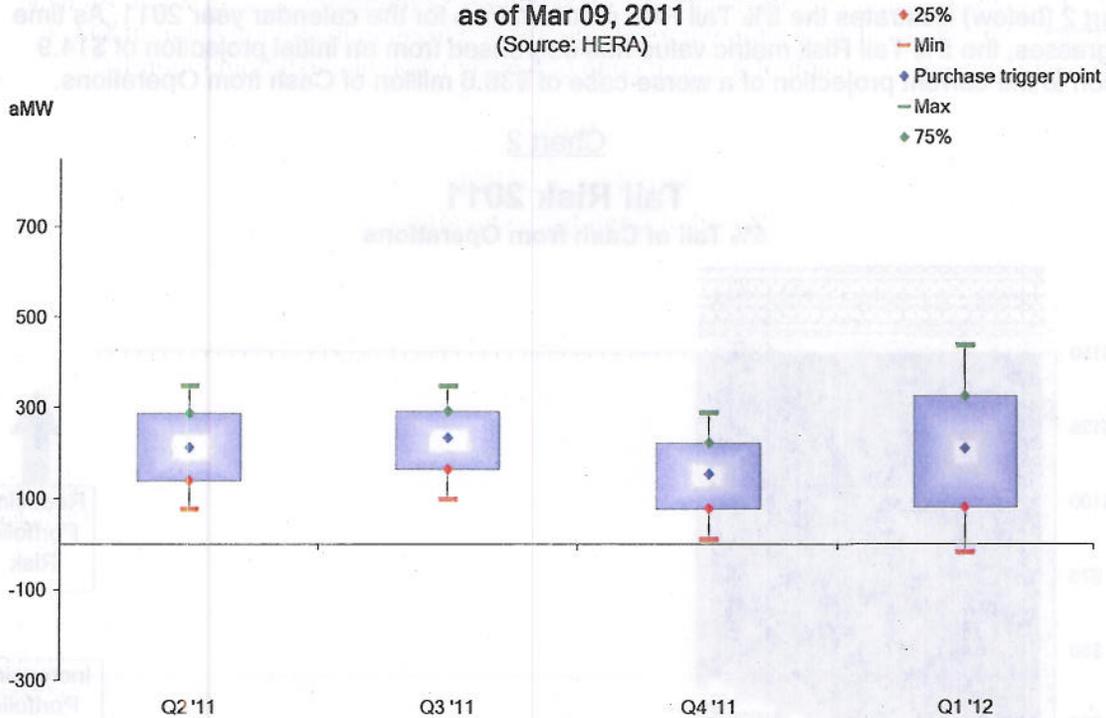
Hedge Plan 2011, Phase I was proposed on December 15, 2010 and waiting approval by ROC on December 21, 2010. The current volume hedge planned to not exceed 146,400 MWh net.

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

### 2011-12 Quarterly Forecast Net Combined System Energy Position as of Mar 09, 2011

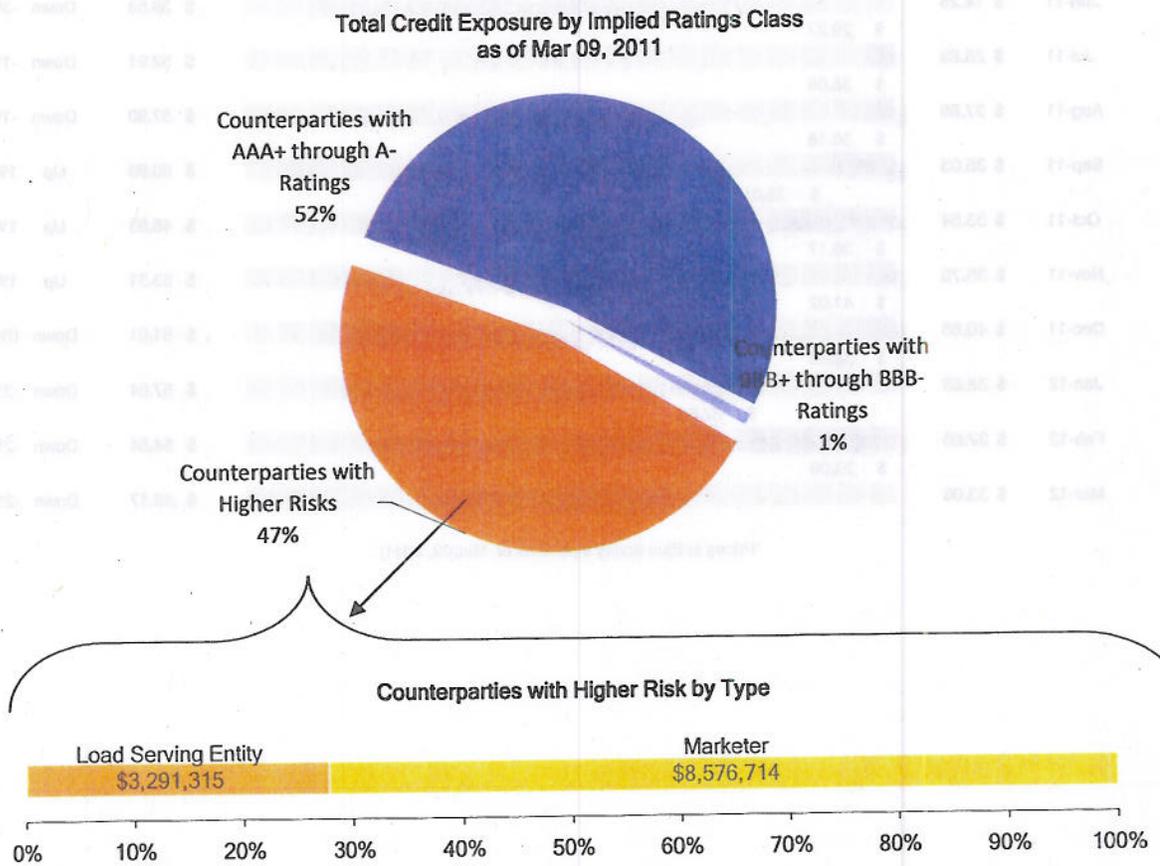
(Source: HERA)



## 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**

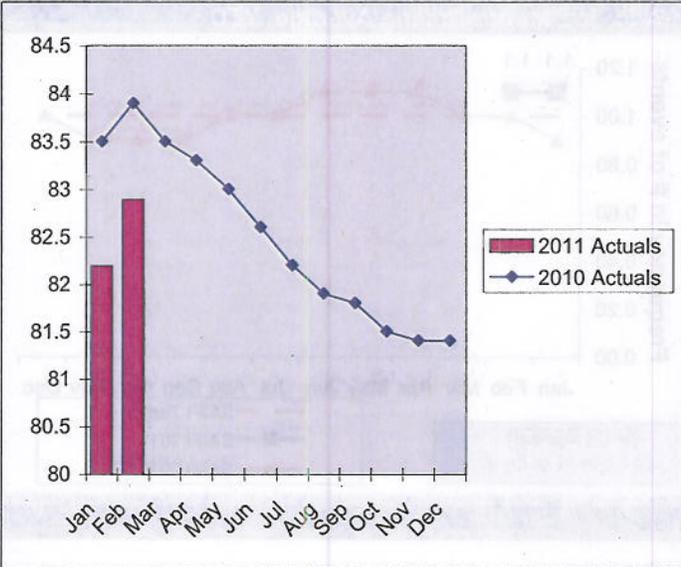
Mid-C Power	Low for the period	Price range since Mar 09, 2010 (data source: PLATTS)		High for the period	% from last wk
Apr-11	\$ 21.48	\$ 21.50		\$ 36.14	Down -6%
May-11	\$ 16.00	\$ 16.00		\$ 35.61	Down -3%
Jun-11	\$ 14.25	\$ 14.25		\$ 39.53	Down -3%
Jul-11	\$ 28.88	\$ 29.27		\$ 52.91	Down -1%
Aug-11	\$ 37.86	\$ 38.05		\$ 57.90	Down -1%
Sep-11	\$ 35.03	\$ 36.18		\$ 50.90	Up 1%
Oct-11	\$ 33.54	\$ 35.01		\$ 46.93	Up 1%
Nov-11	\$ 35.75	\$ 36.17		\$ 53.31	Up 1%
Dec-11	\$ 40.86	\$ 41.02		\$ 61.01	Down 0%
Jan-12	\$ 38.88	\$ 38.88		\$ 57.04	Down -2%
Feb-12	\$ 37.56	\$ 37.56		\$ 54.54	Down -2%
Mar-12	\$ 33.06	\$ 33.06		\$ 48.17	Down -2%

\*Prices in Blue (today's price as of Mar 09, 2011)

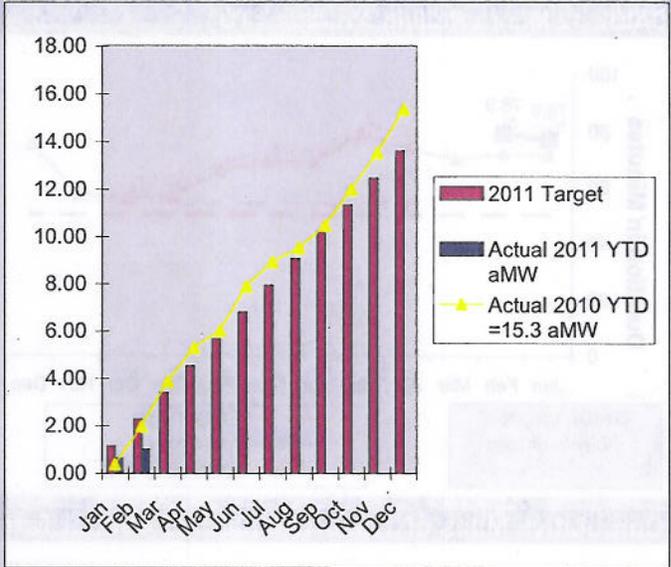


**Power Resources:**

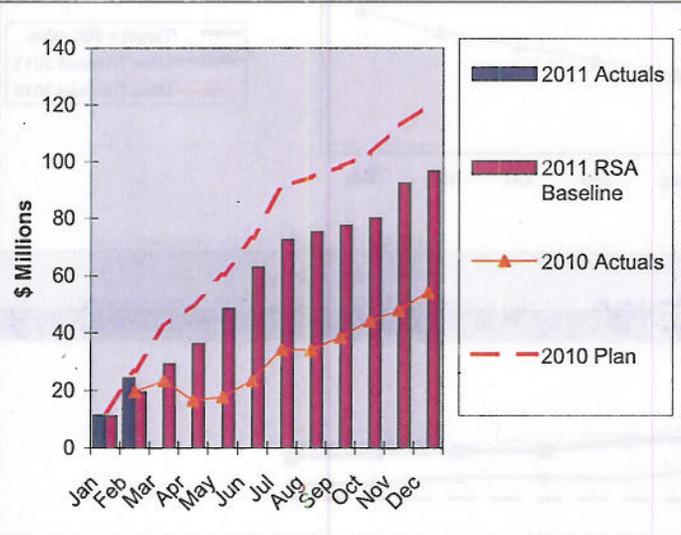
**Generator Availability-12 Month Rolling Average**



**Conservation Savings**

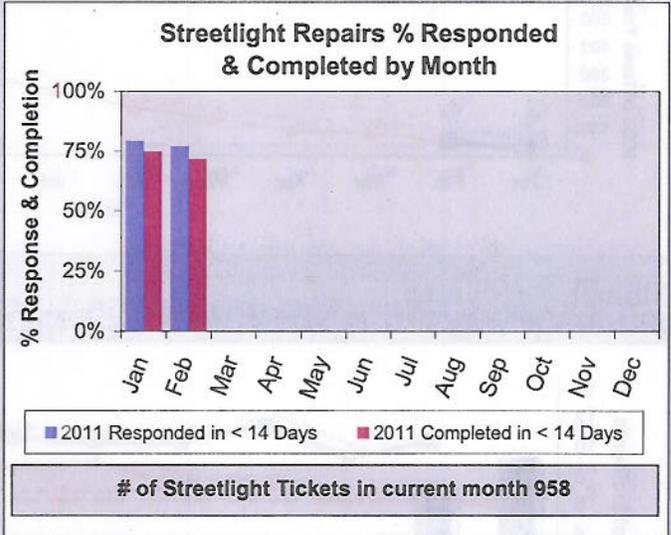


**Net Wholesale Power Sales**

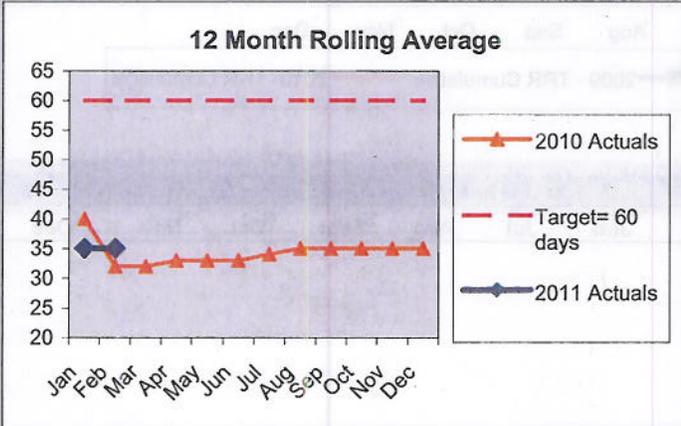


**Customer Care:**

**Streetlight Repairs**



**Non-Engineered Service Connections**



**Engineered Service Connections**

