



DATE: April 27, 2010

TO: Mayor Michael McGinn
Seattle City Council

FROM: Jorge Carrasco *Jorge Carrasco*

SUBJECT: Financial Update – March 2010

This memo provides an analysis of Seattle City Light's financial condition and operating results through March 31, 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
March 2010
(\$ millions)

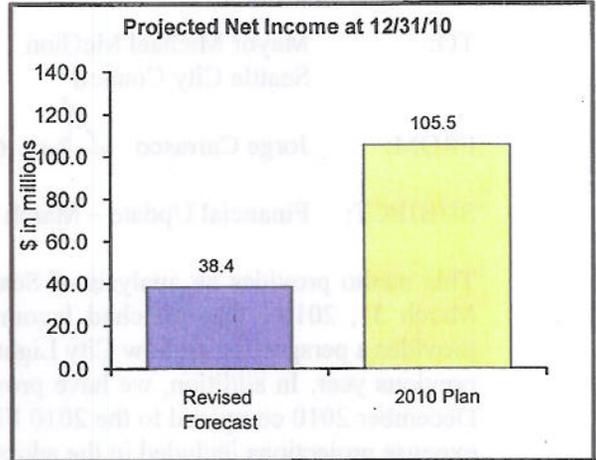
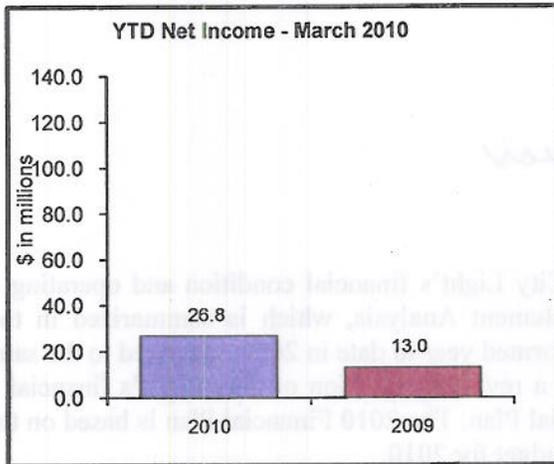
	Year-to-date Actual		Year End Dec. 31		Revised Forecast change from prior month
	2010	2009	Plan	Revised Forecast	
Retail Power Revenues⁽¹⁾	\$ 165.9	\$ 152.8	\$ 611.9	\$ 622.2	\$ 17.8
Net Wholesale Energy Sales (before booked-out LT purch)	\$ 23.2	\$ 21.8	\$ 120.0	\$ 30.5	\$ (19.7)
Net Income	\$ 26.8	\$ 13.0	\$ 105.5	\$ 38.4	\$ (1.1)
Cash Balances					
Operating Cash	\$ (16.1)	\$ 44.5	\$ 77.5	\$ 22.1	\$ (20.1)
Construction Account - Restricted	\$ -	\$ 113.3	\$ -	\$ 16.1	\$ (26.1)
Contingency Reserve Account ⁽²⁾	\$ 25.0	\$ 25.0	\$ 25.0	\$ 62.6	\$ 37.6
Debt Coverage Ratio	-	-	1.80	1.35	(0.26)
Debt to Capitalization Ratio	61.5%	64.3%	61.6%	64.8%	-0.1%

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

(2) Year-to-date data reflects activity in Contingency Reserve Account, which will be rolled into the Rate Stabilization Account in May.

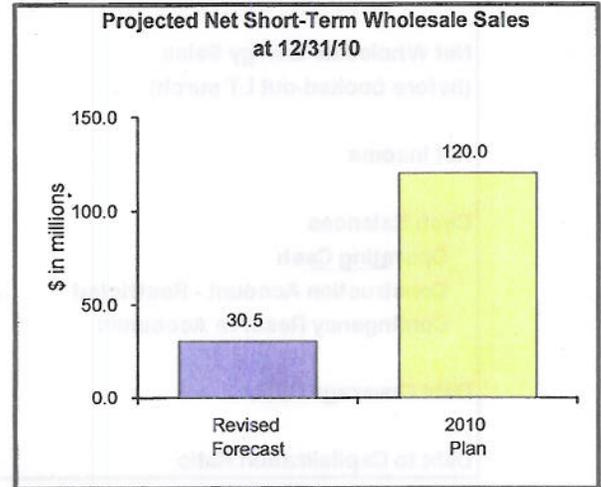
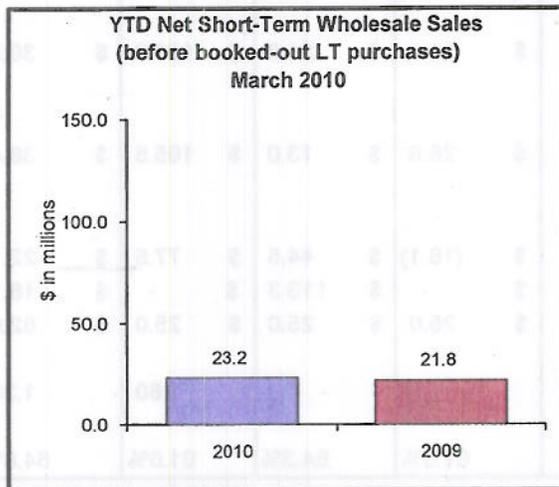
Net Income

As indicated in the table on this page and in the charts on the next page, net income for the period ending March 31, 2010, was \$26.8 million which results in a \$13.8 million or 106.2% 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.

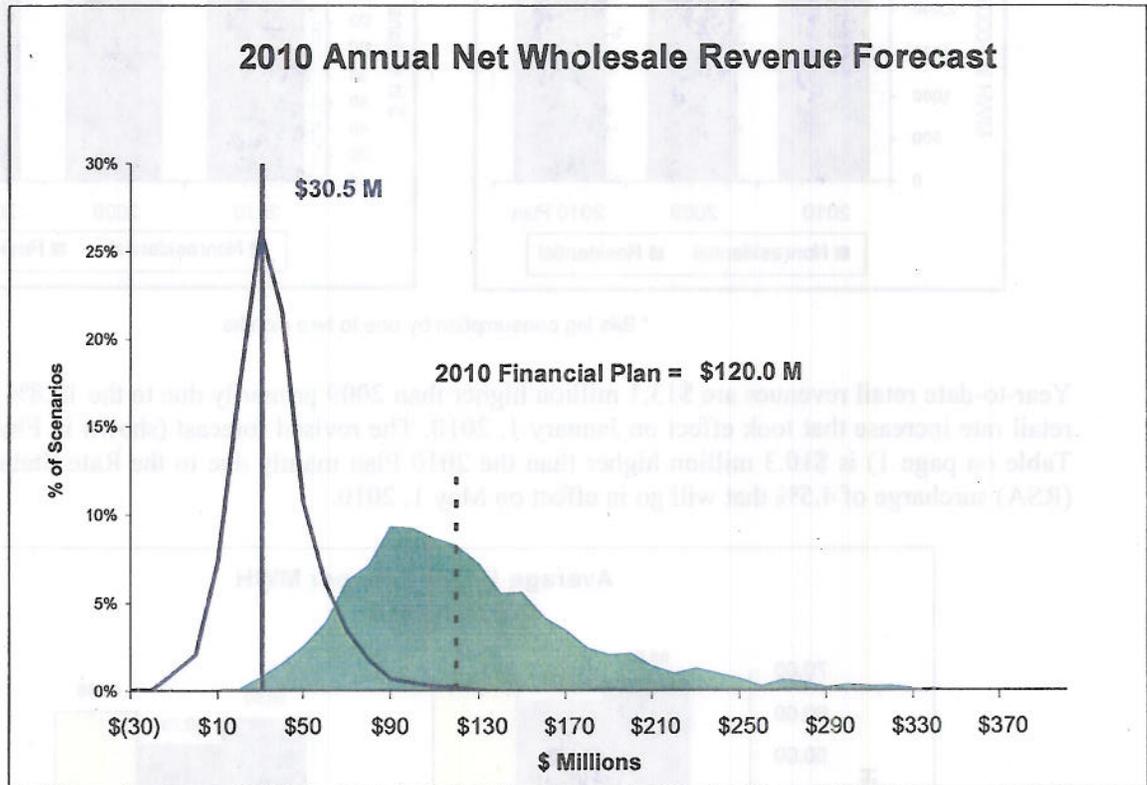


Projected net income at year-end December 31, 2010 is expected to be \$38.4 million, a variance to Plan of \$67.1 million or 63.6% lower than anticipated. This large decrease is explained by much lower wholesale revenue projections (\$30.5 million versus \$120 million in the 2010 Plan) due to extremely dry hydro conditions in the region.

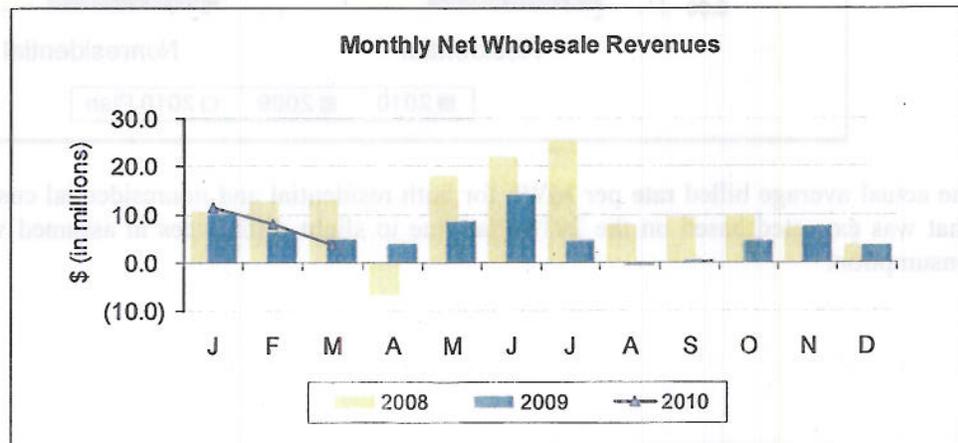
Net Short-Term Wholesale Energy



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 \$30.5 million.

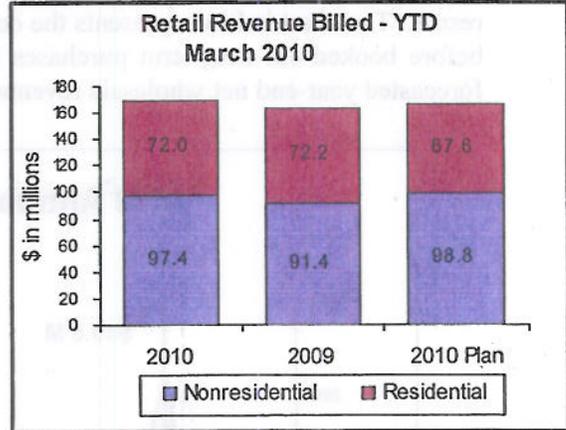
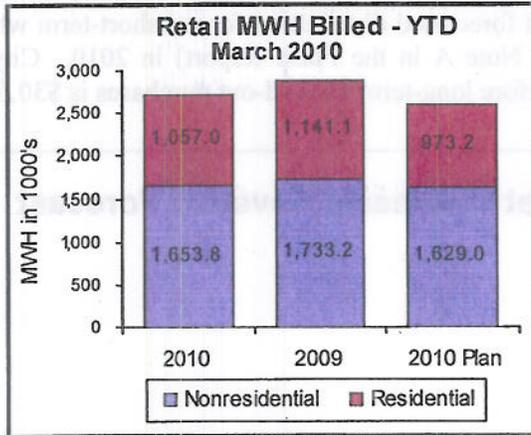


The net wholesale revenues for the month of March 2010 were \$1.3 million lower than for the same period last year due to drier hydro conditions.



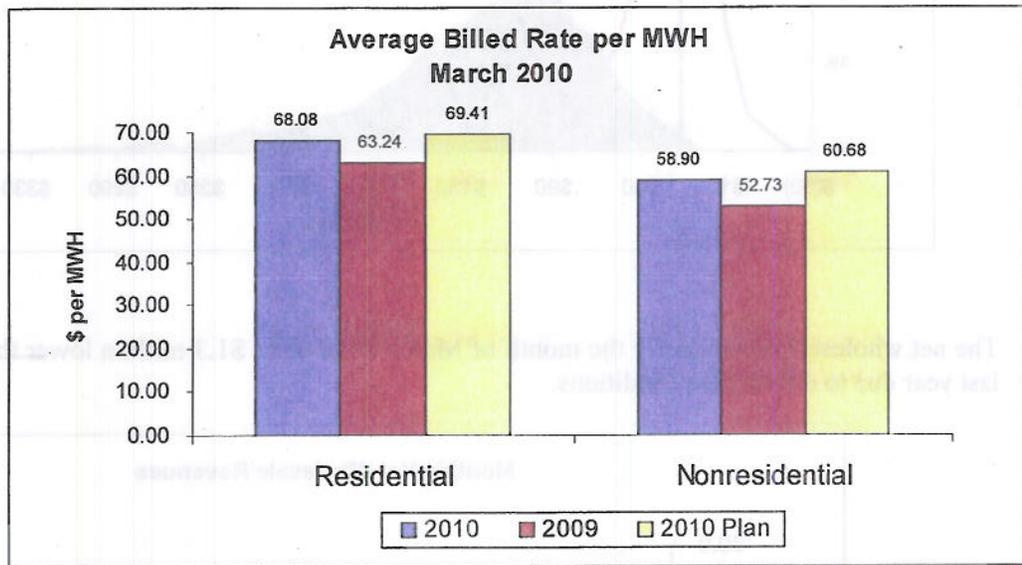
Retail Power Revenues

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



* Bills lag consumption by one to two months

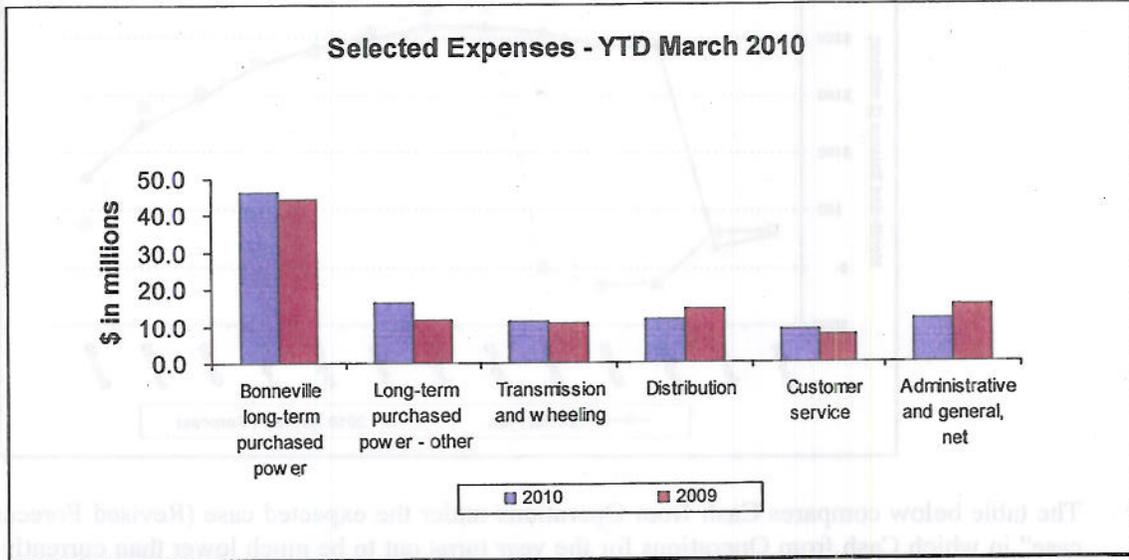
Year-to-date retail revenues are \$13.1 million higher than 2009 primarily due to the 13.8% across-the-board retail rate increase that took effect on January 1, 2010. The revised forecast (shown in Financial Highlights Table on page 1) is \$10.3 million higher than the 2010 Plan mainly due to the Rate Stabilization Account (RSA) surcharge of 4.5% that will go in effect on May 1, 2010.



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.

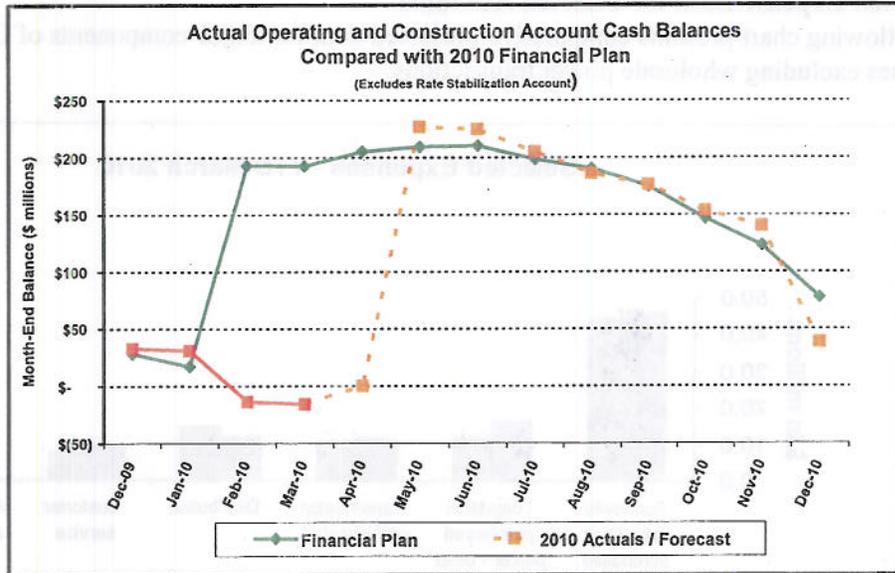


Bonneville expenses are higher year-to-date as compared to the same period last year due to higher Block expenditures and reduced amounts of Residential Exchange Credits. Other long-term purchased power expenses are higher due to increased purchases from Priest Rapids, SMUD (i.e., SPI) and Columbia Ridge (which was not available this time last year). These increased expenses were partially offset by lower Stateline Wind purchases. Lower distribution and administrative and general expenses reflect budget reductions in the 2010 adopted budget.

Cash Position

At March 31, 2010, City Light’s operating plus construction account cash balance was -\$16.1 million and the Department was utilizing its Contingency Reserve Account during this period. Operating plus construction account cash balance at March 31, 2010 was \$48.8 million lower than at the end of 2009, \$174.1 million lower than at March 31, 2009 and \$208.7 million lower than the balance projected in the 2010 Financial Plan. The primary reason for the large difference between actual and planned balance is that the Financial Plan assumed that City Light would issue \$200 million in debt in February 2010 rather than the current plan to issue debt in May 2010. It also reflects \$19.1 million lower-than-anticipated net wholesale revenue year-to-date through March due to extremely dry hydro conditions.

The revised forecast of 2010 year-end balances of operating and construction account cash is \$38.3 million, which is \$39.2 million lower than projected in the Financial Plan. This is primarily due to lower expected net wholesale revenue (\$30.5 million versus \$120 million in the 2010 Plan) because of drier than expected hydro conditions in the region in 2010. In addition, retail revenues shown in the Financial Highlights Table on the first page include \$17.3 million in revenues from a 4.5% RSA surcharge, which are not part of operating and construction accounts. Thus, retail revenues without surcharge portion are projected to be lower by \$4.9 million than in the 2010 Plan. This decrease in revenues is offset by higher expected cash proceeds from the 2010 debt issuance because the issue has increased from \$200 million to \$250 million, as well as \$12.4 million lower expenditures for power and wheeling purchased under long-term contracts, \$9.0 million reduction in non-power O&M expenditures, \$30.8 million lower capital expenditures, and \$24.4 million lower debt service.



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. These low scenarios, like all scenarios modeled in the forecast, are plausible scenarios given a range of energy prices, water conditions, and retail loads.

Cash from Operations (\$millions)		
	Expected 2010	Low 2010
Revenues		
Retail Power	\$ 622.2	\$ 622.2
Wholesale Power, Net	30.5	(2.9)
Power Marketing & Other	68.5	68.3
Total Operating Revenues	\$ 721.1	\$ 687.5
Expenses		
Power Contracts	\$ 275.8	\$ 275.8
Other Operations	199.9	199.9
Uncollectable and Non-City Taxes	37.3	37.3
Cash to Rate Stabilization Account	37.6	37.6
Total Operating Expenses	\$ 550.5	\$ 550.5
Amount Available for Debt Service	\$ 170.6	\$ 137.1
Less: Debt Service	\$ 126.3	\$ 126.3
Less: City Taxes and Other	44.4	44.4
Cash from Operations	\$ 0.0	\$ (33.6)
Debt Service Coverage	1.35	1.09
Net Income	\$ 38.4	\$ 4.8

2010 Budget

As of March 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 will be removed from each Division's budget and sequestered to monitor progress in achieving the planned reductions.

The Department has spent 23% of the overall O&M budget through March; at this point in the year we would normally expect to have spent 25%. The Department has requested a budget increase of \$1.9 million in the 1st Quarter Supplemental Ordinance for City and State tax payments related to the 4.5% rate surcharge.

Debt-to-Capitalization

At March 31, 2010, City Light's debt-to-capitalization ratio was 61.5%, a decrease from the 62.6% reported at December 31, 2009 and below the 64.2% 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 64.8%, an increase from 61.6% in the 2010 Plan. This increase is due to the change in the size of the May 2010 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 April 14, 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 March 2010, with 2009 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, 2010		
			[A]	[B]	[A - B]	[C]	[D]	[C - D]
			Actuals March 31, 2010	Actuals March 31, 2009	Actuals to Actuals Variance	2010 Revised Forecast	2010 Financial Plan	Change
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Note A:

Short-term wholesale energy sales, gross
Short-term wholesale energy purchases
Net ST wholesale sales before booked-out LT purchases
Booked-out long term purchases
Net short-term wholesale energy sales

**Net Income Variance Analysis
March 2010**

Variance Year-to-Date 2010 Compared to 2009 Actuals: \$13.8 million or 106.2%

Major components (\$millions):

\$13.0	Net Income YTD through March 31, 2009
\$1.4	Higher net surplus energy sales.
\$13.1	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.
(\$0.7)	Other (net)
\$26.8	Net Income YTD through March 31, 2010

Variance 2010 Revised Forecast Compared to Financial Plan: (\$67.1) million or 63.6%

Major components (\$millions):

\$105.5	Net Income YTD through December 31, 2010 - Financial Plan
(\$89.5)	Lower net surplus energy sales, due to lower than expected hydro conditions.
\$10.3	Higher retail revenues due in part to 4.5% surcharge effective May 1, 2010.
\$5.2	Lower transmission and wheeling
\$5.8	Lower estimate for depreciation
\$1.1	Other (net)
\$38.4	Net Income YTD through December 31, 2010 - Revised Forecast



City Light Risk Oversight Status Report

As Of
Wednesday, April 14, 2010

Summary

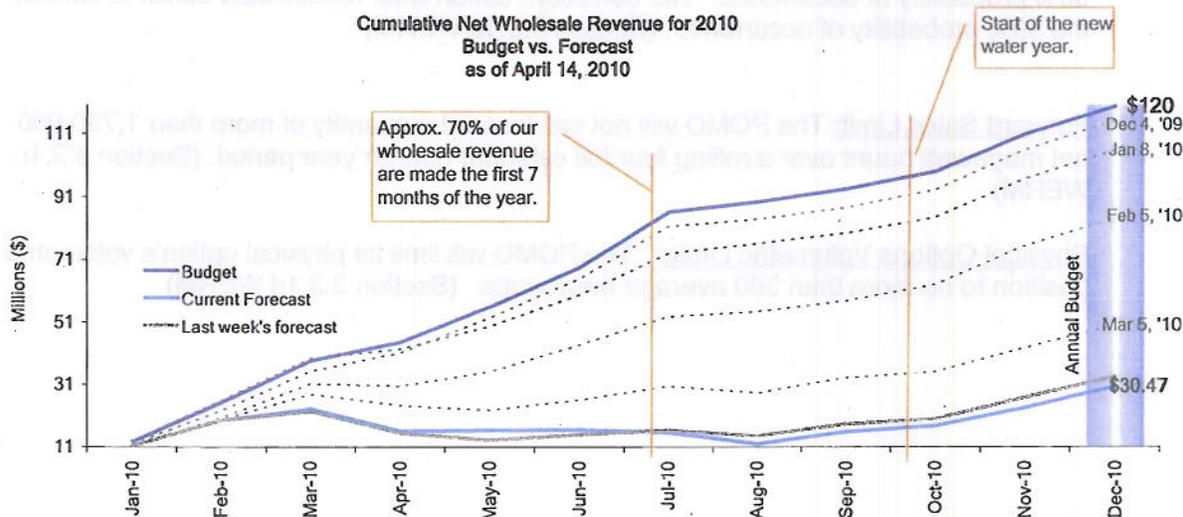
	% of 5 yr Avg	Current '10 Avg	5 Yr Avg
SCL Hydro Generation	76%	835 MW	1,105 MW
Peak Market Prices	83%	\$44.40	\$55.49

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 \$30.47 million. The chart (Chart 1) compares the current annual estimate to the approved budget (\$120 million) with the current forecast. This week's forecast of 2010 Net Wholesale Revenue is down \$3.2 M from last week, mostly due to resources, as the change from prices was minimal.

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)

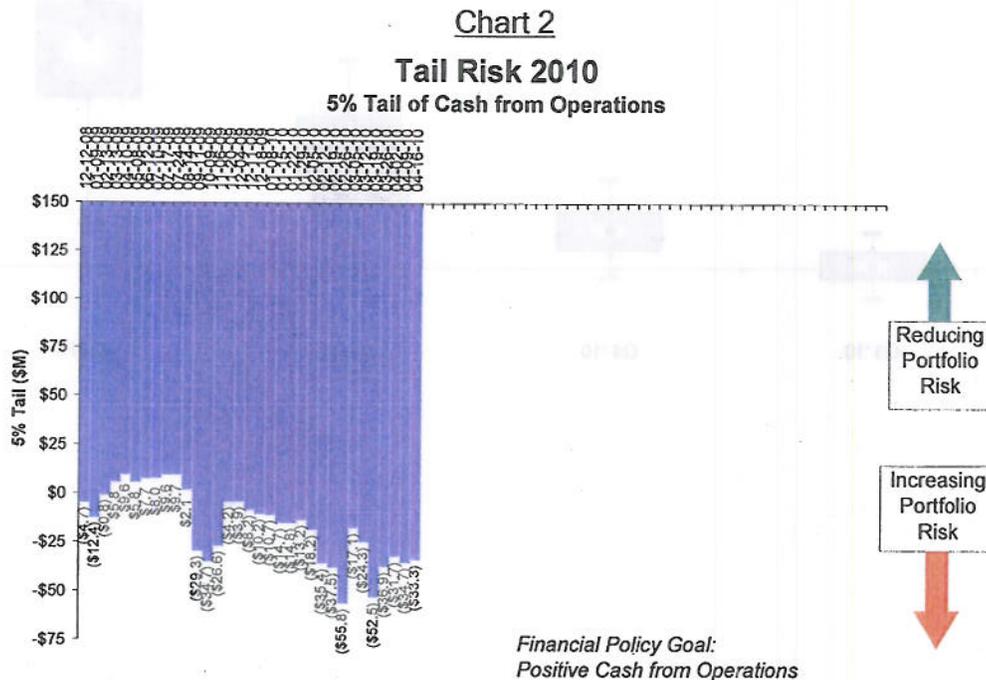
5% Tail Risk Metric, 2010

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 \$33.3 million of Cash from Operations.



Notes on significant changes:

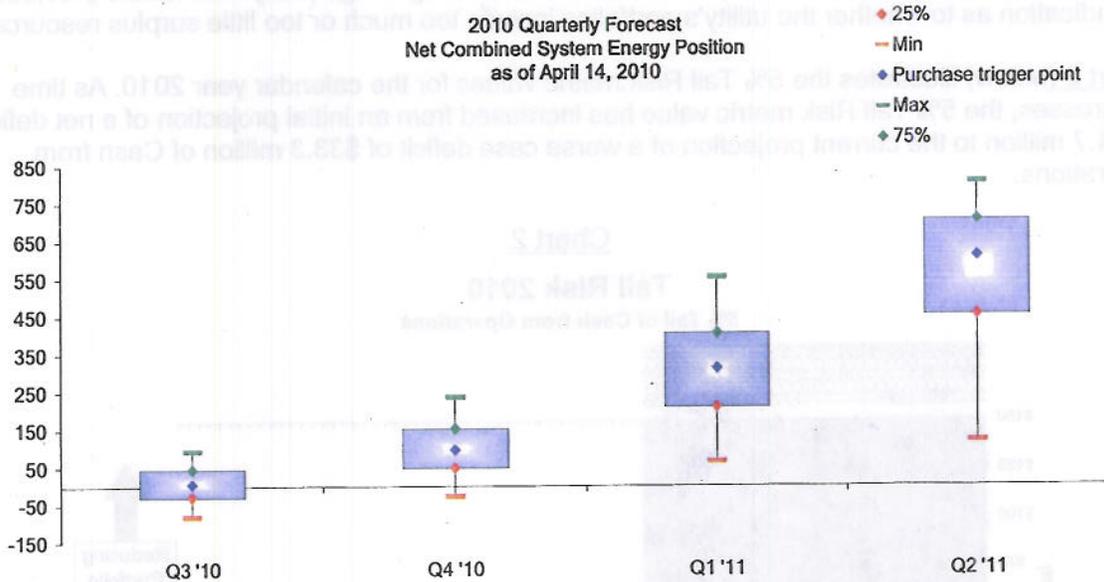
- 09-11-09: Incorporated Mayor's proposal to decrease Debt Service Coverage from 2.0 to 1.6 in 2010.
- 11-20-09: Incorporated 13.8% approved rate increase.
- 12-12-10: Incorporated the 1st Runoff forecast of the water year
- 02-26-10: Incorporated the changes made to the forecast; eliminating the 4 highest ESP traces.
- 03-05-10: Incorporated the bond refinancing savings
- 03-19-10: Incorporated the \$24 m transfer to the Rate Stabilization Account

Hedging Plan & Position Status

Hedge Plan 2010, Phase 2 was approved by ROC on March 9, 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.

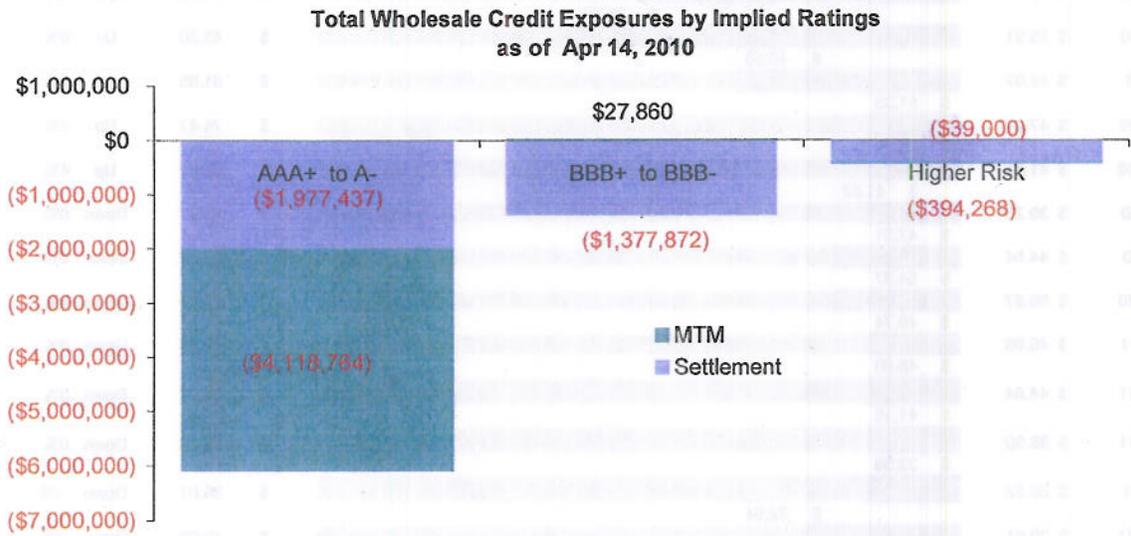
Chart 3



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. **This chart indicates that this week's Wholesale Net Credit Exposure for almost all the implied ratings classes is negative, meaning that Seattle City Light is a net buyer/purchaser and therefore has no credit exposure.*

***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 January 2009.

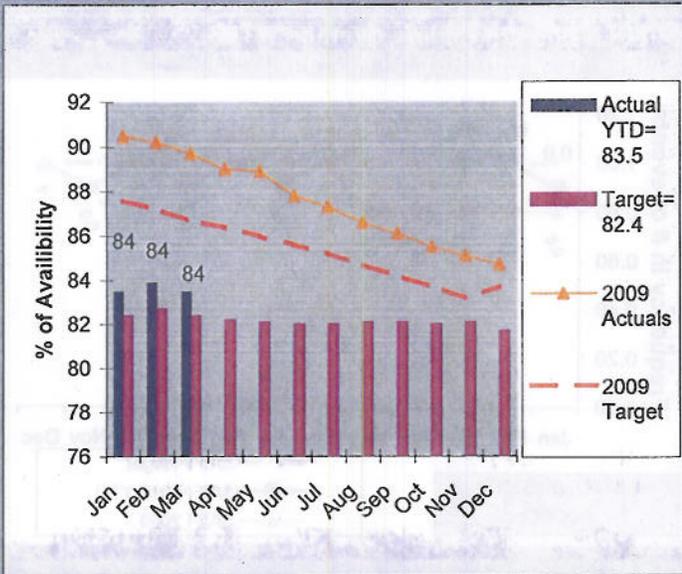
Chart 5

Mid- C Power	Low for the period	Price range since January 2009 (data source: PLATTS)	High for the period	% from last wk
		\$ 33.00		
May '10	\$ 25.76		\$ 41.00	Down -5%
		\$ 36.50		
Jun '10	\$ 25.91		\$ 43.30	Up 6%
		\$ 49.50		
Jul '10	\$ 44.07		\$ 61.85	Up 4%
		\$ 51.33		
Aug '10	\$ 47.61		\$ 74.47	Up 4%
		\$ 45.12		
Sep '10	\$ 41.85		\$ 69.61	Up 4%
		\$ 41.82		
Oct '10	\$ 39.20		\$ 56.77	Down 0%
		\$ 47.51		
Nov '10	\$ 44.54		\$ 63.11	Down 0%
		\$ 54.37		
Dec '10	\$ 50.97		\$ 73.62	Down 0%
		\$ 48.74		
Jan '11	\$ 46.06		\$ 68.35	Down 0%
		\$ 46.60		
Feb '11	\$ 44.04		\$ 63.37	Down 0%
		\$ 41.16		
Mar '11	\$ 38.90		\$ 57.54	Down 0%
		\$ 33.59		
Apr '11	\$ 30.32		\$ 56.61	Down -1%
		\$ 32.94		
May '11	\$ 30.84		\$ 40.90	Down -1%
		\$ 36.22		
Jun '11	\$ 30.94		\$ 43.92	Down 0%

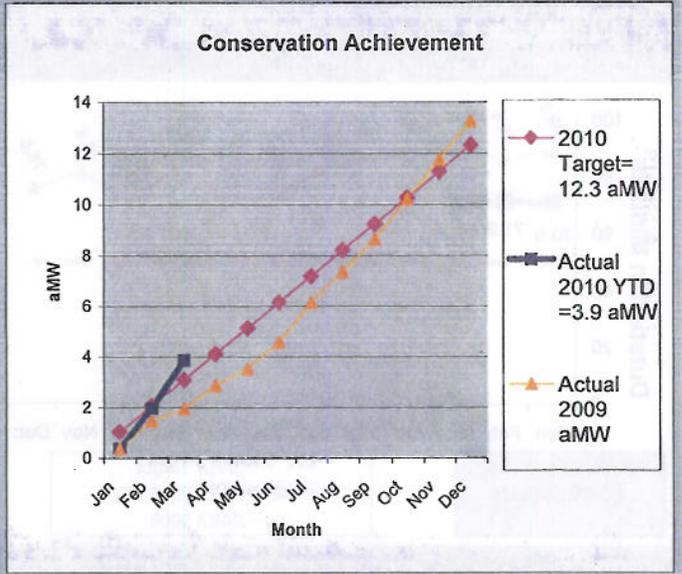
*Prices in Blue (today's price as of April 14, 2010)

Power Resources:

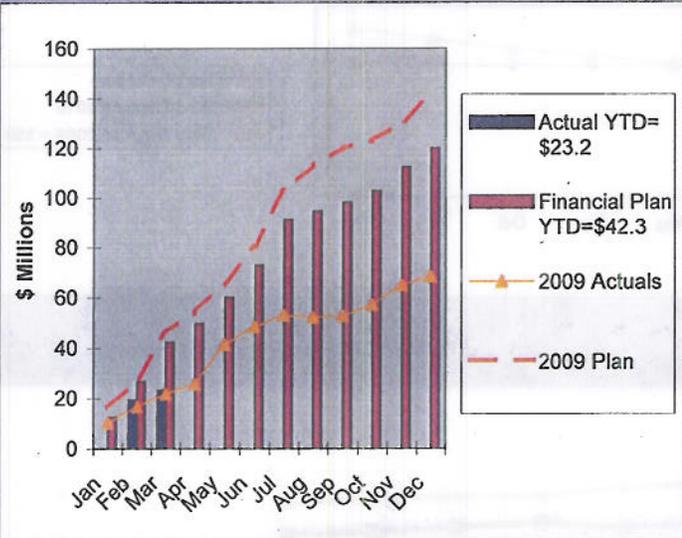
Generator Availability-12 Month Rolling Average



Conservation Savings

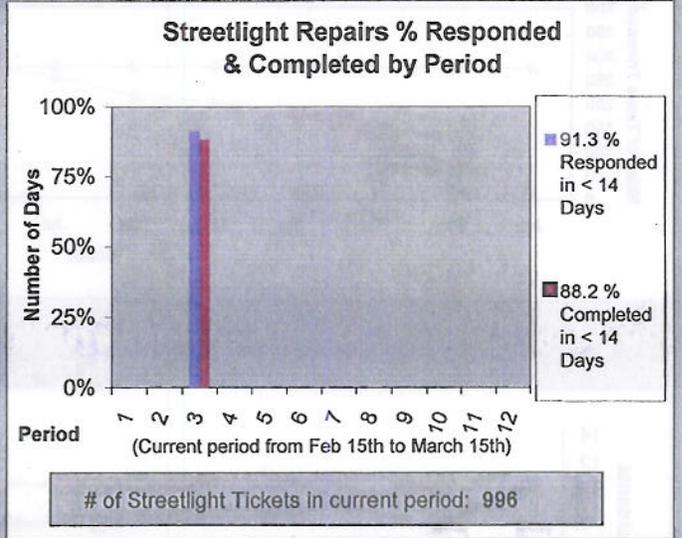


Net Wholesale Power Sales

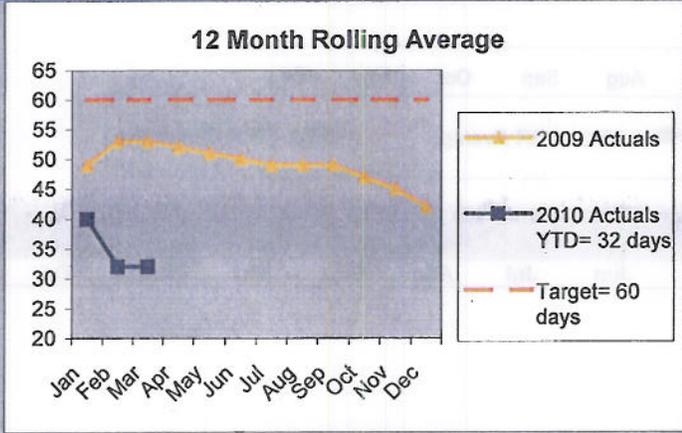


Customer Care:

Streetlight Repairs



Non-Engineered Service Connections



Engineered Service Connections

