Seattle City Light

Memorandum

DATE: March 12, 2010

TO: Mayor Mike McGinn
Seattle City Council

FROM: Jorge Carrasco Jorge Carrasco

SUBJECT: Financial Update – February 2010

This memo provides an analysis of Seattle City Light's financial condition and operating results through February 28, 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 [1]
February 2010
($ millions)

	Year-to-date Actual		Year End Dec. 31		Revised Forecast change from prior month
	2010	2009	Plan	Revised Forecast	
Retail Power Revenues	$ 114.9	$ 110.5	$ 611.9	$ 604.4	$ (2.4)
Net Wholesale Energy Sales [2] (before booked-out LT purch)	$ 19.5	$ 16.8	$ 120.0	$ 50.2	$ (20.3)
Net Income	$ 25.2	$ 17.6	$ 105.5	$ 39.5	$ (18.2)
Cash Balances					
Operating Cash [3]	$ (14.0)	$ 25.0	$ 77.5	$ 42.2	$ 15.0
Construction Account - Restricted [3]	$ -	$ -	$ -	$ 42.2	$ 42.2
Contingency Reserve Account	$ 25.0	$ 25.0	$ 25.0	$ 25.0	$ -
Debt Coverage Ratio [4]	-	-	1.80	1.61	0.16
Debt to Capitalization Ratio	62.0%	64.3%	61.6%	64.9%	2.7%

(1) Some variables in this table will be deleted (e.g., Contingency Reserve Account) or changed once new financial policies that include creation of a Revenue Stabilization Account are adopted in March 2010.

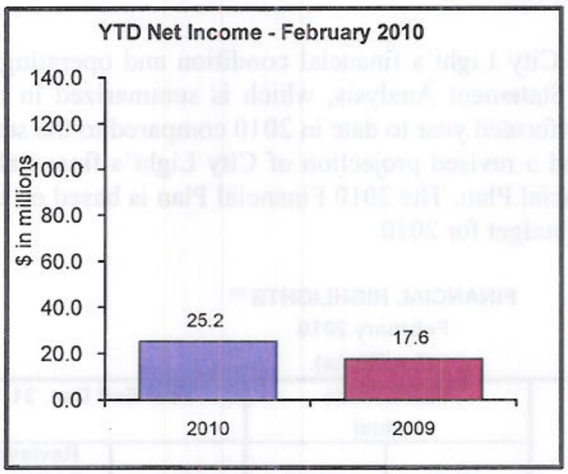
(2) Hydro modeling assumptions have changed since the January 2010 revised forecast.

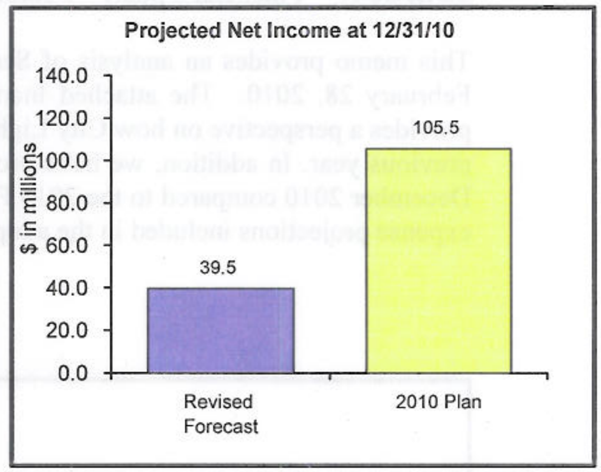
(3) Year-end Cash Balance in Operating and Construction Accounts is forecasted to be $84.4 million. The breakout between the two accounts will depend on if and how the Operating Account is reimbursed (from Bond Proceeds) for Capital Expenditures prior to May 2010. For now we split the $84.4 million between the two accounts evenly.

(4) The Revised Forecast does not reflect transfer of bond refinancing savings to a Revenue Stabilization Account. Once this change has been incorporated the Debt Coverage Ratio will be lower.

Net Income

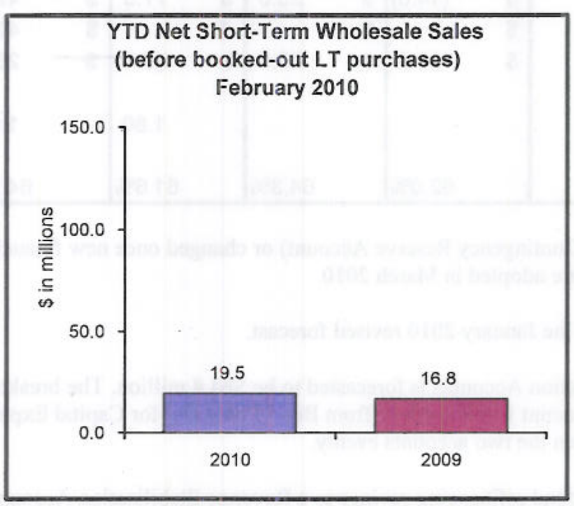
As indicated in the table on the previous page and in the charts below, net income for the period ending February 28, 2010, was $25.2 million which results in a $7.6 million or 43.2% increase over the same time period in 2009. This increase is a result of higher retail revenues due to a 13.8% across-the-board retail rate increase that became effective on January 1, 2010 and higher net surplus energy sales.

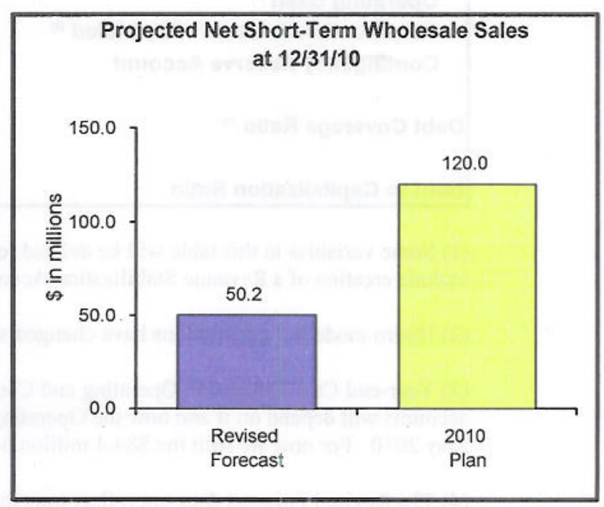




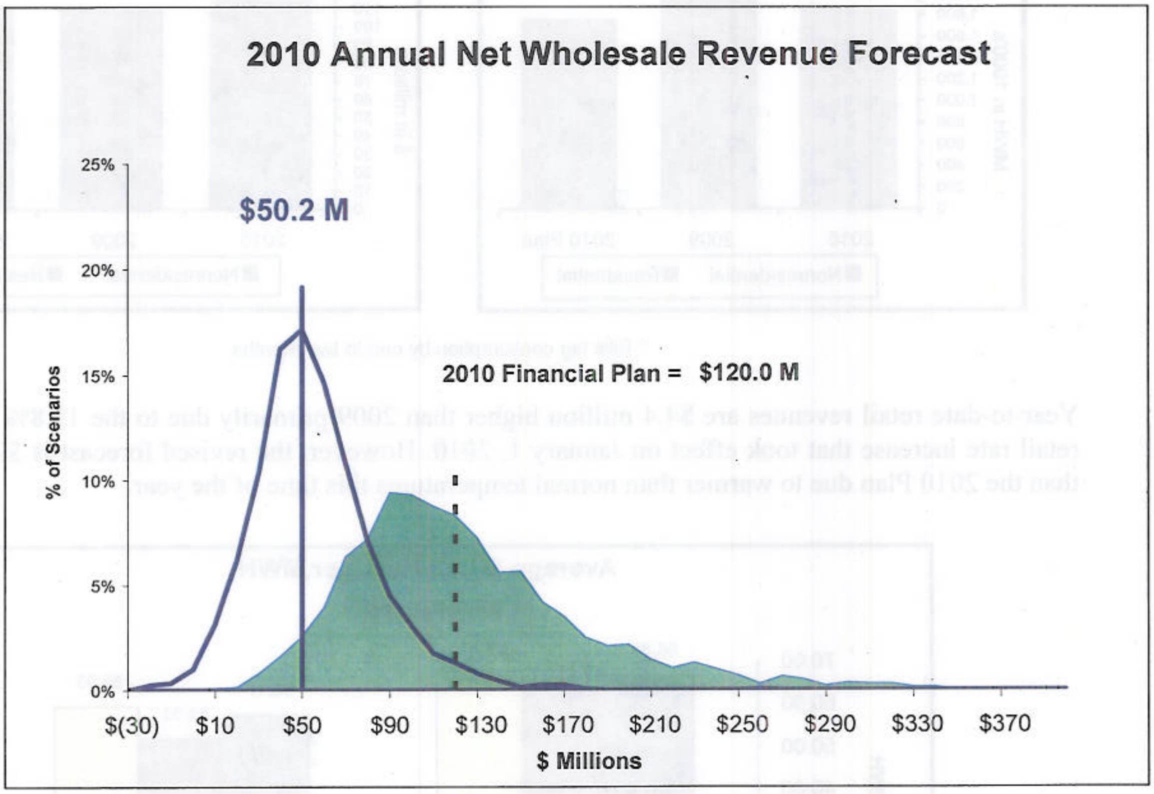
Projected net income at year-end December 31, 2010 is expected to be $39.5 million, a variance to Plan of $66 million or 62.6% lower than anticipated. This large decrease is explained by much lower wholesale revenue projections ($50.2 million versus $120 million in the 2010 Plan) due to drier than expected hydro conditions in the region.

Net Short-Term Wholesale Energy

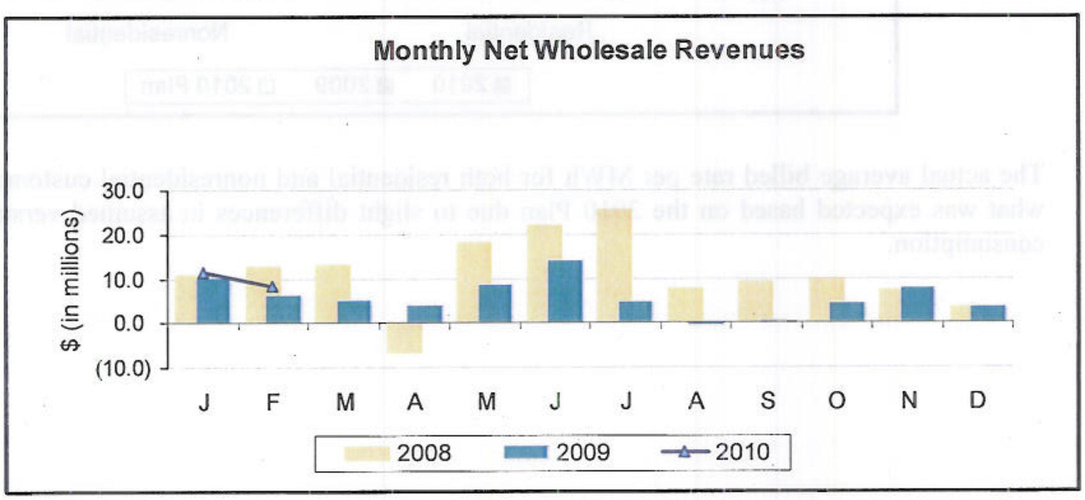




The projections of net short-term wholesale energy sales change weekly due to changes in water conditions, economic factors such as the price of natural gas, system load and the availability of surplus energy for resale. The chart below represents the current forecasted distribution for net short-term wholesale revenues before booked-out long-term purchases (See Note A in the Flash Report) in 2010. City Light's current forecasted year-end net wholesale revenues before long-term booked-out purchases is $50.2 million.

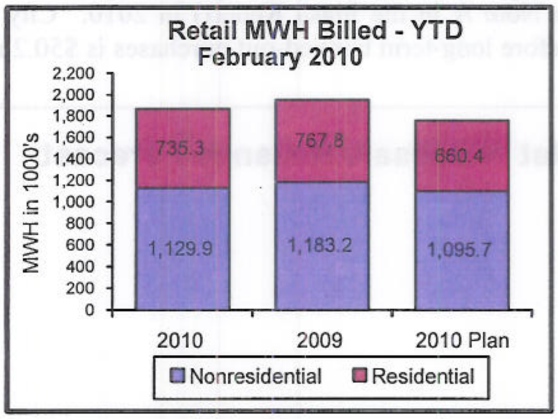


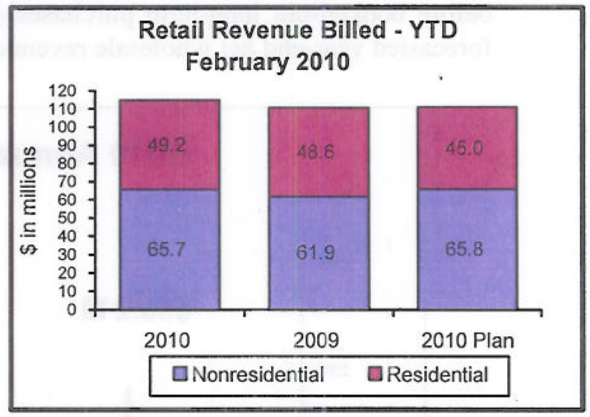
The net wholesale revenues for the month of February 2010 were $1.6 million higher than for the same period last year due to higher net surplus energy sales.



Retail Power Revenues

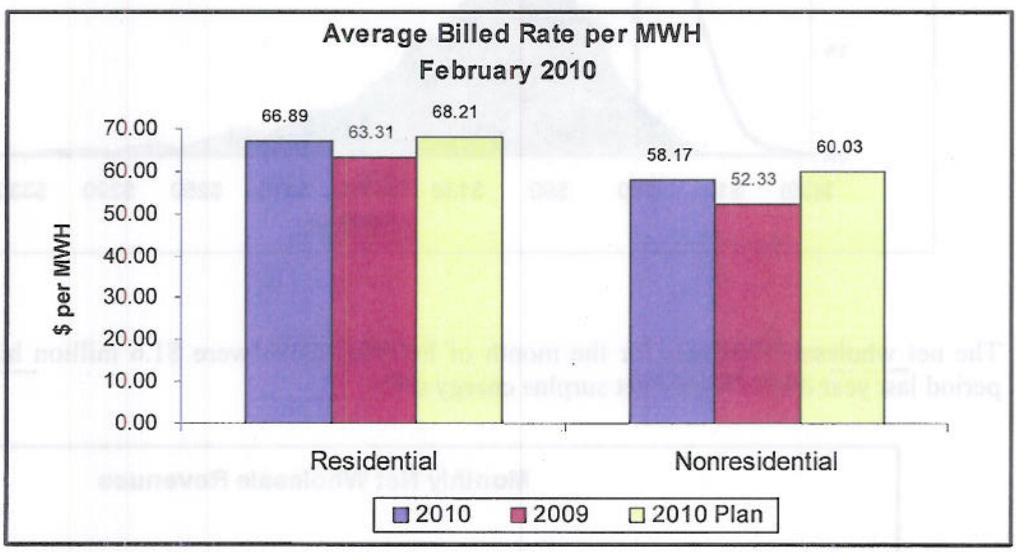
The charts that follow present selected data on year-to-date retail power revenues through February 2010.





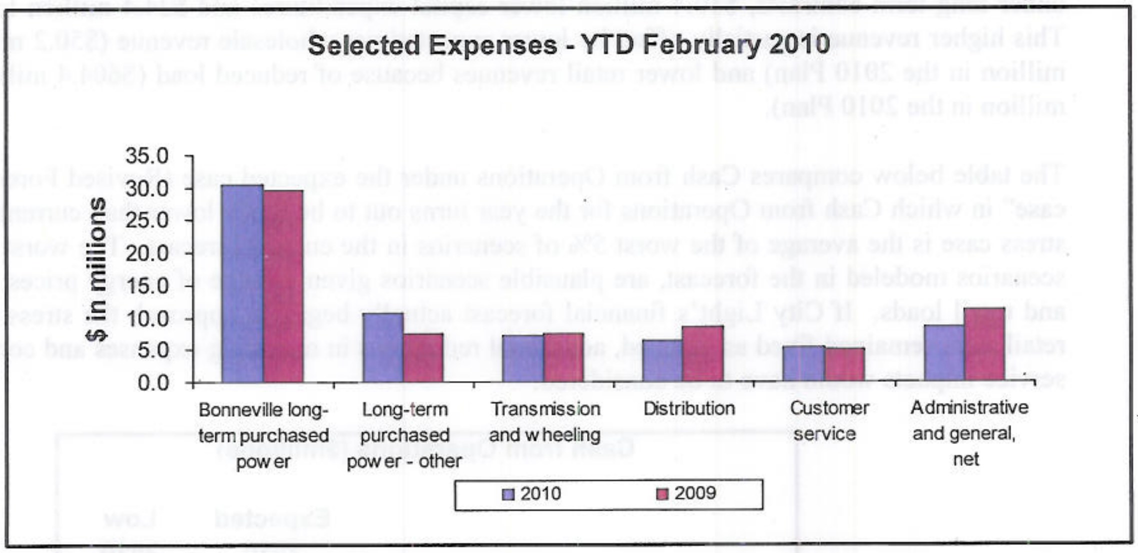
* Bills lag consumption by one to two months

Year-to-date retail revenues are $4.4 million higher than 2009 primarily due to the 13.8% across-the-board retail rate increase that took effect on January 1, 2010. However, the revised forecast is $7.5 million lower than the 2010 Plan due to warmer than normal temperatures this time of the year.

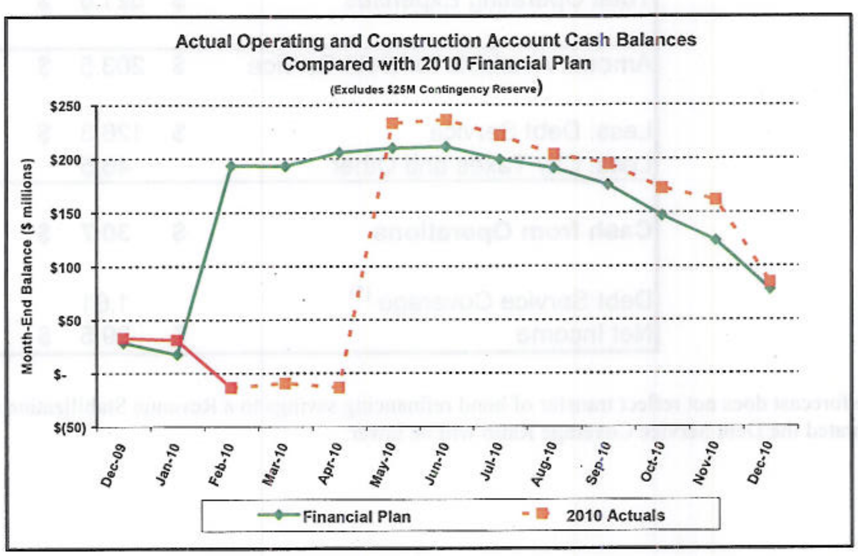


The actual average billed rate per MWh for both residential and nonresidential customers is different from what was expected based on the 2010 Plan due to slight differences in assumed versus actual patterns of consumption.

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



Cash Position
At February 28, 2010, City Light's operating plus construction account cash balance was -$14.0 million, which is $46.7 million lower than at the end of 2009 and $188.8 million lower than at February 28, 2009. The February 28, 2010 balance is $207.0 million lower than the balance projected in the 2010 Financial Plan. This is primarily because the Financial Plan assumed that City Light would issue $200 million in debt in February 2010 rather than the current plan to postpone debt issuance until May 2010. It also reflects $7.4 million lower-than-anticipated net wholesale revenue year-to-date through February, due to dry water conditions that reduced the quantity of energy available for sale by 24% relative to the amount projected in the Financial Plan.



The revised forecast of 2010 year-end balances of operating and construction account cash is $84.4 million, which is $6.9 million higher than projected in the Financial Plan. This is primarily due to higher expected cash proceeds from debt issuance in 2010 because the size of the 2010 debt issue has increased from $200 million to $250 million, $15.8 million lower projected expenditures for power and transmission purchased under long-term contracts, $30.4 million lower capital expenditures and $24.4 million lower debt service. This higher revenue is partially offset by lower expected net wholesale revenue ($50.2 million versus $120 million in the 2010 Plan) and lower retail revenues because of reduced load ($604.4 million versus $611.9 million in the 2010 Plan).

The table below compares Cash from Operations under the expected case (Revised Forecast) and a "stress case" in which Cash from Operations for the year turns out to be much lower than currently expected. This stress case is the average of the worst 5% of scenarios in the current forecast. The worst scenarios, like all scenarios modeled in the forecast, are plausible scenarios given a range of energy prices, water conditions, and retail loads. If City Light's financial forecast actually began to approach the stress case scenario and retail rates remained fixed as planned, additional reductions in operating expenses and consequent customer service impacts would have to be considered.

Cash from Operations ($millions)

	Expected 2010	Low 2010
Revenues		
Retail Power	$ 604.4	$ 604.4
Wholesale Power, Net	50.2	2.2
Power Marketing & Other	70.5	70.2
Total Operating Revenues	$ 725.0	$ 676.9
Expenses		
Power Contracts	$ 275.9	$ 275.9
Other Operations	209.3	209.3
Uncollectable and Non-City Taxes	36.4	36.4
Total Operating Expenses	$ 521.6	$ 521.6
Amount Available for Debt Service	$ 203.5	$ 155.3
Less: Debt Service	$ 126.3	$ 126.3
Less: City Taxes and Other	46.5	46.5
Cash from Operations	**$ 30.7**	**$ (17.5)**
Debt Service Coverage (1)	1.61	1.23
Net Income	$ 39.5	$ (8.8)

(1) The forecast does not reflect transfer of bond refinancing savings to a Revenue Stabilization Account. Once this change has been incorporated the Debt Service Coverage Ratio will be lower.

2010 Budget

As of February 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 is in the process of identifying approximately $10.0 million in O&M budget reductions (not yet reflected in the Financial Forecast) and $30.0 million in Capital budget savings for 2010. The budget savings will be removed from each Division's budget and sequestered to monitor progress in achieving the planned reductions.

Debt-to-Capitalization

At February 28, 2010, City Light's debt-to-capitalization ratio was 62%, a decrease from the 62.6% reported at December 31, 2009 and below the 64.3% 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 64.9%, an increase from 61.6% in the 2010 Plan. This increase is due to the change in the size of the bond issue from $200 million to $250 million 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 March 3, 2010, which conveys City Light's compliance with risk policies and standards at that point in time.

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		February 28, 2010	February 28, 2009	Variance	Forecast	Plan	Change
5	**Operating Revenues**						
6	Retail power revenues	$ 114.9	$ 110.5	$ 4.4	$ 604.4	$ 611.9	(7.5)
7	S-T wholesale power revenues, net (lines 41 + 44)	19.8	22.0	(2.2)	81.3	144.4	(63.1)
8	Power-related revenues - other	6.6	5.0	1.6	77.2	86.7	(9.5)
9	Other revenues	3.3	2.8	0.5	20.9	20.4	0.5
10	Total operating revenues	144.6	140.3	4.3	783.8	863.4	(79.6)
11	**Operating Expenses**						
12	Generation	2.4	2.9	(0.5)	32.0	31.6	0.4
13	Bonneville long-term purchased power	30.4	29.6	0.8	163.5	166.4	(3.0)
14	Long-term purchased power - other	10.6	7.5	3.1	54.6	61.8	(7.2)
15	Short-term wholesale power purchases	0.9	6.1	(5.2)	41.2	34.5	6.7
16	Power-related wholesale purchases - other	7.8	5.4	2.4	32.5	35.9	(3.4)
17	Other power costs	1.1	1.4	(0.3)	9.7	9.7	0.0
18	Transmission and wheeling	7.1	7.4	(0.3)	48.8	54.4	(5.6)
19	Distribution	6.5	8.6	(2.1)	61.4	61.4	0.0
20	Customer service	5.3	5.0	0.3	34.8	34.9	(0.1)
21	Conservation	2.7	2.5	0.2	22.7	22.7	(0.0)
22	Administrative and general, net	8.6	11.1	(2.5)	62.4	62.4	0.0
23	Taxes	13.1	12.6	0.5	69.0	69.7	(0.7)
24	Depreciation	13.5	13.5	-	83.1	88.6	(5.6)
25	Total operating expenses	110.0	113.6	(3.6)	715.6	734.0	(18.4)
26							
27	**Net Operating Income**	34.6	26.7	7.9	68.1	129.4	(61.3)
28							
29	**Other Deductions, Net**						
30	Investment Income	0.3	1.2	(0.9)	4.1	4.4	(0.4)
31	Other income (expense), net	0.0	0.0	-	1.5	0.8	0.7
32	Interest expense	(10.8)	(11.9)	1.1	(78.4)	(73.9)	(4.5)
33	Capital contributions	1.0	1.6	(0.6)	42.7	43.3	(0.5)
34	Grants	0.1	0.0	0.1	1.5	1.5	0.0
35	Total other deductions, net	(9.4)	(9.1)	(0.3)	(28.6)	(23.9)	(4.7)
36							
37	***Net Income***	25.2	17.6	7.6	39.5	105.5	(66.0)
38							
39							
40	Note A:						
41	Short-term wholesale energy sales, gross	20.4	22.9	(2.5)	91.3	154.4	(63.1)
42	Short-term wholesale energy purchases	(0.9)	(6.1)	5.2	(41.2)	(34.5)	(6.7)
43	**Net ST wholesale sales before booked-out LT purchases**	19.5	16.8	2.7	50.2	120.0	(69.8)
44	Booked-out long term purchases	(0.6)	(0.9)	0.3	(10.0)	(10.0)	0.0
45	Net short-term wholesale energy sales	18.9	15.9	3.0	40.2	110.0	(69.8)
46							

Net Income Variance Analysis
February 2010

Variance Year-to-Date 2010 Compared to 2009 Actuals: $7.6 million or 43.2%

Major components ($millions):

$17.6	Net Income YTD through February 28, 2009
$2.7	Higher net surplus energy sales.
$4.4	Higher retail revenues due to across-the-board 13.8% rate increase effective January 1, 2010 and a 1.8% BPA pass-through effective October 1, 2009.
$0.5	Other (net)
$25.2	Net Income YTD through February 28, 2010

Variance 2010 Revised Forecast Compared to Financial Plan: ($66.0) million or 62.6%

Major components ($millions):

$105.5	Net Income YTD through December 31, 2010 - Financial Plan
($69.8)	Lower net surplus energy sales, due to lower than expected hydro conditions.
$3.8	Other (net)
$39.5	Net Income YTD through December 31, 2010 - Revised Forecast

City Light Risk Oversight Status Report
As Of
Wednesday, March 03, 2010

Summary

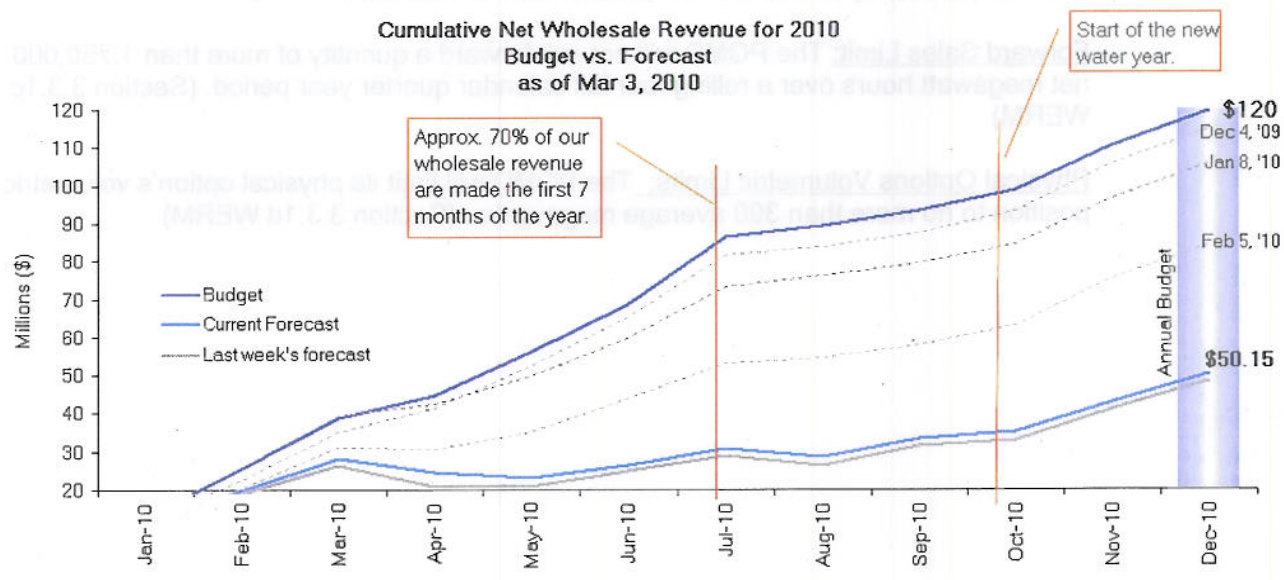
	% of 5 yr Avg	Current '10 Avg	5 Yr Avg
SCL Hydro Generation	79%	872 MW	1,105 MW
Peak Market Prices	89%	$47.89	$55.49

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 2010 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 2010 calendar year. The 2010 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 2010 approved budget, the forecasted Wholesale Revenue is $120 million. The current forecast is $50.15 million. The chart (Chart 1) compares the current annual estimate to the approved budget ($120 million) with the current forecast. The wholesale revenue increased a couple million from last week due to an increase in prices and resources.

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 (POMD) will conduct its hedging activity to maintain the Utility's position within a $10 million Risk Tolerance Band (RTB) around the calculated 5% Tail Risk metric. For the prompt year (2011), the Utility's position will remain within a $15 million RTB around the 5% Tail Risk metric. (Section 3.3.2 Wholesale Energy Risk Management Policy (WERM))

Prompt Month & Within Month Volumetric Limit: At no time will the POMD enter a month or operate within a month carrying a net combined energy deficit of more than 50 average megawatts for the month or the remainder of the month under expected operating conditions. (Section 3.3.1a WERM)

Forward Month's Resource Requirement Limit: 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 3.3.1b WERM)

Forward Sales Limit: The POMD will not sell forward a quantity of more than 1,750,000 net megawatt hours over a rolling four full calendar quarter year period. (Section 3.3.1c WERM)

Physical Options Volumetric Limits: The POMD will limit its physical option's volumetric position to no more than 300 average megawatts. (Section 3.3.1d WERM)

5% Tail Risk Metric, 2010

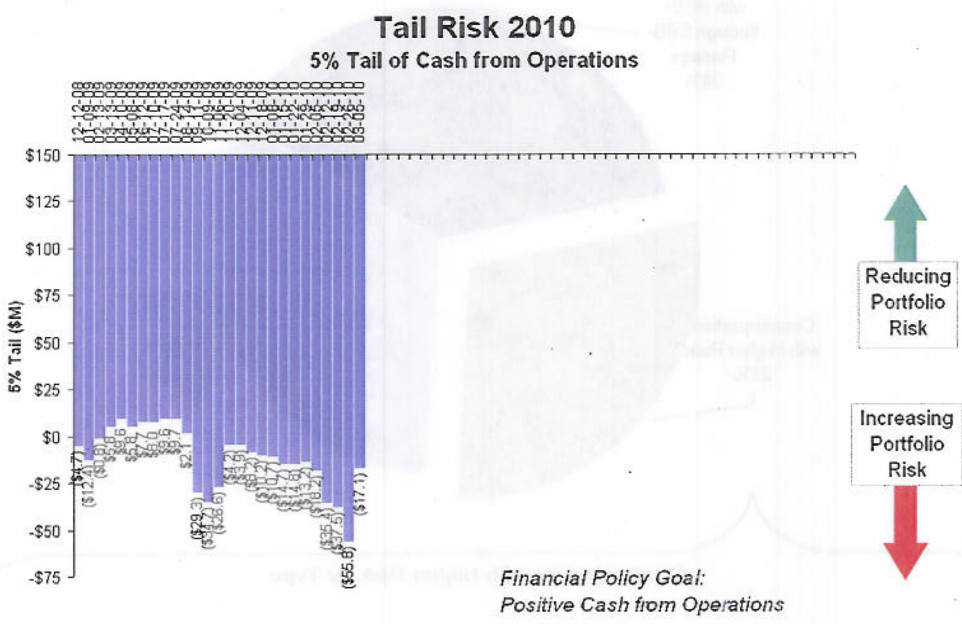
In October 2007, City Light implemented a risk metric named the "5% Tail Risk". It is calculated as the average of the worse case scenarios for City Light's Cash From Operations for the calendar year. Cash From Operations is defined as the cash available to finance capital projects.

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 2010. As time progresses, the 5% Tail Risk metric value has increased from an initial projection of a net deficit of $4.7 million to the current projection of a worse case deficit of $17.1 million of Cash from Operations.

Chart 2



Notes on significant changes:
09-11-09: Incorporated Mayor's proposal to decrease Debt Service Coverage from 2.0 to 1.6 in 2010.
11-20-09: Incorporated 13.8% approved rate increase.
12-12-10: Incorporated the 1st Runoff forecast of the water year
02-26-10: Incorporated the changes made to the forecast; eliminating the 4 highest ESP traces.
03-05-10: Incorporated the bond refinancing savings

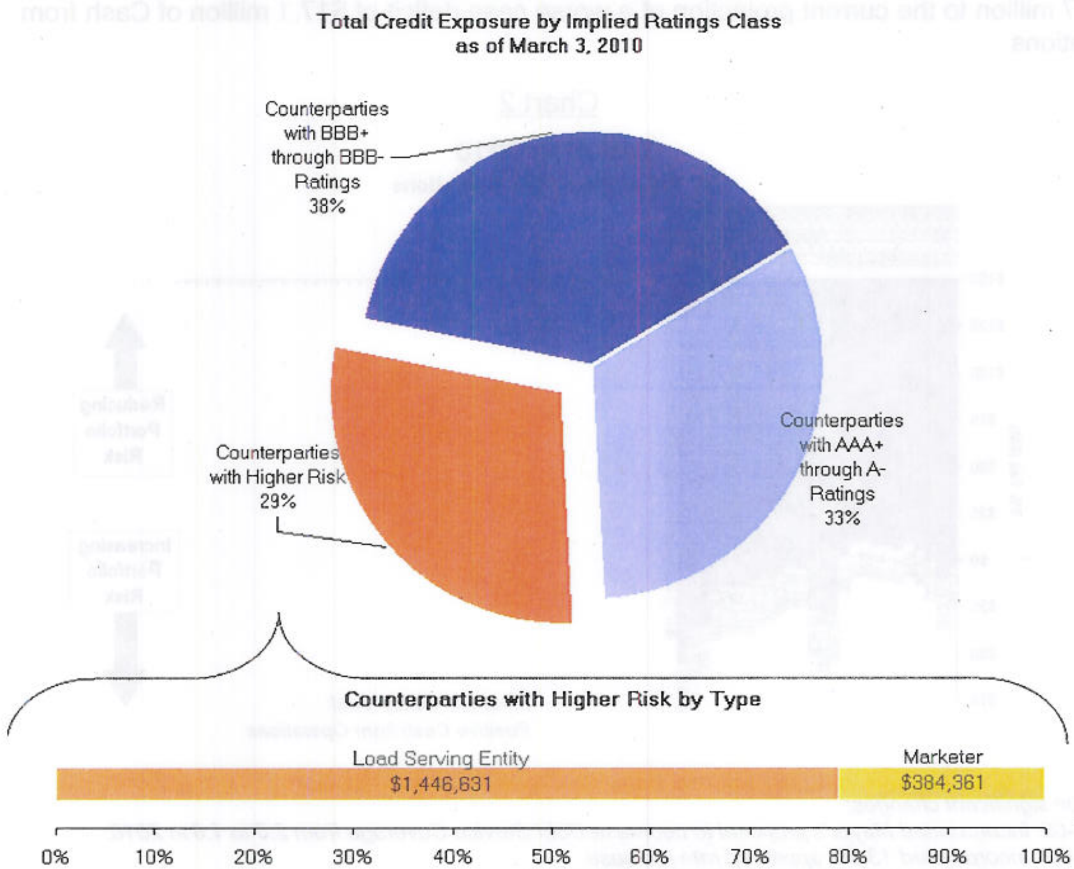
Hedging Plan & Position Status

Hedge Plan 2010, Phase 1 was approved by ROC on December 16, 2009. The current volume planned to be hedged is 0 MW.

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 3, below. This chart indicates that 29% of the current credit exposure is with counterparties having implied credit ratings that are non-investment grade (higher risk). 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 3



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 4 shows the forward price range (Mid-C) for the upcoming 12 months since January 2009.

Chart 4

Mid- C Power	Low for the period	Price range since January 2009 (data source: PLATTS)	High for the period	% from last wk
Apr '10	$ 34.48	$ 40.00	$ 52.72	Down 0%
May '10	$ 25.76	$ 38.50	$ 41.00	Up 1%
Jun '10	$ 25.91	$ 42.00	$ 43.30	Up 3%
Jul '10	$ 45.28	$ 53.15	$ 61.85	Down -1%
Aug '10	$ 53.43	$ 58.17	$ 74.47	Down -1%
Sep '10	$ 48.03	$ 51.13	$ 69.61	Down -1%
Oct '10	$ 43.56	$ 45.84	$ 56.77	Down -1%
Nov '10	$ 48.42	$ 52.07	$ 63.11	Down -1%
Dec '10	$ 56.52	$ 59.59	$ 73.62	Down -1%
Jan '11	$ 52.25	$ 54.10	$ 68.35	Down -1%
Feb '11	$ 48.42	$ 51.72	$ 63.37	Down -1%
Mar '11	$ 44.08	$ 45.68	$ 57.54	Down -1%
Apr '11	$ 36.03	$ 36.20	$ 56.61	Down -3%
May '11	$ 30.84	$ 36.66	$ 40.90	Up 0%

*Prices in Blue (today's price as of Mar 3, 2010)