

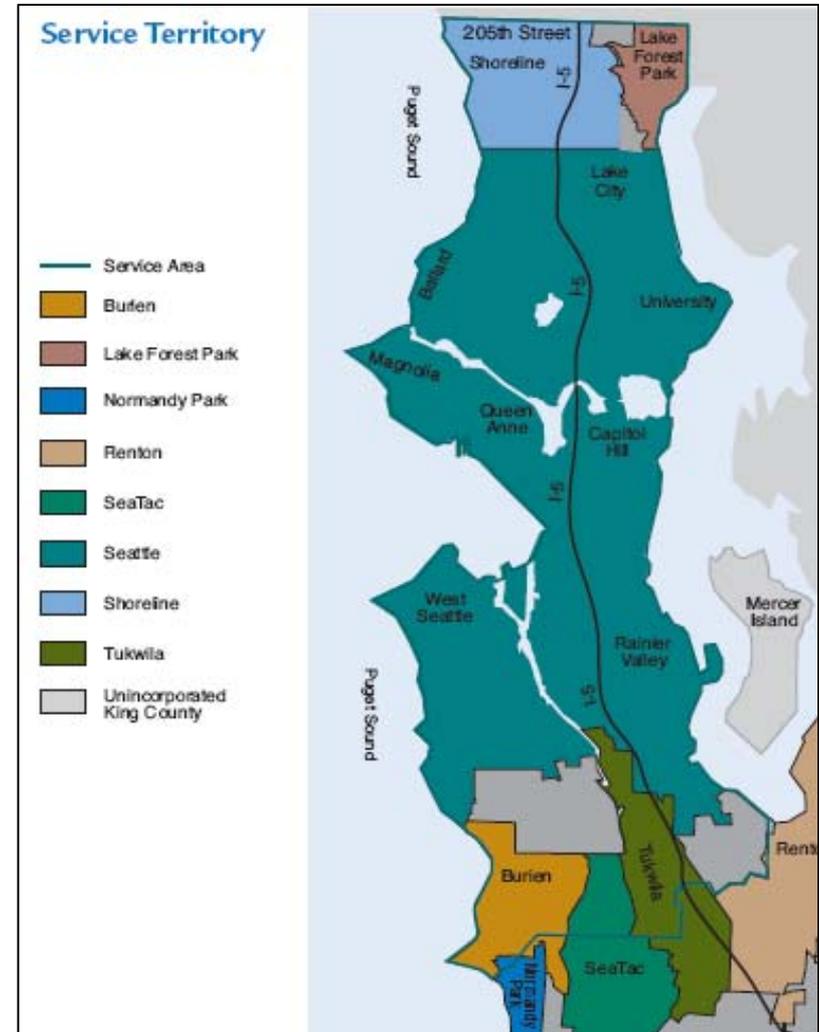


Introduction to City Light

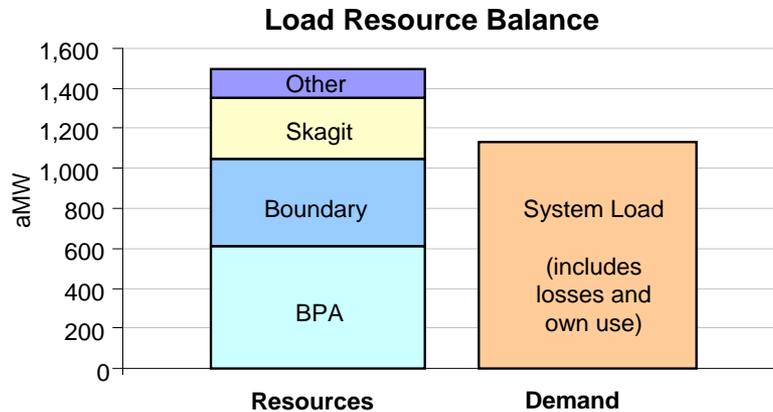
Presentation to Review Panel
May 27, 2010

Seattle City Light: municipally-owned electric utility, department of the City of Seattle

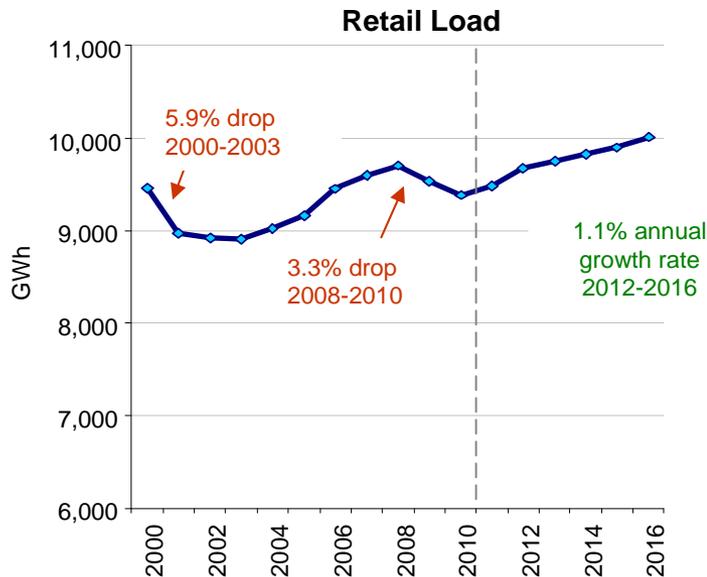
- City of Seattle UTGO ratings:
Aaa/AAA/AAA
- City Light distributes power to customers in a compact 131-square-mile service territory
- Includes the City of Seattle and seven neighboring suburban franchise areas
- Service area population: 750,200
- 394,731 customer accounts served in 2009
- 10th largest public power utility by customers served and largest in the Northwest
- Rates and financial policies are set by the Seattle City Council
 - No oversight by WUTC



City Light maintains a surplus of resources to ensure retail load is reliably met

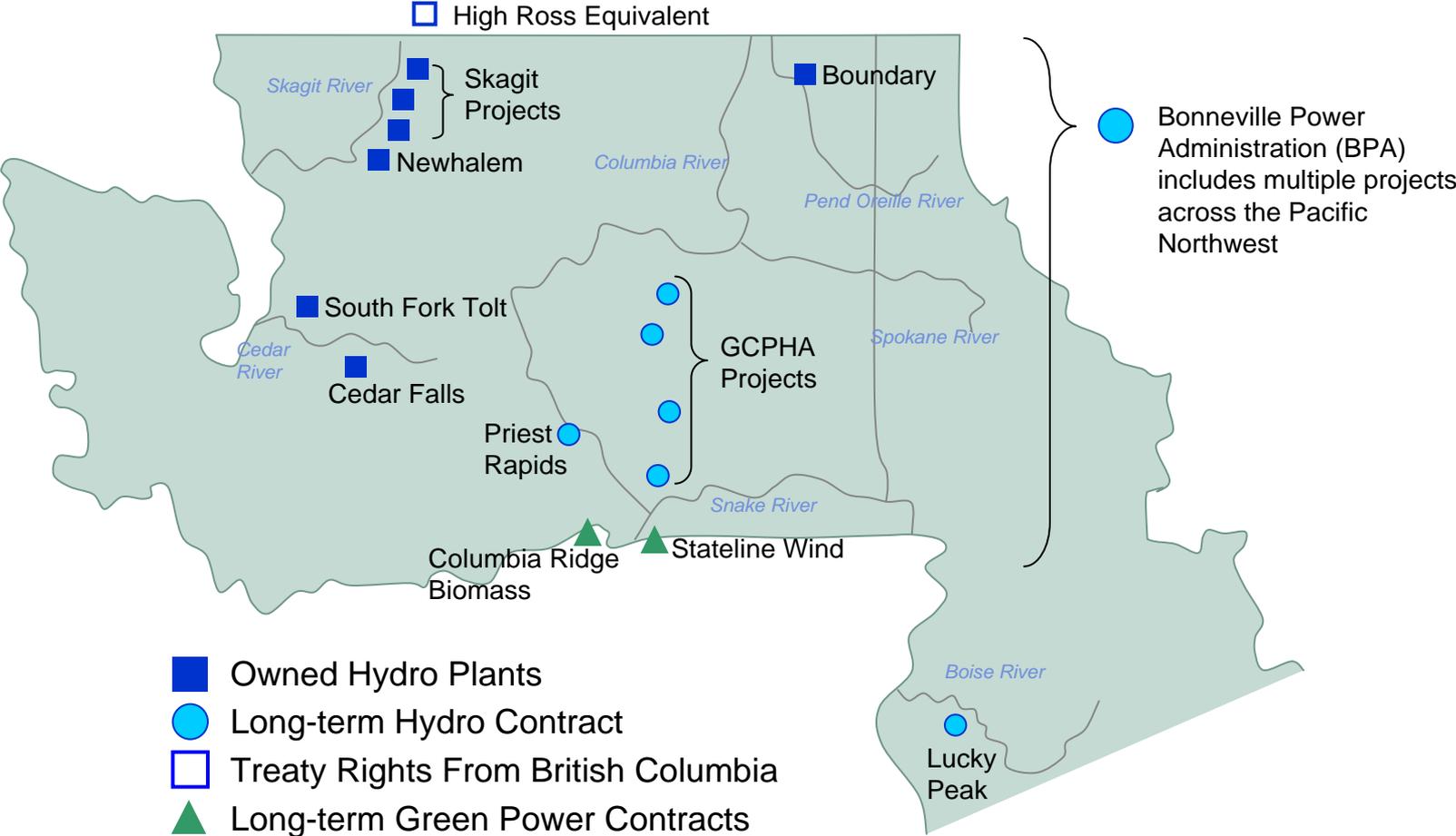


- Under average hydro conditions, City Light’s three major resources provide 119% of the energy needed to meet current retail demand and are sufficient to meet projected demand through at least 2020.
- City Light’s resources are spread throughout the Northwest, and consist primarily of low-cost hydro electric resources.
- City Light’s owned transmission and contracts exceed its peak load requirements.



- Retail demand is 67% non-residential and 33% residential.
- Decline in electricity consumption has been smaller during this recession than during the previous one.

City Light resources are spread throughout the Northwest



Boundary Hydroelectric Project

- Located on the Pend Oreille River in the northeastern corner of Washington State.
- Nameplate capacity: 1,070 MW
- 48 MW delivered to Pend Oreille PUD
- Produces about 3.8 million MWh annually under average water conditions
- Supplied 27% of City Light's total resources in 2009
- Current license expires on September 30, 2011.
- On March 29, 2010, the Department filed a settlement and revised application for a new license with FERC.



Skagit Hydroelectric Project

- Ross, Diablo and Gorge dams on the Skagit River in northwestern Washington work as a system.
- Nameplate capacity: 802 MW
- Produces 2.7 million MWh annual under average water conditions
- Supplied about 20% of City Light's total resources in 2009
- Project was relicensed in 1995; the 30-year license expires in 2025.



BPA Slice and Block Contracts

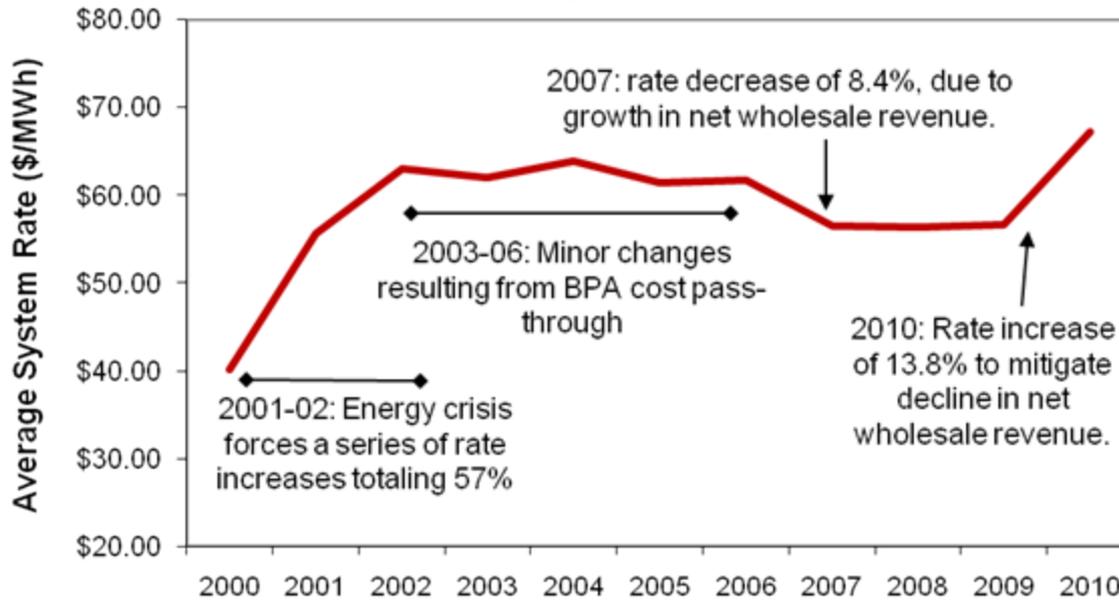
- City Light is a Bonneville Power Administration (BPA) preference customer, meaning that it may purchase power from BPA at cost. BPA accounted for 39% of City Light's total resources in 2009.
- Under average water conditions, BPA supplies City Light with approximately 5.4 million MWh
- The Block contract currently provides for the delivery of a shaped monthly load of 237 annual aMW. This energy is guaranteed and is not dependent on water conditions.
- The Slice contract provides a fixed 4.67% of the BPA output in exchange for paying the same percentage of system costs. This amount fluctuates with water conditions.
- Under average water conditions, the Slice Product provides approximately 373 annual aMW of energy.
- The new BPA contract starts in 2011 and runs through 2028. Current BPA Block and Slice contracts extend until September 30, 2011.
- Under the new contract, City Light's Slice percentage will be 3.66% and the Block will be approximately the same, with energy received totaling approximately 505 aMW under critical water conditions.

Conservation and renewable resources

- Cumulative annual conservation savings since 1977: approximately 1,138,800 MWh or 130 aMW as of 2009.
- Five-Year Conservation Plan 2008-2012: 574 GWh (65.5 aMW) accumulated savings over five years.
- I-937-compliant renewable resources = estimated 5% of retail load in 2010: Stateline Wind (47 aMW), Columbia Ridge (6 aMW), Burlington SPI Biomass (3 aMW)
- I-937 requirements for 2012 target will be met with existing resources. An additional 43 aMW in resources or RECs will be needed to meet the 2016 target, plus 76 aMW for 2020.
- City Light is currently evaluating incremental renewable resources and conservation to meet future load growth
- Greenhouse-gas neutral since 2005.

City Light's customers' bills are among the lowest in the region and the country

City Light Rate History



Local Utility	2009 Avg System Rate (cents/kwh)
1. Tacoma ⁽¹⁾	5.57
2. Seattle (2010) ⁽¹⁾	6.83 ⁽²⁾
3. Snohomish ⁽¹⁾	7.42
4. Avista	7.87
5. Puget Sound Energy	9.02
6. Portland General	9.11

- Per Washington State law, City Light cannot use rate revenue to fund general City improvements.
 - In 2002, a court ruling specifically prohibited City Light from using ratepayer funds to pay for City streetlights.
- BPA rates are automatically passed through per City Council ordinance.

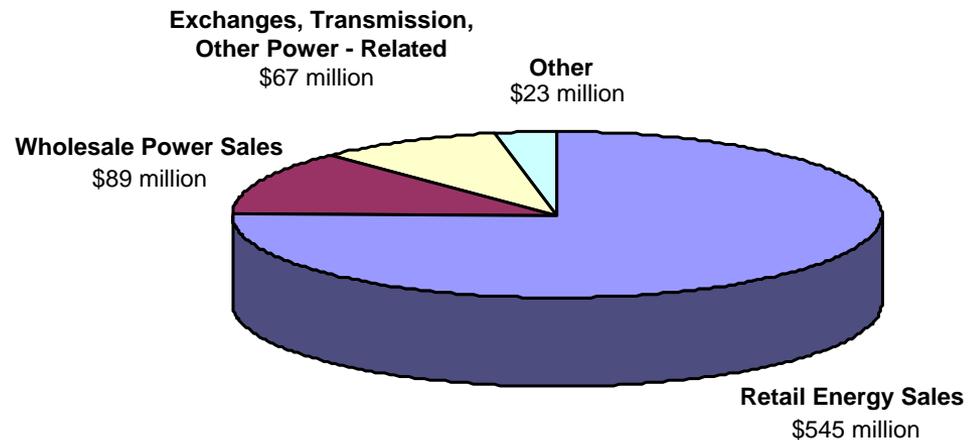
(1) Publicly owned.

(2) Includes temporary surcharge to fund RSA, effective May 1, 2010.

City Light's revenues are primarily distribution-based

- Retail energy sales accounted for 75% of City Light's revenues in 2009
- Top 10 customers, from diverse business sectors, make up only 17% of total retail revenues
- Wholesale energy sales are a substantial but variable revenue source
 - Revenues depend on hydro run-off and natural gas prices in the Northwest
 - City Light forecasts both factors conservatively
 - Creation of Rate Stabilization Account further limits City Light's wholesale market exposure

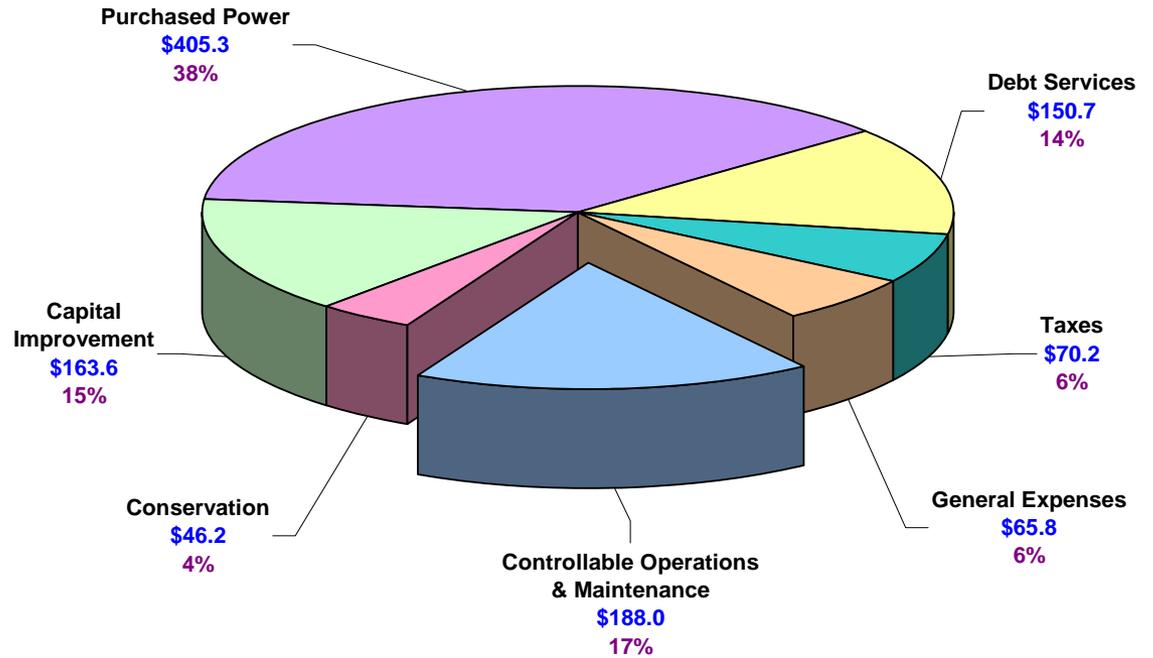
Total 2009 Revenue = \$723 million



City Light's Expenditures

Seattle City Light 2010 Adopted Budget

- Controllable expenditures are a relatively small portion of the overall budget
- O&M Spending has been reduced by 12.5% from the level established in the 2010 endorsed budget



Historical Operating Results

	2005	2006	2007	2008	2009
Operating Revenues:					
Retail Energy Sales in Seattle Service Area	\$ 562,548	\$ 583,114	\$ 542,363	\$ 547,884	\$ 545,111
Wholesale Power Sales	149,650	176,244	161,155	169,049	88,650
Other Revenue	36,355	72,452	129,007	160,460	89,367
Total Revenue	\$ 748,553	\$ 831,810	\$ 832,525	\$ 877,393	\$ 723,128
Operating Expenses Before Debt Service:					
Wholesale Market Purchases	\$ 62,214	\$ 47,361	\$ 33,431	\$ 52,501	\$ 24,571
Long-Term Purchased Power Contracts	225,061	210,239	220,195	181,689	202,003
Power Related Purchases	440	22,661	68,047	94,591	27,674
Operating and Maintenance Expenses	201,703	223,941	237,077	261,953	266,940
Taxes (excluding City taxes)	27,224	27,963	25,686	28,007	28,565
Total Operating Expenses Before Debt Service	\$ 516,642	\$ 532,165	\$ 584,436	\$ 618,741	\$ 549,753
Net Operating Revenue	\$ 231,911	\$ 299,645	\$ 248,089	\$ 258,652	\$ 173,375
Other Additions	\$ 17,005	\$ 22,478	\$ 8,333	\$ 19,985	\$ 26,320
Revenue Available for Debt Service	\$ 248,916	\$ 322,123	\$ 256,422	\$ 278,637	\$ 199,695
Debt Service:					
Parity Bonds	127,076	128,230	128,216	128,216	144,805
Subordinate Lien Bonds	6,452	7,613	8,397	7,462	59
Total Debt Service	\$ 133,528	\$ 135,843	\$ 136,613	\$ 135,678	\$ 144,864
Debt Service Ratios					
Times Covered - Parity Bonds	1.96	2.51	2.00	2.17	1.38
Times Covered - Parity and Subordinate Lien Bonds	1.86	2.37	1.88	2.05	1.38

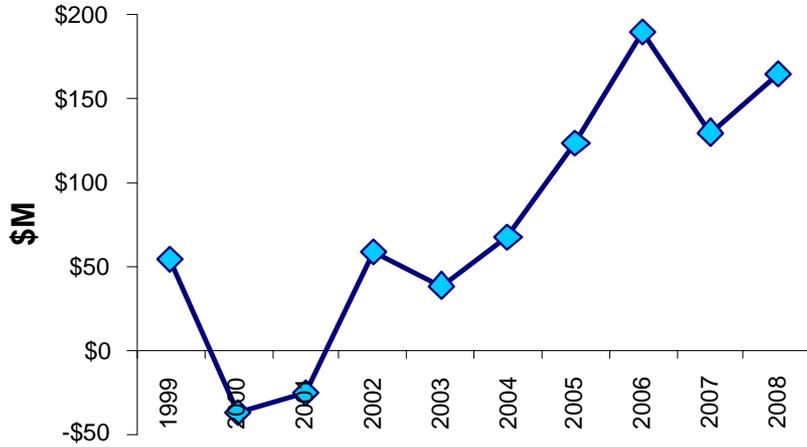
See page 43 in POS for notes to Historical Operating Results table.

In the wake of the 2001 energy crisis, City Light took strategic steps to improve its financial strength

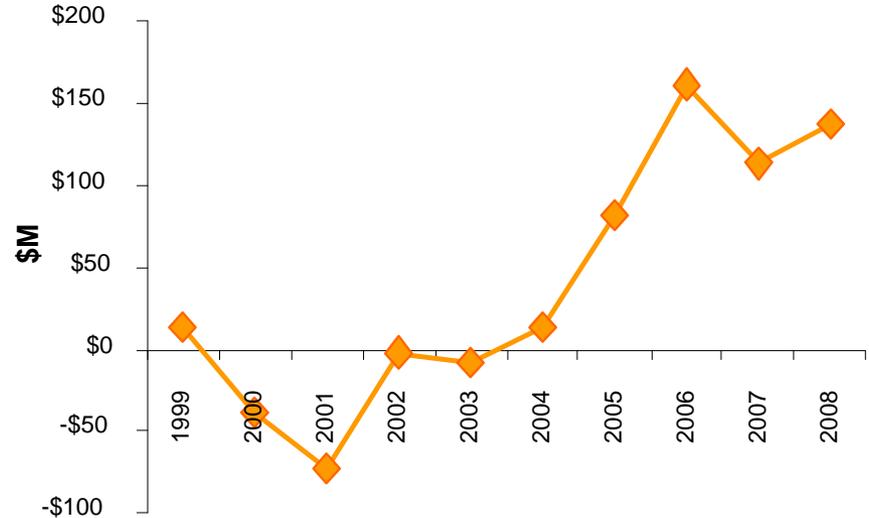
- City Council raised rates substantially and instituted strong financial policies aimed at reducing exposure to energy market risk and improving financial strength.
 - 2.0x planned debt service coverage.
 - 95% confidence of positive cash available to fund capital program.
 - Target of 60% debt to capitalization by 2010.
 - \$25 million contingency reserve fund.
- Resources beyond that needed to meet retail load were acquired, which positioned City Light as a net seller of energy.
 - Long energy position provides a natural hedge against worst-case low hydro / high price scenario.
 - Wholesale energy sales of surplus hydropower provide a substantial source of revenue.
- Strong forecasting, power trading and risk management programs were developed to track and manage energy market risk.

Demonstrated financial results

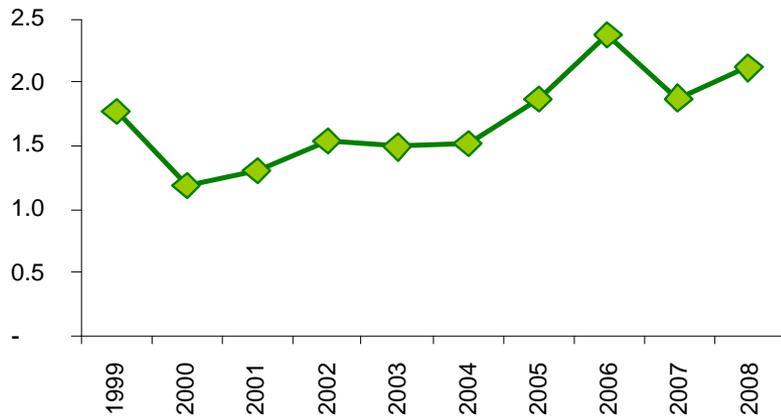
Net Operating Revenue



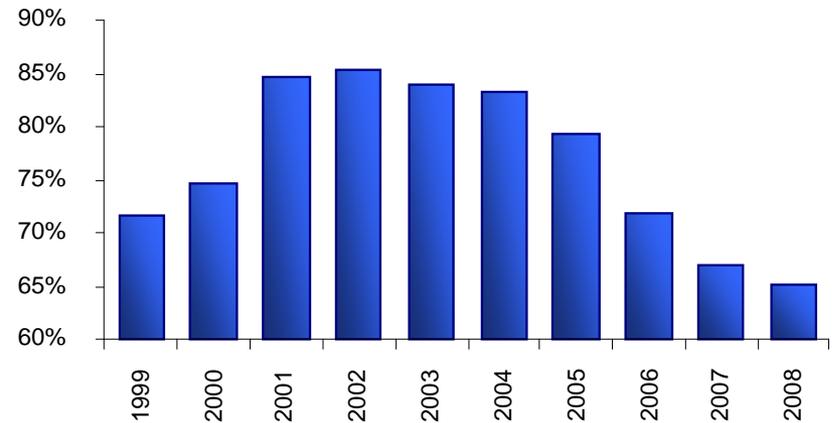
Net Income (Loss)



1st and 2nd Lien Bonds Debt Service Coverage



Debt as Percent of Total Capitalization



Market conditions in 2009 and 2010 led to short-term and longer-term responses

- The economic recession and falling energy prices reduced net wholesale revenues from the \$130-\$140 million range in 2006-08 to \$68 million in 2009.
- Action taken by City Light and the City Council
 - Spending reductions of \$94 million in 2009 helped to preserve operating cash
 - 13.8% rate increase approved for 2010 intended to meet interim financial policies, including 1.80x debt service coverage
 - Changes made to financial policies introduce a mechanism to provide greater financial stability when wholesale revenues deviate from projected amounts
- Record warm winter temperatures and low snowpack are causing City Light to anticipate even lower wholesale revenues for 2010. As a result, debt service coverage in 2010 is expected to be approximately the same as in 2009.

New financial policies enhance financial stability

- City Light's current financial policies established by City Council on March 22, 2010.
- Establishment of a Rate Stabilization Account (RSA) with automatic rate changes to replenish.
 - Target size: \$100 million - \$125 million; to be fully funded by 2011
- Rate setting guideline: 1.8x debt service coverage ratio.
- Debt policy targets funding at least 40% on average of the six-year capital program via cash from operations.
- Policy review at end of year 2011 to ensure RSA's effectiveness at protecting City Light from wholesale revenue volatility.

Rate Stabilization Account will mitigate wholesale revenue uncertainty

- The RSA will be called on to supplement revenue when actual wholesale revenue is below the forecasted amount on which retail rates are predicated. Similarly, incremental wholesale revenues above the baseline will be added to the RSA.
- Prescribed actions when fund falls below:

\$90 million	Automatic 1.5% surcharge
\$80 million	Automatic 3.0% surcharge
\$70 million	Automatic 4.5% surcharge, proceeds to be deposited in RSA
\$50 million	Council must initiate a rate review and determine actions to replenish the RSA to \$100 million within 12 months

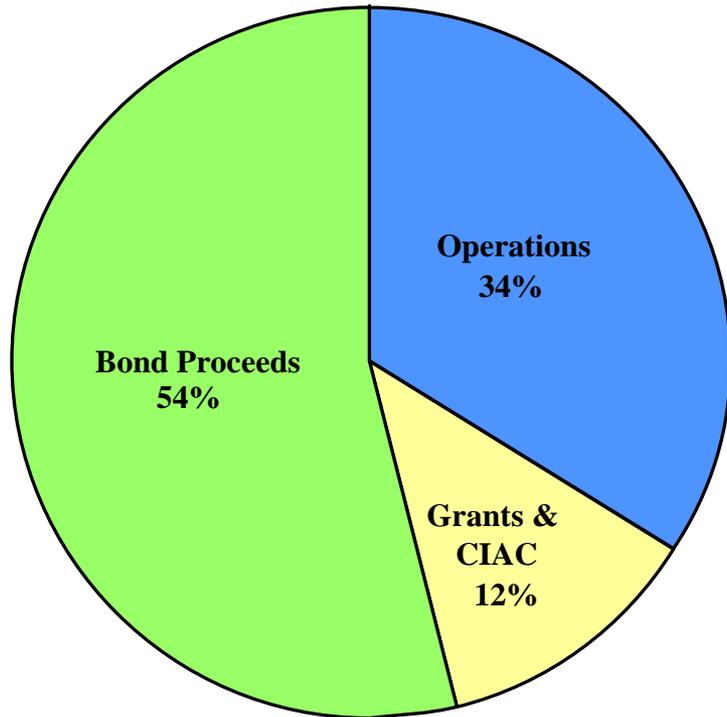
- Automatic 4.5% surcharge effective for 2010, beginning May 1, 2010.

City Light maintains a comprehensive risk management program, with a focus on addressing wholesale energy risk

Area	Details
Wholesale Energy Risk Management	<ul style="list-style-type: none"> ● Objective: slowly and prudently manage energy surplus by forward selling at regular increments. ● City Council-approved policy calls for disciplined and prudent energy trading practices, including trading limits, internal controls, segregation of duties, and compliance assessments. ● Hedging procedures provide multiple layers of risk protection (detailed hedge plans, triggers, testing against risk metric to minimize portfolio risk). Speculative trading is not permitted. ● Risk Oversight Committee reviews compliance with policy weekly. ● Wholesale Credit Management function sets dollar and contract term limits by counterparty with ongoing monitoring of exposures.
Enterprise Risk Management	<ul style="list-style-type: none"> ● Documents and assigns responsibility for addressing other operational and strategic risks facing the Department.
Emergency Response	<ul style="list-style-type: none"> ● Ensures continuity of operations and effective responses to outages and disasters.

6-Year CIP and Funding Sources

6-Year CIP Funding Sources



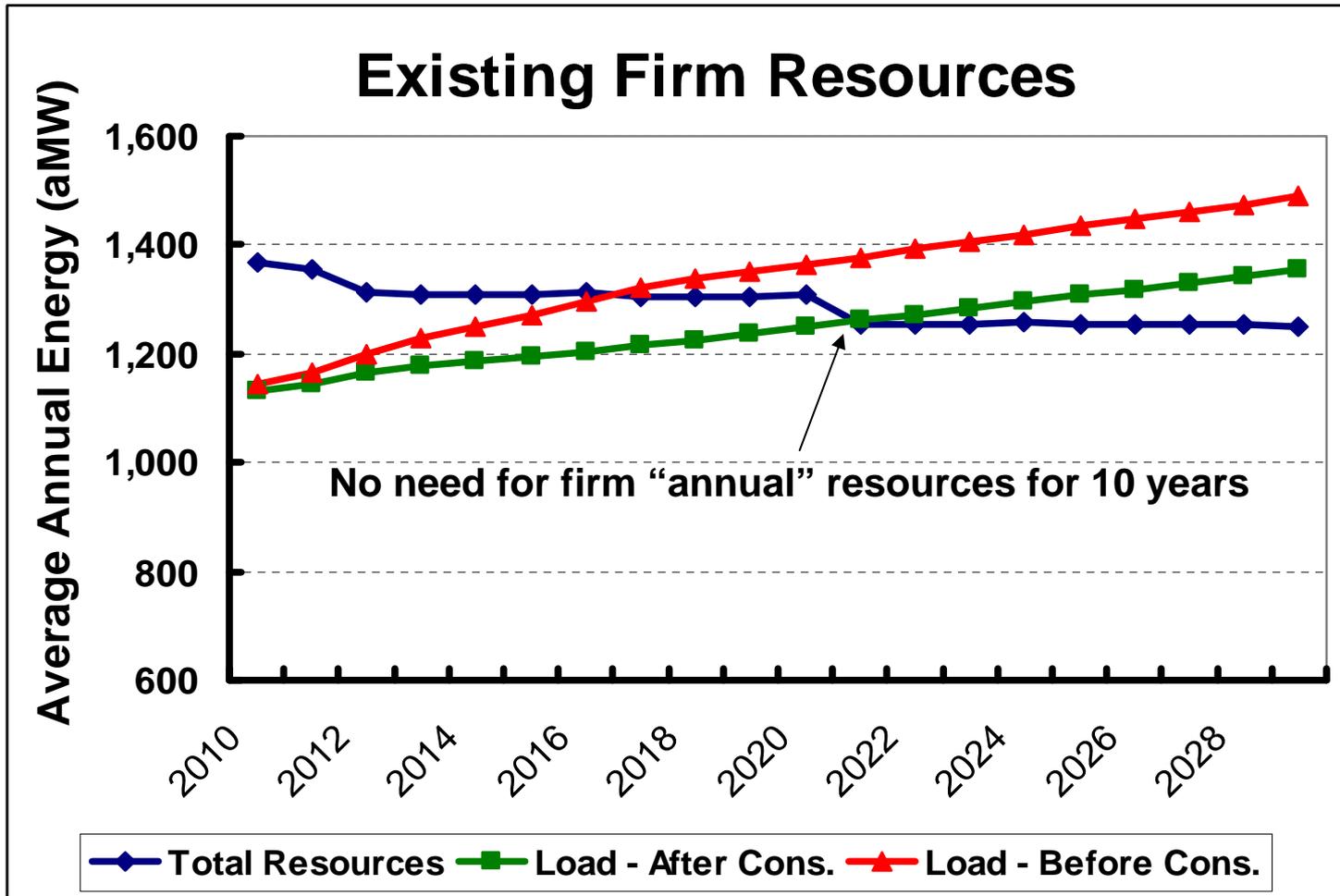
Total CIP (\$000)	
Generation	\$317,346
<ul style="list-style-type: none"> • Boundary powerhouse and licensing • Gorge second tunnel 	
Transmission	12,364
Substations	98,891
Distribution	703,706
<ul style="list-style-type: none"> • Significant capacity additions • Service connections • Alaskan Way Viaduct relocation 	
General Plant	134,165
Total	\$1,266,471

46% of CIP is funded on a pay-as-you-go basis.

Strategic Issues Facing City Light

Strategic objectives:	Progress towards objective
Financial resilience	<ul style="list-style-type: none"> • Actively link budget, rates and strategic planning process • Revised financial policies and enacted Rate Stabilization Account • Enterprise Risk Management maturation
Infrastructure development and maintenance	<ul style="list-style-type: none"> • Conceptual design for Smart Grid and AMI underway; will be completed mid-2010 for budget review • Asset Management Program progressing • Vegetation clearance effectiveness significantly improved • Streetlight program improved
Environmentally responsible, cost-effective power supply	<ul style="list-style-type: none"> • Boundary relicensing in progress • Pursuing cost-effective renewable energy sources and/or RECs to meet I-937 mandates • Achieved conservation goal: Installed measures to save 90,000 MWh annually • Carbon neutral since 2005
High Performance Organization	<ul style="list-style-type: none"> • Electric Utility Workforce Development Plan completed • Business intelligence system continues to add capability

Even assuming critical water conditions, City Light has sufficient resources to meet customer demand



City Light is a leader in conservation and carbon reduction initiatives

- ◆ Cumulative annual conservation savings since 1977: approximately 1,138,800 MWh or 130 aMW as of 2009.
- ◆ 5-Year Conservation Plan 2008-2012: 574 GWh (65.5 aMW) accumulated savings over 5 years.
- ◆ Renewables
 - Stateline Wind: 175 MW contract capacity, average output 45 aMW
 - Columbia Ridge: landfill gas plant, 6 aMW
 - Burlington SPI Biomass, contract average output 3 aMW
- ◆ I-937 requirements for 2012 target will be met with existing resources. An additional 43 aMW in resources or RECs will be needed to meet the 2016 target, plus 76 aMW for 2020.
 - Planned future resources
 - ◆ King County West Point in 2013, 2 aMW
 - ◆ Upgrade 2 turbines at Boundary in 2016, 5 aMW
 - ◆ Upgrade Gorge to add second tunnel in 2016, 5 aMW
- ◆ Greenhouse-gas neutral since 2005

City Light is proactively managing its assets and infrastructure

- ◆ Asset management program vision: manage our assets for the greatest benefit of City Light's customers at lowest lifecycle cost.
 - Comprehensive asset inventory records
 - Pole inspection and replacement program
 - Work management, outage management and asset inventory software
 - Performance metrics and decision process to support investment allocation
- ◆ Five-year implementation plan began in 2008.
 - 2010-12 implementation funded at \$43 million (\$20.4 million CIP).
- ◆ Expected benefits
 - Consistent use of asset information for investment decisions
 - Standard, consistent, repeatable processes with process and performance metrics
 - Customers enjoy higher system reliability, and ultimately lower rates
- ◆ Early Smart Grid planning is already having an impact on asset procurement decisions.

In Summary: City Light's Strengths

- The City of Seattle's UTGO ratings are Aaa/AAA/AAA.
- Seattle's local economy is diverse and resilient.
- A large and diverse distribution system provides stable revenue stream.
- City Light's strong resource portfolio features low-cost hydropower and renewables.
- Since 2001, City Light has maintained a surplus of power to meet customer needs.
- City Light is carbon-neutral and expects to meet future load growth through conservation and renewable energy.
- City Light's rates are among the lowest in the Pacific Northwest and urban America.
- The City Council has acted to adjust rates as necessary to maintain City Light's operational and financial performance.
- City Light has ready access to cash via the City's large investment pool.
- New financial policies enhance financial strength and the Rate Stabilization Account improves revenue stability.