Seattle City Light

Memorandum

DATE: February 24, 2010

TO: Mayor Michael McGinn
Seattle City Council

FROM: Jorge Carrasco

SUBJECT: Financial Update – Final Year-End December 2010 (Unaudited)

This memo provides an analysis of Seattle City Light's financial condition and operating results through December 31, 2010. The attached Income Statement Analysis, which is summarized in the chart below, provides a perspective on how City Light performed during 2010 compared to the previous year and, more importantly, to the 2010 Financial Plan. In the chart below and on the attached Income Statement analysis, the year-end 2010 numbers are final but unaudited and 2009 numbers are audited. The 2010 Financial Plan is based on the revenues and expense projections included in the adopted budget for 2010.

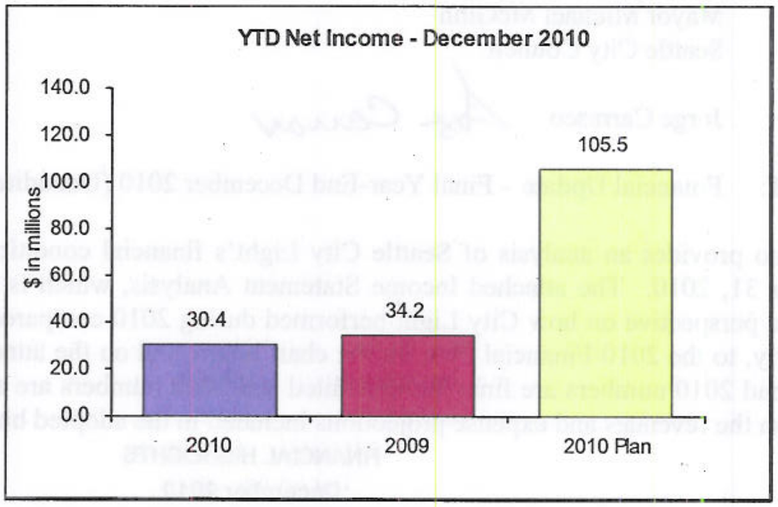
FINANCIAL HIGHLIGHTS
December 2010
($ millions)

	Year-to-date Dec 31		
	Actuals 2010	Actuals 2009	Plan 2010
Retail Power Revenues(1)	$ 624.2	$ 545.1	$ 611.9
Net Wholesale Energy Sales (before booked-out LT purch)	$ 54.1	$ 68.4	$ 120.0
Net Income	$ 30.4	$ 34.2	$ 105.5
Cash Balances			
Operating Cash	$ 56.9	$ 32.7	$ 77.5
Construction Fund - Restricted	$ 57.0	$ -	$ -
Rate Stabilization Account(2)	$ 79.3	$ -	$ 25.0
Debt Coverage Ratio	1.77	1.38	1.80
Debt to Capitalization Ratio	64.3%	62.6%	61.6%

(1) Retail Power Revenues include revenues such as Green Power Program and Power Factor Charges and exclude low-income Rate Discounts.
(2) Balance in Contingency Reserve Account was rolled into the RSA in June 2010.

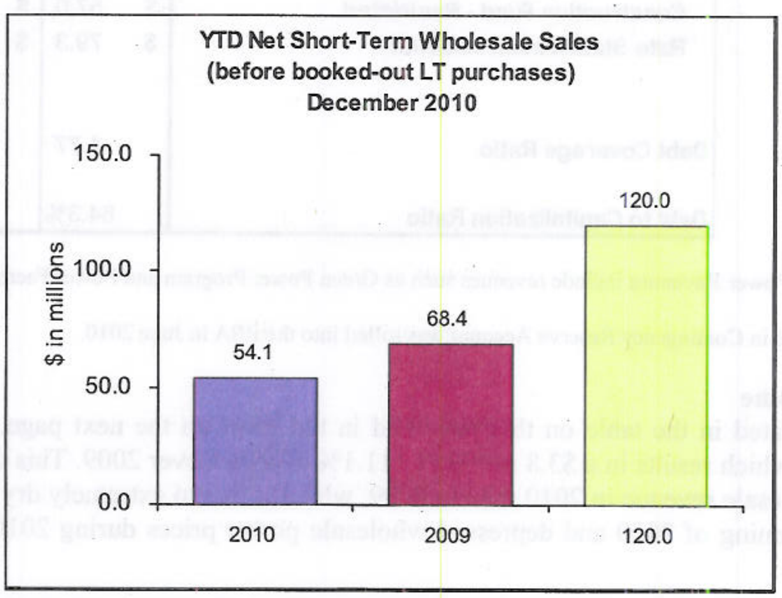
Net Income

As indicated in the table on this page and in the chart on the next page, net income for 2010 was $30.4 million which results in a $3.8 million or 11.1% decrease over 2009. This decrease is primarily due to lower net wholesale revenue in 2010 than in 2009, which is due to extremely dry hydro conditions in the region in the beginning of 2010 and depressed wholesale power prices during 2010. In addition, even though retail power revenues in 2010 were much higher than in 2009, due to a 4.5% RSA surcharge and a 1.8% BPA pass-through, $54.3 million were transferred to the RSA at the end of 2010.

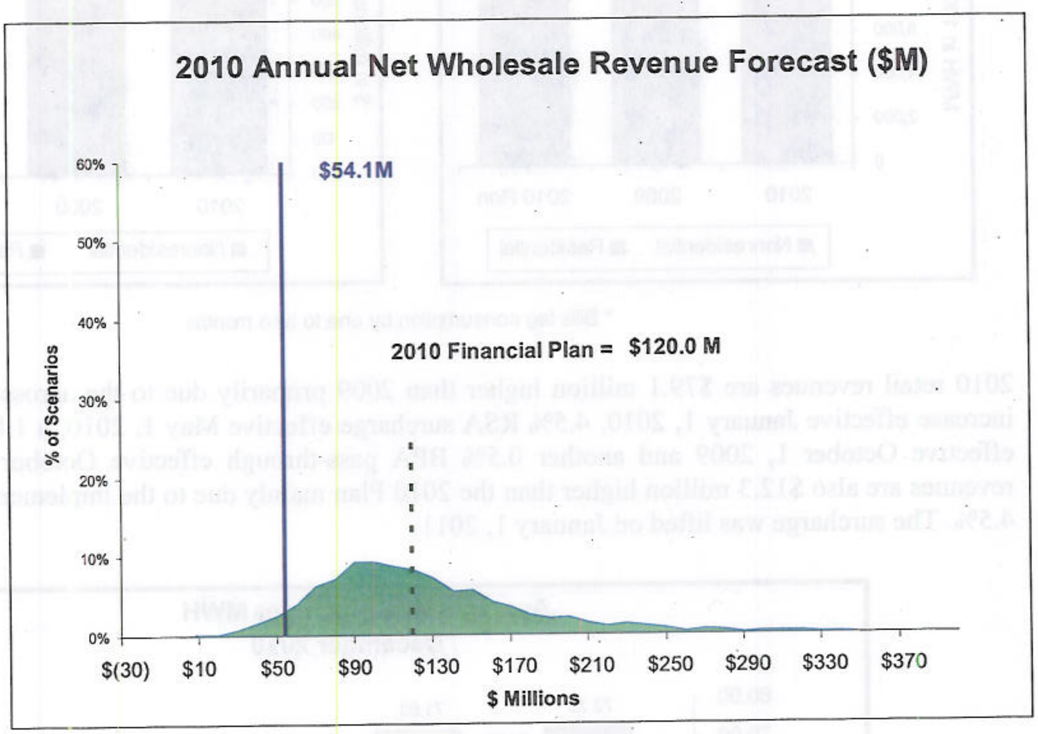


Actual 2010 net income of $30.4 million is $75.1 million or 71.2% less than what was assumed in the 2010 Financial Plan. This large decrease is primarily due to much lower net wholesale revenues in 2010 than what was planned. The 2010 Financial Plan assumed normal water conditions and a rebound in wholesale electricity prices. However, hydro conditions were extremely dry in the first four months and, as a result, the snowpack and rainfall were much lower than what was assumed in the plan. Starting in May hydro conditions improved, reaching the planned level in August. The levels of precipitation were even slightly above the plan for the rest of the year. Prices were close to the plan during the first five months but then in June they fell to much lower levels than what was projected due to increased precipitation. Even though prices rebounded after June, they continued to be lower than the 2010 Plan for the remainder of the year. As was mentioned above, another contributor to the low 2010 net income was the $54.3 million transfer to the RSA in the end of 2010.

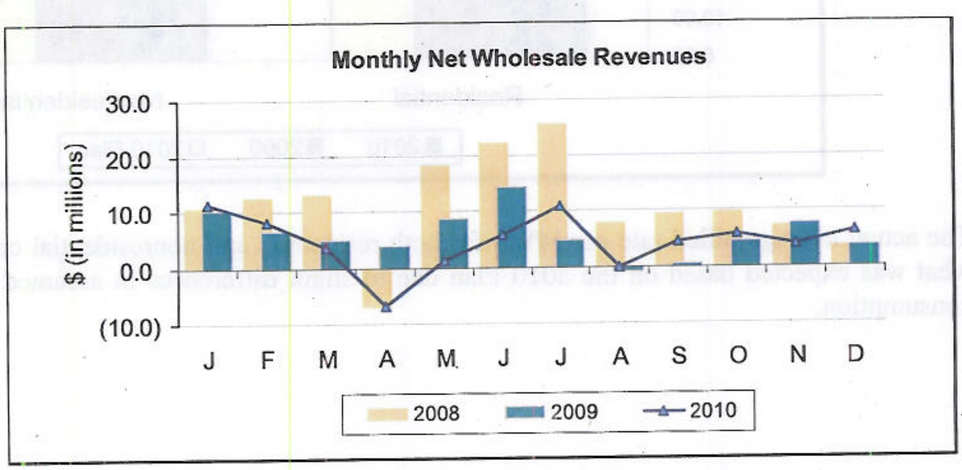
Net Short-Term Wholesale Energy



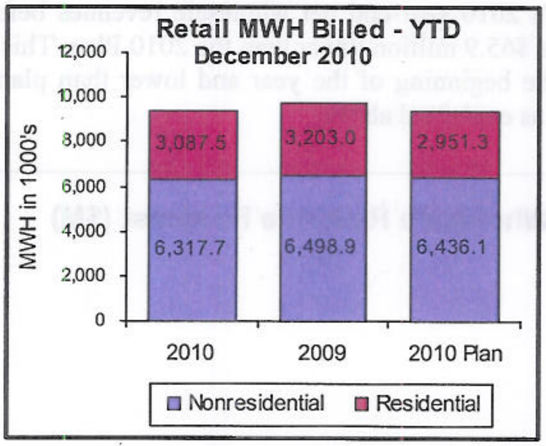
The projections of net short-term wholesale energy sales change weekly due to changes in water conditions, economic factors such as the price of natural gas, system load and the availability of surplus energy for resale. The chart below shows forecasted distribution for net short-term wholesale revenues before booked-out long-term purchases for 2010. City Light's 2010 year-end net wholesale revenues before booked-out long-term purchases are $54.1 million, which is $65.9 million lower than the 2010 Plan. This large decrease is due to extremely dry hydro conditions in the beginning of the year and lower than planned wholesale electricity prices in the second part of the year, as explained above.

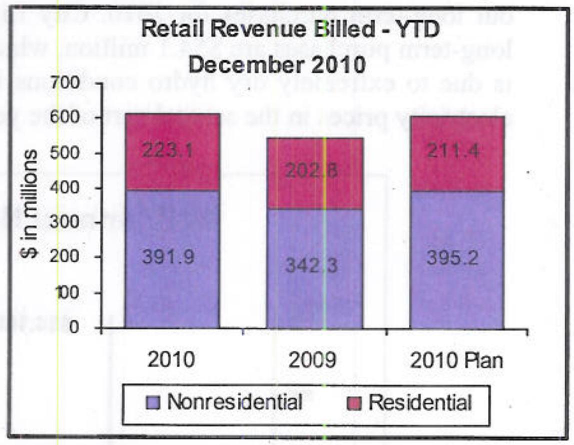


The net wholesale revenues for the month of December 2010 were $6.3 million, an increase of $2.8 million over the same period last year. City Light had about three and a half times more surplus energy available for sale in December 2010 than in December 2009. Even though prices in December 2010 were significantly lower than in December 2009, the Department's large energy surplus outweighed the lower price effect and the end result was higher net wholesale revenue.



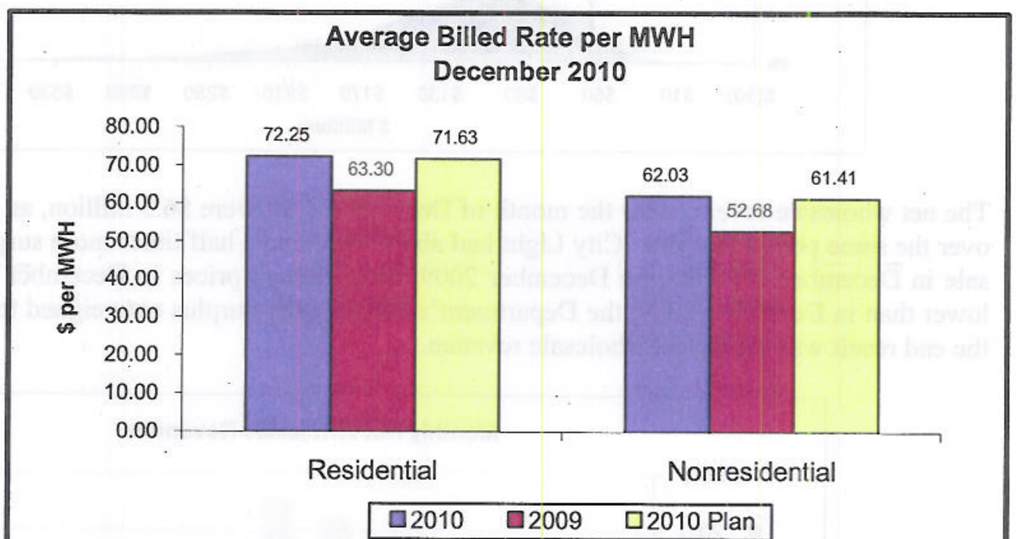
Retail Power Revenues
The charts that follow present selected data on 2010 retail power revenues.





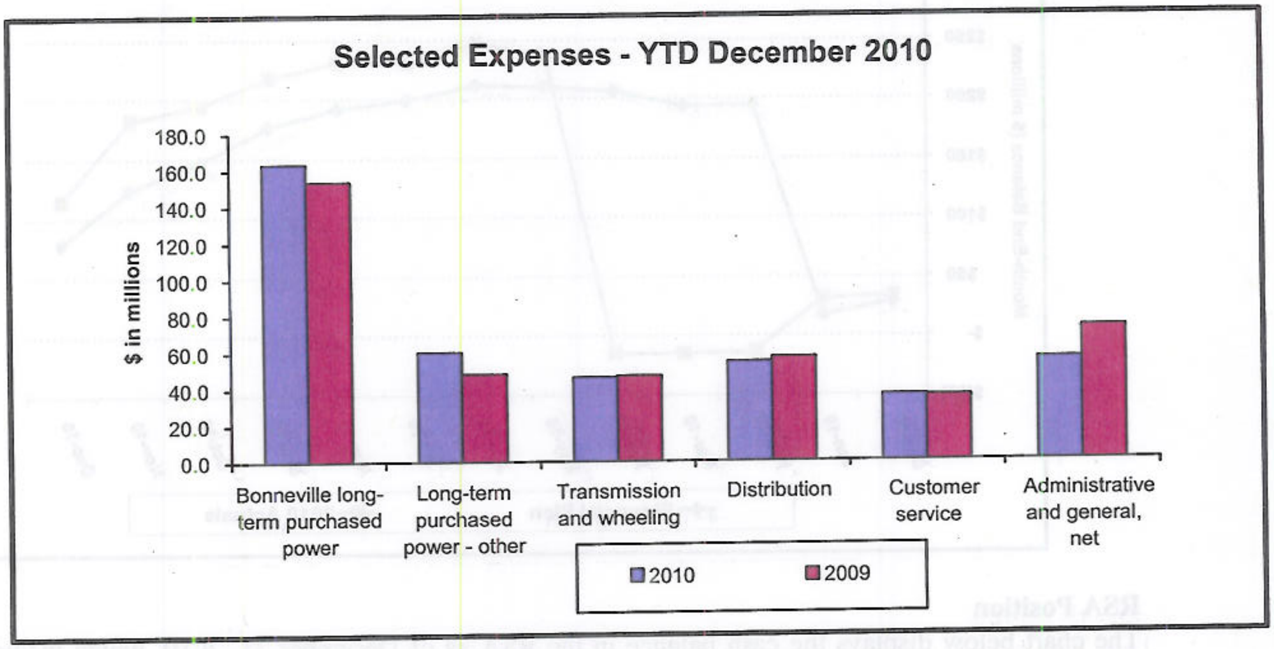
* Bills lag consumption by one to two months

2010 retail revenues are $79.1 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. 2010 retail revenues are also $12.3 million higher than the 2010 Plan mainly due to the implemented RSA surcharge of 4.5%. The surcharge was lifted on January 1, 2011.



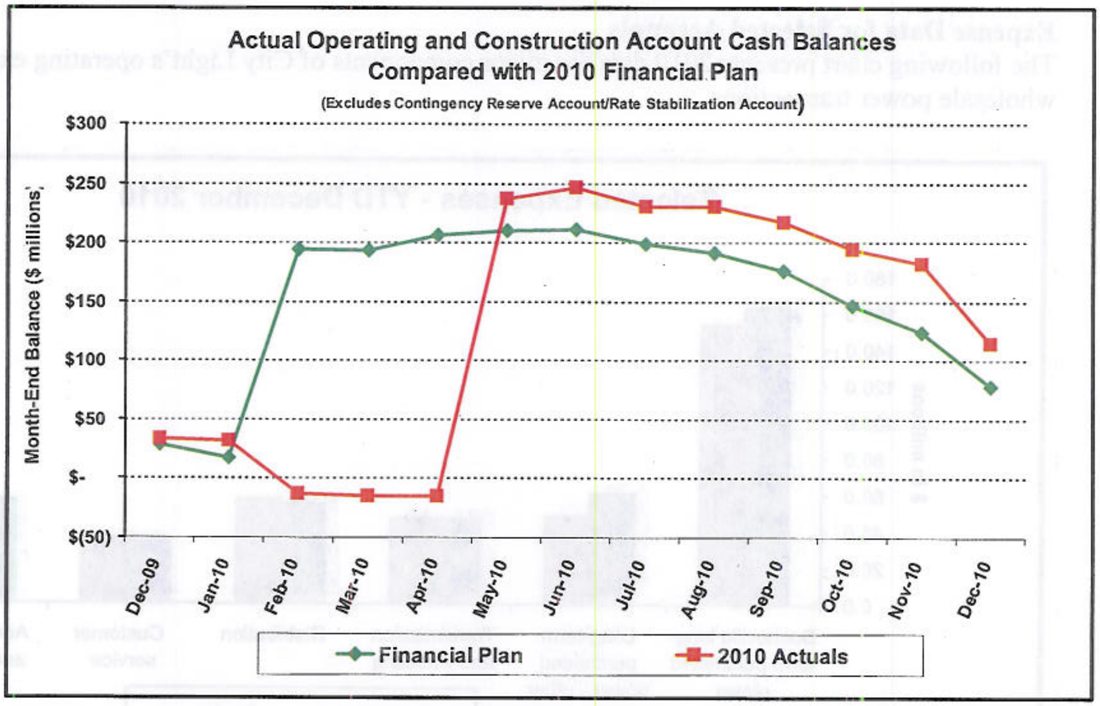
The actual average billed rate per MWh for both residential and nonresidential customers is different from what was expected based on the 2010 Plan due to slight differences in assumed versus actual patterns of consumption.

Expense Data for Selected Accounts
The following chart presents 2010 data for major components of City Light's operating expenses excluding wholesale power transactions.



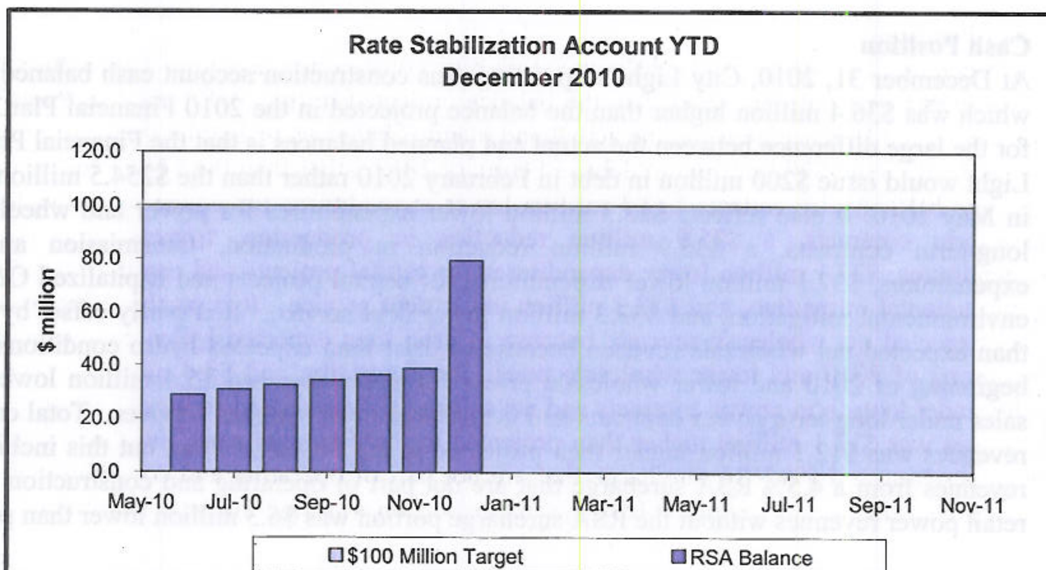
Bonneville expenses are higher in 2010 as compared to 2009 primarily due to higher BPA Block and Slice purchases and reduced amounts of Residential Exchange Credits. Other long-term purchased power expenses are higher due to an increase in the valuation of non-cash power transactions and increased purchases from Priest Rapids and Columbia Ridge as compared to 2009. Lower distribution and administrative and general expenses reflect budget reductions adopted in mid-2010.

Cash Position
At December 31, 2010, City Light's operating plus construction account cash balance was $113.9 million, which was $36.4 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. It also reflects $22.3 million lower expenditures for power and wheeling purchased under long-term contracts, a $35.9 million reduction in production, transmission and nonpower O&M expenditures, $37.1 million lower expenditures for capital projects and capitalized O&M expenditures for environmental mitigation, and $32.3 million lower debt service. It is partly offset by $65.8 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 $5.4 million lower cash revenue from sales under long-term power contracts and net sales of power-related services. Total cash from retail power revenues was $12.1 million higher than projected in the Financial Plan, but this included $18.3 million in revenues from a 4.5% RSA surcharge that are not part of operating and construction accounts. Cash from retail power revenues without the RSA surcharge portion was $6.3 million lower than planned.



RSA Position

The chart below displays the cash balance in the RSA as of December 31, 2010, which includes the $25 million Contingency Reserve and revenues collected from the 4.5% surcharge implemented on May 1, 2010. 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.



2010 Budget – Year-end
City Light was within its budget authority in 2010 and achieved the savings targets identified in April 2010. To improve the utility's financial position, City Light identified approximately $9.0 million in O&M budget reductions and $30.8 million in Capital budget savings for 2010. We actually achieved $15 million in O&M savings and $73.7 million in CIP savings. The budget savings were removed from each Division's budget and sequestered to monitor progress in achieving the planned reductions. The budget savings were achieved through curtailing non-mandated overtime and travel costs, deferring maintenance and effectively monitoring O&M spending.

The Department spent 86% 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 year-end. With the planned savings removed from the adjusted 2010 Non-Power O&M budget, the Department spent 98% of available funds through year-end. City Light achieved 95% spending on the Capital program work plan in 2010. The 2010 Capital work plan has met the objectives of limiting spending while responding to customer requests and maintaining the electrical infrastructure.

Debt-to-Capitalization
At December 31, 2010 City Light's debt-to-capitalization ratio was 64.3%, an increase from the 62.6% reported at December 31, 2009.

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 December 2010, with 2009 data included for comparison, is attached.

Attachments

Net Income Variance Analysis
December 2010

Variance Year-to-Date 2010 Compared to 2009 Actuals: ($3.8) million or (11.1%)

Major components ($ millions):

$34.2	Net Income YTD through December 31, 2009
($14.3)	Lower net surplus energy sales due to extremely dry hydro conditions early in the year
$79.1	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
($54.3)	RSA deferred revenues
$6.2	Lower generation fees due to favorable court decision regarding FERC land use fees
($9.6)	Higher BPA purchased power for block and slice
($12.0)	Higher purchased power costs for Priest Rapids and renewable energy contracts
$17.0	Lower administrative and general, net, including lower risk management expenses
($8.1)	Higher City Occupation and State Public Utility taxes, due to higher retail electric revenues
$6.4	Lower interest expense as a result of refunding higher interest rate bonds
($14.2)	Lower capital contributions
$30.4	Net Income YTD through December 31, 2010

Variance 2010 Actuals Compared to Financial Plan: ($75.1) million or (71.2%)

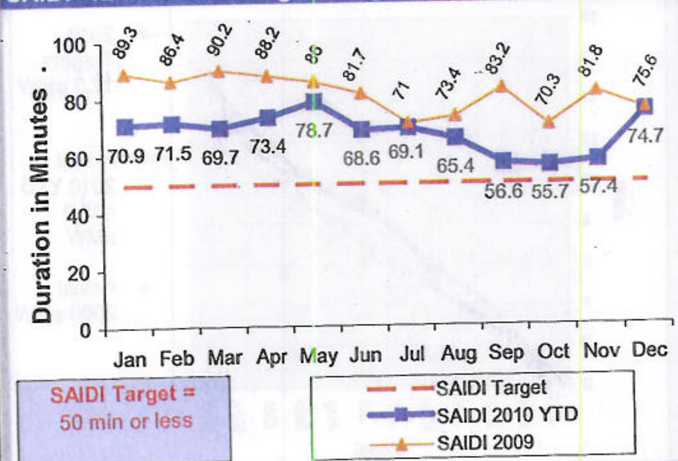
Major components ($ millions):

$105.5	Net Income YTD through December 31, 2010 - Financial Plan
($65.9)	Lower net surplus energy sales, due to extremely dry hydro conditions early in the year
$12.3	Higher retail revenues due in part to 4.5% surcharge effective May 1, 2010
($54.3)	RSA deferred revenues
$9.2	Lower generation mainly due to favorable court decision regarding FERC land use fees
$8.1	Lower transmission and wheeling
$6.8	Lower distribution
$6.3	Lower administrative and general, net
$8.8	Lower interest expense as a result of refunding higher interest rate bonds
($15.5)	Lower capital contributions partially offset by higher grants
$9.1	Other (net)
$30.4	Net Income YTD through December 31, 2010 - Actual

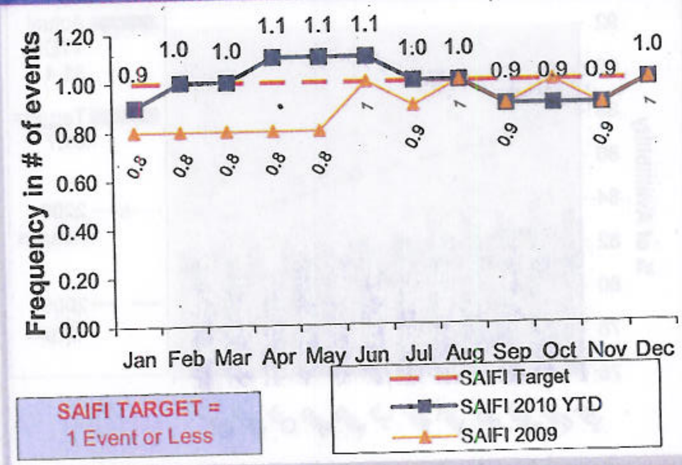
Line No.	Condensed Statements of Revenues and Expenses	Year-to-date [A] Actuals December 31, 2010	Year-to-date [B] Actuals December 31, 2009	Year-to-date [A - B] Actuals to Actuals Variance	Year Ending December 31, 2010 [D] 2010 Financial Plan	Year Ending December 31, 2010 [A - D] Change
1	**(Unaudited)**					
2	(In millions)					
3						
4						
5	**Operating Revenues**					
6	Retail power revenues	$ 624.2	$ 545.1	$ 79.1	$ 611.9	12.3
7	S-T wholesale power revenues, net (lines 42 + 45)	74.5	88.7	(14.2)	144.4	(69.9)
8	Power-related revenues - other	66.7	66.7	-	86.7	(20.0)
9	Transfers To/From Rate Stabilization Account	(54.3)	0.0	(54.3)	0.0	(54.3)
10	Other revenues	21.9	22.6	(0.7)	20.4	1.5
11	Total operating revenues	733.0	723.1	9.9	863.4	(130.4)
12	**Operating Expenses**					
13	Generation	22.4	28.6	(6.2)	31.6	(9.2)
14	Bonneville long-term purchased power	163.3	153.7	9.6	166.4	(3.1)
15	Long-term purchased power - other	60.3	48.3	12.0	61.8	(1.5)
16	Short-term wholesale power purchases	24.5	24.6	(0.1)	34.5	(10.0)
17	Power-related wholesale purchases - other	25.1	27.7	(2.6)	35.9	(10.8)
18	Other power costs	10.2	8.4	1.8	9.7	0.5
19	Transmission and wheeling	46.3	47.1	(0.8)	54.4	(8.1)
20	Distribution	54.6	57.0	(2.4)	61.4	(6.8)
21	Customer service	36.1	35.7	0.4	34.9	1.2
22	Conservation	16.8	16.9	(0.1)	22.7	(5.9)
23	Administrative and general, net	56.1	73.1	(17.0)	62.4	(6.3)
24	Taxes	70.4	62.3	8.1	69.7	0.7
25	Depreciation and amortization	86.4	80.7	5.7	88.6	(2.2)
26	Total operating expenses	672.5	664.1	8.4	734.0	(61.5)
27						
28	**Net Operating Income**	**60.5**	**59.0**	**1.5**	**129.4**	**(68.9)**
29						
30	**Other Deductions, Net**					
31	Investment Income	2.7	2.6	0.1	4.4	(1.7)
32	Other income (expense), net	3.0	(1.0)	4.0	0.8	2.2
33	Interest expense	(65.1)	(71.5)	6.4	(73.9)	8.8
34	Capital contributions	21.7	35.9	(14.2)	43.3	(21.6)
35	Grants	7.6	9.2	(1.6)	1.5	6.1
36	Total other deductions, net	(30.1)	(24.8)	(5.3)	(23.9)	(6.2)
37						
38	***Net Income***	**30.4**	**34.2**	**(3.8)**	**105.5**	**(75.1)**
39						
40						
41	**Note A:**					
42	Short-term wholesale energy sales, gross	78.6	93.0	(14.4)	154.4	(75.8)
43	Short-term wholesale energy purchases	(24.5)	(24.6)	0.1	(34.5)	10.0
44	**Net ST wholesale sales before booked-out LT purchases**	**54.1**	**68.4**	**(14.3)**	**120.0**	**(65.9)**
45	Booked-out long term purchases	(4.1)	(4.3)	0.2	(10.0)	5.9
46	Net short-term wholesale energy sales	**50.0**	**64.1**	**(14.1)**	**110.0**	**(60.0)**
47						

Distribution Operations:

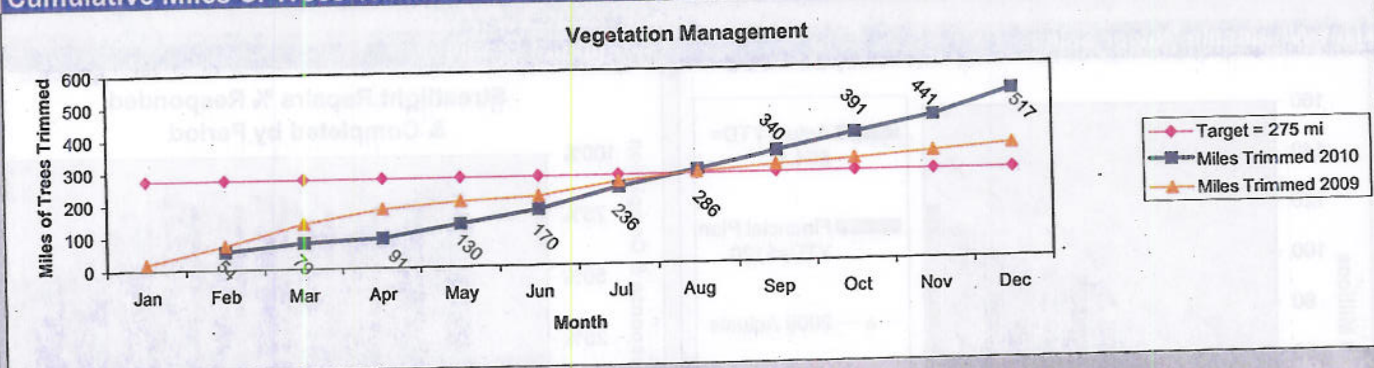
SAIDI -12 Month Rolling Average YTD



SAIFI - 12 Month Rolling Average YTD

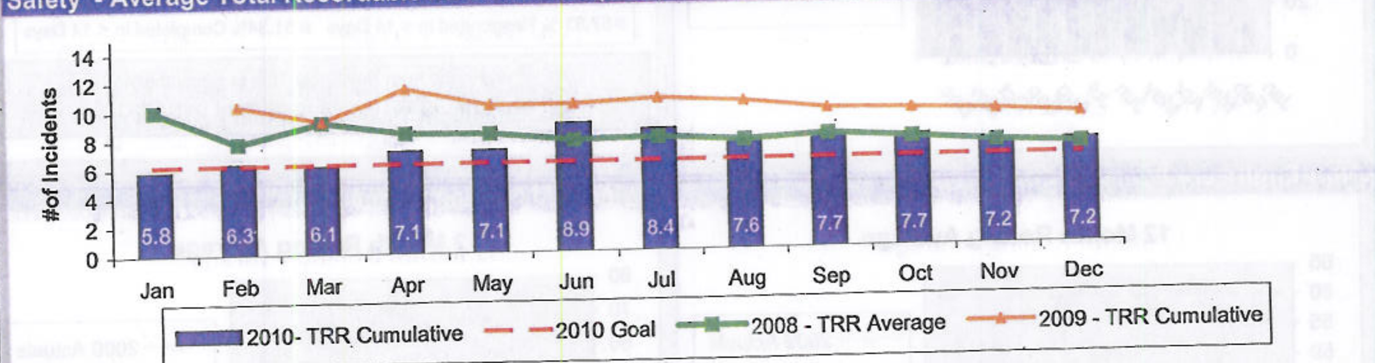


Cumulative Miles of Trees Trimmed vs Annual Target



Human Resources:

Safety - Average Total Recordable Incident Rate (TRR) YTD



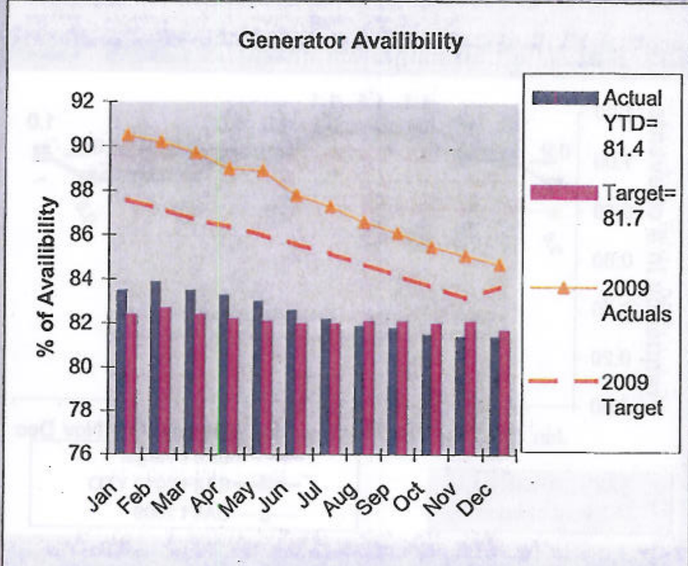
Note: Safety Metrics are only through October due to technical problems with systems

Hiring Statistics Cumulative YTD

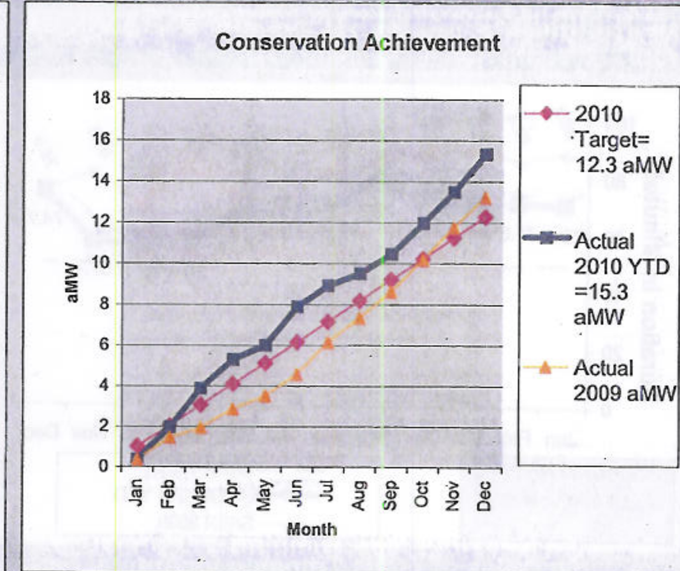
	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
# of New Hires YTD	3	6	12	14	16	18	24	28	30	33	39	41
# of Promotions YTD	5	7	13	17	20	26	30	32	50	58	61	63
# of Days for Hiring Process	41	38	40	37	36	35	38	41	43	47	45	47
Vacancy Rate Mo. End	8.6%	8.2%	8.2%	8.9%	9.1%	9.9%	9.9%	10.0%	10.1%	10.3%	10.5%	10.9%

Power Resources:

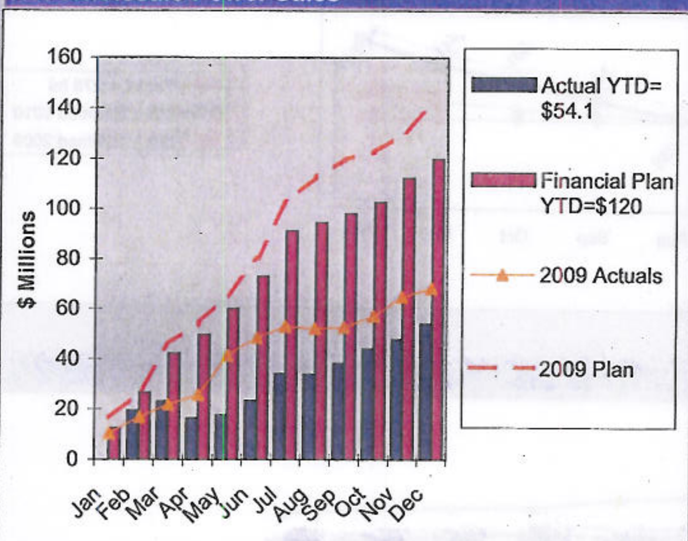
Generator Availability-12 Month Rolling Average



Conservation Savings

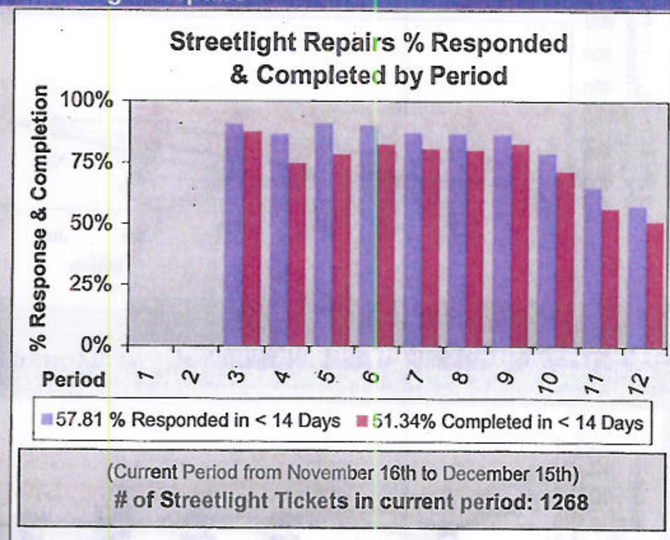


Net Wholesale Power Sales

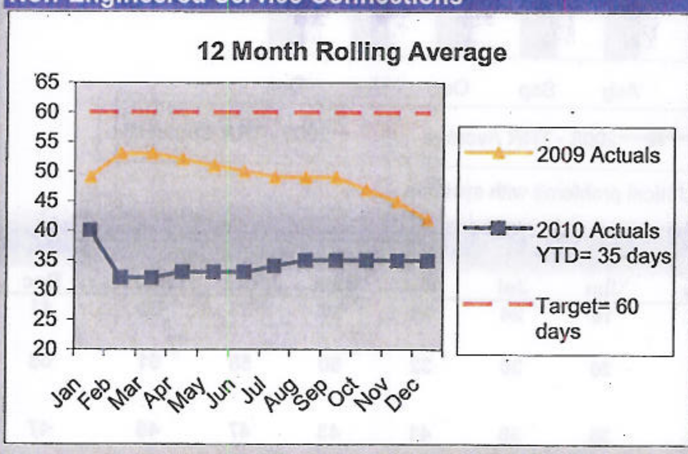


Customer Care:

Streetlight Repairs



Non-Engineered Service Connections



Engineered Service Connections